PNB
you first.

Office of the EVP and Chief Financial Officer

Direct Lines: 573-4074 Fax: 526-3416
Trunk Lines: 526-3131 to 70/891-6040 to 70
Locals: 4074,4499

March 14, 2018

MR. JOSE VALERIANO B. ZUÑO III
OIC, HEAD - DISCLOSURE DEPARTMENT
Philippine Stock Exchange
6/F PSE Tower
28th Street corner 5th Avenue
BGC, Taguig City

Dear Mr. Zuño:

We submit a copy of the Audited Financial Statements of Philippine National Bank and Subsidiaries as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015.

Very truly yours,

NELSON C. REYES
Executive Vice President &
Chief Financial Officer

cc: **MS. ERIKA GRACE C. ALULOD**
Head – Issuer Compliance and Disclosure Department (ICCD)
Philippine Dealing & Exchange Corporation
37th Floor, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

COVER SHEET

AS096-005555

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

Company's Full Name)

9th Floor PNB Financial Center

Macapagal Blvd., Pasay City

Metro Manila

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

MAILA KATRINA Y. ILARDE
Corporate Secretary

Contact Person

834-0780

Company Telephone Number

12 **31**

Month *Day*
Fiscal Year

SEC Form 17-C

FORM TYPE

April 25

Month *Day*
Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-C

CURRENT REPORT UNDER SECTION 17
OF THE SECURITIES REGULATION CODE
AND SRC RULE 17.2(c) THEREUNDER

Securities and Exchange Commission
Electronic Records Management Division
15 MAR 15 2018
BY:
RECEIVED SUBJECT TO REVIEW OF FORM AND CONTENTS
I C T D

1. **March 15, 2018**
   Date of Report (Date of earliest event reported)

2. SEC Identification Number **ASO96-005555** 3. BIR Tax Identification No. **000-188-209-000**

4. **PHILIPPINE NATIONAL BANK**
   Exact name of registrant as specified in its charter

5. **PHILIPPINES**
   Province, country or other jurisdiction of incorporation

6. [illegible]Use Only)
   Industry Classification Code:

7. **PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City, Metro Manila**
   1300
   Address of principal office
   Postal Code

8. **(632)/ 526-3131 to 70/ (632) 891-6040 to 70**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name or former address, if changed since last report

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

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	**1,249,139,678**[1]

11. Indicate the item numbers reported herein: **Item 11**

We are pleased to furnish the Commission a copy of the 2017 Audited Financial Statements of the Bank.

We trust you will take note accordingly.

[1] *This number includes the 423,962,500 common shares deemed issued to the stockholders of Allied Banking Corporation (ABC) relative to the merger of PNB and ABC as approved by the Securities and Exchange Commission (SEC) on January 17, 2013. The shares are the subject of the Registration Statement approved by the SEC and for listing with the Philippine Stock Exchange.*

SIGNATURES

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.

PHILIPPINE NATIONAL BANK	**March 15, 2018**
Issuer	Date
MAILA KATRINA Y. ILARDE	
Corporate Secretary	
Signature and Title*	

* Print name and title of the signing officer under the signature.

C O V E R   S H E E T

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 6 - 0 0 5 5 5 5

C O M P A N Y   N A M E

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

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

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	04/24	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. Nelson C. Reyes		891-6040 to 70	

CONTACT PERSON's ADDRESS

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

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

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank
Philippine National Bank Financial Center
President Diosdado Macapagal Boulevard
Pasay City

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2017 and 2016 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2017, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs).
Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the Audit of the Consolidated and Parent Company Financial Statements

Adequacy of Allowance for Credit Losses on Loans and Receivables

The Group and the Parent Company's loans and receivables are significant as they represent 60.05% and 56.69% of the total assets of the Group and the Parent Company, respectively, as of December 31, 2017. The carrying amount of loans and receivables as of December 31, 2017 is net of allowance for credit losses amounting to ₱15.76 billion and ₱14.51 billion for the Group and the Parent Company, respectively. The Group determines the allowance for credit losses on loans and receivables on an individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. We considered the measurement of impairment of loans and receivables as a key audit matter because it involves significant management judgment in determining the allowance for credit losses. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collections, observable market prices and expected net selling prices of the collateral.

The disclosures related to allowance for credit losses on loans and receivables are included in Notes 3 and 16 of the financial statements.

Audit Response

For loans and receivables subjected to specific impairment, we selected samples of individually impaired loans and receivables and obtained an understanding of the borrower's business and financial capacity. This was done by inquiring on the latest developments about the borrower and checking the payment history of the borrower. We tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses by assessing whether the forecasted cash flows are based on the latest developments about the borrower's financial condition and where applicable, inspecting recent appraisal reports to determine the fair value of collateral held. We also checked whether the discount rates used are based on the original effective interest rate or the last repriced rate of the loans and re-performed the impairment calculation.

For loans and receivables subjected to collective impairment, we tested the underlying models and the inputs to those models such as the historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of the loss rates and net flow rates to the Group's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the provision for credit losses.

Impairment Testing of Goodwill

As at December 31, 2017, the Group and the Parent Company has goodwill amounting to ₱13.38 billion as a result of the acquisition of Allied Banking Corporation (ABC) in 2013. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and treasury. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because significant judgment and estimates are involved in the determination of the value in use of the CGUs. The assumptions used in the calculation of the value in use are sensitive to estimates of future cash flows from the business, interest margin, discount rate and long-term growth rate used to project cash flows.

The disclosures related to goodwill impairment are included in Notes 3 and 14 of the financial statements.

Audit Response

We involved our internal specialist to evaluate the assumptions and methodology used by the Group. These assumptions include estimates of future cash flows from the business, interest margin, discount rate and long-term growth rate used to project cash flows. We compared the interest margin and long-term growth rate to the historical performance of the CGUs. We also compared long-term growth rate to economic and industry forecasts. We assessed the discount rate applied in determining the value in use whether this represent current market assessment of risk associated with the future cash flows.

Valuation of Retirement Benefit Liability

As at December 31, 2017, the present value of pension obligation of the Group and the Parent Company amounted to ₱6.77 billion and ₱6.54 billion, respectively, while the fair value of plan assets amounted to ₱5.25 billion and ₱5.06 billion, respectively. Accumulated remeasurement losses amounted to ₱2.11 billion which accounts for 1.76% and 1.80% of the Group and Parent Company's total equity, respectively, as at December 31, 2017. The Parent Company also provides certain post-employee benefit through a guarantee of a specified return on contributions in its employee investment plan. The valuation of the retirement benefit liability and post-employment benefit requires the assistance of an external actuary due to the complexities involved in the calculation and the use of certain assumptions such as prospective salary and employee turnover rate, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter.

The disclosures related to retirement liability are included in Note 29 of the financial statements.

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work of the Group's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rate against the Group's human resources data, and the discount rate and mortality rate against available market data. We inquired from management about the basis of the salary rate increase and compared it against the Group's forecast. We compared the fair value of the retirement plan assets to market price information.

Migration to New Core Banking System

In 2017, the Parent Company and PNB Savings Bank (collectively, the “Banks”) implemented their new core banking system supporting the loans, deposits, and financial reporting processes. The migration to the new core banking system represents a financial reporting risk as there might be a breakdown in internal controls during the transition and an increased risk of inaccurate or incomplete migration of financial data. We therefore considered the testing of the migration of data from the old system to the new core banking system and the changes in IT application controls as a key audit matter.

Audit Response

We involved our internal specialist in obtaining an understanding of the processes, testing and evaluation of controls over data migration. We also performed substantive testing on the data migrated from the old system to the new core banking system by reviewing the reconciliations performed by the Banks of the balances between the two systems. We evaluated the related IT application controls of the relevant business processes affected by the migration to the new core banking system. Where necessary, we performed procedures to evaluate the controls design and test the operation of compensating controls. We evaluated and considered the results of the testing of controls in the design and extent of our substantive audit procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017, but does not include the consolidated and parent company financial statements and our auditor’s report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and parent company financial statements, management is responsible for assessing the Group's and the Parent Company'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 Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 40 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621305, January 9, 2018, Makati City

February 23, 2018

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2017	2016	2016	**2017**	2016	2016
		(As Restated – Note 2)			(As Restated – Note 2)	
ASSETS						
Cash and Other Cash Items	**₱12,391,139**	₱11,014,663	₱15,220,536	**₱11,671,952**	₱10,626,525	₱12,598,715
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from Other Banks (Note 34)	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank Loans Receivable (Notes 8 and 34)	**12,837,721**	7,791,108	5,800,383	**11,083,515**	7,907,366	5,958,526
Securities Held Under Agreements to Resell (Note 8)	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**2,882,395**	1,913,864	4,510,545	**2,829,877**	1,880,071	4,492,864
Available-for-Sale Investments (Note 9)	**69,837,416**	67,340,739	68,341,024	**67,677,952**	65,819,735	66,734,752
Held-to-Maturity Investments (Note 9)	**26,805,131**	24,174,479	23,231,997	**26,680,483**	24,074,898	23,137,643
Loans and Receivables (Notes 10 and 34)	**502,116,517**	428,215,501	366,071,767	**441,513,305**	378,198,738	328,300,238
Property and Equipment (Note 11)	**18,664,357**	18,097,355	22,128,464	**16,894,236**	16,505,047	19,144,198
Investments in Subsidiaries and an Associate (Note 12)	**2,363,757**	2,556,738	–	**28,407,414**	28,379,668	26,537,953
Investment Properties (Notes 13)	**15,594,385**	16,341,252	13,230,005	**15,318,408**	15,975,130	14,666,831
Deferred Tax Assets (Note 31)	**1,695,295**	1,482,029	1,173,581	**987,332**	1,014,308	936,492
Intangible Assets (Note 14)	**3,322,857**	2,562,369	2,442,878	**3,163,243**	2,471,451	2,346,246
Goodwill (Note 14)	**13,375,407**	13,375,407	13,375,407	**13,515,765**	13,515,765	13,515,765
Assets of Disposal Group Classified as Held for Sale (Note 37)	**–**	–	23,526,757	**–**	–	1,172,963
Other Assets (Note 15)	**8,877,314**	7,096,156	6,780,204	**8,152,615**	6,552,874	5,417,287
TOTAL ASSETS	**₱836,154,481**	₱753,981,636	₱680,034,300	**₱778,770,299**	₱711,525,352	₱630,164,994
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 17 and 34)						
Demand	**₱125,581,889**	₱117,329,019	₱110,029,680	**₱123,396,962**	₱115,391,610	₱108,667,550
Savings	**351,422,377**	341,008,603	292,093,306	**345,279,463**	336,277,279	287,828,768
Time	**129,552,035**	87,783,621	64,799,968	**96,364,657**	66,139,590	54,983,843
Long Term Negotiable Certificates	**31,363,956**	24,382,144	19,014,227	**31,363,956**	24,382,144	19,014,227
	637,920,257	570,503,387	485,937,181	**596,405,038**	542,190,623	470,494,388
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**343,522**	232,832	135,193	**343,416**	231,977	135,009
Bills and Acceptances Payable (Notes 19, 34 and 36)	**43,916,687**	35,885,948	25,752,222	**41,400,804**	33,986,698	24,629,887
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,323,487**	4,943,626	5,875,228	**4,673,545**	4,231,615	5,371,733
Subordinated Debt (Note 21)	**–**	3,497,798	9,986,427	**–**	3,497,798	9,986,427
Income Tax Payable	**993,245**	195,240	134,720	**833,708**	60,898	55,180
Liabilities of Disposal Group Classified as Held for Sale (Note 37)	**–**	–	21,452,621	**–**	–	–
Other Liabilities (Note 22)	**27,919,334**	28,762,102	25,964,626	**18,034,343**	20,027,960	17,669,131
	716,416,532	644,020,933	575,238,218	**661,690,854**	604,227,569	528,341,755
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Capital Stock (Note 25)	**49,965,587**	49,965,587	49,965,587	**49,965,587**	49,965,587	49,965,587
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	31,331,251	**31,331,251**	31,331,251	31,331,251
Surplus Reserves (Notes 25 and 33)	**597,605**	573,658	554,263	**597,605**	573,658	554,263
Surplus (Note 25)	**38,831,522**	30,694,899	24,839,480	**38,831,716**	30,695,100	24,839,579
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**(3,040,507)**	(3,469,939)	(3,030,588)	**(3,040,507)**	(3,469,939)	(3,030,588)
Remeasurement Losses on Retirement Plan (Note 29)	**(2,106,586)**	(2,821,853)	(2,364,215)	**(2,106,586)**	(2,821,853)	(2,364,215)
Accumulated Translation Adjustment (Note 25)	**1,417,884**	915,222	612,468	**1,417,884**	915,222	612,468
Other Equity Reserves (Note 25)	**70,215**	105,670	–	**70,215**	105,670	–
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	**12,280**	3,087	–	**12,280**	3,087	–
Other Equity Adjustment (Note 12)	**13,959**	13,959	13,959	**–**	–	–
Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 37)	**–**	–	(133,500)	**–**	–	(85,106)
Parent Company Shares Held by a Subsidiary (Note 25)	**–**	–	(9,945)	**–**	–	–
	117,093,210	107,311,541	101,778,760	**117,079,445**	107,297,783	101,823,239
NON-CONTROLLING INTERESTS (Note 12)	**2,644,739**	2,649,162	3,017,322	**–**	–	–
	119,737,949	109,960,703	104,796,082	**117,079,445**	107,297,783	101,823,239
TOTAL LIABILITIES AND EQUITY	**₱836,154,481**	₱753,981,636	₱680,034,300	**₱778,770,299**	₱711,525,352	₱630,164,994

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	December 31			December 31		
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 34)	**₱22,669,476**	₱19,686,409	₱17,137,657	**₱19,245,810**	₱16,923,864	₱15,151,263
Trading and investment securities (Note 9)	**3,138,719**	3,266,456	3,595,059	**3,072,652**	3,215,544	3,558,161
Deposits with banks and others (Notes 7 and 34)	**1,330,144**	597,500	785,414	**1,053,354**	440,664	596,592
Interbank loans receivable (Note 8)	**480,021**	794,000	183,723	**446,134**	794,312	183,293
	27,618,360	24,344,365	21,701,853	**23,817,950**	21,374,384	19,489,309
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 34)	**4,794,227**	3,780,242	2,980,019	**4,104,798**	3,356,866	2,773,720
Bills payable and other borrowings (Notes 19, 21 and 34)	**747,481**	997,621	1,029,995	**650,724**	959,609	1,003,173
	5,541,708	4,777,863	4,010,014	**4,755,522**	4,316,475	3,776,893
NET INTEREST INCOME	**22,076,652**	19,566,502	17,691,839	**19,062,428**	17,057,909	15,712,416
Service fees and commission income (Notes 26 and 34)	**4,180,861**	3,569,958	4,312,898	**3,130,783**	2,731,258	3,355,972
Service fees and commission expense (Note 34)	**1,087,498**	914,527	716,849	**592,427**	480,549	292,724
NET SERVICE FEES AND COMMISSION INCOME	**3,093,363**	2,655,431	3,596,049	**2,538,356**	2,250,709	3,063,248
Net insurance premiums (Note 27)	**656,329**	624,927	541,924	–	–	–
Net insurance benefits and claims (Note 27)	**322,244**	295,015	420,550	–	–	–
NET INSURANCE PREMIUM	**334,085**	329,912	121,374	–	–	–
OTHER INCOME						
Net gains on sale or exchange of assets (Note 13)	**3,921,136**	2,510,361	1,595,518	**3,862,341**	2,517,861	1,581,385
Foreign exchange gains - net (Note 23)	**1,674,370**	1,487,740	1,207,840	**1,675,985**	926,529	973,680
Trading and investment securities gains net (Note 9)	**559,758**	1,378,321	574,321	**556,429**	1,369,514	569,778
Equity in net earnings of subsidiaries and an associate (Note 12)	**59,215**	70,220	–	**498,254**	231,780	269,709
Miscellaneous (Note 28)	**893,517**	1,542,367	1,719,759	**592,041**	1,194,947	1,499,673
TOTAL OPERATING INCOME	**32,612,096**	29,540,854	26,506,700	**28,785,834**	25,549,249	23,669,889
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 29 and 34)	**9,108,837**	8,569,994	8,234,957	**7,754,566**	7,370,977	7,173,327
Taxes and licenses	**2,492,392**	2,172,042	1,910,735	**2,222,755**	1,952,291	1,723,421
Depreciation and amortization (Note 11)	**1,684,391**	1,554,645	1,452,221	**1,385,357**	1,343,583	1,305,779
Occupancy and equipment-related costs (Note 30)	**1,596,066**	1,473,342	1,430,048	**1,343,021**	1,262,952	1,219,156
Provision for impairment, credit and other losses (Note 16)	**884,133**	3,212,694	568,180	**161,877**	1,707,494	94,435
Miscellaneous (Note 28)	**6,367,519**	6,142,744	5,319,544	**5,634,019**	5,604,188	4,911,986
TOTAL OPERATING EXPENSES	**22,133,338**	23,125,461	18,915,685	**18,501,595**	19,241,485	16,428,104
INCOME BEFORE INCOME TAX	**10,478,758**	6,415,393	7,591,015	**10,284,239**	6,307,764	7,241,785
PROVISION FOR INCOME TAX (Note 31)	**2,322,213**	1,517,221	1,619,494	**2,123,676**	1,228,372	1,110,321
NET INCOME FROM CONTINUING OPERATIONS	**8,156,545**	4,898,172	5,971,521	**8,160,563**	5,079,392	6,131,464
NET INCOME FROM DISCONTINUED OPERATIONS NET OF TAX (Notes 12 and 37)	–	2,263,902	357,931	–	2,044,662	–
NET INCOME	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464

(Forward)

	Consolidated			Parent Company		
	December 31			December 31		
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 32)	**₱8,160,570**	₱7,123,952	₱6,131,365			
Non-controlling Interests	**(4,025)**	38,122	198,087			
	₱8,156,545	₱7,162,074	₱6,329,452			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱6.53**	₱5.70	₱4.91			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 32)	**₱6.53**	₱3.89	₱4.62			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
NET INCOME	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on available-for-sale investments (Note 9)	**454,188**	(193,484)	(824,011)	**468,861**	(185,603)	(822,826)
Income tax effect (Note 31)	**–**	286	2,887	**–**	–	2,887
Share in changes in net unrealized gains (losses) on available for sale investments of subsidiaries and an associate (Note 12)	**(24,756)**	(245,867)	–	**(39,429)**	(253,748)	51,906
	429,432	(439,065)	(821,124)	**429,432**	(439,351)	(768,033)
Accumulated translation adjustment	**504,736**	420,381	823,525	**(5,932)**	282,600	86,110
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**508,594**	20,154	586,212
	934,168	(18,684)	2,401	**932,094**	(136,597)	(95,711)
Items that do not recycle to profit or loss in subsequent periods:						
Share in aggregate reserves on life insurance policies (Note 2)	**9,193**	3,087	–	**9,193**	3,087	–
Remeasurement losses on retirement plan (Note 29)	**952,143**	(458,740)	(94,267)	**973,728**	(464,207)	(90,249)
Income tax effect (Note 31)	**554**	2,204	2,277	**–**	–	2,277
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**(236,632)**	1,208	–	**(258,461)**	6,569	5,071
	725,258	(452,241)	(91,990)	**724,460**	(454,551)	(82,901)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**1,659,426**	(470,925)	(89,589)	**1,656,554**	(591,148)	(178,612)
TOTAL COMPREHENSIVE INCOME	**₱9,815,971**	₱6,691,149	₱6,239,863	**₱9,817,117**	₱6,532,906	₱5,952,852
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱9,817,124**	₱6,532,804	₱5,904,359			
Non-controlling interests	**(1,153)**	158,345	335,504			
	₱9,815,971	₱6,691,149	₱6,239,863			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated														
	Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 33)	Surplus (Note 25)	Net Unrealized Loss on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 29)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Classified as Held for Sale (Note 37)	Other Equity Adjustment (Note 12)	Parent Company Shares Held by a Subsidiary (Note 25)	Total	Non-controlling Interest (Note 12)	Total Equity
Balance at January 1, 2017 as previously reported	₱49,965,587	₱31,331,251	₱573,658	₱30,702,322	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱–	₱–	₱13,959	₱–	₱107,315,877	₱2,649,162	₱109,965,039
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	(7,423)	–	–	–	–	3,087	–	–	–	(4,336)	–	(4,336)
Balance at January 1, 2017, as restated	49,965,587	31,331,251	573,658	30,694,899	(3,469,939)	(2,821,853)	915,222	105,670	3,087	–	13,959	–	107,311,541	2,649,162	109,960,703
Total comprehensive income (loss) for the year	–	–	–	8,160,570	429,432	715,267	502,662	–	9,193	–	–	–	9,817,124	(1,153)	9,815,971
Other equity reserves (Note 25)	–	–	–	–	–	–	–	(35,455)	–	–	–	–	(35,455)	–	(35,455)
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,270)	(3,270)
Transfer to surplus reserves (Note 33)	–	–	23,947	(23,947)	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱–	₱13,959	₱–	₱117,093,210	₱2,644,739	₱119,737,949
Balance at January 1, 2016 as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,258	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱–	(₱133,500)	₱13,959	(₱9,945)	₱101,738,538	₱3,017,322	₱104,755,860
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	40,222	–	–	–	–	–	–	–	–	40,222	–	40,222
Balance at January 1, 2016, as restated	49,965,587	31,331,251	554,263	24,839,480	(3,030,588)	(2,364,215)	612,468	–	–	(133,500)	13,959	(9,945)	101,778,760	3,017,322	104,796,082
Total comprehensive income (loss) for the year	–	–	–	7,123,952	(439,351)	(457,638)	302,754	–	3,087	–	–	–	6,532,804	158,345	6,691,149
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	133,500	–	–	133,500	(483,296)	(349,796)
Disposal of Parent Company shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	9,945	9,945	–	9,945
Cash dividends declared (Note 25)	–	–	–	(1,249,138)	–	–	–	–	–	–	–	–	(1,249,138)	–	(1,249,138)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	105,670	–	–	–	–	105,670	–	105,670
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(43,209)	(43,209)
Transfer to surplus reserves (Note 33)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱–	₱13,959	₱–	₱107,311,541	₱2,649,162	₱109,960,703

(Forward)

	Consolidated														
	Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 33)	**Surplus** (Note 25)	**Net Unrealized Loss on Available-for-Sale Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Other Equity Reserves** (Note 25)	**Share in Aggregate Reserves on Life Insurance Policies** (Note 12)	**Reserves of a Disposal Group Classified as Held for Sale** (Note 37)	**Other Equity Adjustment** (Note 12)	**Parent Company Shares Held by a Subsidiary** (Note 25)	**Total**	**Non-controlling Interest** (Note 12)	**Total Equity**
Balance at January 1, 2015, as previously reported	₱49,965,587	₱31,331,251	₱537,620	₱18,702,394	(₱2,336,142)	(₱2,292,833)	(₱59,854)	₱–	₱–	₱–	₱–	₱–	₱95,848,023	₱3,212,859	₱99,060,882
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	22,364	–	–	–	–	–	–	–	–	22,364	–	22,364
Balance at January 1, 2015, as restated	49,965,587	31,331,251	537,620	18,724,758	(2,336,142)	(2,292,833)	(59,854)	–	–	–	–	–	95,870,387	3,212,859	99,083,246
Total comprehensive income (loss) for the year	–	–	–	6,131,365	(809,876)	(89,452)	672,322	–	–	–	–	–	5,904,359	335,504	6,239,863
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	(543)	–	(543)	103,166	102,623
Acquisition of non-controlling interest (Note 12)	–	–	–	–	–	–	–	–	–	–	14,502	–	14,502	(616,274)	(601,772)
Acquisition of Parent Company Shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(9,945)	(9,945)	–	(9,945)
Reserves of a disposal group classified as held for sale	–	–	–	–	115,430	18,070	–	–	–	(133,500)	–	–	–	–	–
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(17,933)	(17,933)
Transfer to surplus reserves (Note 33)	–	–	16,643	(16,643)	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2015	₱49,965,587	₱31,331,251	₱554,263	₱24,839,480	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱–	(₱133,500)	₱13,959	(₱9,945)	₱101,778,760	₱3,017,322	₱104,796,082

	Parent Company										
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 33)	**Surplus** (Note 25)	**Reserves of a Disposal Group Classified as Held for Sale** (Note 37)	**Other Equity Reserves** (Note 25)	**Net Unrealized Loss on AFS Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Share in Aggregate Reserves** (Note 12)	**Total Equity**
Balance at January 1, 2017, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱573,658**	**₱30,678,390**	**₱–**	**₱105,670**	**(₱3,469,939)**	**(₱2,821,853)**	**₱915,222**	**₱–**	**₱107,277,986**
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	**16,710**	–	–	–	–	–	**3,087**	**19,797**
Balance at January 1, 2017, as restated	**49,965,587**	**31,331,251**	**573,658**	**30,695,100**	–	**105,670**	**(3,469,939)**	**(2,821,853)**	**915,222**	**3,087**	**107,297,783**
Total comprehensive income (loss) for the year	–	–	–	**8,160,563**	–	–	**429,432**	**715,267**	**502,662**	**9,193**	**9,817,117**
Transfer to surplus reserves (Note 33)	–	–	**23,947**	**(23,947)**	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	**(35,455)**	–	–	–	–	**(35,455)**
Balance at December 31, 2017	**₱49,965,587**	**₱31,331,251**	**₱597,605**	**₱38,831,716**	**₱–**	**₱70,215**	**(₱3,040,507)**	**(₱2,106,586)**	**₱1,417,884**	**₱12,280**	**₱117,079,445**
Balance at January 1, 2016, as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,357	(₱85,106)	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱101,783,017
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	40,222	–	–	–	–	–	–	40,222
Balance at January 1, 2016, as restated	49,965,587	31,331,251	554,263	24,839,579	(85,106)	–	(3,030,588)	(2,364,215)	612,468	–	101,823,239
Total comprehensive income (loss) for the year	–	–	–	7,124,054	–	–	(439,351)	(457,638)	302,754	3,087	6,532,906
Declaration of Cash Dividends	–	–	–	(1,249,138)	–	–	–	–	–	–	(1,249,138)
Transfer to surplus reserves (Note 33)	–	–	19,395	(19,395)	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	105,670	–	–	–	–	105,670
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	85,106	–	–	–	–	–	85,106
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	₱105,670	(₱3,469,939)	(₱2,821,853)	₱915,222	₱3,087	₱107,297,783
Balance at January 1, 2015, as previously reported	₱49,965,587	₱31,331,251	₱537,620	₱18,702,394	₱–	–	(₱2,336,142)	(₱2,292,833)	(₱59,854)	–	₱95,848,023
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	22,364	–	–	–	–	–	–	22,364
Balance at January 1, 2015, as restated	49,965,587	31,331,251	537,620	18,724,758	–	–	(2,336,142)	(2,292,833)	(59,854)	–	95,870,387
Total comprehensive income (loss) for the year	–	–	–	6,131,464	–	–	(768,033)	(82,901)	672,322	–	5,952,852
Transfer to surplus reserves (Note 33)	–	–	16,643	(16,643)	–	–	–	–	–	–	–
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	(85,106)	–	73,587	11,519	–	–	–
Balance at December 31, 2015	₱49,965,587	₱31,331,251	₱554,263	₱24,839,579	(₱85,106)	–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱101,823,239

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱10,478,758**	₱6,415,393	₱7,591,015	**₱10,284,239**	₱6,307,764	₱7,241,785
Income before income tax from discontinued operations (Note 37)	–	2,470,400	402,236	–	2,325,568	–
Income before income tax	**10,478,758**	8,885,793	7,993,251	**10,284,239**	8,633,332	7,241,785
Adjustments for:						
Net gain on sale or exchange of assets (Note 13)	**(3,921,136)**	(2,510,361)	(1,595,518)	**(3,862,341)**	(2,517,861)	(1,581,385)
Depreciation and amortization (Notes 11 and 37)	**1,684,391**	1,554,645	1,462,925	**1,385,357**	1,343,583	1,305,797
Amortization of premium (discount) on investment securities	**1,383,338**	1,144,317	(911,967)	**1,375,100**	1,137,513	(872,123)
Provision for impairment, credit and other losses (Notes 16 and 37)	**884,133**	3,212,694	600,945	**161,877**	1,707,494	94,435
Loss (gain) on mark-to-market of derivatives (Note 23)	**(128,417)**	698,071	583,375	**(124,679)**	698,071	583,358
Realized trading loss (gain) on available-for-sale investments (Notes 9 and 37)	**(506,238)**	(1,362,477)	(782,065)	**(506,238)**	(1,350,468)	(756,777)
Amortization of transaction costs (Note 17)	**60,239**	36,640	33,836	**60,239**	36,640	33,836
Equity in net earnings of subsidiaries and an associate (Note 12)	**(59,215)**	(70,220)	–	**(498,254)**	(231,780)	(269,709)
Gain on remeasurement of a previously held interest (Note 12)	–	(1,644,339)	–	–	(1,644,339)	–
Loss (gain) from sale of previously held interest (Note 12)	–	(681,228)	–	–	(681,228)	13,247
Recoveries on receivable from special purpose vehicle (Note 28)	–	(500,000)	(353,000)	–	(500,000)	(353,000)
Amortization of fair values of HTM reclassified to AFS (Note 9)	**141,802**	145,727	139,372	141,802	140,332	126,531
Loss on mark-to-market of held for trading securities (Note 9)	**94,480**	88,436	314,836	94,480	88,436	314,846
Amortization of fair value adjustments	**4,692**	21,137	63,519	4,692	21,137	63,519
Gain on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (Notes 9 and 18)	**(3,328)**	3,202	(210)	–	–	–
Loss on write-off of software cost (Note 14)	–	894	–	–	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(798,815)**	(547,222)	178,898	**(828,073)**	(508,224)	132,596
Financial assets at fair value through profit or loss	**(820,576)**	1,904,611	(1,691,607)	**(808,168)**	1,923,254	1,304,882
Loans and receivables	**(75,945,021)**	(66,333,237)	(49,881,768)	**(63,393,954)**	(52,436,762)	(38,729,690)
Other assets	**(1,132,198)**	(1,643,068)	238,354	**(2,202,588)**	(743,644)	666,991
Increase (decrease) in amounts of:						
Financial liabilities at fair value through profit or loss	–	–	2,998,489	–	–	90,745
Deposit liabilities	**67,387,302**	84,510,588	38,196,138	**54,189,539**	71,640,617	37,950,439
Accrued taxes, interest and other expenses	**379,861**	729,486	595,696	**441,930**	520,970	336,577
Other liabilities	**(187,797)**	1,248,917	520,856	**(1,348,046)**	651,403	(294,584)
Net cash generated from (used in) operations	**(1,003,745)**	28,893,006	(1,295,645)	**(5,433,086)**	27,928,476	7,402,316
Income taxes paid	**(1,524,208)**	(784,682)	(718,496)	**(1,350,866)**	(715,203)	(516,503)
Net cash provided by (used in) operating activities	**(2,527,953)**	28,108,324	(2,014,141)	**(6,783,952)**	27,213,273	6,885,813

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of or maturities from:						
Available-for-sale investments	**₱199,856,642**	₱83,143,335	₱88,196,318	**₱199,690,619**	₱81,843,119	₱81,944,894
Held-to-maturity investments	–	–	115,397	–	–	–
Investment properties	**5,570,269**	2,387,170	4,050,406	**5,119,922**	2,255,377	3,918,919
Property and equipment (Note 11)	**235,015**	142,129	499,529	**383,206**	418,869	432,451
Disposal group classified as held for sale/Investment in shares of a subsidiary (Notes 12 and 37)	–	3,230,966	–	–	3,230,966	102,623
Collection of receivables from special purpose vehicle	–	500,000	353,000	–	500,000	353,000
Share in dividends from subsidiaries (Note 12)	–	–	–	**1,333,350**	66,125	180,000
Acquisitions of:						
Available-for-sale investments	**(202,587,314)**	(83,486,942)	(100,599,843)	**(201,794,860)**	(82,272,241)	(92,903,772)
Property and equipment (Note 11)	**(1,930,786)**	(2,028,339)	(1,907,386)	**(1,658,985)**	(1,740,338)	(1,577,147)
Software cost (Note 14)	**(1,162,121)**	(406,053)	(571,768)	**(979,650)**	(404,837)	(558,372)
Held-to-maturity investments	**(2,801,983)**	–	(976,403)	**(2,726,786)**	–	(892,200)
Additional investments in subsidiaries (Note 12)	–	–	–	**(700,000)**	(292,416)	(601,772)
Closure of subsidiaries (Note 12)	–	–	–	**50,000**	–	–
Net cash provided by(used in) investing activities	**(2,820,278)**	3,482,266	(10,840,750)	**(1,283,184)**	3,604,624	(9,601,376)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of Bills and acceptances payable	**164,866,720**	180,747,610	116,889,829	**159,025,830**	175,375,030	112,249,710
Proceeds from sale of non-controlling interest in subsidiaries (Note 12)	–	–	102,623	–	–	–
Settlement of:						
Bills and acceptances payable	**(157,020,131)**	(169,839,126)	(111,139,760)	**(151,794,765)**	(165,576,107)	(107,605,128)
Subordinated debt	**(3,500,000)**	(6,500,000)	–	**(3,500,000)**	(6,500,000)	–
Cash dividends declared and paid	–	(1,249,139)	–	–	(1,249,139)	–
Acquisition of non-controlling interest in subsidiaries (Note 12)	–	(292,416)	(601,772)	–	–	–
Dividends paid to non-controlling interest	**(3,270)**	(43,209)	(17,933)	–	–	–
Payments for transaction cost of issuance of shares	–	–	–	–	–	–
Net cash provided by (used in) financing activities	**4,343,319**	2,823,720	5,232,987	**3,731,065**	2,049,784	4,644,582
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,004,912)**	34,414,310	(7,621,904)	**(4,336,071)**	32,867,681	1,929,019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**11,014,663**	15,863,080	14,628,489	**10,626,525**	12,598,715	13,865,078
Due from Bangko Sentral ng Pilipinas	**127,337,861**	81,363,444	105,773,685	**123,799,952**	79,203,948	95,415,467
Due from other banks	**22,709,805**	18,287,308	15,591,406	**12,831,514**	11,450,573	5,013,357
Interbank loans receivable	**7,243,886**	5,800,383	7,492,539	**7,352,840**	5,912,224	7,492,539
Securities held under agreements to resell	**1,972,310**	14,550,000	–	**1,972,310**	14,550,000	–
	170,278,525	135,864,215	143,486,119	**156,583,141**	123,715,460	121,786,441
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**12,391,139**	11,014,663	15,863,080	**11,671,952**	10,626,525	12,598,715
Due from Bangko Sentral ng Pilipinas	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from other banks	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank loans receivable (Note 8)	**11,491,684**	7,243,886	5,800,383	**9,700,916**	7,352,840	5,912,224
Securities held under agreements to resell	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
	₱169,273,613	₱170,278,525	₱135,864,215	**₱152,247,070**	₱156,583,141	₱123,715,460
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱5,317,161**	₱4,620,623	₱3,881,864	**₱4,617,444**	₱4,254,991	₱3,628,149
Interest received	**28,559,267**	22,279,734	20,208,489	**25,320,173**	20,653,077	17,952,107
Dividends received	**3,270**	17,593	2,409	**32,417**	80,841	198,338

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine National Bank (the Parent Company) is a universal bank established in the Philippines in 1916 and started commercial operations that same year. The Philippine Securities and Exchange Commission (SEC) approved the renewal of its corporate registration on May 27, 1996, with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. As of December 31, 2017 and 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.33% of the Parent Company's shares were held by Philippine Central Depository (PCD) Nominee Corporation. The remaining 22.84% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares. The Parent Company's shares were listed with the Philippine Stock Exchange (PSE) on June 21, 1989.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/ remittance servicing and a full range of retail banking and trust services through its 692 and 675 domestic branches as of December 31, 2017 and 2016, respectively.

The Parent Company has the largest overseas network among Philippine banks with 72 branches and 73 branches, representative offices, remittance centers and subsidiaries as of December 31, 2017 and 2016, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, life and nonlife insurance, banking, leasing, stock brokerage, foreign exchange trading and/or related services.

<u>Merger with Allied Banking Corporation</u>

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger, which involved a share-for-share exchange, was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share (Note 14). The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On April 26, 2013, the Parent Company filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). The Parent Company received BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction. The Parent Company received the final confirmation ruling on March 2, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPTL) and available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented in Note 12.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented 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 24. Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position only when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expense are not offset in the statements of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross amounts in the statement of financial position.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (Note 12).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure or rights to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption, and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- Contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Group and the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity as 'Other equity adjustment'. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Subsequent to acquisition (See Accounting Policy on Business Combinations and Goodwill), non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the date of business combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the amendments and improvements to Philippine Financial Reporting Standards (PFRS) which are effective beginning on or after January 1, 2017. The Changes in the accounting policies that have or did not have any significant impact on the financial position or performance of the Group are discussed under Summary of Significant Accounting Principles of the audited financial statements of the group.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

The Insurance Commission issued new regulations in 2016 which provide, among others, for changes in valuation standards for both life and non-life insurance policy reserves. The new valuation standards, which took effect beginning January 1, 2017, are to be adopted retrospectively. The impact to prior years are presented as follows (amounts in millions):

	Consolidated								
	December 31, 2016			December 31, 2015			January 1, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Financial Position									
Loans and receivables	₱428,027	₱188	₱428,215	₱365,725	₱347	₱366,072	₱–	₱–	₱–
Investments in subsidiaries and an associate	2,533	24	2,557	–	–	–	–	–	–
Other assets	7,091	5	7,096	6,780	–	6,780	5,159	(27)	5,186
Other liabilities	28,565	197	28,762	25,658	306	25,964	33,333	4	33,3
Surplus	30,678	17	30,695	24,799	40	24,839	13,344	(22)	13,362

The effect of DTA is immaterial.

	Consolidated					
	December 31, 2016			December 31, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income						
Equity in net earnings of subsidiaries and an associate	₱49	₱21	₱70	₱–	₱–	₱–
Net insurance premiums	630	(5)	625	540	1	541
Net insurance benefits and claims	256	39	295	437	(16)	421
Service fees and commission income	–	–	–	4,313	–	4,313
Service fees and commission expense	–	–	–	717	–	717
Provision for income tax	1,517	–	1,517	1,620	–	1,620
Net income	7,186	(24)	7,162	6,312	18	6,330

	Parent Company								
	December 31, 2016			December 31, 2015			January 1, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Financial Position									
Investments in subsidiaries and an associate	₱28,360	₱20	₱28,380	₱26,498	₱40	₱26,538	₱18,702	₱22	₱18,724
Surplus	30,678	17	30,695	24,799	40	24,839	26,555	(22)	26,533
Share in Aggregate Reserves on Life Insurance Policies	–	3	3	–	–	–	–	–	–

	Parent Company					
	December 31, 2016			December 31, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income						
Equity in net earnings of subsidiaries and an associate	₱255	(₱24)	₱231	₱252	₱18	₱270
Net income	7,148	(24)	7,124	6,114	18	6,132
Share in Aggregate Reserves on Life Insurance Policies	–	3	3	–	–	–

Significant Accounting Policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group, as an acquirer, shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

Non-current Assets and Disposal Group Held for Sale and Discontinued Operations
The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such non-current assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:
- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Refer to Note 37 for the detailed disclosure on discontinued operations. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Foreign Currency Translation
The financial statements are presented in PHP, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in Php while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances
As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and for foreign currency-denominated income and expenses at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

FCDU and overseas subsidiaries
As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. Upon disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

Insurance Product Classification

Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell 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 an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.

Fair Value Measurement

The Group measures financial instruments such as financial assets and liabilities at FVPTL and AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Group. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

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

Derivatives recorded at FVPTL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These contracts are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as 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 are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVPTL' or 'Financial Liabilities at FVPTL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

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

Designated financial assets or financial liabilities at FVPTL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPTL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. 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). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized as 'Foreign exchange gains-net' in the statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'.

These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPTL or designated as AFS investments.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC) and Allied Leasing and Finance Corporation (ALFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

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

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial Assets at FVPL', 'HTM Investments' or 'Loans and Receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net change in unrealized gain (loss) on AFS investments' in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. Losses arising from impairment of such investments are recognized as 'Provision for impairment, credit and other losses' in the statement of income.

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

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

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in

the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS investments category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

Derecognition of Financial Assets and Liabilities

Financial asset

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

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

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

Financial liability

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date (‘reverse repos’) are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as ‘Securities Held Under Agreements to Resell’, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

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

Financial assets at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under 'Provision for impairment, credit and other losses' in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

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

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income.

Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

<u>Financial Guarantees</u>
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Miscellaneous expenses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

<u>Nonlife Insurance Contract Liabilities</u>
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for claims IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract, is discharged or cancelled and has expired.

Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test
At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

<u>Investments in Subsidiaries</u>
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company separate financial statements, investments in subsidiaries are accounted for under equity method of accounting similar to investment in an associate.

<u>Investments in an Associate and Joint Ventures</u>
Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate are accounted for under equity method of accounting.

Under the equity method, the investments in an associate and joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associates and joint ventures. The statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. When there has been a change recognized in the investee's other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the statement of comprehensive income. Profits and losses arising from transactions between the Group and the associates are eliminated to the extent of the interest in the associates and joint ventures.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*

   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*

   Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

   Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*

   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 are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under 'Other Liabilities' in the statement of financial position.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and Receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertain to the premiums for the last months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other Liabilities' in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other Assets' in the consolidated statement of financial position. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectability of the sales price is reasonably assured.

<u>Expenses</u>
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

Taxes and licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

<u>Reinsurance</u>
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to 'Accounts receivable'.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented as 'Other Liabilities' in the consolidated statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the 'Other Liabilities' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized using the 24thmethod except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to 'Service fees and commission expense' in the consolidated statement of income. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its 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.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. 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 is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method 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 or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the 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 such an asset cannot be reliably measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'.

Foreclosed properties are classified under 'Investment Properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and any impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

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 statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income 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, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other Properties Acquired
Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs
Software costs, included in 'Intangible Assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles
Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, intangible assets and other properties acquired
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual 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 CGU to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the 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 against operations in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. 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 statement of income. After such reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investments in subsidiaries and an associate
The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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.

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and Equipment' account with the corresponding liability to the lessor included in 'Other Liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

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 statement of income on a straight-line basis over the lease term.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and Receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Retirement Benefits
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling, if any. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Accrued Taxes, Interest and Other Expenses' in the statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. 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.

When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Income Taxes
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

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, carryforward 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 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.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income 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.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, 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.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any. Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Share-based Payment
Employees of the Parent Company receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognized in "Compensation and fringe benefits", together with a corresponding increase in equity

(other equity reserves), over the period in which the service is fulfilled. The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the period.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting Date
Any post-year-end event that provides additional information about the Group's 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 when material to the financial statements.

Segment Reporting
The Group'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. Refer to Note 6 for the detailed disclosure on segment information.

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 Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

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 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.
'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

'Remeasurement Losses on Retirement Plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated Translation Adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e. overseas branches and subsidiaries) to Philippine peso.

'Net Unrealized Loss on Available-for-Sale Investments' reserve which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.
Effective beginning on or after January 1, 2018

PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions* (Amendments)
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its financial statements.

PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendments)
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The Group is assessing the potential effect of adopting this standard.

PFRS 9, *Financial Instruments*
PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2018.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group will not restate prior period comparative consolidated financial statements when the Group adopts the requirements of the new standard. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 will be recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses will have an impact on the Group's and Parent Company's financial statements. The 2018 opening balances of surplus and OCI in the Group's and Parent Company's statement of financial position are expected to change as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Group's and the Parent Company's application of its business models and its assessment of the financial assets' cash flow characteristics. The balances of surplus and OCI in the Group's and Parent Company's statement of financial position as of January 1, 2018, the initial adoption date, are also expected to change as a result of applying PFRS 9's requirements on the recognition of expected credit losses. This change depends on whether there have been significant increases in the credit risk of the Group's and Parent Company's financial assets since initial recognition and on the Group's and Parent Company's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. During 2018, PFRS 9's requirements will have an impact on the Group's and Parent Company's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks. The Group is still completing its assessment of the impact of PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Group's and Parent Company's financial statements. The key changes to the Group's accounting policies resulting from the adoption of PFRS 9 are described below.

Classification and measurement
The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as at fair value through profit or loss (FVTPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL. Subsequent measurement of instruments classified as FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through OCI (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost. Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives will continue to be measured at FVTPL under PFRS 9.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Expected Credit Loss Methodology
The application of ECL will significantly change the Group's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group plans to adopt the modified retrospective method.

The Group is currently assessing the impact of adopting this standard.

PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* (Amendments)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

PAS 40, *Investment Property, Transfers of Investment Property* (Amendments)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities

in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group 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 assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>

(a) Leases

<u>Operating leases</u>

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases

Group as lessor

The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) *Contingencies*

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 35).

(d) *Functional currency*

PAS 21 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 Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which 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.

(e) *Assessment of control over entities for consolidation*

Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls Oceanic Holding (BVI) Ltd. (OHBVI) through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

(f) *Assessment of joint control*

The Parent Company has certain joint arrangements with real estate companies for the development of its investment properties into residential/condominium units. In assessing joint control over these investees, the Parent Company assesses whether all the parties collectively control the arrangement. Further, the Parent Company determines the relevant activities of the arrangement and whether decisions around relevant activities require unanimous consent. The Parent Company also considers the scope of decision-making authority of the real estate companies in accordance with their respective contractual arrangements.

The Parent Company determined that it has joint control over these joint arrangements on the basis that even though the real estate companies are the designated operators of the joint arrangement, they are still bound by the contract that establishes joint control of the undertaking and they can only act in accordance with the authorities granted to them under the joint venture agreement.

(g) *Sale of Allianz-PNB Life Insurance, Inc.(APLII)*
Pursuant to the sale of APLII in 2016 under a share purchase agreement, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years.

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Parent Company was allocated between the sale of its ownership interest in APLII and the Exclusive Distribution Right (see Note 12).

Estimates

(a) *Credit losses on loans and receivables*
The Group reviews its impaired loans and receivables on a quarterly basis to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The Group takes into account the latest available information of the borrower's financial condition, industry risk and market trends.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Refer to Notes 10 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(b) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future 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 income together with future tax planning strategies.
The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 31.

(c) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases was based on the Group's policy taking into account the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 29.

(d) *Impairment of nonfinancial assets - property and equipment, investments in subsidiaries and an associate, investment properties, other properties acquired and intangibles*
The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;

- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties and intangible assets and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(e) Impairment of goodwill
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period.
The assumptions used in the calculation of value-in-use are sensitive to estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Note 14.

(f) Valuation of insurance contracts
Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

Nonlife insurance contract liabilities are not discounted for the time value of money.
The main assumption underlying the estimation of the claims provision is that Group's company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Note 22.

(g) Determination of fair value of shares of APLII and Exclusive Distribution Rights (EDR)
The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected

future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

The Market Approach involved determining the price to book value of selected publicly traded companies that have been identified to be comparable to PLII such as those with similar business activities and product offerings. The price to book value are then subjected to a control premium and lack of marketability discount.
The fair value of the Exclusive Distribution Right was determined using the Market Approach where it involved identifying recent bancassurance agreements with upfront payments from publicly available data of comparable companies. Using the amount of upfront payment fee, the number of branches and customers, a value per branch and value per customer multiple were determined.

4. Financial Risk Management Objectives and Policies

Introduction
The Parent Company's BOD has overall responsibility for the establishment and oversight of the Group's risk managementframework. As delegated by the BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management.The ROC advises on the overall current and future risk appetite and strategyand assists in overseeing the implementation of those strategies and business plans by seniormanagement. Details of the Parent Company's risk framework are discussed under the Risk Management Disclosure Section of the Parent Company's annual report.

The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either an₱8.0 billion increase in risk weighted assets or a ₱1.0 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2017-2019, these are based on the following nine (9) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the ICAAP Document and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

Pillar 1 Risks:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:
4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)

6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

<u>Credit Risk</u>
Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector and remedial sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Parent Company in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
    a. portfolio growth
    b. movement of loan portfolio (cash releases and cash collection for the month)
    c. loss rate

d. recovery rate
e. trend of nonperforming loans (NPLs)
f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Parent Company collects data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan.

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.

To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Unit-linked financial assets
The Group issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the Group has no material credit risk on unit-linked financial assets.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

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 for the Group and the Parent Company is shown below:

	Consolidated			
	2017			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under repurchase agreement	**₱14,621,483**	**₱14,473,258**	**₱148,225**	**₱14,473,258**
Loans and receivables:				
Receivable from customers*:				
Business loans	**408,977,024**	**573,328,885**	**280,657,441**	**128,319,583**
Consumers	**45,972,385**	**36,704,079**	**31,580,271**	**14,392,114**
GOCCs and National Government Agencies (NGAs)	**17,429,380**	**15,117,428**	**2,311,952**	**15,117,428**
LGUs	**7,176,573**	**1,024,131**	**6,701,323**	**475,250**
Fringe benefits	**516,360**	**553,035**	**299,245**	**217,115**
Unquoted debt securities	**14,674,130**	**–**	**14,674,130**	**–**
Other receivable	**22,459,399**	**16,084,896**	**21,583,282**	**876,117**
	₱531,826,734	**₱657,285,712**	**₱357,955,869**	**₱173,870,865**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated			
	2016			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱1,972,310	₱1,968,603	₱3,707	₱1,968,603
Loans and receivables:				
Receivable from customers*:				
Business loans	345,154,387	275,990,051	276,724,626	68,429,761
Consumers	41,224,688	24,791,559	28,463,760	12,760,928
GOCCs and National Government Agencies (NGAs)	19,897,037	25,594,651	3,089,179	16,807,858
LGUs	7,335,499	1,053,132	6,806,185	529,314
Fringe benefits	588,092	743,271	291,754	296,338
Unquoted debt securities	6,972,710	2,789,063	4,125,801	2,789,063
Other receivable	21,039,980	10,745,528	15,156,530	5,883,450
	₱444,184,703	₱343,675,858	₱334,661,542	₱109,465,315

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent Company			
	2017			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under repurchase agreement	**₱14,621,483**	**₱14,473,258**	**₱148,225**	**₱14,473,258**
Loans and receivables:				
Receivable from customers:				
Business loans	**388,516,309**	**546,762,806**	**271,403,152**	**117,113,157**
Consumers	**11,721,298**	**1,567,307**	**11,106,334**	**614,964**
GOCCs and NGAs	**17,429,380**	**15,117,428**	**2,311,952**	**15,117,428**
LGUs	**7,176,573**	**1,024,131**	**6,701,323**	**475,250**
Fringe benefits	**482,020**	**522,070**	**290,864**	**191,156**
Unquoted debt securities	**14,616,628**	**–**	**14,616,628**	**–**
Other receivable	**16,076,425**	**16,012,112**	**15,273,093**	**803,333**
	₱470,640,116	**₱595,479,112**	**₱321,851,571**	**₱148,788,546**

	Parent Company			
	2016			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱1,972,310	₱1,968,603	₱3,707	₱1,968,603
Loans and receivables:				
Receivable from customers:				
Business loans	332,783,948	255,205,029	273,830,642	58,953,306
Consumers	9,988,258	3,059,479	8,357,123	1,631,135
GOCCs and NGAs	19,897,036	25,594,651	3,089,179	16,807,857
LGUs	7,335,499	1,053,132	6,806,185	529,314
Fringe benefits	560,828	734,575	283,164	277,664
Unquoted debt securities	6,914,864	2,789,063	4,125,801	2,789,063
Other receivable	14,750,427	10,743,494	9,124,573	5,625,854
	₱394,203,170	₱301,148,026	₱305,620,374	₱88,582,796

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 35 to the financial statements.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Parent Company constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For loans and receivables, the Parent Company sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

   For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			
	2017			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱468,116,001**	**₱79,432,010**	**₱128,064,005**	**₱675,612,016**
Asia (excluding the Philippines)	**28,656,909**	**10,974,911**	**17,295,570**	**56,927,390**
USA and Canada	**1,243,490**	**2,450,828**	**8,530,735**	**12,225,053**
Oceania	**3,398,662**	**–**	**–**	**3,398,662**
Other European Union Countries	**–**	**382,808**	**2,065,193**	**2,448,001**
United Kingdom	**26,128**	**6,284,385**	**3,007,550**	**9,318,063**
Middle East	**–**	**–**	**10,943**	**10,943**
	₱501,441,190	**₱99,524,942**	**₱158,973,996**	**₱759,940,128**

* *Loans and receivables exclude residual value of the leased asset (Note 10)*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Consolidated			
	2016			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱388,691,048	₱78,723,534	₱131,622,446	₱598,848,998
Asia (excluding the Philippines)	18,430,743	12,716,017	18,211,900	49,358,660
USA and Canada	15,315,893	202,939	4,302,151	19,820,983
Oceania	3,594,610	–	–	3,594,610
Other European Union Countries	1,425,522	942,855	4,643,448	7,011,825
United Kingdom	42,086	843,737	1,568,364	2,454,187
Middle East	7,707	–	31,042	38,749
	₱427,507,609	₱93,429,082	₱160,379,351	₱681,128,012

* *Loans and receivables exclude residual value of the leased asset.(Note 10)*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2017			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱417,687,275**	**₱77,297,223**	**₱122,665,366**	**₱617,649,864**
Asia (excluding the Philippines)	**19,753,264**	**10,971,619**	**6,437,886**	**37,162,769**
United Kingdom	**–**	**6,210,003**	**3,007,451**	**9,217,454**
Oceania	**3,398,662**	**479**	**–**	**3,399,141**
USA and Canada	**674,104**	**2,326,180**	**8,460,359**	**11,460,643**
Other European Union Countries	**–**	**382,808**	**2,062,191**	**2,444,999**
Middle East	**–**	**–**	**10,943**	**10,943**
	₱441,513,305	**₱97,188,312**	**₱142,644,196**	**₱681,345,813**

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2016			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱366,510,639	₱77,371,752	₱127,423,655	₱571,306,046
Asia (excluding the Philippines)	11,011,491	12,715,714	10,154,230	33,881,435
United Kingdom	–	225	–	225
Oceania	668,901	–	4,135,016	4,803,917
USA and Canada	–	843,276	4,053,526	4,896,802
Other European Union Countries	–	843,737	1,244,950	2,088,687
Middle East	7,707	–	31,042	38,749
	₱378,198,738	₱91,774,704	₱147,042,419	₱617,015,861

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

c. Concentration by Industry

The tables below shows the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

	Consolidated			
	2017			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱81,339,503**	**₱11,385,526**	**₱52,731,051**	**₱145,456,080**
Wholesale and retail	**72,590,561**	**–**	**–**	**72,590,561**
Electricity, gas and water	**63,607,168**	**242,543**	**–**	**63,849,711**
Transport, storage and communication	**39,143,238**	**255,953**	**–**	**39,399,191**
Manufacturing	**30,808,117**	**18**	**–**	**30,808,135**
Public administration and defense	**23,770,145**	**–**	**–**	**23,770,145**
Agriculture, hunting and forestry	**7,138,996**	**19**	**–**	**7,139,015**
Secondary target industry:				
Government	**358,971**	**70,845,045**	**105,497,459**	**176,701,475**
Real estate, renting and business activities	**82,785,877**	**9,217,989**	**–**	**92,003,866**
Construction	**18,742,726**	**–**	**–**	**18,742,726**
Others**	**81,155,888**	**7,577,849**	**745,486**	**89,479,223**
	₱501,441,190	**₱99,524,942**	**₱158,973,996**	**₱759,940,128**

* *Loans and receivables exclude residual value of the leased asset (Note 10)*

** *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 the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Consolidated			
	2016			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱60,774,307	₱10,066,253	₱30,506,854	₱101,347,414
Wholesale and retail	63,358,584	26	8,772	63,367,382
Electricity, gas and water	49,857,988	4,771,740	5,469	54,635,197
Transport, storage and communication	38,352,051	7,249,511	1,286	45,602,848
Manufacturing	40,987,080	496,529	71	41,483,680
Public administration and defense	23,289,595	−	411	23,290,006
Agriculture, hunting and forestry	5,970,524	−	−	5,970,524
Secondary target industry:				
Government	625,802	63,321,206	129,310,255	193,257,263
Real estate, renting and business activities	67,321,221	6,814,681	50,343	74,186,245
Construction	18,249,762	99,939	1,070	18,350,771
Others**	58,532,665	609,197	494,820	59,636,682
	₱427,319,579	₱93,429,082	₱160,379,351	₱681,128,012

* *Loans and receivables exclude residual value of the leased asset (Note 10)*

** *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 the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2017			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Primary target industry:				
Financial intermediaries	**₱80,879,478**	**₱11,212,105**	**₱36,460,258**	**₱128,551,841**
Wholesale and retail	**68,704,929**	**−**	**−**	**68,704,929**
Electricity, gas and water	**63,351,538**	**239,078**	**−**	**63,590,616**
Transport, storage and communication	**38,120,139**	**1,766**	**−**	**38,121,905**
Manufacturing	**28,266,909**	**17**	**−**	**28,266,926**
Public administration and defense	**22,419,612**	**−**	**−**	**22,419,612**
Agriculture, hunting and forestry	**6,665,547**	**19**	**−**	**6,665,566**
Secondary target industry:				
Government	**358,971**	**69,269,955**	**105,497,459**	**175,126,385**
Real estate, renting and business activities	**75,202,099**	**8,986,299**	**−**	**84,188,398**
Construction	**17,703,490**	**−**	**−**	**17,703,490**
Others*	**39,840,593**	**7,479,073**	**686,479**	**48,006,145**
	₱441,513,305	**₱97,188,312**	**₱142,644,196**	**₱681,345,813**

* *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 the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

	Parent Company			
	2016			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱59,963,399	₱9,976,639	₱20,744,821	₱90,684,859
Wholesale and retail	56,592,495	26	8,772	56,601,293
Electricity, gas and water	49,626,635	4,771,510	5,469	54,403,614
Transport, storage and communication	34,052,933	7,150,623	1,286	41,204,842
Manufacturing	35,104,381	496,529	71	35,600,981
Public administration and defense	23,915,397	–	411	23,915,808
Agriculture, hunting and forestry	4,922,200	–	–	4,922,200
Secondary target industry:				
Government	–	62,372,155	125,772,346	188,144,501
Real estate, renting and business activities	51,294,655	6,721,508	50,343	58,066,506
Construction	14,488,232	99,939	1,070	14,589,241
Others*	48,238,411	185,775	457,830	48,882,016
	₱378,198,738	₱91,774,704	₱147,042,419	₱617,015,861

* *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 the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-gradeCRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables

The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of ₱15.0 million and above)are defined below:

CRR 1 - Excellent

Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime

Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 – Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR 7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company uses credit scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017 and 2016, but net of residual values of leased assets.

	Consolidated			
	2017			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 – Excellent	**₱4,291,461**	**₱–**	**₱–**	**₱4,291,461**
2 - Super Prime	**44,150,956**	**–**	**–**	**44,150,956**
3 – Prime	**79,626,334**	**–**	**–**	**79,626,334**
4 - Very Good	**51,582,911**	**4,995**	**–**	**51,587,906**
5 - Good	**41,160,103**	**–**	**–**	**41,160,103**
6 - Satisfactory	**47,552,725**	**104,642**	**–**	**47,657,367**
7 - Average	**32,300,228**	**5,115**	**14,990**	**32,320,333**
8 - Acceptable	**26,323,932**	**970**	**–**	**26,324,902**
9 - Fair	**8,111,610**	**–**	**60,909**	**8,172,519**
10 - Watchlist	**55,367,209**	**64,780**	**185,233**	**55,617,222**
11 - Special Mention	**3,030,339**	**143,170**	**159,571**	**3,333,080**
12 - Substandard	**957,285**	**38,244**	**2,245,340**	**3,240,869**
13 - Doubtful	**–**	**321,988**	**718,858**	**1,040,846**
14 - Loss	**–**	**10,740**	**2,986,181**	**2,996,921**
	394,455,093	**694,644**	**6,371,082**	**401,520,819**
Unrated Receivable from Customers				
Consumers	**18,240,516**	**468,879**	**710,896**	**19,420,291**
Business Loans	**–**	**–**	**–**	**–**
LGUs	**51,341,530**	**1,426,569**	**218,224**	**52,986,323**
Fringe Benefits	**7,000,975**	**35,325**	**150,344**	**7,186,644**
GOCCs and NGAs	**493,746**	**4,266**	**12,743**	**510,755**
	77,076,767	**1,935,039**	**1,092,207**	**80,104,012**
	₱471,531,860	**₱2,629,683**	**₱7,463,289**	**₱481,624,832**

	Consolidated			
	2016			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 – Excellent	₱5,086,517	₱791	₱–	₱5,087,308
2 - Super Prime	50,660,171	–	–	50,660,171
3 – Prime	81,566,409	–	–	81,566,409
4 - Very Good	46,455,179	–	–	46,455,179
5 - Good	28,223,428	–	–	28,223,428
6 - Satisfactory	37,118,762	33,674	–	37,152,436
7 - Average	26,039,398	5,085	–	26,044,483
8 - Acceptable	21,057,009	–	–	21,057,009
9 - Fair	5,855,663	–	–	5,855,663
10 - Watchlist	44,135,681	5,346	–	44,141,027
11 - Special Mention	2,786,219	78,861	148,981	3,014,061
12 - Substandard	776,933	484,029	610,813	1,871,775
13 - Doubtful	5,890	113,428	413,634	532,952
14 - Loss	3,203	256,644	3,901,451	4,161,298
	349,770,462	977,858	5,074,879	355,823,199
Unrated Receivable from Customers				
Consumers	37,548,926	802,828	27,440	38,379,194
Business Loans	12,366,590	465,016	567,575	13,399,181
LGUs	7,196,440	9,950	130,523	7,336,913
Fringe Benefits	560,534	12,484	–	178,153
GOCCs and NGAs	178,153	–	–	573,018
	57,850,643	1,290,278	725,538	59,866,459
	₱407,621,105	₱2,268,136	₱5,800,417	₱415,689,658

	Parent Company			
	2017			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 - Excellent	**₱4,248,533**	**₱–**	**₱–**	**₱4,248,533**
2 - Super Prime	**43,620,906**	**–**	**–**	**43,620,906**
3 - Prime	**79,122,851**	**–**	**–**	**79,122,851**
4 - Very Good	**50,260,694**	**4,995**	**–**	**50,265,689**
5 - Good	**40,554,077**	**–**	**–**	**40,554,077**
6 - Satisfactory	**39,856,116**	**43,680**	**–**	**39,899,796**
7 - Average	**31,374,729**	**5,115**	**14,990**	**31,394,834**
8 - Acceptable	**26,202,086**	**970**	**–**	**26,203,056**
9 - Fair	**7,828,143**	**–**	**76**	**7,828,219**
10 - Watchlist	**55,204,756**	**29,500**	**–**	**55,234,256**
11 - Special Mention	**2,962,058**	**143,170**	**–**	**3,105,228**
12 - Substandard	**957,285**	**38,244**	**945,997**	**1,941,526**
13 - Doubtful	**–**	**321,988**	**522,423**	**844,411**
14 - Loss	**–**	**10,740**	**2,708,753**	**2,719,493**
	382,192,234	**598,402**	**4,192,239**	**386,982,875**
Unrated Receivable from Customers				
Business Loans	**18,942,189**	**407,654**	**710,897**	**20,060,740**
Consumers	**–**	**1,254,482**	**205,197**	**11,852,518**
LGUs	**10,392,839**	**35,325**	**150,344**	**7,186,644**
Fringe Benefits	**7,000,975**	**4,266**	**12,743**	**484,389**
GOCCs and NGAs	**467,380**	**–**	**–**	**–**
	36,803,383	**1,701,727**	**1,079,181**	**39,584,291**
	₱418,995,617	**₱2,300,129**	**₱5,271,420**	**₱426,567,166**

	Parent Company			
	2016			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	₱ 5,015,902	₱791	₱–	₱5,016,693
2 - Super Prime	49,664,931	–	–	49,664,931
3 - Prime	80,281,186	–	–	80,281,186
4 - Very Good	44,936,909	–	–	44,936,909
5 - Good	27,370,130	–	–	27,370,130
6 - Satisfactory	28,790,669	–	–	28,790,669
8 - Acceptable	25,168,489	5,085	–	25,173,574
9 - Fair	20,879,402	–	–	20,879,402
9 - Marginal	5,549,401	–	–	5,549,401
10 - Watchlist	44,111,934	–	–	44,111,934
11 - Special Mention	2,695,185	78,861	–	2,774,046
12 - Substandard	716,596	93,764	96,465	906,825
13 - Doubtful	–	8,821	379,665	388,486
14 - Loss	–	605,299	3,369,191	3,974,490
	335,180,734	792,621	3,845,321	339,818,676
Unrated Receivable from Customers				
Business Loans	13,526,556	403,791	567,575	14,497,922
Consumers	8,658,310	631,265	15,503	9,305,078
LGUs	7,196,440	9,950	130,523	7,336,913
Fringe Benefits	533,272	12,484	–	178,153
GOCCs and NGAs	178,153	–	–	545,756
	30,092,731	1,057,490	713,601	31,863,822
	₱365,273,465	₱1,850,111	₱4,558,922	₱371,682,498

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The tables below show the aging analysis of past due but not individually impaired loans receivables per class.

	Consolidated				
	2017				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱124,510**	**₱158,674**	**₱211,759**	**₱561,431**	**₱1,056,374**
Consumers	**237,018**	**147,991**	**308,946**	**839,763**	**1,533,718**
Fringe benefits	**667**	**824**	**1,476**	**1,299**	**4,266**
LGUs	**35,325**	**–**	**–**	**–**	**35,325**
Total	**₱397,520**	**₱307,489**	**₱522,181**	**₱1,402,493**	**₱2,629,683**

	Consolidated				
	2016				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱117,611	₱159,652	₱52,707	₱1,476,010	₱1,805,980
Consumers	235,986	20,222	8,505	574,297	839,010
Fringe benefits	29	24	721	11,710	12,484
LGUs	–	–	–	9,950	9,950
Total	₱353,626	₱179,898	₱61,933	₱2,071,967	₱2,667,424

	Parent Company 2017				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱63,411**	**₱158,412**	**₱211,759**	**₱561,430**	**₱995,012**
Consumers	**6,098**	**112,265**	**307,401**	**839,763**	**1,265,527**
Fringe benefits	**35,324**	**–**	**–**	**–**	**35,324**
LGUs	**667**	**824**	**1,476**	**1,299**	**4,266**
Total	**₱105,500**	**₱271,501**	**₱520,636**	**₱1,402,491**	**₱2,300,129**

	Parent Company 2016				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱56,339	₱159,451	₱47,404	₱930,506	₱1,193,700
Consumers	35,830	19,074	6,235	572,838	633,977
Fringe benefits	29	24	721	11,710	12,484
LGUs	–	–	–	9,950	9,950
Total	₱92,198	₱178,549	₱54,360	₱1,525,004	₱1,850,111

Trading and Investment Securities and Other Financial Assets
In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody’s Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, net of allowances, excluding receivable from customers, which are monitored using external ratings.

	Consolidated					
	2017					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱108,743,985**	**₱108,743,985**	**₱–**	**₱108,743,985**
Due from other banks	**5,679,010**	**5,155,624**	**3,392,665**	**14,227,299**	**7,798,023**	**22,025,322**
Interbank loans receivables	**5,801,422**	**2,754,325**	**3,588,842**	**12,144,589**	**693,132**	**12,837,721**
Securities held under agreements to resell	**–**	**–**	**14,621,483**	**14,621,483**	**–**	**14,621,483**
Financial assets at FVPL:						
Government securities	**–**	**–**	**1,822,378**	**1,822,378**	**385,574**	**2,207,952**
Derivative assets[2/]	**97,206**	**12,648**	**298,156**	**408,010**	**154,974**	**562,984**
Private debt securities	**–**	**–**	**–**	**–**	**31,305**	**31,305**
Equity securities	**–**	**–**	**42,990**	**42,990**	**30,928**	**73,918**
Investment in unit investment trust funds (UITFs)	**–**	**–**	**6,236**	**6,236**	**–**	**6,236**
AFS investments:						
Government securities	**2,240,392**	**–**	**33,735,515**	**35,975,907**	**5,645,317**	**41,625,920**
Private debt securities	**2,283,698**	**5,941,865**	**9,044,338**	**17,269,901**	**9,650,145**	**26,920,045**
Quoted equity securities	**–**	**–**	**139,905**	**139,905**	**1,004,874**	**1,144,779**
Unquoted equity securities	**–**	**–**	**538**	**538**	**146,154**	**146,692**
HTM investments:						
Government securities	**124,913**	**–**	**23,959,337**	**24,084,250**	**2,720,881**	**26,805,131**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**148,723**	**148,723**	**10,784,672**	**10,933,396**
Others[4/]	**–**	**–**	**12,561,523**	**–**	**–**	**12,561,523**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Consolidated					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱127,337,861	₱127,337,861	₱–	₱127,337,861
Due from other banks	5,051,163	6,461,719	10,580,175	22,093,057	616,748	22,709,805
Interbank loans receivables	4,928,854	1,866,579	995,541	7,790,974	134	7,791,108
Securities held under agreements to resell	–	–	1,972,310	1,972,310	–	1,972,310
Financial assets at FVPL:						
Government securities	–	–	949,379	949,379	364,021	1,313,400
Equity securities	–	–	27,415	27,415	27,194	54,609
Derivative assets[2/]	43,510	28,097	9,974	81,581	337,541	419,122
Private debt securities	–	–	–	–	120,589	120,589
Investment in Unit Investment Trust Funds (UITFs)	–	–	6,144	6,144	–	6,144
AFS investments:						
Government securities	1,569,757	–	36,202,025	37,771,782	84,158	37,855,940
Private debt securities	4,278,116	2,880,154	4,964,387	12,122,657	16,697,032	28,819,689
Quoted equity securities	–	–	54,139	54,139	481,109	535,248
Unquoted equity securities	16,837	–	536	17,373	112,489	129,862
HTM investments						
Government securities	99,580	–	22,842,219	22,941,799	1,232,680	24,174,479

(Forward)

	Consolidated					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Loans and receivables:						
Unquoted debt securities[3/]	₱–	₱–	₱124,748	₱124,748	₱3,160,474	₱3,285,222
Others[4/]	–	–	–	–	18,208,225	18,208,225

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2017					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱105,497,459**	**₱105,497,459**	**₱–**	**₱105,497,459**
Due from other banks	**2,595,995**	**5,281,255**	**1,517,295**	**9,394,545**	**1,360,715**	**10,755,260**
Interbank loans receivables	**5,801,422**	**2,754,325**	**1,834,636**	**10,390,383**	**693,132**	**11,083,515**
Securities held under agreements to resell	**–**	**–**	**14,621,483**	**14,621,483**	**–**	**14,621,483**
Financial assets at FVPL:						
Government securities	**–**	**–**	**1,822,378**	**1,822,378**	**385,574**	**2,207,952**
Equity securities	**–**	**–**	**–**	**–**	**30,928**	**30,928**
Derivative assets[2/]	**95,704**	**10,858**	**298,156**	**404,718**	**154,974**	**559,692**
Private debt securities	**–**	**–**	**–**	**–**	**31,305**	**31,305**
AFS investments:						
Government securities	**789,949**	**–**	**33,647,109**	**34,437,058**	**5,645,318**	**40,082,376**
Private debt securities	**1,808,202**	**5,941,865**	**9,044,338**	**16,794,405**	**9,650,145**	**26,444,549**
Quoted equity securities	**–**	**–**	**–**	**–**	**1,004,873**	**1,004,873**
Unquoted equity securities	**–**	**–**	**–**	**–**	**146,154**	**146,154**
HTM investments:						
Government securities	**266**	**–**	**23,959,337**	**23,959,602**	**2,720,881**	**26,680,483**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**148,723**	**148,723**	**10,784,671**	**10,933,395**
Others[4/]	**–**	**–**	**12,804,193**	**–**	**–**	**12,804,193**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱123,799,952	₱123,799,952	₱–	₱123,799,952
Due from other banks	4,849,575	5,877,522	1,564,859	12,291,956	539,558	12,831,514
Interbank loans receivables	4,928,854	1,866,579	995,541	7,790,974	116,392	7,907,366
Securities held under agreements to resell	–	–	1,972,310	1,972,310	–	1,972,310
Financial assets at FVPL:						
Government securities	–	–	949,379	949,379	364,021	1,313,400
Equity securities	–	–	69	69	27,194	27,263
Derivative assets[2/]	43,510	28,097	9,974	81,581	337,238	418,819
Private debt securities	–	–	–	–	120,589	120,589

(Forward)

	Parent Company					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
AFS investments:						
Government securities	₱730,311	₱–	₱36,170,619	₱36,900,930	₱–	₱36,900,930
Private debt securities	3,835,245	2,880,154	4,912,596	11,628,175	16,697,032	28,325,207
Quoted equity securities	–	–	–	–	439,819	439,819
Unquoted equity securities	–	–	–	–	153,779	153,779
HTM investments						
Government securities	–	–	22,842,219	22,842,219	1,232,679	24,074,898
Loans and receivables:						
Unquoted debt securities[3/]	–	–	124,748	124,748	3,102,628	3,227,376
Others[4/]	–	–	–	–	12,268,647	12,268,647

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

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

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment
   The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;
   - the existing realizable value of collateral; and
   - the timing of the expected cash flows.

   The impairment or credit allowances, if any, are evaluated every quarter or as the need arise in view of favorable or unfavorable developments.

b. Collective assessment
Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio; and
- expected receipts and recoveries once impaired.

Refer to Note 16 for the detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	**₱12,391,139**	**₱–**	**₱–**	**₱–**	**₱–**	**₱12,391,139**
Due from BSP and other banks	**130,769,307**	**–**	**–**	**–**	**–**	**130,769,307**
Interbank loans receivable	**12,286,982**	**228,340**	**172,609**	**149,790**	**–**	**12,837,721**
Securities under agreements to resell	**14,621,483**	**–**	**–**	**–**	**–**	**14,621,483**
Financial assets at FVPL:						
Held-for-trading:						
Government securities	**2,207,952**	**–**	**–**	**–**	**–**	**2,207,952**
Private debt securities	**73,918**	**–**	**–**	**–**	**–**	**73,918**
Equity securities	**31,305**	**–**	**–**	**–**	**–**	**31,305**
Derivative assets:						
Gross contractual receivable	**30,057,331**	**5,363,657**	**565,366**	**103,789**	**788,189**	**36,878,332**
Gross contractual payable	**(29,837,235)**	**(5,326,830)**	**(541,085)**	**(80,152)**	**(530,046)**	**(36,315,348)**
	220,096	**36,827**	**24,281**	**23,637**	**258,143**	**562,984**
Designated at FVPL:						
Investment in UITFs	**6,236**	**–**	**–**	**–**	**–**	**6,236**
AFS investments:						
Government securities	**467,367**	**575,496**	**936,401**	**1,329,855**	**45,921,294**	**49,230,413**
Private debt securities	**123,800**	**121,847**	**341,612**	**2,259,896**	**29,675,725**	**32,522,880**
Equity securities	**–**	**–**	**–**	**–**	**1,291,471**	**1,291,471**
HTM investments:						
Government securities	**188,569**	**212,336**	**303,546**	**757,310**	**44,207,605**	**45,669,366**
Loans and receivables:						
Receivables from customers	**80,262,108**	**67,820,331**	**22,813,722**	**12,710,714**	**388,953,761**	**572,560,636**
Unquoted debt securities	**6,385,292**	**4,996,563**	**3,218,486**	**–**	**85,254**	**14,685,595**
Other receivables	**6,365,805**	**810,857**	**852,239**	**870,379**	**14,480,093**	**23,379,373**
Other assets	**886,941**	**–**	**–**	**–**	**45,697**	**932,638**
Total financial assets	**₱267,288,300**	**₱74,802,597**	**₱28,662,896**	**₱18,101,581**	**₱524,919,043**	**₱913,774,417**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱125,581,889**	**₱–**	**₱–**	**₱–**	**₱–**	**₱125,581,889**
Savings	**291,611,443**	**31,169,095**	**12,960,373**	**18,753,987**	**15,868,774**	**370,363,672**
Time and LTNCDs	**44,892,027**	**41,379,772**	**12,008,434**	**10,077,758**	**59,496,046**	**167,854,037**
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	**(17,063,080)**	**(2,950,071)**	**(44,191)**	**(103,789)**	**(597,508)**	**(20,758,639)**
Gross contractual receivable	**16,935,007**	**2,942,081**	**40,812**	**82,845**	**414,478**	**20,415,223**
	(128,073)	**(7,990)**	**(3,379)**	**(20,944)**	**(183,030)**	**(343,416)**
Bills and acceptances payable	**14,828,488**	**1,107,665**	**4,390,454**	**5,074,742**	**12,967,428**	**38,368,777**
Accrued interest payable and accrued other expenses payable	**1,543,768**	**156,457**	**29,837**	**9,872**	**16,785**	**1,756,719**
Other liabilities	**19,622,229**	**180,420**	**74,596**	**182,729**	**1,502,432**	**21,562,406**
Total financial liabilities	**₱497,951,771**	**₱73,985,419**	**₱29,460,315**	**₱34,078,144**	**₱89,668,435**	**₱725,144,084**

	Consolidated					
	2016					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱11,014,663	₱–	₱–	₱–	₱–	₱11,014,663
Due from BSP and other banks	150,047,666	–	–	–	–	150,047,666
Interbank loans receivable	6,487,756	1,005,602	149,965	150,626	–	7,793,949
Securities under agreements to resell	1,972,803	–	–	–	–	1,972,803
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,318,421	–	–	–	–	1,318,421
Private debt securities	121,166	–	–	–	–	121,166
Equity securities	54,609	–	–	–	–	54,609
Derivative assets:						
Gross contractual receivable	23,134,620	602,481	363,065	97,557	945,345	25,143,068
Gross contractual payable	(23,027,112)	(602,494)	(359,977)	(81,868)	(652,495)	(24,723,946)
	107,508	(13)	3,088	15,689	292,850	419,122
Designated at FVPL						
Investment in UITFs	6,144	–	–	–	–	6,144
AFS investments:						
Government securities	445,411	1,360,270	833,280	952,375	44,483,507	48,074,843
Private debt securities	216,349	180,604	311,691	608,101	33,527,569	34,844,314
Equity securities	–	–	–	–	665,110	665,110
HTM investments:						
Government securities	186,669	188,619	268,121	638,758	42,326,085	43,608,252
Loans and receivables:						
Receivables from customers	51,281,982	61,017,482	22,991,722	21,982,567	322,823,346	480,097,099
Unquoted debt securities	57,846	2,731,616	2,910	2,904	4,211,082	7,006,358
Other receivables	7,747,353	689,651	1,608,947	329,549	12,234,095	22,609,595
Other assets	458,636	1,601	2,512	19,799	85,719	568,267
Total financial assets	₱231,524,982	₱67,175,432	₱26,172,236	₱24,700,368	₱460,649,363	₱810,222,381
Financial Liabilities						
Deposit liabilities:						
Demand	₱117,329,019	₱–	₱–	₱–	₱–	₱117,329,019
Savings	270,698,512	35,289,350	17,265,684	26,859,280	24,313,983	374,426,810
Time and LTNCDs	39,116,118	27,989,034	9,243,512	7,796,611	32,624,672	116,748,663
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	4,266,633	1,032,083	338,061	97,308	794,951	6,529,036
Gross contractual receivable	(4,258,623)	(1,027,751)	(336,280)	(84,515)	(589,035)	(6,296,204)
	8,010	4,332	1,781	12,793	205,916	232,832
Bills and acceptances payable	14,828,488	1,107,665	4,390,454	5,074,742	12,967,428	38,368,777
Subordinated debt	–	51,406	51,406	102,812	4,425,308	4,630,932
Accrued interest payable and accrued other expenses payable	585,761	232,935	247,614	619,526	–	1,685,836
Other liabilities	19,114,919	57,012	58,421	11,756	1,483,085	20,725,193
Total financial liabilities	₱453,229,444	₱60,531,546	₱25,936,449	₱30,947,270	₱65,502,248	₱636,146,957

	Parent Company					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱11,671,952	₱–	₱–	₱–	₱–	₱11,671,952
Due from BSP and other banks	116,252,719	–	–	–	–	116,252,719
Interbank loans receivable	9,157,109	1,604,115	172,673	149,931	–	11,083,828
Securities under agreements to resell	14,625,088	–	–	–	–	14,625,088
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	₱30,056,716	₱5,362,855	₱563,491	₱103,789	₱788,189	₱36,875,040
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	219,481	36,025	22,406	23,637	258,143	559,692
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,151,027	1,151,027
HTM investments:						
Government securities	70,937	748,750	72,514	760,759	27,799,434	29,452,394
Loans and receivables:						
Receivables from customers	73,021,615	65,455,257	20,885,287	10,315,944	341,846,641	511,524,744
Unquoted debt securities	6,327,790	4,996,563	3,218,486	–	85,254	14,628,093
Other receivables	937,977	640,518	765,135	749,369	14,065,429	17,158,428
Other assets	874,510	–	–	–	–	874,510
Total financial assets	₱236,063,520	₱74,178,571	₱26,414,514	₱15,589,391	₱460,802,947	₱813,048,943
Financial Liabilities						
Deposit liabilities:						
Demand	₱123,396,962	₱–	₱–	₱–	₱–	₱123,396,962
Savings	278,242,929	28,561,604	11,681,381	15,880,899	13,776,365	348,143,178
Time and LTNCDs	35,916,806	25,512,119	8,886,110	9,939,517	47,991,405	128,245,957
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	(17,063,080)	(2,950,071)	(44,191)	(103,789)	(597,508)	(20,758,639)
Gross contractual receivable	16,935,007	2,942,081	40,812	82,845	414,478	20,415,223
	(128,073)	(7,990)	(3,379)	(20,944)	(183,030)	(343,416)
Bills and acceptances payable	17,590,751	10,625,833	2,839,180	1,504,114	32,559,878	65,119,756
Accrued interest payable and accrued other expenses payable	1,413,437	153,518	5,428	7,848	16,785	1,597,016
Other liabilities	12,468,862	–	–	–	1,058,246	13,527,108
Total financial liabilities	₱468,901,674	₱64,845,084	₱23,408,720	₱27,311,434	₱95,219,649	₱679,686,561

	Parent Company					
	2016					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱10,626,525	₱–	₱–	₱–	₱–	₱10,626,525
Due from BSP and other banks	136,637,734	–	–	–	–	136,637,734
Interbank loans receivable	6,600,278	1,009,362	149,965	150,626	–	7,910,231
Securities under agreements to resell	1,972,803	–	–	–	–	1,972,803
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,318,421	–	–	–	–	1,318,421
Private debt securities	121,166	–	–	–	–	121,166
Equity securities	27,263	–	–	–	–	27,263
Derivative assets:						
Gross contractual receivable	23,102,042	552,761	39,862	97,557	945,345	24,737,567
Gross contractual payable	(22,994,783)	(552,786)	(36,817)	(81,868)	(652,494)	(24,318,748)
	107,259	(25)	3,045	15,689	292,851	418,819
AFS investments:						
Government securities	361,066	1,359,182	782,328	883,536	43,661,794	47,047,906
Private debt securities	164,558	178,096	309,183	603,085	33,009,976	34,264,898
Equity securities	–	–	–	–	593,598	593,598
HTM investments:						
Government securities	186,669	188,578	268,090	638,573	42,226,116	43,508,026
Loans and receivables:						
Receivables from customers	47,135,914	58,812,741	20,970,205	19,158,472	288,318,164	434,395,496
Unquoted debt securities	–	2,731,616	2,910	2,904	4,211,082	6,948,512
Other receivables	2,400,902	519,217	1,542,416	183,824	11,661,573	16,307,932
Other assets	459,877	1,601	2,512	3,156	64,131	531,277
Total financial assets	₱208,120,435	₱64,800,368	₱24,030,654	₱21,639,865	₱424,039,285	₱742,630,607
Financial Liabilities						
Deposit liabilities:						
Demand	₱115,392,463	₱–	₱–	₱–	₱–	115,392,463
Savings	266,337,815	32,235,733	13,403,890	19,395,767	16,411,819	347,785,024
Time and LTNCDs	17,423,314	13,597,207	5,254,132	5,211,374	52,133,451	93,619,478
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	2,740,229	783,483	39,741	97,308	794,951	4,455,712
Gross contractual receivable	(2,732,875)	(779,167)	(38,143)	(84,515)	(589,035)	(4,223,735)
	7,354	4,316	1,598	12,793	205,916	231,977
Bills and acceptances payable	10,765,961	1,565,459	4,957,897	4,903,913	12,235,687	23,662,956
Subordinated debt	–	51,406	51,406	102,812	4,425,308	4,630,932
Accrued interest payable and accrued other expenses payable	414,252	236,725	251,453	630,422	–	1,532,852
Other liabilities	12,656,889	–	1,731	–	952,255	13,610,875
Total financial liabilities	₱412,232,087	₱47,690,846	₱23,922,107	₱30,257,081	₱86,364,436	₱600,466,557

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical

Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

Objectives and limitations of the VaR methodology
The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Backtesting
The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2016 and 2015, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

Stress Testing
To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

VaR limits
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 29, 2017	**₱7.30**	**₱179.72**	**₱1.29**	**₱188.31**
Average Daily	**3.75**	**178.20**	**0.74**	**182.69**
Highest	**18.25**	**324.06**	**1.52**	**343.83**
Lowest	**0.63**	**58.00**	**0.26**	**58.89**

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2016	₱1.65	₱77.87	₱1.39	₱80.91
Average Daily	3.35	161.09	4.73	169.17
Highest	12.09	444.55	9.14	465.79
Lowest	0.62	34.67	1.33	36.62

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

The table below shows the interest rate VaR for AFS investments (in millions):

	2017	2016
End of year	**₱1,341.66**	₱1,399.01
Average Daily	**1,245.40**	1,261.85
Highest	**1,916.48**	1,575.39
Lowest	**811.93**	859.08

Structural Market Risk

Non-trading Market Risk
Interest rate risk
The Parent Company seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose the Parent Company to interest rate risk. The Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Parent Company an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to repricethree years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Parent Company uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Parent Company's repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Parent Company's BOD sets a limit on the level of EaR exposure tolerable to the Parent Company. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	**₱24,660,231**	**₱2,121,146**	**₱728,009**	**₱185,844**	**₱4,589,558**	**₱32,284,788**
Interbank loans receivable	**19,961,838**	**7,326,962**	**170,404**	–	–	**27,459,204**
Receivable from customers and other receivables - gross**	**133,507,202**	**75,007,949**	**17,508,883**	**23,249,440**	**89,053,842**	**338,327,316**
Total financial assets	**₱178,129,271**	**₱84,456,057**	**₱18,407,296**	**₱23,435,284**	**₱93,643,400**	**₱398,071,308**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱75,793,561**	**₱22,624,460**	**₱12,265,322**	**₱17,354,750**	**₱223,384,284**	**₱351,422,377**
Time***	**59,937,295**	**25,560,312**	**10,090,695**	**10,242,856**	**23,720,876**	**129,552,034**
Bills and acceptances payable	**22,795,429**	**15,546,756**	**752,635**	**884,611**	**3,937,257**	**43,916,688**
Total financial liabilities	**₱158,526,285**	**₱63,731,528**	**₱23,108,652**	**₱28,482,217**	**₱251,042,417**	**₱524,891,099**
Repricing gap	**₱19,602,986**	**₱20,724,529**	**(4,701,356)**	**(5,046,933)**	**₱(157,399,017)**	**₱(126,819,791)**
Cumulative gap	**19,602,986**	**40,327,515**	**35,626,159**	**30,579,226**	**(126,819,791)**	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

	Consolidated					
	2016					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱23,068,982	₱2,139,755	₱441,737	₱414,746	₱226,955	₱26,292,175
Interbank loans receivable	5,251,490	158,192	390,702	–	–	5,800,384
Receivable from customers and other receivables - gross**	119,503,109	54,698,330	7,568,053	2,524,222	51,382,112	235,675,826
Total financial assets	₱147,823,581	₱56,996,277	₱8,400,492	₱2,938,968	₱51,609,067	₱267,768,385
Financial Liabilities*						
Deposit liabilities:						
Savings	₱82,042,319	₱26,460,116	₱18,737,481	₱19,104,851	₱12,364,766	₱158,709,533
Time	19,329,798	8,793,128	6,358,168	3,958,490	3,098,634	41,538,218
Bills and acceptances payable	3,850,446	1,080,637	1,006,011	1,140,959	18,674,168	25,752,221
Total financial liabilities	₱105,222,563	₱36,333,881	₱26,101,660	₱24,204,300	₱34,137,568	₱225,999,972
Repricing gap	₱42,601,018	₱20,662,396	(₱17,701,168)	(₱21,265,332)	₱17,471,499	₱41,768,413
Cumulative gap	42,601,018	63,263,414	45,562,246	24,296,914	41,768,413	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
*** Receivable from customers excludes residual value of leased assets (Note 10).*

	Parent Company					
	2017					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱19,626,976**	**₱–**	**₱–**	**₱–**	**₱128,284**	**₱19,755,260**
Interbank loans receivable	**18,207,632**	**7,326,962**	**170,404**	–	–	**25,704,998**
Receivable from customers and other receivables – gross**	**133,507,202**	**75,007,949**	**17,508,883**	**23,249,440**	**89,053,842**	**338,327,316**
Total financial assets	**₱171,341,810**	**₱82,334,911**	**₱17,679,287**	**₱23,249,440**	**₱89,182,126**	**₱383,787,574**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱74,365,998**	**₱22,287,315**	**₱11,817,535**	**₱16,816,776**	**₱219,991,839**	**₱345,279,463**
Time***	**42,070,312**	**22,331,683**	**8,367,100**	**9,354,882**	**14,240,680**	**96,364,657**
Bills and acceptances payable	**25,020,114**	**15,172,286**	**338,672**	**273,751**	**595,980**	**41,400,803**
Total financial liabilities	**₱141,456,424**	**₱59,791,284**	**₱20,523,307**	**₱26,445,409**	**₱234,828,499**	**₱483,044,923**
Repricing gap	**₱29,885,386**	**₱22,543,627**	**(₱2,844,020)**	**(₱3,195,969)**	**(₱145,646,373)**	**(₱99,257,349)**
Cumulative gap	**29,885,386**	**52,429,013**	**49,584,993**	**46,389,024**	**(99,257,349)**	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
*** Receivable from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

	Parent Company					
	2016					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱17,271,237	₱–	₱–	₱24,707	₱–	₱17,295,944
Interbank loans receivable	5,409,633	158,192	390,702	–	–	5,958,527
Receivable from customers and other receivables - gross	119,503,109	54,698,330	7,568,053	2,524,222	51,382,112	235,675,826
Total financial assets	₱142,183,979	₱54,856,522	₱7,958,755	₱2,548,929	₱51,382,112	₱258,930,297
Financial Liabilities*						
Deposit liabilities:						
Savings	₱78,666,283	₱26,460,116	₱18,737,481	₱19,104,851	₱12,364,766	₱155,333,497
Time	15,232,475	5,339,910	4,446,307	3,721,070	2,982,331	31,722,093
Bills and acceptances payable	3,257,332	351,318	479,587	283,413	20,258,236	24,629,886
Total financial liabilities	₱97,156,090	₱32,151,344	₱23,663,375	₱23,109,334	₱35,605,333	₱211,685,476
Repricing gap	₱45,027,889	₱22,705,178	(₱15,704,620)	(₱20,560,405)	₱15,776,779	₱47,244,821
Cumulative gap	45,027,889	67,733,067	52,028,447	31,468,042	47,244,821	–

**Financial instruments that are not subject to repricing/rollforward were excluded.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2017 and 2016:

	Consolidated			
	2017		2016	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱195,558**	**₱195,558**	₱358,163	₱358,163
-50bps	**(195,558)**	**(195,558)**	(358,163)	(358,163)
+100bps	**391,117**	**391,117**	716,326	716,326
-100bps	**(391,117)**	**(391,117)**	(716,326)	(716,326)

	Parent Company			
	2017		2016	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱244,450**	**₱244,450**	₱371,372	₱371,372
-50bps	**(244,450)**	**(244,450)**	(371,372)	(371,372)
+100bps	**488,901**	**488,901**	742,744	742,744
-100bps	**(488,901)**	**(488,901)**	(742,744)	(742,744)

As one of the long-term goals in the risk management process, the Parent Company has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Parent Company has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company'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. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2017			2016		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱29,198**	**₱518,612**	**₱547,810**	₱2,439,520	₱364,532	₱2,804,052
Due from other banks	**2,682,158**	**7,081,852**	**9,764,010**	6,963,920	12,842,915	19,806,835
Interbank loans receivable and securities held under agreements to resell	**2,904,298**	**1,678,936**	**4,583,234**	2,465,839	1,650,496	4,116,335
Loans and receivables	**12,578,763**	**941,223**	**13,519,986**	13,443,688	697,144	14,140,832
Financial assets at FVPL				–	–	–
AFS investments	**14,380,453**	**1,592,873**	**15,973,326**	1,876,850	1,958,502	3,835,352
HTM investments	**10,726,637**	**179,777**	**10,906,414**	8,026	–	8,026
Other assets	**55,641**	**210,440**	**266,081**	92,922	82,444	175,366
Total assets	**43,357,148**	**12,203,713**	**55,560,861**	27,290,765	17,596,033	44,886,798
Liabilities						
Deposit liabilities	**117,279,737**	**5,230,255**	**122,509,992**	99,641,079	4,443,634	104,084,713
Derivative liabilities	**-**	**1,335**	**1,335**	427	529	956
Bills and acceptances payable	**12,464,796**	**7,667,327**	**20,132,123**	4,931,773	225,866	5,157,639
Accrued interest payable	**44,354**	**36,856**	**81,210**	41,222	105,904	147,126
Other liabilities	**10,636,748**	**434,957**	**11,071,705**	1,070,134	520,406	1,590,540
Total liabilities	**140,425,635**	**13,370,730**	**153,796,365**	105,684,635	5,296,339	110,980,974
Net Exposure	**(₱97,068,487))**	**(₱-1,167,017))**	**(₱98,235,504)**	(₱78,393,870)	₱12,299,694	(₱66,094,176)

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Parent Company					
	2017			2016		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱2,619,308**	**₱381,455**	**₱3,000,764**	₱134,521	₱236,225	₱370,746
Due from other banks	**4,375,604**	**5,735,085**	**10,110,689**	2,342,535	8,514,773	10,857,308
Interbank loans receivable and securities held under agreements to resell	**9,404,579**	**1,678,936**	**11,083,515**	1,816,463	1,449,239	3,265,702
Loans and receivables	**12,578,763**	**593,535**	**13,172,298**	11,638,723	452,175	12,090,898
Financial assets at FVPL	**635,578**	–	**635,578**	–	–	–
AFS investments	**43,372,371**	**1,071,635**	**44,444,006**	1,876,314	1,891,150	3,767,464
HTM investments	**17,600,156**	–	**17,600,156**	8,026	–	8,026
Other assets	**70**	**461**	**531**	92,922	268	93,190
Total assets	**90,586,425**	**9,461,107**	**96,071,512**	17,909,504	12,543,830	30,453,334
Liabilities						
Deposit liabilities	**109,647,288**	**4,889,875**	**114,537,163**	89,067,852	3,634,537	92,702,388
Derivative liabilities	**-**	**1,335**	**1,335**	–	529	529
Bills and acceptances payable	**296,932**	**44,473**	**341,405**	4,763,163	70,183	4,833,346
Accrued interest payable	**224,737**	**17,213**	**241,950**	34,342	19,023	53,365
Other liabilities	**869,323**	**134,536**	**1,003,859**	914,852	104,947	1,019,799
Total liabilities	**111,038,280**	**5,087,432**	**116,125,712**	94,780,209	3,829,219	98,609,427
Net Exposure	**(₱20,451,855)**	**₱4,373,675**	**(₱20,054,200)**	(₱76,870,705)	₱8,714,611	(₱68,156,093)

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

Information relating to the Parent Company's currency derivatives is contained in Note 23.
The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱1.1 billion (sold) and ₱265.7 million (bought) as of December 31, 2017 and ₱1.2 billion (sold) and ₱3.9 billion (bought) as of December 31, 2016.

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2017 and 2016 follow:

	2017	2016
US dollar - Philippine peso exchange rate	**₱49.93 to USD1.00**	₱49.72 to USD1.00

The following tables set forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2017 and 2016:

	2017			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱134,189**	**₱149,721**	**₱105,213**	**₱119,475**
-1.00%	**(134,189)**	**(149,721)**	**(105,213)**	**(119,475)**

	2016			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱95,130	₱113,899	₱83,300	₱102,063
-1.00%	(95,130)	(113,899)	(83,300)	(102,063)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

Capital management and management of insurance and financial risks

Governance framework

The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management
PNB General Insurers Inc. (PNB Gen's) capital management framework is aligned with the statutory requirements imposed by the IC.To ensure compliance with these externally imposed capital requirements, it is the policy of PNB Gen to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Insurance Code, PNB Gen should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively;and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under Section 203 of the Insurance Code, are free from liens and encumbrances.

Effective January 1, 2017, CL No. 2016-68 states that RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of tier 1 and tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. The RBC requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula given in the circular with details of its components and applicable risk charges.

The Group manages the capital of its subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as the IC, SEC and Philippine Stock Exchange (PSE). As of December 31, 2017 and 2016, PNB Gen has an estimated statutory networth amounting to ₱592.3 million and ₱484.3 million, respectively. PNB Gen's RBC ratio as of December 31, 2017 and 2016 is 262%and 72%, respectively.

In a letter dated January 11, 2017 addressed to the Parent Bank, the BSP approved on December 28, 2016 the request of the Parent Bank to infuse ₱200.0 million in PNB Gen subject to regulatory compliance and reporting conditions, and to be booked by the latter as contingency surplus in compliance with IC Circular Letter (CL) No. 2015-02-A dated January 13, 2015.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35.00%. Should this event occur, the Commissioner is required to place the company under regulatory control under Section 247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Section 247 of the Insurance Code.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC. Further, the IC has yet to finalize the new RBC computation under the New Insurance Code.

5. **Fair Value Measurement**

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices. While unquoted equity securities are carried at their original cost less impairment if any, since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Investments in UITFs classified as financial assets designated as at FVPL - Fair values are based on Net Asset Value per share (NAVps).

Loans and receivables - For loans with fixed interest rates, fair values are estimated using the discounted cash flow methodology, using the current incremental lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long-term maturity and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 3.00% to 4.13%, 2.70% to 6.75% and from 2.66% to 3.77% as of December 31, 2017, 2016 and 2015, respectively.

Fair value hierarchy
The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

The Group and the Parent Company held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated					
	2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/17	₱2,207,952	₱1,534,790	₱673,162	₱–	₱2,207,952
Derivative assets	12/29/17	562,984	–	508,046	54,938	562,984
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	73,918	73,918	–	–	73,918
Investments in UITF	12/29/17	6,236	–	6,236	–	6,236
AFS investments:						
Government securities	12/29/17	41,625,900	36,968,672	4,657,228	–	41,625,900
Private debt securities	12/29/17	26,920,045	20,899,896	6,020,149	–	26,920,045
Equity securities*	12/29/17	1,144,779	–	1,144,779	–	1,144,779
		₱72,573,119	₱59,477,276	₱13,040,905	₱54,938	₱72,573,119
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,522	₱–	₱343,522	₱–	₱343,522
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,805,131	₱23,732,936	₱4,191,145	₱–	₱27,924,081
Loans and Receivables:**						
Receivables from customers	12/29/17	472,493,703	–	–	481,355,052	481,355,052
Unquoted debt securities	12/29/17	10,934,148	–	–	10,942,367	10,942,367
		₱510,232,982	₱23,732,936	₱4,191,145	₱492,297,419	₱520,221,500
Nonfinancial Assets						
Investment property:***						
Land	12/29/17	₱13,161,937	₱–	₱–	₱18,995,358	₱18,995,358
Buildings and improvements	12/29/17	2,432,449	–	–	3,730,716	3,730,716
		₱15,594,386	₱–	₱–	₱22,726,074	₱22,726,074
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱129,552,035	₱–	₱–	₱147,666,612	₱147,666,612
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	41,684,801	–	–	41,765,052	41,765,052
		₱202,600,792	₱–	₱–	₱220,823,606	₱220,823,606

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

	Consolidated					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/16	₱1,313,400	₱1,300,293	₱13,107	₱–	₱1,313,400
Derivative assets	12/29/16	419,122	–	357,577	61,545	419,122
Private debt securities	12/29/16	120,589	112,605	7,984	–	120,589
Equity securities	12/29/16	54,609	54,609	–	–	54,609
Investments in UITF	12/29/16	6,144	–	6,144	–	6,144
AFS investments:						
Government securities	12/29/16	37,834,559	34,416,113	3,418,446	–	37,834,559
Private debt securities	12/29/16	28,841,070	26,177,419	2,663,651	–	28,841,070
Equity securities*	12/29/16	493,958	493,958	–	–	493,958
		₱69,083,451	₱62,554,997	₱6,466,909	₱61,545	₱69,083,451
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/16	₱232,832	–	₱232,832	–	₱232,832
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/16	₱24,174,479	₱21,282,956	₱3,807,936	₱–	₱25,090,892
Loans and Receivables:**						
Receivables from customers	12/29/16	406,534,024	–	–	412,236,428	412,236,428
Unquoted debt securities	12/29/16	3,285,222	–	–	3,305,345	3,305,345
		₱433,993,725	₱21,282,956	₱3,807,936	₱415,541,773	₱440,632,665
Nonfinancial Assets						
Investment property:***						
Land	12/29/16	₱13,309,379	₱–	₱–	₱19,019,263	₱19,019,263
Buildings and improvements	12/29/16	3,031,873	–	–	3,963,475	3,963,475
		₱16,341,252	₱–	₱–	₱22,982,738	₱22,982,738
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/16	₱87,783,621	₱–	₱–	₱100,057,941	₱100,057,941
LTNCDs	12/29/16	24,382,144	–	–	24,403,900	24,403,900
Bills payable	12/29/16	34,226,608	–	–	38,468,732	38,468,732
Subordinated debt	12/29/16	3,497,798	–	–	3,551,484	3,551,484
		₱149,890,171	₱–	₱–	₱166,482,057	₱166,482,057

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*
**** *Excludes cash component*

	Parent Company					
	2017					
	Valuation Date	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/17	₱2,207,952	₱1,645,573	₱562,379	₱–	₱2,207,952
Derivative assets	12/29/17	559,692	–	504,753	54,939	559,692
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	30,928	30,928	–	–	30,928
AFS investments:						
Government securities	12/29/17	40,082,376	36,968,172	3,114,204	–	40,082,376
Private debt securities	12/29/17	26,444,549	20,899,905	5,544,644	–	26,444,549
Equity securities*	12/29/17	1,004,873	–	1,004,873	–	1,004,873
		₱70,361,675	₱59,544,578	₱10,762,158	₱54,939	₱70,361,675
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,416	₱–	₱343,416	₱–	₱343,416
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,680,483	₱23,732,936	₱4,071,745	₱–	₱27,804,681
Loans and Receivables:**						
Receivables from customers	12/29/17	418,018,387	–	–	418,229,045	418,229,045
Unquoted debt securities	12/29/17	10,933,395	–	–	10,941,615	10,941,615
		₱455,632,265	₱23,732,936	₱4,071,745	₱429,170,660	₱456,975,341
Nonfinancial Assets						
Investment property:***						
Land	12/29/17	₱12,833,559	₱–	₱–	₱18,464,458	₱18,464,458
Buildings and improvements	12/29/17	2,484,849	–	–	3,357,678	3,357,678
		₱15,318,408	₱–	₱–	₱21,822,136	₱21,822,136
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱96,364,657	₱–	₱–	₱109,838,818	₱109,838,818
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	39,168,917			39,249,168	39,249,168
		₱166,897,530	₱–	₱–	₱180,479,928	₱180,479,928

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

	Parent Company					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/16	₱1,313,400	₱1,300,293	₱13,107	₱–	₱1,313,400
Derivative assets	12/29/16	418,819	–	357,274	61,545	418,819
Private debt securities	12/29/16	120,589	112,605	7,984	–	120,589
Equity securities	12/29/16	27,263	27,263	–	–	27,263
AFS investments:						
Government securities	12/29/16	36,900,930	33,482,484	3,418,446	–	36,900,930
Private debt securities	12/29/16	28,325,207	25,661,556	2,663,651	–	28,325,207
Equity securities*	12/29/16	439,819	439,819	–	–	439,819
		₱67,546,027	₱61,024,020	₱6,460,462	₱61,545	₱67,546,027

(Forward)

	Parent Company					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/16	₱231,977	–	₱231,977	–	₱231,977
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/16	₱24,074,898	₱21,183,585	₱3,807,936	–	₱24,991,521
Loans and Receivables:**						
Receivables from customers	12/29/16	362,702,715	–	–	368,405,370	368,405,370
Unquoted debt securities	12/29/16	3,227,376	–	–	3,247,498	3,247,498
		₱390,004,989	₱21,183,585	₱3,807,936	₱371,652,868	₱396,644,389
Nonfinancial Assets						
Investment property:***						
Land	12/29/16	13,341,300	–	–	18,800,199	18,800,199
Buildings and improvements	12/29/16	2,633,830	–	–	3,364,011	3,364,011
		₱15,975,130	–	–	₱22,164,210	₱22,164,210
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/16	₱66,139,590	–	–	₱75,387,540	₱75,387,540
LTNCDs	12/29/16	24,382,144			24,403,900	24,403,900
Bills payable	12/29/16	32,327,358	–	–	32,641,258	32,641,258
Subordinated debt	12/29/16	3,497,798	–	–	3,551,484	3,551,484
		₱126,346,890	–	–	₱135,984,182	₱135,984,182

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

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.

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.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVps as of reporting date.

As of December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial assets				
Balance at beginning of year	**₱61,545**	₱5,843,569	**₱61,545**	₱63,332
Fair value changes recognized in profit or loss	**(6,606)**	(1,787)	**(6,606)**	(1,787)
Change arising from sale of direct interest in a subsidiary	**–**	(5,780,237)	**–**	–
Balance at end of year	**₱54,939**	₱61,545	**₱54,939**	₱61,545

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties follows:

<u>Valuation Techniques</u>	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.
<u>Significant Unobservable Inputs</u>	
Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Significant Unobservable Inputs

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and

Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

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.

Segment revenues pertain to the net interest margin and other operating income earned 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.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2017					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	**₱1,404,759**	**₱17,112,989**	**₱3,313,723**	**₱123,189**	**₱121,992**	**₱22,076,652**
Inter-segment	**9,459,213**	**(9,193,733)**	**(265,480)**	**–**	**–**	**–**
Net interest margin after inter-segment transactions	**10,863,972**	**7,919,256**	**3,048,243**	**123,189**	**121,992**	**22,076,652**
Other income	**1,881,419**	**4,934,248**	**1,916,158**	**2,650,308**	**(123,852)**	**11,258,281**
Segment revenue	**12,745,391**	**12,853,504**	**4,964,401**	**2,773,497**	**(1,860)**	**33,334,933**
Other expenses	**11,519,652**	**2,025,523**	**168,908**	**1,688,555**	**68,159**	**15,470,797**
Segment result	**₱1,225,739**	**₱10,827,981**	**₱4,795,493**	**₱1,084,942**	**(₱70,019)**	**₱17,864,136**
Unallocated income/expenses						**7,385,378**
Net income before income tax						**10,478,758**
Income tax						**2,322,213**
Net income from continuing operations						**8,156,545**
Non-controlling interest						**(4,025)**
Net income for the year attributable to equity holders of the Parent Company						**₱8,160,570**
Other segment information						
Capital expenditures	**₱820,121**	**₱4,278**	**₱–**	**₱282,846**	**₱–**	**₱1,107,245**
Unallocated capital expenditure						**1,882,493**
Total capital expenditure						**₱2,989,738**
Depreciation and amortization	**₱520,812**	**₱138,463**	**₱1,478**	**₱281,700**	**₱–**	**₱942,451**
Unallocated depreciation and amortization						**741,940**
Total depreciation and amortization						**₱1,684,391**
Provision for (reversal of) impairment, credit and other losses	**(₱1,477)**	**₱599,901**	**(₱41,417)**	**(₱7,067)**	**₱334,193**	**₱884,133**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2016					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,136,370	₱15,027,877	₱3,014,495	₱126,606	₱261,154	₱19,566,502
Inter-segment	5,345,226	(7,756,129)	2,410,903	–	–	–
Net interest margin after inter-segment transactions	6,481,596	7,271,748	5,425,398	126,606	261,154	19,566,502
Other income	1,896,868	4,274,575	2,284,097	3,323,121	(1,804,309)	9,974,352
Segment revenue	8,378,464	11,546,323	7,709,495	3,449,727	(1,543,155)	29,540,854
Other expenses	(8,207,826)	(3,611,997)	(200,330)	(3,423,737)	(632,593)	(16,076,483)
Segment result	₱170,638	₱7,934,326	₱7,509,165	₱25,990	(₱966,206)	13,464,371
Unallocated expenses						(7,048,978)
Net income before income tax						6,415,393
Income tax						1,517,221
Net income from continuing operations						4,898,172
Net income from discontinued operations						2,263,902
Non-controlling interest						(38,122)
Net income for the year attributable to equity holders of the Parent Company						₱7,123,952
Other segment information						
Capital expenditures	₱1,063,897	₱5,723	₱961	₱510,870	₱–	₱1,581,451
Unallocated capital expenditure						852,941
Total capital expenditure						₱2,434,392
Depreciation and amortization	₱493,221	₱22,318	₱2,663	₱644,739	₱–	₱1,162,941
Unallocated depreciation and amortization						391,704
Total depreciation and amortization						₱1,554,645
Provision for (reversal of) impairment, credit and other losses	₱360,089	₱2,529,286	₱300	₱4,233	₱319,056	₱3,212,964

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱2,396,903	₱11,614,343	₱3,177,360	₱239,257	₱263,976	₱17,691,839
Inter-segment	4,287,196	(4,915,106)	627,910	–	–	–
Net interest margin after inter-segment transactions	6,684,099	6,699,237	3,805,270	239,257	263,976	17,691,839
Other income	1,413,242	4,103,084	2,195,452	1,693,160	2,444,077	11,849,015
Segment revenue	8,097,341	10,802,321	6,000,722	1,932,417	2,708,053	29,540,854
Other expenses	(7,808,713)	(935,445)	(118,411)	(3,061,754)	(1,060,430)	(12,984,753)
Segment result	₱288,628	₱9,866,876	₱5,882,311	(₱1,129,337)	(₱249,132)	16,556,101
Unallocated expenses						(8,965,086)
Net income before income tax						7,591,015
Income tax						(1,619,494)
Net income from continuing operations						5,971,521
Net income from discontinued operations						357,931
Non-controlling interest						(198,087)
Net income for the year attributable to equity holders of the Parent Company						₱6,131,365

(Forward)

	2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Other segment information						
Capital expenditures	₱925,062	₱10,405	₱1,780	₱121,557	₱250,092	₱1,308,896
Unallocated capital expenditure						1,170,258
Total capital expenditure						₱2,479,154
Depreciation and amortization	₱558,046	₱132,559	₱6,440	₱542,347	₱143,101	₱1,382,493
Unallocated depreciation and amortization						69,728
Total depreciation and amortization						₱1,452,221
Provision for (reversal of) impairment, credit and other losses	₱301,499	(₱261,596)	(₱11,910)	₱220,261	₱319,926	₱568,180

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2017					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱160,378,585**	**₱436,181,872**	**₱147,035,920**	**₱109,153,300**	**(₱19,433,076)**	**₱833,316,601**
Unallocated assets						**2,837,880**
Total assets						**₱836,154,481**
Segment liabilities	**₱528,053,875**	**₱84,384,861**	**₱87,966,482**	**₱32,024,306**	**(₱19,192,245)**	**₱713,237,279**
Unallocated liabilities						**3,179,253**
Total liabilities						**₱716,416,532**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2016					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱176,539,820	₱551,794,830	₱212,189,932	₱25,351,620	(₱213,316,779)	₱752,559,423
Unallocated assets						1,422,213
Total assets						₱753,981,636
Segment liabilities	₱339,136,935	₱247,380,216	₱64,033,215	₱37,602,324	(₱213,688,923)	₱474,463,767
Unallocated liabilities						169,557,166
Total liabilities						₱644,020,933

* *The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets		**Liabilities**		**Capital Expenditure**	
	2017	2016	**2017**	2016	**2017**	2016
Philippines	**₱387,750,978**	₱341,515,211	**₱687,770,416**	₱615,281,652	**₱2,980,245**	₱2,195,996
Asia (excluding Philippines)	**6,775,199**	6,225,748	**25,761,863**	24,392,446	**7,484**	232,949
USA and Canada	**84,655,334**	77,790,006	**2,342,588**	4,245,479	**1,822**	461
United Kingdom	**2,883,469**	2,649,627	**541,665**	101,356	**187**	4,986
	₱482,064,980	₱428,180,592	**₱716,416,532**	₱644,020,933	**₱2,989,738**	₱2,434,392

** Gross of allowance for impairment and credit losses (Note 16), unearned and other deferred income (Note 10), and accumulated amortization and depreciation (Notes 11, 13, and 14)*

	Credit Commitments		External Revenues		
	2017	2016	**2017**	2016	2015
Philippines	**₱ 37,217,949**	₱27,995,354	**₱30,704,384**	₱29,124,972	₱25,580,852
Asia (excluding Philippines)	**212,586**	467,830	**1,021,619**	1,267,659	1,308,540
USA and Canada	**3,795**	4,197	**543,158**	668,833	598,662
United Kingdom	**–**	–	**110,915**	147,050	154,585
	₱ 37,434,330	₱28,467,381	**₱32,380,076**	₱31,208,514	₱27,642,639

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

As of December 31, 2017 and 2016, 8.28% and 30.11% of the Group's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Due from BSP bears annual interest rates ranging from 3.45% to 3.50% in 2017, 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015.

As of December 31, 2017 and 2016, 8.53% and 29.64% of the Parent Company's Due from BSP are placed under the TDF with the BSP. TDFs bear annual interest rates ranging from 3.45% to 3.50% in 2017, 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

The Group and the Parent Company's peso-denominated interbank loans receivables bear interest ranging from 2.56% to 2.63% in 2017 and 2.56% to 3.19% in 2015; and from 0.01% to 4.40%, and 0.01% to 0.35% for foreign-currency denominated placements in 2017, 2016 and 2015, respectively.

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Interbank loans receivable	**₱12,837,721**	₱7,791,108	**₱11,083,515**	₱7,907,366
Less: Interbank loans receivable not considered as cash and cash equivalents	**1,346,037**	547,222	**1,382,599**	554,526
	₱11,491,684	₱7,243,886	**₱9,700,916**	₱7,352,840

The Group and the Parent Company's peso-denominated securities held under repurchase agreements bear interest of 3.00%, 3.00% to 4.00%, and 4.00% in 2017, 2016 and 2015, respectively. The fair value of the treasury bills pledged under these agreements as of December 31, 2017, 2016 and 2015 amounted to ₱14.6 billion, ₱2.0 billion and ₱14.5 billion, respectively.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial assets at FVPL	**₱2,882,395**	₱1,913,864	**₱2,829,877**	₱1,880,071
AFS investments	**69,837,416**	67,340,739	**67,677,952**	65,819,735
HTM investments	**26,805,131**	24,174,479	**26,680,483**	24,074,898
	₱99,524,942	₱93,429,082	**₱97,188,312**	₱91,774,704

Financial Assets at FVPL
This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Government securities	**₱2,207,952**	₱1,313,400	**₱2,207,952**	₱1,313,400
Derivative assets (Notes 23 and 36)	**562,984**	419,122	**559,692**	418,819
Private debt securities	**31,305**	120,589	**31,305**	120,589
Equity securities	**73,918**	54,609	**30,928**	27,263
Investment in UITFs	**6,236**	6,144	**–**	–
	₱2,882,395	₱1,913,864	**₱2,829,877**	₱1,880,071

As of December 31, 2017 and 2016, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱73.0 million and ₱66.9 million, respectively.

The carrying amount of equity securities includes unrealized loss of ₱22.0 million and ₱21.5 million as of December 31, 2017 and 2016, respectively, for the Group and unrealized loss of ₱22.0 million and ₱32.0 million as of December 31, 2017 and 2016, respectively, for the Parent Company.

In 2017, 2016, and 2015, the nominal interest rates of government securities range from 2.13% to 6.13%, 2.75% to 10.63% and 2.13% to 10.63%, respectively.

In 2017, 2016, and 2015, the nominal interest rates of private debt securities range from 5.23% to 6.63%, 5.50% to 7.38% and 4.80% to 7.38%, respectively.

AFS Investments
This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Government debt securities (Notes 19 and 33)	**₱41,625,900**	₱37,834,559	**₱40,082,376**	₱36,900,930
Private securities	**26,920,045**	28,841,070	**26,444,549**	28,325,207
Equity securities - net of allowance for impairment losses (Note 16)				
Quoted	**1,144,779**	493,958	**1,004,873**	439,819
Unquoted	**146,692**	171,152	**146,154**	153,779
	₱69,837,416	₱67,340,739	**₱67,677,952**	₱65,819,735

For the year 2017, the Group and the Parent Company did not recognize impairment losses. As of December 31, 2016, the Group and the Parent Company recognized impairment losses on equity securities amounting to ₱15.9 million and ₱15.6 million, respectively (Note 16).

The movements in net unrealized loss on AFS investments of the Group are as follows:

	2017			2016			2015		
	Parent Company	**NCI**	**Total**	Parent Company	NCI	Total	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,469,939)**	**₱–**	**(₱3,469,939)**	(₱3,030,588)	₱168,630	(₱2,861,958)	(₱2,336,142)	₱179,878	(₱2,156,264)
Changes in fair values of AFS investments	**818,624**	**–**	**818,624**	1,008,465	–	1,008,465	(190,133)	(9,641)	(199,774)
Provision for impairment (Note 16)	**–**	**–**	**–**	15,856	–	15,856	230	–	230
Realized gains	**(506,238)**	**–**	**(506,238)**	(1,362,462)	(360)	(1,362,822)	(756,777)	(4,175)	(760,952)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**141,802**	**–**	**141,802**	144,657	1,079	145,736	136,804	2,568	139,372
Share in net unrealized losses of an associate (Note 12)	**(24,756)**	**–**	**(24,756)**	(245,867)	–	(245,867)	–	–	–
Effect of disposal group classified as held-for-sale (Note 37)	**–**	**–**	**–**	–	(169,349)	(169,349)	115,430	–	115,430
	429,432	**–**	**429,432**	(439,351)	(168,630)	(607,981)	(694,446)	(11,248)	(705,694)
Income tax effect (Note 31)	**–**	**–**	**–**	286	–	286	2,887	–	2,887
Balance at end of year	**(₱3,040,507)**	**₱–**	**(₱3,040,507)**	(₱3,469,939)	₱–	(₱3,469,939)	(₱3,030,588)	₱168,630	(₱2,861,958)

The changes in the net unrealized loss in AFS investments of the Parent Company follow:

	2017	2016	2015
Balance at the beginning of the year	**(₱3,469,939)**	(₱3,030,588)	(₱2,336,142)
Changes in fair values of AFS investments	**843,082**	1,008,908	(192,809)
Provision for impairment (Note 16)	**–**	15,601	230
Realized gains	**(516,023)**	(1,350,450)	(756,777)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**141,802**	140,341	126,531
Share in net unrealized losses of subsidiaries and an associate (Note 12)	**(39,429)**	(253,748)	51,906
Effect of disposal group classified as held-for-sale (Note 37)	**–**	–	73,586
	(3,040,507)	(3,469,936)	(3,033,475)
Income tax effect (Note 31)	**–**	–	2,887
Balance at end of year	**(₱3,040,507)**	(₱3,469,936)	(₱3,030,588)

As of December 31, 2017 and 2016, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱26.5 billion and ₱9.8 billion (Note 19). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

HTM Investments
As of December 31, 2017, HTM investments of the Group and the Parent Company comprise of government amounting to ₱26.8 billion and ₱26.7 billion, respectively.

As of December 31, 2016, HTM investments of the Group and the Parent Company consist of government securities amounting to ₱24.2 billion and ₱24.1 billion, respectively.

As of December 31, 2017 and 2016, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱17.8 billion and ₱15.3 billion, respectively (Note 19).

Reclassification of Financial Assets
On March 3 and 5, 2014, the Group reclassified certain AFS investment securities, which were previously classified as HTM investments, with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2017, the carrying values and fair values of the Parent Company's reclassified investment securities amounted to ₱24.0 billion and ₱25.0 billion, respectively. As of December 31, 2016, the carrying values and fair values of the Group's and Parent Company's reclassified investment securities amounted to ₱20.1 billion and ₱21.4 billion, respectively. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group and the Parent Company in the statement of comprehensive income amounts to ₱0.5 billion in 2017 and ₱0.3 billion in 2016.

Interest Income on Trading and Investment Securities
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
AFS investments	**₱2,121,231**	₱2,262,857	₱2,443,660	**₱2,056,124**	₱2,212,466	₱2,407,634
HTM investments	**978,680**	926,652	925,334	**977,719**	926,131	924,462
Financial assets at FVPL	**38,808**	76,947	226,065	**38,809**	76,947	226,065
	₱3,138,719	₱3,266,456	₱3,595,059	**₱3,072,652**	₱3,215,544	₱3,558,161

Effective interest rates range from 0.88% to 9.33%, 1.31% to 5.93% and 1.03% to 5.62% in 2017, 2016 and 2015, respectively, for peso-denominated AFS investments.

Effective interest rates range from 0.04% to 10.30%, 1.29% to 5.30% and 1.10% to 5.39% in 2017, 2016 and 2015, respectively, for foreign currency-denominated AFS investments.

HTM investments bear effective annual interest rates ranging from 2.75% to 10.63% in 2017 and 3.60% to 5.64% in 2016 and 2015.

Trading and Investment Securities Gains (Losses) - net
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Financial assets at FVPL:						
Held-for-trading	**₱58,157**	(₱6,113)	(₱175,161)	**₱58,156**	(₱6,113)	(₱175,290)
Designated at FVPL	**3,328**	(3,202)	–	**–**	–	–
AFS investments	**506,238**	1,362,462	761,191	**506,238**	1,350,453	756,777
Derivative financial instruments (Note 23)	**(7,965)**	25,174	(11,709)	**(7,965)**	25,174	(11,709)
	₱559,758	₱1,378,321	₱574,321	**₱556,429**	₱1,369,514	₱569,778

10. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Receivable from customers:				
Loans and discounts	**₱455,839,142**	₱392,159,433	**₱403,254,903**	₱350,840,183
Credit card receivables	**10,145,474**	7,102,207	**10,145,474**	7,102,207
Customers' liabilities on letters of credit and trust receipts	**9,490,075**	8,830,606	**9,364,742**	8,600,938
Lease contracts receivable (Note 30)	**2,891,043**	3,049,375	**97,109**	100,109
Customers' liabilities on acceptances (Note 19)	**2,231,887**	1,659,340	**2,231,887**	1,659,340
Bills purchased (Note 22)	**1,702,535**	3,596,589	**1,473,052**	3,379,721
	482,300,156	416,397,550	**426,567,167**	371,682,498
Less unearned and other deferred income	**1,553,108**	1,489,955	**1,241,587**	1,116,929
	480,747,048	414,907,595	**425,325,580**	370,565,569
Unquoted debt securities	**14,674,130**	6,972,710	**14,616,628**	6,914,864
Other receivables:				
Accounts receivable	**10,073,663**	9,573,552	**4,538,103**	3,423,593
Sales contract receivables	**7,588,301**	7,449,020	**7,549,113**	7,397,664
Accrued interest receivable	**4,235,075**	3,703,763	**3,497,184**	3,485,881
Miscellaneous	**562,360**	501,675	**492,025**	443,289
	22,459,399	21,228,010	**16,076,425**	14,750,427
	517,880,577	443,108,315	**456,018,633**	392,230,860
Less allowance for credit losses (Note 16)	**15,764,060**	14,892,814	**14,505,328**	14,032,122
	₱502,116,517	₱428,215,501	**₱441,513,305**	₱378,198,738

Below is the reconciliation of loans and receivables as to classes:

	Consolidated							
	2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱394,245,819	₱17,742,839	₱7,190,864	₱36,295,129	₱364,491	₱–	₱–	₱455,839,142
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,490,075	–	–	–	–	–	–	9,490,075
Lease contracts receivable (Note 30)	2,891,043	–	–	–	–	–	–	2,891,043
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
Bills purchased (Note 22)	1,702,535	–	–	–	–	–	–	1,702,535
	410,647,067	17,742,839	7,190,864	46,199,937	519,449	–	–	482,300,156
Less unearned and other deferred income	994,717	313,459	14,291	227,552	3,089	–	–	1,553,108
	409,652,350	17,429,380	7,176,573	45,972,385	516,360	–	–	480,747,048
Unquoted debt securities	–	–	–	–	–	14,674,130	–	14,674,130
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,073,663	10,073,663
Sales contract receivables	–	–	–	–	–	–	7,588,301	7,588,301
Accrued interest receivable	–	–	–	–	–	–	4,235,075	4,235,075
Miscellaneous	–	–	–	–	–	–	562,360	562,360
	409,652,350	17,429,380	7,176,573	45,972,385	516,360	14,674,130	22,459,399	517,880,577
Less allowance for credit losses (Note 16)	6,770,478	100,493	218,423	1,392,870	13,751	3,739,983	3,528,062	15,764,060
	₱402,881,872	₱17,328,887	₱6,958,150	₱44,579,515	₱502,609	₱10,934,147	₱18,931,337	₱502,116,517

	Consolidated							
	2016							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱329,917,238	₱20,117,661	₱7,346,757	₱34,336,857	₱440,920	₱–	₱–	₱392,159,433
Credit card receivables	66,258	–	–	6,888,616	147,333	–	–	7,102,207
Customers' liabilities on letters of credit and trust receipts	8,830,606	–	–	–	–	–	–	8,830,606
Lease contracts receivable (Note 30)	3,049,375	–	–	–	–	–	–	3,049,375
Customers' liabilities on acceptances (Note 19)	1,659,340	–	–	–	–	–	–	1,659,340
Bills purchased (Note 22)	3,383,938	212,651	–	–	–	–	–	3,596,589
	346,906,755	20,330,312	7,346,757	41,225,473	588,253	–	–	416,397,550
Less unearned and other deferred income	1,044,476	433,275	11,258	785	161	–	–	1,489,955
	345,862,279	19,897,037	7,335,499	41,224,688	588,092	–	–	414,907,595
Unquoted debt securities	–	–	–	–	–	6,972,710	–	6,972,710
Other receivables:								
Accounts receivable	–	–	–	–	–	–	9,573,522	9,573,522
Sales contract receivables	–	–	–	–	–	–	7,449,020	7,449,020
Accrued interest receivable	–	–	–	–	–	–	3,703,763	3,703,763
Miscellaneous	–	–	–	–	–	–	501,675	501,675
	345,862,279	19,897,037	7,335,499	41,224,688	588,092	6,972,710	21,228,010	443,108,315
Less allowance for credit losses (Note 16)	6,846,958	96,030	170,175	1,241,394	19,014	3,687,488	2,831,755	14,892,814
	₱339,015,321	₱19,801,007	₱7,165,324	₱39,983,294	₱569,078	₱3,285,222	₱18,208,225	₱428,215,501

	Parent Company							
	2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱375,964,637	₱17,742,839	₱7,190,864	₱2,026,412	₱330,151	₱–	₱–	₱403,254,903
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,364,742	–	–	–	–	–	–	9,364,742
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
Bills purchased (Note 22)	1,473,052	–	–	–	–	–	–	1,473,052
Lease contracts receivable (Note 30)	97,109	–	–	–	–	–	–	97,109
	389,217,135	17,742,839	7,190,864	11,931,220	485,109	–	–	426,567,167
Less unearned and other deferred income	700,826	313,459	14,291	209,922	3,089	–	–	1,241,587
	388,516,309	17,429,380	7,176,573	11,721,298	482,020	–	–	425,325,580
Unquoted debt securities	–	–	–	–	–	14,616,628	–	14,616,628
Other receivables:								
Accounts receivable	–	–	–	–	–	–	4,538,103	4,538,103
Sales contract receivables	–	–	–	–	–	–	7,549,113	7,549,113
Accrued interest receivable	–	–	–	–	–	–	3,497,184	3,497,184
Miscellaneous	–	–	–	–	–	–	492,025	492,025
	388,516,309	17,429,380	7,176,573	11,721,298	482,020	14,616,628	16,076,425	456,018,633
Less allowance for credit losses (Note 16)	6,194,035	100,493	218,423	1,023,164	13,748	3,683,233	3,272,232	14,505,328
	₱382,322,274	₱17,328,887	₱6,958,150	₱10,698,134	₱468,272	₱10,933,395	₱12,804,193	₱441,513,305

	Parent Company							
	2016							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱319,861,682	₱20,117,661	₱7,346,757	₱3,100,426	₱413,657	₱–	₱–	₱350,840,183
Credit card receivables	66,258	–	–	6,888,617	147,332	–	–	7,102,207
Customers' liabilities on letters of credit and trust receipts	8,600,938	–	–	–	–	–	–	8,600,938
Lease contracts receivable (Note 30)	100,109	–	–	–	–	–	–	100,109
Customers' liabilities on acceptances (Note 19)	1,659,340	–	–	–	–	–	–	1,659,340
Bills purchased (Note 22)	3,167,071	212,650	–	–	–	–	–	3,379,721
	333,455,398	20,330,311	7,346,757	9,989,043	560,989	–	–	371,682,498
Less unearned and other deferred income	671,450	433,275	11,258	785	161	–	–	1,116,929
	332,783,948	19,897,036	7,335,499	9,988,258	560,828	–	–	370,565,569
Unquoted debt securities	–	–	–	–	–	6,914,864	–	6,914,864
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,423,593	3,423,593
Sales contract receivables	–	–	–	–	–	–	7,397,664	7,397,664
Accrued interest receivable	–	–	–	–	–	–	3,485,881	3,485,881
Miscellaneous	–	–	–	–	–	–	443,289	443,289
	332,783,948	19,897,036	7,335,499	9,988,258	560,828	6,914,864	14,750,427	392,230,860
Less allowance for credit losses (Note 16)	6,687,544	96,030	170,175	890,093	19,012	3,687,488	2,481,780	14,032,122
	₱326,096,404	₱19,801,006	₱7,165,324	₱9,098,165	₱541,816	₱3,227,376	₱12,268,647	₱378,198,738

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included in 'Loans and Receivables') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

As of December 31, 2015, the balance of these receivables amounted to ₱3.7 billion (₱1.8 billion is included under 'Loans and discounts' and ₱1.9 billion is included under 'Accrued interest receivable') while the transferred liabilities amounted to ₱3.4 billion (₱1.8 billion is included under 'Bills payable to BSP and local banks' - Note 19 and ₱1.6 billion is included under 'Accrued interest payable' - Note 20). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱0.3 billion as of December 31, 2015.

In 2016, the Group and the Parent Company applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2017 and 2016, the remaining receivables amounted to ₱0.3 billion which is fully covered by an allowance.

Unquoted debt instruments
Unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2017 and 2016, the notes are carried at their recoverable values.

Lease contract receivables
An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Minimum lease payments				
Due within one year	**₱1,265,542**	₱1,177,612	**₱ 28,909**	₱23,509
Due beyond one year but not over five years	**924,973**	1,127,371	**43,000**	40,100
Due beyond five years	**25,201**	36,500	**25,200**	36,500
	2,215,716	2,341,483	**97,109**	100,109
Residual value of leased equipment				
Due within one year	**292,000**	249,923	–	–
Due beyond one year but not over five years	**383,327**	457,969	–	–
	675,327	707,892	–	–
Gross investment in lease contract receivables (Note 30)	**₱2,891,043**	₱3,049,375	**₱ 97,109**	₱100,109

Accounts receivables
As of December 31, 2017 and 2016, the Group's accounts receivable includes insurance receivables of PNB Gen amounting to ₱5.1 billion and ₱4.8 billion, respectively.

Interest income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Receivable from customers and sales contract receivables	**₱22,523,464**	₱19,635,249	₱17,074,179	**₱19,100,932**	₱16,874,365	₱15,092,695
Unquoted debt securities	**146,012**	51,160	63,478	**144,878**	49,499	58,568
	₱22,669,476	₱19,686,409	₱17,137,657	**₱19,245,810**	₱16,923,864	₱15,151,263

As of December 31, 2017 and 2016, 78.83% and 75.24%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2017 and 2016, 79.07% and 76.23%, respectively, of the total receivable from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.94% to 9% in 2017, 2.30% to 8.75% in 2016 and 1.10% to 7.00% in 2015 for foreign currency-denominated receivables, and from 1.9% to 7.98% in 2017, 0.50% to 15.25% in 2016 and 0.50% to 15.25%% in 2015 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 2.70% to 21.00%, 5.00% to 21.00% and 3.30% to 21.00% in 2017, 2016 and 2015, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱106.2 million in 2017, ₱103.7 million in 2016, and ₱217.0 million in 2015 (Note 16).

BSP Reporting

An industry sector analysis of the Group's and the Parent Company's receivable from customers before taking into account the unearned and other deferred income and allowance for credit losses is shown below.

	Consolidated				**Parent Company**			
	2017		2016		**2017**		2016	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Wholesale and retail	**₱74,279,581**	**15.40**	₱61,414,279	14.75	**₱69,846,899**	**16.37**	₱57,682,565	15.52
Financial intermediaries	**72,757,733**	**15.09**	64,806,163	15.56	**69,382,757**	**16.27**	64,415,801	17.33
Electricity, gas and water	**64,921,830**	**13.46**	49,814,968	11.96	**62,947,842**	**14.76**	49,687,531	13.37
Transport, storage and communication	**40,565,972**	**8.41**	39,939,856	9.59	**38,270,489**	**8.97**	37,085,522	9.98
Manufacturing	**33,118,627**	**6.87**	36,542,499	8.78	**29,905,637**	**7.01**	34,276,937	9.22
Public administration and defense	**22,998,264**	**4.77**	24,676,655	5.93	**22,630,209**	**5.31**	24,601,304	6.62
Agriculture, hunting and forestry	**7,023,471**	**1.46**	5,490,920	1.32	**6,403,860**	**1.50**	5,044,898	1.36
Secondary target industry:								
Real estate, renting and business activities	**78,823,937**	**16.34**	59,701,406	14.34	**73,609,101**	**17.26**	53,719,909	14.45
Construction	**19,264,219**	**3.99**	16,819,358	4.04	**17,682,688**	**4.15**	14,574,409	3.92
Others	**68,546,522**	**14.21**	57,191,446	13.73	**35,887,685**	**8.40**	30,593,622	8.23
	₱482,300,156	**100.00**	₱416,397,550	100.00	**₱426,567,167**	**100.00**	₱371,682,498	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated				**Parent Company**			
	2017		2016		**2017**		2016	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱69,798,045**	**14.47**	₱62,257,711	14.95	**₱56,166,102**	**13.17**	₱45,697,957	12.30
Chattel mortgage	**28,159,567**	**5.84**	33,531,566	8.05	**26,187,151**	**6.14**	25,326,989	6.81
Bank deposit hold-out	**14,600,056**	**3.03**	14,034,793	3.38	**14,530,200**	**3.41**	13,938,107	3.75
Shares of stocks	**1,412,136**	**0.29**	1,681,531	0.40	**1,412,136**	**0.33**	1,681,531	0.45
Others	**75,308,199**	**15.61**	38,699,661	9.29	**72,719,502**	**17.05**	35,368,522	9.52
	189,278,003	**39.24**	150,205,262	36.07	**171,015,091**	**40.09**	122,013,106	32.83
Unsecured	**293,022,153**	**60.76**	266,192,288	63.93	**255,552,076**	**59.91**	249,669,392	67.17
	₱482,300,156	**100.00**	₱416,397,550	100.00	**₱426,567,167**	**100.00**	₱371,682,498	100.00

The table below reflects the balances of loans and receivables as reported to the BSP. For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Secured	**₱6,721,812**	₱5,406,717	**₱4,803,416**	₱4,918,225
Unsecured	**4,923,617**	4,752,493	**4,222,671**	3,853,334
	₱11,645,429	₱10,159,210	**₱9,026,087**	₱8,771,559

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

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

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

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As of December 31, 2017 and 2016, NPLs of ₱9.0 billion and ₱8.8 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱7.9 billion and ₱8.1 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2017 and 2016, gross and net NPL ratios of the Parent Company were 2.01% and 0.26%, and 2.31% and 0.18%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2017 and 2016 amounted to ₱2.1 billion and ₱1.6 billion and ₱1.6 billion and ₱1.5 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated						
	2017						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	**₱11,470,425**	**₱5,717,761**	**₱4,947,104**	**₱567,270**	**₱698,131**	**₱1,094,617**	**₱24,495,308**
Additions/transfers	–	**197,239**	**755,165**	-	**785,486**	**192,896**	**1,930,786**
Disposals/transfers/others	**(1,049)**	**128,314**	**(102,549)**	**(1,025)**	**(627,145)**	**63,771**	**(539,683)**
Balance at end of year	**11,469,376**	**6,043,314**	**5,599,720**	**566,245**	**856,472**	**1,351,284**	**25,886,411**
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	**2,571,166**	**2,917,671**	**33,302**	–	**647,581**	**6,169,720**
Depreciation and amortization	–	**243,764**	**695,012**	**5,518**	–	**184,217**	**1,128,511**
Disposals/transfers/others	–	**(11,481)**	**(274,532)**	**(385)**	–	**(18,265)**	**(304,663)**
Balance at end of year	–	**2,803,449**	**3,338,151**	**38,435**	–	**813,533**	**6,993,568**
Allowance for Impairment Losses (Note 16)	**90,116**	**138,370**	–	–	–	–	**228,486**
Net Book Value at End of Year	**₱11,379,260**	**₱3,101,495**	**₱2,261,569**	**₱527,810**	**₱856,472**	**₱537,751**	**₱18,664,357**

	Consolidated						
	2016						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱15,552,766	₱6,894,418	₱4,686,714	₱553,988	₱341,366	₱841,052	₱28,870,304
Additions/transfers	–	206,910	965,326	–	669,094	187,009	2,028,339
Disposals/transfers/others	(4,082,341)	(1,383,567)	(704,936)	13,282	(312,329)	66,556	(6,403,335)
Balance at end of year	11,470,425	5,717,761	4,947,104	567,270	698,131	1,094,617	24,495,308
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,641,945	3,105,944	23,595	–	509,279	6,280,763
Depreciation and amortization	–	235,546	623,153	5,199	–	149,779	1,013,677
Disposals/transfers/others	–	(306,325)	(811,426)	4,508	–	(11,477)	(1,124,720)
Balance at end of year	–	2,571,166	2,917,671	33,302	–	647,581	6,169,720
Allowance for Impairment Losses (Note 16)	121,033	107,200	–	–	–	–	228,233
Net Book Value at End of Year	₱11,349,392	₱3,039,395	₱2,029,433	₱533,968	₱698,131	₱447,036	₱18,097,355

	Parent Company					
	2017					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Construction In-progress**	**Leasehold Improvements**	**Total**
Cost						
Balance at beginning of year	**₱11,266,169**	**₱5,488,197**	**₱3,946,854**	**₱698,132**	**₱876,424**	**₱22,275,776**
Additions/transfers	**–**	**181,135**	**512,520**	**785,486**	**179,844**	**1,658,985**
Disposals/transfers/others	**7**	**132,375**	**(111,927)**	**(627,145)**	**3,687**	**(603,003)**
Balance at end of year	**11,266,176**	**5,801,707**	**4,347,447**	**856,473**	**1,059,955**	**23,331,758**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**–**	**2,518,058**	**2,465,332**	**–**	**559,106**	**5,542,496**
Depreciation and amortization	**–**	**242,298**	**494,994**	**–**	**149,496**	**886,788**
Disposals/transfers/others	**–**	**(9,892)**	**(200,021)**	**–**	**(9,884)**	**(219,797)**
Balance at end of year	**–**	**2,750,464**	**2,760,305**	**–**	**698,718**	**6,209,487**
Allowance for Impairment Losses (Note 16)	**89,664**	**138,370**	**–**	**–**	**–**	**228,034**
Net Book Value at End of Year	**₱11,176,512**	**₱2,912,873**	**₱1,587,142**	**₱856,473**	**₱361,237**	**₱16,894,236**

	Parent Company					
	2016					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱13,380,915	₱6,831,425	₱3,936,183	₱341,366	₱726,223	₱25,216,112
Additions/transfers	–	206,910	716,982	669,094	147,352	1,740,338
Disposals/transfers/others	(2,114,746)	(1,550,138)	(706,311)	(312,328)	2,849	(4,680,674)
Balance at end of year	11,266,169	5,488,197	3,946,854	698,132	876,424	22,275,776
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,621,673	2,747,940	–	437,600	5,807,213
Depreciation and amortization	–	234,210	476,638	–	124,619	835,467
Disposals/transfers/others	–	(337,825)	(759,246)	–	(3,113)	(1,100,184)
Balance at end of year	–	2,518,058	2,465,332	–	559,106	5,542,496
Allowance for Impairment Losses (Note 16)	121,033	107,200	–	–	–	228,233
Net Book Value at End of Year	₱11,145,136	₱2,862,939	₱1,481,522	₱698,132	₱317,318	₱16,505,047

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱1.0 billion as of December 31, 2017 and 2016.

Gain on disposal of property and equipment in 2017, 2016 and 2015 amounted to ₱4.3 million, ₱1.2 million, and ₱7.7 million, respectively, for the Group and ₱2.0 million, ₱1.5 million and ₱3.7 million, respectively, for the Parent Company (Note 13).

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Continuing operations:						
Depreciation						
Property and equipment	**₱1,128,511**	₱1,013,677	₱830,663	**₱886,788**	₱835,467	₱710,542
Investment properties (Note 13)	**152,894**	226,545	162,097	**136,507**	206,472	149,309
Chattel mortgage	**33,009**	22,000	35,285	**8,123**	22,001	33,748
Amortization - Intangible assets (Note 14)	**369,977**	292,423	424,176	**353,939**	279,643	412,180
	₱1,684,391	₱1,554,645	₱1,452,221	**₱1,385,357**	₱1,343,583	₱1,305,779
Discontinued operations:						
Property and Equipment (Note 37)	–	4,707	10,704	–	–	–
	₱1,684,391	₱1,559,352	₱1,462,925	**₱1,385,357**	₱1,343,583	₱1,305,779

Certain property and equipment of the Parent Company with carrying amount of ₱9.3 million and ₱178.5 million are temporarily idle as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, property and equipment of the Parent Company with gross carrying amount of ₱3.3 billion are fully depreciated but are still being used.

12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

Subsidiaries				Percentage of Ownership Direct	Indirect
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–
PNB General Insurers Inc.(PNB Gen)	Insurance	- do -	Php	**65.75**	**34.25**
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–
PNB Corporation – Guam	Remittance	USA	USD	**100.00**	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–
PNB Remittance Centers, Inc. (PNB RCI) [(a)]	Remittance	- do -	USD	–	**100.00**
PNB Remittance Co. (Nevada) [(b)]	Remittance	-do-	USD	–	**100.00**
PNB RCI Holding Co. Ltd. [(b)]	Holding Company	- do -	USD	–	**100.00**
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–
PNB Remittance Co. (Canada) [(c)]	Remittance	Canada	CAD	–	**100.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	**99.04**	–
PNB-IBJL Leasing and Finance Corporation (PILFC)[(d)]	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-IBJL Equipment Rentals Corporation[(e)]	Rental	- do -	Php	–	**75.00**
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)*	Banking	Hong Kong	HKD	**51.00**	–

(Forward)

Subsidiaries				Percentage of Ownership Direct	Indirect
Associate					
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) *[(g)]	Insurance	- do -	Php	**44.00**	–

** Subsidiaries acquired as a result of the merger with ABC*
[(a)] *Owned through PNB IIC*
[(b)] *Owned through PNB RCI*
[(c)] *Owned through PNB RCI Holding Co. Ltd.*
[(d)] *Formerly Japan-PNB Leasing*
[(e)] *Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC*

The details of this account follow:

	Consolidated 2017	Consolidated 2016 (As Restated – Note 2)	Parent Company 2017	Parent Company 2016 (As Restated – Note 2)	Parent Company January 1, 2016 (As Restated – Note 2)
Investment in Subsidiaries					
PNB SB	**₱–**	₱–	**₱10,935,041**	₱10,935,041	₱10,935,041
ACB	–	–	**6,087,520**	6,087,520	6,087,520
PNB IIC	–	–	**2,028,202**	2,028,202	2,028,202
PNB Europe PLC	–	–	**1,006,536**	1,006,537	1,006,537
ABCHKL	–	–	**947,586**	947,586	947,586
PNB GRF	–	–	**753,061**	753,061	753,061
PNB Gen	–	–	**800,000**	600,000	600,000
PNB Holdings	–	–	**377,876**	377,876	377,876
PNB Capital	–	–	**850,000**	350,000	350,000
ABUK	–	–	**320,858**	320,858	320,858
OHBVI	–	–	**291,841**	291,841	291,841
PILFC	–	–	**181,943**	181,942	181,942
ALFC	–	–	**148,400**	148,400	148,400
PNB Securities	–	–	**62,351**	62,351	62,351
PNB Forex, Inc.	–	–	–	50,000	50,000
APLII	–	–	–	–	481,068
PNB Corporation - Guam	–	–	**7,672**	7,672	7,672
	–	–	**24,798,887**	24,148,887	24,629,955
Investment in an Associate – APLII (44% owned)	**2,728,089**	2,728,089	**2,728,089**	2,728,089	–
Accumulated equity in net earnings of subsidiaries and an associate:					
Balance at beginning of year	**70,220**	–	**1,314,542**	1,495,910	1,897,737
Equity in net earnings for the year	**59,215**	70,220	**498,254**	231,780	269,709
Transfer to 'Investment in an associate'	–	–	–	(347,023)	–
Transfer to 'Assets of a disposal group held for sale'	–	–	–	–	(326,948)
Transfer to 'Reserves of a disposal group held for sale'	–	–	–	–	(85,106)
Sale of direct interest in a subsidiary	–	–	–	–	(79,482)
Dissolution of a subsidiary	–	–	**(7,415)**	–	–
	129,435	70,220	**1,805,381**	1,380,667	1,675,910
Dividends received for the year	–	–	**(1,333,350)**	(66,125)	(180,000)
	129,435	70,220	**472,031**	1,314,542	1,495,910
Accumulated share in:					
Net unrealized losses on available-for-sale investments (Note 9)	**(270,623)**	(245,867)	**(300,912)**	(261,483)	(7,735)
Remeasurement losses on retirement plan	**(235,424)**	1,209	**(289,824)**	(31,363)	(37,932)
Aggregate reserves on life insurance policies	**12,280**	3,087	**12,280**	3,087	–
Accumulated translation adjustments	–	–	**986,863**	477,909	457,755
	(493,767)	(241,571)	**408,407**	188,150	412,088
	₱2,363,757	₱2,556,738	**₱28,407,414**	₱28,379,668	₱26,537,953

As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital paid in excess of par value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

As of December 31, 2017 and 2016, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

Material non-controlling interests
The financial information as of December 31, 2017 and 2016 of ABCHKL which has material NCI is provided below.

Proportion of equity interest held by non- controlling interests

		Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
	Principal Activities	**2017**	2016	**2017**	2016	**2017**	2016
ABCHKL	Banking	**49.00%**	49.00%	**₱1,501,069**	₱1,427,133	**₱83,431**	₱41,667

The following table presents financial information of ABCHKL as of December 31, 2017 and 2016:

	2017	2016
Statement of Financial Position		
Current assets	**₱7,253,278**	₱7,528,024
Non-current assets	**3,666,167**	3,877,748
Current liabilities	**7,700,425**	8,244,302
Non-current liabilities	**155,613**	164,164
Statement of Comprehensive Income		
Revenues	**422,605**	345,376
Expenses	**252,338**	260,342
Net income	**170,267**	85,034
Total comprehensive income	**197,254**	134,237
Statement of Cash Flows		
Net cash provided by operating activities	**(445,345)**	116,786
Net cash provided used in investing activities	**(4,822)**	(69,200)
Net cash used in financing activities	**–**	–

As of December 31, 2017 and 2016, the non-controlling interests in respect of ALFC, PILFC, ACB and OHBVI is not material to the Group.

Investment in APLII
On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of the Parent Company and PNB SB.

As of December 31, 2015, the carrying value of the 51% equity interest in APLII amounting to ₱1.2 billion was classified as "Assets of Disposal Group Held for Sale" in the separate statement of financial position.

The sale of APLII was completed on June 6, 2016 for a total consideration of USD66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively.

The Parent Company will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Parent Company recognized gain on sale of the 51.00% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration allocated to the EDR was recognized as "Other Deferred Revenue" (Note 22) and will be amortized to income over 15 years from date of sale.

Prior to the sale of shares to Allianz SE, the Parent Company acquired additional 15.00% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, the Parent Company accounted for its remaining 44.00% ownership interest in APLII as an associate. At the date of loss of control, the Parent Company's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. The Parent Company recognized gain on remeasurement amounting to ₱1.6 billion in the statement of income in 2016.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Summarized financial information of APLII as of December 31, 2017 and 2016 are as follows:

	2017	2016
Current assets	**₱9,043,953**	₱14,812,452
Noncurrent assets	**18,478,830**	9,602,162
Current liabilities	**9,151,219**	14,287,861
Noncurrent liabilities	**16,537,014**	7,995,855
Equity	**1,834,550**	2,130,898

Summarized statement of income of APLII for the year ended December 31, 2017 and for the seven months ended December 31, 2016 follows:

	2017 (one year)	2016 (seven months)
Revenues	**₱2,190,474**	₱1,164,407
Costs and expenses	**(2,018,549)**	(1,022,543)
Income before tax	**171,925**	141,864
Provision for income tax	**(35,128)**	(29,762)
Net income	**136,797**	112,102
Other comprehensive loss	**(133,356)**	(556,042)
Total comprehensive income	**₱3,441**	(₱443,940)
Group's share of comprehensive income for the period	**₱1,514**	(₱195,334)

Investment in ACB
On November 22, 2013, the BOD of the Parent Company approved and confirmed the increase in equity investment of the Parent Company in ACB as a prerequisite to ACB's application for CNY license, by way of purchase of the 9.59% shareholdings of the natural–person investors in ACB in the amount of USD13.8 million. This was approved by BSP on June 4, 2014. On November 12, 2015, the China Banking Regulatory Commission approved the takeover of the Parent Company of the 51.00% shareholdings held by ABC and the buyout of the 8.63% shareholdings of six natural-person investors in ACB resulting in the increase of equity ownership in ACB to 99.04%. The Parent Company paid the natural-person investors on November 27, 2015. This acquisition was accounted for as an equity transaction which resulted in an increase of other equity adjustment amounting to ₱14.5 million in the consolidated statement of financial position.

PNB Forex
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to December 31, 2013. PNB Forex ceased its business operations on January 1, 2006. On August 24, 2017, SEC approved the dissolution of PNB Forex.

Significant restrictions
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

The BSP and IC regulations require banks and insurance companies to maintain certain levels of regulatory capital. As of December 31, 2017 and 2016, the total assets of banking subsidiaries amounted to ₱72.1 billion and ₱58.1 billion, respectively; and ₱7.6 billion and ₱6.9 billion for insurance subsidiaries, respectively.

13. Investment Properties

Breakdown of investment properties:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Properties held for lease	**₱4,762,380**	₱4,821,335	**₱5,078,689**	₱5,137,644
Foreclosed assets	**10,832,005**	11,519,917	**10,239,719**	10,837,486
Total	**₱15,594,385**	₱16,341,252	**₱15,318,408**	₱15,975,130

The composition of and movements in this account follow:

	Consolidated		
	2017		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱16,309,233**	**₱5,062,298**	**₱21,371,531**
Additions	**350,999**	**274,661**	**625,660**
Disposals/transfers/others	**(796,107)**	**(862,053)**	**(1,658,160)**
Balance at end of year	**15,864,125**	**4,474,906**	**20,339,031**
Accumulated Depreciation			
Balance at beginning of year	**–**	**1,733,938**	**1,733,938**
Depreciation (Note 11)	**–**	**152,894**	**152,894**
Disposals/transfers/others	**–**	**(161,151)**	**(161,151)**
Balance at end of year	**–**	**1,725,681**	**1,725,681**
Allowance for Impairment Losses (Note 16)	**2,702,189**	**316,776**	**3,018,965**
Net Book Value at End of Year	**₱13,161,936**	**₱2,432,449**	**₱15,594,385**

	Consolidated		
	2016		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,287,746	₱3,989,636	₱18,277,382
Additions	386,491	295,019	681,510
Disposals/transfers/others	1,634,996	777,643	2,412,639
Balance at end of year	16,309,233	5,062,298	21,371,531
Accumulated Depreciation			
Balance at beginning of year	–	1,753,738	1,753,738
Depreciation (Note 11)	–	226,545	226,545
Disposals/transfers/others	–	(246,345)	(246,345)
Balance at end of year		1,733,938	1,733,938
Allowance for Impairment Losses (Note 16)	2,999,854	296,487	3,296,341
Net Book Value at End of Year	₱13,309,379	₱3,031,873	₱16,341,252

	Parent Company		
	2017		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱16,341,154**	**₱4,627,569**	**₱20,968,723**
Additions	**278,090**	**187,254**	**465,344**
Disposals/Transfers/Others	**(1,083,496)**	**(298,937)**	**(1,382,433)**
Balance at end of year	**15,535,748**	**4,515,886**	**20,051,634**
Accumulated Depreciation			
Balance at beginning of year	**-**	**1,692,521**	**1,692,521**
Depreciation (Note 11)	**-**	**136,506**	**136,506**
Disposals/Transfers/Others	**-**	**(115,223)**	**(115,223)**
Balance at end of year	**-**	**1,713,804**	**1,713,804**
Allowance for Impairment Losses (Note 16)	**2,702,189**	**317,233**	**3,019,422**
Net Book Value at End of Year	**₱12,833,559**	**₱2,484,849**	**₱15,318,408**

	Parent Company		
	2016		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,096,896	₱3,760,994	₱19,857,890
Additions	352,577	256,621	609,198
Disposals/Transfers/Others	(108,319)	609,954	501,635
Balance at end of year	16,341,154	4,627,569	20,968,723
Accumulated Depreciation			
Balance at beginning of year	–	1,705,410	1,705,410
Depreciation (Note 11)	–	206,472	206,472
Disposals/Transfers/Others	–	(219,361)	(219,361)
Balance at end of year	–	1,692,521	1,692,521
Allowance for Impairment Losses (Note 16)	2,999,854	301,218	3,301,072
Net Book Value at End of Year	₱13,341,300	₱2,633,830	₱15,975,130

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱115.9 million and ₱155.4 million, as of December 31, 2017 and 2016, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

The total recoverable value of certain investment properties of the Group that were impaired amounted to ₱5.3 billion and ₱7.0 billion as of December 31, 2017 and 2016, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱5.2 billion and ₱6.9 billion as of December 31, 2017 and 2016, respectively.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of its subsidiaries and were transferred to property and equipment by the Group. Also in 2015, investment properties under joint arrangements with total carrying value of ₱1.2 billion were transferred to Real Estate Inventories Held under Development under ‘Other Assets’ (Note 15). Property and equipment with carrying value of ₱54.5 million were leased out under operating leases and have been transferred to investment properties in 2015.

In 2016, the Group and the Parent Company reclassified certain properties from ‘Property and equipment’ to ‘Investment property’ with aggregate carrying amount of ₱4.7 billion and ₱3.2 billion, respectively. These properties mainly consist of the office spaces in the Allied Bank Center in Makati leased out and land in Buendia, Makati being held for future development.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under ‘Miscellaneous expenses - Others’, amounted to ₱27.5 million, ₱13.6 million and ₱30.5 million in 2017, 2016, and 2015, respectively. Direct operating expenses on investment properties that did not generate rental income included under ‘Miscellaneous expenses - Others’, amounted to ₱173.9 million, ₱201.8 million and ₱192.4 million in 2017, 2016, and 2015, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under ‘Miscellaneous expenses - Others’, amounted to ₱27.5 million, ₱8.3 million and ₱20.4 million in 2017, 2016, and 2015, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱167.1 million, ₱201.6 million and ₱182.7 million in 2017, 2016, and 2015, respectively

Net gains on sale or exchange of assets

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	**2016**	2015
Net gains from sale of investment property (Note 34)	**₱3,755,533**	₱2,343,634	₱1,435,798	**₱3,698,236**	₱2,387,472	₱1,400,650
Net gains from foreclosure and repossession of investment property	**162,125**	165,570	152,061	**162,125**	128,927	152,553
Net gains from sale of property and equipment (Note 11)	**4,282**	1,157	7,659	**1,980**	1,462	3,741
Net gains (loss) from sale of receivables (Note 34)	**(804)**	–	–	**–**	–	24,441
	₱3,921,136	₱2,510,361	₱1,595,518	**₱3,862,341**	₱2,517,861	₱1,581,385

14. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	Consolidated				
	2017				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱2,239,262**	**₱4,528,994**	**₱13,375,407**
Additions	**–**	**–**	**1,162,121**	**1,162,121**	**–**
Write-offs	**–**	**–**	**(3,080)**	**(3,080)**	**–**
Cumulative translation adjustment	**–**	**–**	**9,482**	**9,482**	**–**
Balance at end of year	**1,897,789**	**391,943**	**3,407,785**	**5,697,517**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**739,083**	**391,943**	**835,599**	**1,966,625**	**–**
Amortization (Note 11)	**189,779**	**–**	**217,272**	**407,051**	**–**
Cumulative translation adjustment		**–**	**984**	**984**	**–**
Balance at end of year	**928,862**	**391,943**	**1,053,855**	**2,374,660**	
Net Book Value at End of Year	**₱968,927**	**₱–**	**₱2,353,930**	**₱3,322,857**	**₱13,375,407**

	Consolidated				
	2016				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,830,957	₱4,120,689	₱13,375,407
Additions	–	–	406,053	406,053	–
Write-offs	–	–	(894)	(894)	–
Cumulative translation adjustment	–	–	3,146	3,146	–
Balance at end of year	1,897,789	391,943	2,239,262	4,528,994	13,375,407
Accumulated Amortization					
Balance at beginning of year	549,304	378,153	750,354	1,677,811	–
Amortization (Note 11)	189,779	13,790	88,854	292,423	–
Cumulative translation adjustment	–	–	(3,609)	(3,609)	–
Balance at end of year	739,083	391,943	835,599	1,966,625	–
Net Book Value at End of Year	₱1,158,706	₱–	₱1,403,663	₱2,562,369	₱13,375,407

	Parent Company 2017				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱2,106,233**	**₱4,395,965**	**₱13,515,765**
Additions	–	–	**1,045,743**	**1,045,743**	–
Write-offs	–	–	–	–	–
Others	–	–	**(668)**	**(668)**	–
Balance at end of year	**1,897,789**	**391,943**	**3,151,308**	**5,441,040**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**739,083**	**391,943**	**793,487**	**1,924,513**	–
Amortization (Note 11)	**189,779**	–	**164,161**	**353,940**	–
Others		–	**(656)**	**(656)**	–
Balance at end of year	**928,862**	**391,943**	**956,992**	**2,277,797**	
Net Book Value at End of Year	**₱968,927**	**₱–**	**₱2,194,316**	**₱3,163,243**	**₱13,515,765**

	Parent Company 2016				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,701,224	₱3,990,956	₱13,515,765
Additions	–	–	404,837	404,837	–
Write-offs	–	–	(15)	(15)	–
Cumulative translation adjustment	–	–	186	186	–
Balance at end of year	1,897,789	391,943	2,106,232	4,395,964	13,515,765
Accumulated Amortization					
Balance at beginning of year	549,304	378,153	717,253	1,644,710	–
Amortization (Note 11)	189,779	13,790	76,074	279,643	–
Cumulative translation adjustment	–	–	160	160	–
Balance at end of year	739,083	391,943	793,487	1,924,513	–
Net Book Value at End of Year	₱1,158,706	₱–	₱1,312,745	₱2,471,451	₱13,515,765

Core deposit (CDI) and customer relationship (CRI)
CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost
Software cost as of December 31, 2017 and 2016 includes capitalized development costs amounting to ₱2.2 billion and ₱1.3 billion, respectively, related to the Parent Company's new core banking system.

Goodwill
As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

The business combination resulted in recognition of goodwill which is determined as follows:

Purchase consideration transferred	₱41,505,927
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,768,380
Acquisition-date fair value of previously held interest in subsidiaries	2,471,630
Less: Fair values of net identifiable assets and liabilities assumed	33,370,530
Goodwill	₱13,375,407

Impairment testing of goodwill and intangible asset
Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to retail banking while CRI is allocated to corporate banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGUs' fair value less costs to sell and its value in use. The goodwill impairment test did not result in an impairment loss of goodwill of the CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount.

Key assumptions used in value in use calculations
The recoverable amounts of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2017			2016		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**8.16%**	**8.16%**	**6.89%**	11.17%	11.19%	8.99%
Projected growth rate	**6.80%**	**6.80%**	**6.80%**	6.50%	6.50%	6.50%

The calculation of value in use for retail banking, corporate banking and treasury cash generating units is most sensitive to interest margin, discount rates, market share during the budget period, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

Discount rate
The discount rate applied have been determined based on cost of equity for retail and corporate banking segments and weighted average cost of capital for treasury segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated			Parent Company	
	2017	2016 (As Restated - Note 2)	January 1, 2016 (As Restated - Note 2)	**2017**	2016
Financial					
Return checks and other cash items	**₱409,257**	₱249,528	₱103,667	**₱396,826**	₱254,420
Checks for clearing	**285,676**	198,109	119,134	**285,676**	198,109
Security deposits	**45,697**	109,944	78,922	**–**	71,713
Receivable from SPV	**500**	500	500	**500**	500
Others	**4,355**	10,186	748	**3,477**	6,535
	745,485	568,267	302,971	**686,479**	531,277
Non-financial					
Creditable withholding taxes	**5,272,020**	4,328,019	3,770,716	**5,085,846**	4,187,074
Real estate inventories held under development	**728,752**	728,752	1,235,530	**728,752**	728,752
Deferred reinsurance premium	**816,058**	632,559	786,242	**–**	–
Deferred benefits	**577,291**	532,938	401,231	**524,253**	458,119
Prepaid expenses	**390,290**	470,882	395,671	**299,780**	330,930
Documentary stamps on hand	**234,234**	214,969	221,088	**230,328**	212,145
Stationeries and supplies	**95,129**	64,900	78,764	**89,168**	59,433
Chattel mortgage properties-net of depreciation	**149,347**	36,586	51,086	**32,752**	35,046
Other investments	**26,309**	22,201	37,664	**22,983**	18,862
Miscellaneous	**796,490**	266,745	339,392	**1,374,806**	729,324
	9,085,919	7,298,551	7,317,384	**8,388,668**	6,759,685
	9,831,404	7,866,818	7,620,355	**9,075,147**	7,290,962
Less allowance for impairment losses (Note 16)	**954,090**	770,662	840,151	**922,532**	738,088
	₱8,877,314	₱7,096,156	₱6,780,204	**₱8,152,615**	₱6,552,874

Real estate inventories held under development
This represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2017 and 2016.

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

Deferred benefits
This represents the share of the Group in the cost of transportation equipment acquired under the Group's car plan which shall be amortized monthly.

Chattel mortgage properties
As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱96.1 million and ₱79.1 million, respectively. As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱66.5 million and ₱79.1 million, respectively.

As of December 31, 2017 and 2016, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱0.9 million and ₱2.1 million, respectively.

Receivable from SPV
The Group has receivable from SPV, Opal Portfolio Investing Inc. (OPII), which was deconsolidated upon adoption of PFRS 10.

Receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of certain Non-performing assets of the Bank. Collections from OPII in 2016 and 2015 amounting to ₱500.0 million and ₱353.0 million, respectively are recorded under 'Miscellaneous Income' (Note 28).

Miscellaneous
Other financial assets include revolving fund, petty cash fund and miscellaneous cash and other cash items.

Other nonfinancial assets include postages, refundable deposits, notes taken for interest and sundry debits.

16. Allowance for Impairment and Credit Losses

Provision for impairment, credit and other losses
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Continuing operations:						
Provision for impairment	**₱421,792**	₱114,448	₱449,698	**₱422,452**	₱113,593	₱322,649
Provision for credit losses	**793,524**	2,696,693	860,393	**70,609**	1,192,348	513,697
Provision for (reversal of) other losses (Note 35)	**(331,183)**	401,553	(741,911)	**(331,183)**	401,553	(741,911)
	884,133	3,212,694	568,180	**161,878**	1,707,494	94,435
Discontinued operations:						
Provision for credit losses (Note 37)	–	4,704	32,765	–	–	–
	₱884,133	₱3,217,398	₱600,945	**₱161,878**	₱1,707,494	₱94,435

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated					
	2017			2016		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱875,475**	**14,892,814**	**₱500**	₱930,111	₱13,428,014	₱500
Provisions	–	**793,524**	–	15,856	2,680,837	–
Accretion on impaired loans (Note 10)	–	**(106,158)**	–	–	(103,715)	–
Accounts charged-off	**(249,720)**	**(474,876)**	–	–	(1,282,872)	–
Transfers and others	**(125)**	**658,756**	–	(70,492)	170,550	–
Balance at end of year	**₱625,630**	**₱15,764,060**	**₱500**	₱875,475	₱14,892,814	₱500

	Parent Company					
	2017			2016		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱875,220**	**₱14,032,123**	**₱500**	₱930,111	₱12,860,728	₱500
Provisions	–	**70,609**	–	15,601	1,176,747	–
Accretion	–	**(106,158)**	–	–	(103,715)	–
Accounts charged-off	**(249,720)**	**(206,898)**	–	–	(419,978)	–
Transfers and others	–	**715,652**	–	(70,492)	518,340	–
Balance at end of year	**₱625,500**	**₱14,505,328**	**₱500**	₱875,220	₱14,032,122	₱500

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated					
	2017			2016		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,233**	**₱3,296,341**	**₱770,162**	₱461,077	₱3,293,639	₱839,651
Provisions (reversals)	**21**	**(46,377)**	**468,148**	–	141,740	(27,292)
Disposals	**(220)**	**(152,718)**	**(1,136)**	–	(331,094)	–
Transfers and others	**453**	**(78,281)**	**(283,084)**	(232,844)	192,056	(42,197)
Balance at end of year	**₱228,487**	**₱3,018,965**	**₱954,090**	₱228,233	₱3,296,341	₱770,162

	Parent Company					
	2017			2016		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,233**	**₱3,301,072**	**₱737,588**	₱264,701	₱3,485,649	₱834,542
Provisions (reversals)	**21**	**(46,377)**	**468,808**	–	140,883	(27,290)
Disposals	**(220)**	**(152,718)**	**(1,136)**	–	(331,094)	–
Transfers and others	–	**(82,555)**	**(283,228)**	(36,468)	5,634	(69,664)
Balance at end of year	**₱228,034**	**₱3,019,422**	**₱922,032**	₱228,233	₱3,301,072	₱737,588

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated 2017							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Provisions (reversals)	(302,489)	(10,930)	22,179	417,853	9,269	–	657,643	793,525
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(295,749)	–	–	(127,026)	–	–	(52,101)	(474,876)
Transfers and others	620,372	15,393	32,973	(138,778)	(14,467)	52,495	90,765	658,754
Balance at end of year	₱6,770,477	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Individual impairment	4,146,527	20,653	120,845	219,538	12,743	3,739,983	1,208,384	9,468,673
Collective impairment	2,623,951	79,840	97,578	1,173,332	1,008	–	2,319,678	6,295,387
	₱6,770,478	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Gross amounts of loans and receivables subject to individual impairment	₱6,933,931	₱20,653	₱150,344	₱345,618	₱12,743	₱3,739,983	₱1,208,384	₱12,399,665

	Consolidated 2016							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Provisions (reversals)	2,646,019	(60,691)	7,855	345,819	(1,375)	68,221	(325,011)	2,680,837
Accretion on impaired loans (Note 10)	(98,161)	–	(7,478)	1,855	69	–	–	(103,715)
Accounts charged off	(886,304)	–	–	(304,081)	(1,534)	–	(90,953)	(1,282,872)
Transfers and others	(782)	(2,326)	21,196	84,634	(1,212)	–	69,040	170,550
Balance at end of year	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Individual impairment	₱4,508,372	₱–	₱67,637	₱49,861	₱14,940	₱3,687,488	₱1,761,208	₱10,089,506
Collective impairment	2,338,586	96,030	102,538	1,191,533	4,074	–	1,070,547	4,803,308
	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Gross amounts of loans and receivables subject to individual impairment	₱5,573,463	₱–	₱130,523	₱81,276	₱15,155	₱6,914,864	₱1,763,012	₱14,478,293

	Parent Company 2017							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122
Provisions (reversals)	(891,970)	(10,930)	22,179	247,212	9,268	–	694,851	70,610
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(50,969)	–	–	(127,022)	–	–	(28,907)	(206,898)
Transfers and others	548,045	15,393	32,973	13,454	(14,467)	(4,256)	124,508	715,650
Balance at end of year	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Individual impairment	3,361,779	20,653	120,845	122,561	12,743	3,683,232	1,184,021	8,505,834
Collective impairment	2,832,256	79,840	97,578	900,603	1,005	-	2,088,211	5,999,493
	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Gross amounts of loans and receivables subject to individual impairment	₱4,839,781	₱20,653	₱150,344	₱247,899	₱12,743	₱3,683,232	₱1,184,021	₱10,138,674

	Parent Company 2016							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱5,038,887	₱159,047	₱148,602	₱995,020	₱23,064	₱3,619,267	₱2,876,841	₱12,860,728
Provisions (reversals)	1,178,626	(60,691)	7,855	327,211	(1,375)	68,221	(343,100)	1,176,747
Accretion on impaired loans (Note 10)	(98,161)	–	(7,478)	1,855	69	–	–	(103,715)
Accounts charged off	(24,221)	–	–	(304,075)	(1,534)	–	(90,148)	(419,978)
Transfers and others	592,413	(2,326)	21,196	(129,918)	(1,212)	–	38,187	518,340
Balance at end of year	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122

(Forward)

	Parent Company 2016							
	Receivable from customers					Unquoted Debt Securities	Others	Total
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits			
Individual impairment	₱4,045,946	₱–	₱67,637	₱575	₱14,940	₱3,687,488	₱1,649,393	₱9,465,979
Collective impairment	2,641,598	96,030	102,538	889,518	4,072	–	832,387	4,566,143
	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122
Gross amounts of loans and receivables subject to individual impairment	₱4,412,364	₱–	₱130,523	₱1,075	₱14,940	₱6,914,864	₱1,649,393	₱13,123,159

17. **Deposit Liabilities**

As of December 31, 2017 and 2016, noninterest-bearing deposit liabilities amounted to ₱28.9 billion and ₱19.9 billion, respectively, for the Group and ₱24.8 billion and ₱15.8 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.01% to 4.13% in 2017, 0.00% to 6.23% in 2016 and 0.05% to 5.00% in 2015 for peso-denominated deposit liabilities, and from 0.00% to 2.10% in 2017, 0.00% to 3.71% in 2016 and 0.00% to 2.25% in 2015 for foreign currency-denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earn annual fixed interest rates ranging from 0.01% to 4.13% in 2017, 0.01% to 6.23% in 2016 and 0.10% to 5.00% in 2015 for peso-denominated deposit liabilities, and from 0.00% to 2.10% in 2017, 0.00% to 2.25% in 2016 and 0.00% to 2.25% in 2015 for foreign-currency denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and PNB SB are subject to reserves equivalent to 20.00% and 8.00%, respectively.

Available reserves booked under 'Due from BSP' are as follows:

	2017	2016
Parent Company	**₱96,497,459**	₱87,099,952
PNB SB	**2,850,526**	1,895,909
	₱99,347,985	₱88,995,861

Long-term Negotiable Certificates of Time Deposits

Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value **2017**	2016
October 26, 2017	April 26, 2023	₱6,350,000	3.88%	Quarterly	**₱6,310,033**	₱–
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,743,546**	–
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,349,341**	5,343,041
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,976,118**	6,967,077
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,992,376**	3,986,777
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,992,542**	4,985,977
November 18, 2011	February 17, 2017	3,100,000	5.18%	Quarterly	**–**	3,099,272
					₱31,363,956	₱24,382,144

Other significant terms and conditions of the above LTNCDs follow:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(5) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.50 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2017	2016	2015	**2017**	2016	**2015**
Savings	**₱1,940,283**	₱2,124,979	₱1,677,307	**₱1,904,459**	₱2,074,446	**₱1,646,552**
Time	**1,815,853**	798,894	463,980	**1,169,541**	431,161	**292,707**
LTNCDs	**933,632**	764,230	752,562	**933,631**	764,230	**752,563**
Demand	**104,459**	92,139	86,170	**97,167**	87,029	**81,898**
	₱4,794,227	₱3,780,242	₱2,980,019	**₱4,104,798**	₱3,356,866	**₱2,773,720**

In 2017, 2016 and 2015, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱32.1 million, ₱25.3 million and ₱126.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱131.0 million and ₱97.9 million as of December 31, 2017 and 2016, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Derivative liabilities (Notes 23 and 36)	**₱343,522**	₱232,832	**₱343,416**	₱231,977

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Bills payable to:				
BSP and local banks (Note 34)	**₱41,435,696**	₱26,575,781	**₱39,167,156**	₱23,121,171
Foreign banks	**157,849**	7,632,548	**–**	9,188,027
Others	**91,255**	18,279	**1,761**	18,160
	41,684,800	34,226,608	**39,168,917**	32,327,358
Acceptances outstanding (Note 10)	**2,231,887**	1,659,340	**2,231,887**	1,659,340
	₱43,916,687	₱35,885,948	**₱41,400,804**	₱33,986,698

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.05% to 3.61%, 0.30% to 1.75%, 0.05% to 2.00% in 2017, 2016 and 2015, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.63% in 2017, 2016 and 2015, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (Note 10).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing with carrying value of ₱7.4 billion as of December 31, 2016 and was pre-terminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

(1) The lenders agree to provide the Parent Company with a term loan facility of up to $150.00 million. The Parent Company must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

(2) The borrowing bears interest at 1.38% over USD LIBOR. The Parent Company may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

(3) The Parent Company shall ensure that so long as any amount is of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

(4) The Parent Company may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of $1.00 million, subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2016, the Parent Company has complied with the above debt covenants.

As of December 31, 2016, the unamortized transaction cost of the syndicated borrowing amounted ₱32.7 million.

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and ₱26.5 billion and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 billion, respectively (Note 9).

As of December 31, 2016, bills payable with a carrying amount of ₱20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱10.0 billion and ₱9.8 billion and HTM investments with carrying value and fair value of ₱14.5 billion and ₱15.3 billion, respectively (Note 9).

Following are the significant terms and conditions of the repurchase agreements entered into by the Parent Company:

(1) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) The term or life of this borrowing is up to three years;
(3) Some borrowings bear a fixed interest rate while others have floating interest rate;
(4) The Parent Company has pledged its AFS and HTM investments, in the form of ROP Global bonds, in order to fulfill its collateral requirement;
(5) Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
(6) Certain borrowings are subject to margin call of up to USD1.4 million; and
(7) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Bills payable	**₱600,334**	₱526,755	₱321,128	**₱507,332**	₱492,650	₱296,399
Subordinated debt (Note 21)	**75,314**	416,871	661,304	**75,314**	416,871	661,304
Others	**71,833**	53,995	47,563	**68,078**	50,088	45,470
	₱747,481	₱997,621	₱1,029,995	**₱650,724**	₱959,609	₱1,003,173

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Accrued taxes and other expenses	**₱4,690,580**	₱4,281,609	**₱4,129,687**	₱3,664,288
Accrued interest	**632,907**	662,017	**543,858**	567,327
	₱5,323,487	₱4,943,626	**₱4,673,545**	₱4,231,615

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial liabilities:				
Promotional expenses	**₱483,570**	₱405,651	**₱483,570**	₱405,651
Information technology-related expenses	**204,666**	122,039	**195,599**	120,719
Rent and utilities payable	**188,962**	324,878	**157,195**	284,826
Management, directors and other professional fees	**172,133**	110,611	**142,313**	93,689
Repairs and maintenance	**74,481**	60,640	**74,481**	60,640
	1,123,812	1,023,819	**1,053,158**	965,525
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,637,877**	1,506,395	**1,564,909**	1,475,124
PDIC insurance premiums	**660,290**	517,145	**589,876**	494,466
Other taxes and licenses	**539,720**	243,134	**337,765**	86,610
Employee benefits	**476,032**	373,167	**474,868**	343,008
Reinstatement premium	–	56,922	–	–
Other expenses	**252,849**	561,027	**109,111**	299,555
	3,566,768	3,257,790	**3,076,529**	2,698,763
	₱4,690,580	₱4,281,609	**₱4,129,687**	₱3,664,288

The Parent Company's accrued interest payable includes the transferred liabilities from Maybank amounting to ₱1.6 billion as of December 31, 2016 which were applied against the interest component of the transferred receivables in May 2016 (Note 10).

'Other expenses' include janitorial, representation and entertainment, communication and other operating expenses.

21. **Subordinated Debt**

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value **2017**	2016
May 9, 2012	May 9, 2022	₱3,500,000	5.875%	Quarterly	₱–	₱3,497,798
June 15, 2011	June 15, 2021	6,500,000	6.750%	Quarterly	–	–
		₱10,000,000			₱–	₱3,497,798

5.875% ₱3.5 Billion Subordinated Notes
On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes
On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

On June 16, 2016, the Parent Company exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

As of December 31, 2016, the unamortized transaction cost of subordinated debt amounted to ₱2.2 million.

In 2017, 2016 and 2015, amortization of transaction costs amounting to ₱2.2 million, ₱11.4 million and ₱16.9 million, respectively were charged to ‘Interest expenses - bills payable and other borrowings’ in the statement of income (Note 19).

22. Other Liabilities

This account consists of:

	Consolidated			Parent Company	
	2017	2016 (As Restated - Note 2)	January 1, 2016 (As Restated - Note 2)	**2017**	2016
Financial					
Accounts payable	**₱8,759,527**	₱7,841,009	₱6,825,663	**₱7,250,827**	₱6,375,193
Insurance contract liabilities	**4,929,392**	4,581,800	4,719,336	**–**	–
Bills purchased - contra (Note 10)	**1,324,447**	3,260,308	3,418,002	**1,323,896**	3,254,224
Manager’s checks and demand drafts outstanding	**2,345,787**	1,174,872	937,799	**2,042,181**	1,003,755
Dormant credits	**1,094,176**	928,582	753,338	**1,011,224**	918,217
Due to other banks	**1,212,436**	923,777	461,100	**836,992**	763,046
Deposits on lease contracts	**773,020**	805,377	854,817	**47,022**	35,769
Accounts payable - electronic money	**643,000**	791,223	556,618	**630,249**	791,223
Payment order payable	**315,256**	292,336	407,196	**315,256**	292,336
Margin deposits and cash letters of credit	**55,058**	174,206	182,640	**55,058**	162,972
Commission payable	**74,094**	94,618	132,059	**–**	–
Transmission liability	**21,809**	31,732	24,976	**–**	–
Deposit for keys on safety deposit boxes	**14,403**	14,140	14,217	**14,403**	14,140
	21,562,405	20,913,980	19,287,761	**13,527,108**	13,610,875
Nonfinancial					
Retirement benefit liability (Note 29)	**₱1,526,962**	₱3,138,824	2,955,003	**₱1,485,426**	₱3,063,243
Provisions (Note 35)	**969,106**	1,300,290	898,737	**969,106**	1,300,290
Reserve for unearned premiums	**1,273,279**	1,075,732	1,191,405	**–**	–
Other deferred revenue (Note 12)	**866,473**	939,672	–	**866,473**	939,672
Due to Treasurer of the Philippines	**574,261**	543,002	438,943	**573,768**	542,501
Withholding tax payable	**283,471**	230,044	224,523	**254,164**	220,859
Deferred tax liabilities (Note 31)	**157,511**	152,532	152,585	**–**	–
SSS, Philhealth, Employer’s Compensation Premiums and Pag-IBIG Contributions Payable	**27,571**	28,327	29,092	**26,792**	27,404
Miscellaneous	**678,295**	439,699	786,576	**331,507**	323,116
	6,356,929	7,848,122	6,676,865	**4,507,236**	6,417,085
	₱27,919,334	₱28,762,102	₱25,964,626	**₱18,034,343**	₱20,027,960

Other deferred revenue pertains to the allocated portion of the consideration received for the disposal of APLII related to the Exclusive Distribution Right (Note 12). In 2017 and 2016, amortization of other deferred revenue amounting to ₱73.2 million and ₱36.6 million, respectively, were recognized under ‘Service fees and commission income.’

‘Miscellaneous’ of the Group and the Parent Company include interoffice floats, remittance - related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2017 and 2016 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2017			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱11,347**	**₱87,446**	**50.44**	**573,545**
JPY	**8,413**	**44,371**	**0.01**	**16,555,042**
HKD	**1,548**	**102**	**0.13**	**211,050**
CAD	**108**	**–**	**0.78**	**1,258**
GBP	**72**	**–**	**1.34**	**518**
EUR	**98**	**–**	**1.19**	**3,328**
SGD	**3**	**–**	**0.75**	**50**
SELL:				
USD	**222,225**	**4,382**	**50.44**	**680,164**
CAD	**–**	**328**	**0.79**	**2,705**
GBP	**142**	**857**	**1.34**	**6,560**
CHF	**28**	**–**	**1.02**	**200**
HKD	**102**	**207**	**0.13**	**39,059**
EUR	**–**	**891**	**1.19**	**2,990**
JPY	**33,105**	**529**	**0.01**	**6,766,560**
NZD	**13**	**–**	**0.71**	**150**
Interest rate swaps	**230,842**	**204,409**		
Warrants	**54,938**	**–**		
	₱562,984	**₱343,522**		

**The notional amounts and average forward rates pertain to original currencies.*

	Consolidated			
	2016			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱99	₱3,766	49.99	200,498
EUR	94	48	1.05	979
HKD	630	–	0.13	412,710
CAD	277	–	0.74	1,861
GBP	–	160	1.23	2,595
SELL:				
USD	46,155	10,601	49.85	382,664
CAD	873	258	0.74	4,263
GBP	5,227	–	1.24	9,550
SGD	–	361	0.69	5,573
HKD	–	1,032	0.13	144,748
EUR	740	–	1.05	4,000
JPY	45,957	504	0.01	16,524,949
AUD	483	–	0.74	450
Interest rate swaps	257,042	216,102		
Warrants	61,545	–		
	₱419,122	₱232,832		

**The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2017			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱9,701**	**₱87,446**	**50.44**	**378,100**
JPY	**8,411**	**44,371**	**0.01**	**16,554,145**
HKD	**–**	**102**	**0.13**	**15,605**
CAD	**108**	**–**	**0.78**	**1,258**
GBP	**72**	**–**	**1.34**	**518**
EUR	**2**	**–**	**1.19**	**105**
SGD	**3**	**–**	**0.75**	**50**
SELL:				
USD	**222,225**	**4,329**	**50.44**	**656,711**
CAD	**–**	**328**	**0.79**	**2,705**
GBP	**142**	**857**	**1.34**	**6,560**
CHF	**28**	**-**	**1.02**	**200**
HKD	**102**	**156**	**0.13**	**15,605**
EUR	**–**	**891**	**1.19**	**2,990**
JPY	**33,105**	**527**	**0.01**	**6,766,019**
NZD	**13**	**-**	**0.71**	**150**
Interest rate swaps	**230,842**	**204,409**		
Warrants	**54,938**	**-**		
	₱559,692	**₱343,416**		

**The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2016			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱–	₱3,766	49.99	196,998
CAD	277	–	0.74	1,861
GBP	–	160	1.23	2,595
HKD	520	–	0.13	58,154
EUR	–	48	1.05	358
SELL:				
USD	₱46,156	₱10,093	49.85	336,314
CAD	873	258	0.74	4,263
GBP	5,227	–	1.24	9,550
SGD	–	361	0.69	5,573
EUR	740	–	1.05	4,000
HKD	–	711	0.13	117,609
JPY	45,957	478	0.01	16,524,949
AUD	482	–	0.74	450
Interest rate swaps	257,042	216,102		
Warrants	61,545	–		
	₱418,819	₱231,977		

**The notional amounts and average forward rates pertain to original currencies.*

As of December 31, 2017 and 2016, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.1 million and USD1.2 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2017 and 2016:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Balance at the beginning of the year:				
Derivative assets	**₱419,122**	₱181,348	**₱418,819**	₱181,142
Derivative liabilities	**232,832**	135,193	**231,977**	135,009
	186,290	46,155	**186,842**	46,133
Changes in fair value				
Currency forwards and spots*	**136,382**	(723,245)	**132,644**	(723,245)
Interest rate swaps and warrants**	**(7,965)**	25,174	**(7,965)**	25,174
	128,417	(698,071)	**124,679**	(698,071)
Availments (Settlements)	**(95,246)**	838,206	**(95,246)**	838,780
Balance at end of year:				
Derivative assets	**562,984**	419,122	**559,692**	418,819
Derivative liabilities	**343,522**	232,832	**343,416**	231,977
	₱219,462	₱186,290	**₱216,276**	₱186,842

* *Presented as part of 'Foreign exchange gains - net'.*

** *Recorded under 'Trading and investment securities gains - net' (Note 9)*

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2017			2016		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱12,391,139**	**₱–**	**₱12,391,139**	₱11,014,663	₱–	₱11,014,663
Due from BSP	**108,743,985**	**–**	**108,743,985**	127,337,861	–	127,337,861
Due from other banks	**22,025,322**	**–**	**22,025,322**	22,709,805	–	22,709,805
Interbank loans receivable	**12,837,721**	**–**	**12,837,721**	7,791,108	–	7,791,108
Securities held under agreements to resell	**14,621,483**	**–**	**14,621,483**	1,972,310	–	1,972,310
Financial assets at FVPL	**2,882,395**	**–**	**2,882,395**	1,913,864	–	1,913,864
AFS investments - gross (Note 9)	**4,526,929**	**65,936,118**	**70,463,047**	1,891,137	66,325,077	68,216,214
HTM investments	**–**	**26,805,131**	**26,805,131**	–	24,174,479	24,174,479
Loans and receivables - gross (Note 10)	**202,376,074**	**316,402,283**	**518,778,357**	176,236,423	267,653,955	443,890,378
Other assets - gross (Note 15)	**699,288**	**46,197**	**745,485**	482,548	85,719	568,267
	381,104,336	**409,189,729**	**790,294,065**	351,349,719	358,239,230	709,588,949
Nonfinancial Assets						
Property and equipment - gross (Note 11)	**–**	**25,866,409**	**25,866,409**	–	24,495,308	24,495,308
Investments in Subsidiaries and an Associate - gross (Note 12)	**–**	**2,363,757**	**2,363,757**	–	2,556,737	2,556,737
Investment properties - gross (Note 13)	**–**	**20,339,032**	**20,339,032**	–	21,371,531	21,371,531
Deferred tax assets	**–**	**1,695,480**	**1,695,480**	–	1,482,029	1,482,029
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	**–**	**6,873,305**	**6,873,305**	–	4,528,994	4,528,994
Residual value of leased assets (Note 10)	**292,000**	**383,327**	**675,327**	249,923	457,969	707,892
Other assets - gross (Note 15)	**7,203,305**	**1,978,533**	**9,181,838**	5,620,466	1,673,387	7,298,551
	7,495,305	**72,875,251**	**80,370,556**	5,870,389	69,941,362	75,816,449

(Forward)

	Consolidated					
	2017			2016		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Assets of disposal group classified as held for sale (Note 37)	**₱–**	**₱–**	**₱–**	₱–	₱–	₱–
Less: Allowance for impairment and credit losses (Note 16)			**20,591,233**			20,063,525
Unearned and other deferred income (Note 10)			**1,553,108**			1,489,955
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**12,365,798**			9,870,283
			₱836,154,481			₱753,981,635
Financial Liabilities						
Deposit liabilities	**₱553,599,950**	**₱84,320,307**	**₱637,920,257**	₱537,325,097	₱33,178,290	₱570,503,387
Financial liabilities at FVPL	**343,522**	**–**	**343,522**	232,832	–	232,832
Bills and acceptances payable	**36,811,547**	**7,105,140**	**43,916,687**	25,066,507	10,819,441	35,885,948
Subordinated debt	**–**	**–**	**–**	–	3,497,798	3,497,798
Accrued interest payable (Note 20)	**632,907**	**–**	**632,907**	662,017	–	662,017
Accrued other expenses payable (Note 20)	**1,123,812**	**–**	**1,123,812**	1,023,819	–	1,023,819
Other liabilities (Note 22):						
Accounts payable	**8,725,544**	**33,983**	**8,759,527**	7,813,310	27,699	7,841,009
Insurance contract liabilities	**4,929,392**	**–**	**4,929,392**	4,565,925	15,875	4,581,800
Bills purchased – contra	**1,324,447**	**–**	**1,324,447**	3,260,308	–	3,260,308
Managers' checks and demand drafts outstanding	**2,345,787**	**–**	**2,345,787**	1,174,872	–	1,174,872
Dormant credits	**1,094,176**	**–**	**1,094,176**	928,582	–	928,582
Due to other banks	**1,212,436**	**–**	**1,212,436**	923,777	–	923,777
Deposit on lease contracts	**316,246**	**456,774**	**773,020**	268,754	536,623	805,377
Accounts payable – electronic money	**643,000**	**–**	**643,000**	791,223	–	791,223
Payment order payable	**315,256**	**–**	**315,256**	292,336	–	292,336
Margin deposits and cash letters of credit	**55,058**	**–**	**55,058**	174,206	–	174,206
Commission payable	**74,094**	**–**	**74,094**	94,618	–	94,618
Transmission liability	**21,809**	**–**	**21,809**	31,732	–	31,732
Deposit for keys on safety deposit boxes	**14,403**	**–**	**14,403**	14,140	–	14,140
	612,554,926	**92,944,664**	**705,499,590**	583,727,217	48,992,564	632,719,781
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,566,768**	**–**	**3,566,768**	3,257,790	–	3,257,790
Income tax payable	**993,245**	**–**	**993,245**	195,240	–	195,240
Other liabilities (Note 22)	**2,858,729**	**3,498,200**	**6,356,929**	2,890,471	4,957,651	7,848,122
	7,418,742	**3,498,200**	**10,916,942**	6,343,501	4,957,650	11,301,151
Liabilities of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	–	–	–
	₱621,002,128	**₱95,414,404**	**₱716,416,532**	₱590,070,718	₱53,950,214	₱644,020,932

	Parent Company					
	2017			2016		
	Less than Twelve Months	**Over Twelve Months**	**Total**	**Less than Twelve Months**	Over Twelve Months	Total
Financial Assets						
COCI	**₱11,671,952**	**₱–**	**₱11,671,952**	₱10,626,525	₱–	₱10,626,525
Due from BSP	**105,497,459**	**–**	**105,497,459**	123,799,952	–	123,799,952
Due from other banks	**10,755,260**	**–**	**10,755,260**	12,831,514	–	12,831,514
Interbank loans receivable	**11,083,515**	**–**	**11,083,515**	7,907,366	–	7,907,366
Securities held under agreements to resell	**14,621,483**	**–**	**14,621,483**	1,972,310	–	1,972,310
Financial assets at FVPL	**2,829,877**	**–**	**2,829,877**	1,880,071	–	1,880,071
AFS investments - gross (Note 9)	**2,367,334**	**65,310,618**	**67,677,952**	1,612,001	65,082,954	66,694,955
HTM investments	**–**	**26,680,483**	**26,680,483**	–	24,074,898	24,074,898
Loans and receivables - gross (Note 10)	**185,404,588**	**271,855,633**	**457,260,221**	158,852,021	234,495,768	393,347,789
Other assets - gross (Note 15)	**685,979**	**500**	**686,479**	467,146	64,131	531,277
	344,917,447	**363,847,234**	**708,764,681**	319,948,906	323,717,751	643,666,657
Nonfinancial Assets						
Property and equipment– gross (Note 11)	**–**	**23,331,758**	**23,331,758**	–	22,275,776	22,275,776
Investment properties– gross (Note 13)	**–**	**20,051,634**	**20,051,634**	–	20,968,723	20,968,723
Deferred tax assets	**–**	**987,332**	**987,332**	–	1,014,308	1,014,308
Investments in Subsidiaries and an Associate (Note 12)	**–**	**28,407,414**	**28,407,414**	–	28,359,871	28,359,871

(Forward)

	Parent Company					
	2017			2016		
	Less than Twelve Months	**Over Twelve Months**	**Total**	**Less than Twelve Months**	Over Twelve Months	Total
Goodwill (Note 14)	**₱–**	**₱13,515,765**	**₱13,515,765**	₱–	₱13,515,765	₱13,515,765
Intangible assets (Note 14)	**–**	**6,662,558**	**6,662,558**	–	4,395,964	4,395,964
Other assets– gross (Note 15)	**8,153,885**	**860,282**	**9,014,167**	6,123,328	636,357	6,759,685
	8,153,885	**93,816,743**	**101,970,628**	6,123,328	91,166,754	97,290,092
Asset of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**19,300,816**			19,174,735
Unearned and other deferred income (Note 10)			**1,241,587**			1,116,929
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**11,422,607**			9,159,530
			₱778,770,299			₱711,505,555
Financial Liabilities						
Deposit liabilities	**₱545,272,109**	**₱ 51,132,929**	**₱596,405,038**	₱501,442,928	₱40,747,695	₱542,190,623
Financial liabilities at FVPL	**343,416**	**–**	**343,416**	231,977	–	231,977
Bills and acceptances payable	**34,792,160**	**6,608,644**	**41,400,804**	21,876,831	12,109,867	33,986,698
Subordinated debt	**–**	**–**	**–**	–	3,497,798	3,497,798
Accrued interest payable (Note 20)	**527,073**	**16,785**	**543,858**	567,327	–	567,327
Accrued other expenses payable (Note 20)	**1,053,158**	**–**	**1,053,158**	965,525	–	965,525
Other liabilities (Note 22):						
Accounts payable	**7,250,827**	**–**	**7,250,827**	6,375,193	–	6,375,193
Bills purchased - contra	**1,323,896**	**–**	**1,323,896**	3,254,224	–	3,254,224
Managers' checks and demand drafts outstanding	**2,042,181**	**–**	**2,042,181**	1,003,755	–	1,003,755
Dormant credits	**–**	**1,011,224**	**1,011,224**	1,731	916,486	918,217
Accounts payable - electronic money	**630,249**	**–**	**630,249**	791,223	–	791,223
Due to other banks	**836,992**	**–**	**836,992**	763,046	–	763,046
Payment order payable	**315,256**	**–**	**315,256**	292,336	–	292,336
Margin deposits and cash letters of credit	**55,058**	**–**	**55,058**	162,972	–	162,972
Deposit on lease contracts	**–**	**47,022**	**47,022**	–	35,769	35,769
Deposit for keys on safety deposit boxes	**14,403**	**–**	**14,403**	14,140	–	14,140
	594,456,778	**58,816,604**	**653,273,382**	537,743,208	57,307,615	595,050,823
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**₱3,076,529**	**–**	**₱3,076,529**	₱2,698,763	₱–	₱2,698,763
Income tax payable	**833,708**	**–**	**833,708**	60,898	–	60,898
Other liabilities	**1,243,141**	**3,264,095**	**4,507,236**	1,619,828	4,797,258	6,417,086
	5,153,378	**3,264,095**	**8,417,473**	4,379,489	4,797,258	9,176,747
	₱599,610,156	**₱62,080,699**	**₱661,690,855**	₱542,122,697	₱62,104,873	₱604,227,570

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	**Amount**
Common - ₱40 par value		
Authorized	**1,750,000,001**	**₱70,000,000**
Issued and outstanding		
Balance at the beginning and end of the year	**1,249,139,678**	**49,965,587**

The Parent Company shares are listed in the PSE. As of December 31, 2017 and 2016, the Parent Company had 37,401 and 29,953 stockholders, respectively.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and
d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Bank shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

In February 2014, the Bank successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Bank. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Bank. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2017 and 2016 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion)and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Accumulated Translation Adjustment
As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Surplus Reserves
The surplus reserves consist of:

	2017	2016
Reserve for trust business (Note 33)	**₱517,605**	₱493,658
Reserve for self-insurance	**80,000**	80,000
	₱597,605	₱573,658

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Other Equity Reserves

On August 26, 2016, the Parent Company's BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company's shares of stock to be sourced from open market at fair value. Acquisition and distribution of the estimated 3.0 million shares shall be done based on a predetermined schedule over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date is April 27, 2017. Fair value per share at grant date is ₱65.20. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱77.7 million and ₱105.7 million in 2017 and 2016, respectively, in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position. In 2017, the Group awarded 1.12 million centennial bonus shares.

Capital Management

The primary objectives of the Parent Company’s capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

The Parent Company 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 Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company’s compliance with regulatory requirements and ratios is based on the amount of the Parent Company’s “unimpaired capital” (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2017 and 2016, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	2017		2016	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱112,344.77**		₱104,103.60	
Less: Regulatory Adjustments to CET 1	**23,401.42**		24,454.28	
CET1 Capital (Net)	**88,943.35**		79,649.32	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**88,943.35**		79,649.32	
Add: Tier 2 Capital	**4,696.48**		4,308.03	
Total qualifying capital	**₱93,639.83**	**₱61,010.62**	₱83,957.35	₱50,410.11
Risk weighted assets	**₱610,106.24**		₱504,101.07	
Tier 1 capital ratio	**14.58%**		15.80%	
Total capital ratio	**15.35%**		16.65%	

	2017		2016	
Parent			Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱108,605.50**		₱101,545.14	
Less: Regulatory Adjustments to CET 1	**47,409.15**		49,874.81	
CET1 Capital (Net)	**61,196.35**		51,670.33	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**61,196.35**		51,670.33	
Add: Tier 2 Capital	**4,228.83**		3,866.45	
Total qualifying capital	**₱65,425.18**	**₱54,377.23**	₱55,536.78	₱45,131.25
Risk weighted assets	**₱543,772.35**		₱451,312.51	
Tier 1 capital ratio	**11.25%**		11.45%	
Total capital ratio	**12.03%**		12.31%	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to 9.9 billion as of December 31, 2017 and 2016 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains, except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments, are excluded from the Bank's surplus available for dividend declaration.

A portion of a Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱3.3 billion and ₱2.8 billion as of December 31, 2017 and 2016, respectively, is not available for dividend declaration. The accumulated earnings become available for dividends upon receipt of cash dividends from subsidiaries.

Cash Dividends
On July 22, 2016, the BOD declared and approved cash dividend declaration of one peso (₱1.0) per share or a total of ₱1.3 billion out of the unrestricted surplus of the Parent Company as of March 31, 2016, to all stockholders of record as of August 19, 2016, and was paid on September 15, 2016. On August 19, 2016, the Parent Company received the approval from the BSP on the said dividend declaration.

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Parent Company has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Parent Company's operations by ensuring that the Parent Company maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Parent Company shall maintain a capital level that will not only meet the BSP CAR requirement, but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
Return on average equity (a/b)	**7.10%**	6.67%	6.21%	**7.27%**	6.81%	6.28%
a) Net income	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
b) Average total equity	**114,849,326**	107,378,392	101,928,483	**112,186,900**	104,560,511	97,609,509
Return on average assets (c/d)	**1.03%**	1.00%	0.97%	**1.10%**	1.06%	1.01%
c) Net income	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
d) Average total assets	**795,068,058**	717,007,968	652,740,066	**745,146,111**	670,845,173	604,140,786
Net interest margin on average earning assets (e/f)	**3.12%**	3.16%	3.21%	**2.97%**	3.00%	3.15%

(Forward)

	Consolidated			Parent Company		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
e) Net interest income	**₱22,076,652**	₱19,566,502	₱17,691,839	**₱19,062,428**	₱17,057,909	₱15,712,416
f) Average interest earning assets	**707,087,648**	618,852,942	551,034,812	**642,325,579**	568,208,414	498,268,301

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Deposit-related	**₱875,642**	₱643,991	₱1,076,041	**₱853,030**	₱618,972	₱1,050,546
Remittance	**819,689**	830,032	739,779	**430,324**	460,899	363,822
Credit-related	**554,608**	503,891	500,852	**547,618**	498,514	479,174
Interchange fees	**503,133**	389,179	317,509	**503,133**	389,179	317,509
Underwriting fees	**389,283**	187,133	327,400	–	–	–
Trust fees (Note 33)	**300,047**	311,882	256,203	**300,047**	311,882	256,203
Commissions	**466,737**	448,089	820,497	**269,021**	305,574	685,396
Credit card-related	**185,637**	61,584	62,071	**185,637**	61,584	62,071
Miscellaneous	**86,085**	194,177	212,546	**41,973**	84,654	141,251
	₱4,180,861	₱3,569,958	₱4,312,898	**₱3,130,783**	₱2,731,258	₱3,355,972

Commissions include those income earned for services rendered on opening letters of credit, handling of collection items, domestic/export/import bills and telegraphic transfers and sale of demand drafts, traveler's checks and government securities.

The interchange fees and rewards revenue were generated from the credit card business acquired by the Parent Company through rewards revenue.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

27. Net Insurance Premium and Benefits and Claims

Net Insurance Premium

This account consists of:

	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
Gross earned premiums	**₱2,291,986**	₱2,348,900	₱2,432,737
Reinsurers' share of gross earned premiums	**(1,635,657)**	(1,723,973)	(1,890,813)
	₱656,329	₱624,927	₱541,924

Net Insurance Benefits and Claims
This account consists of:

	2017	2016 As Restated – Note 2)	2015 As Restated – Note 2)
Gross insurance contract benefits and claims paid	**₱428,225**	₱780,537	₱1,655,283
Reinsurers' share of gross insurance contract benefits and claims paid	**(86,845)**	(140,357)	(1,367,017)
Gross change in insurance contract liabilities	**147,880**	(201,403)	(530,579)
Reinsurers' share of change in insurance contract liabilities	**(168,563)**	(143,762)	662,863
	₱322,244	₱295,015	₱420,550

28. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Rental income (Note 28)	**₱424,758**	₱376,631	₱338,055	**₱290,562**	₱275,317	₱266,067
Recoveries	**73,845**	405,363	162,430	**72,990**	251,805	90,179
Penalty charges	**59,574**	40,388	30,799	–	40,388	30,799
Dividends	**33,577**	17,854	22,190	**32,417**	14,716	18,338
Customs Fees	**15,966**	18,983	14,801	**15,966**	18,984	14,801
Sales deposit forfeiture	**5,064**	15,772	12,023	**5,064**	15,772	12,023
Referral and trust fees	**3,448**	2,811	2,382	–	–	–
Income from SPV	–	500,000	353,000	–	500,000	353,000
Recovery from insurance claim (Note 34)	–	–	709,160	–	–	709,160
Others	**277,285**	164,565	74,919	**175,042**	77,965	5,306
	₱893,517	₱1,542,367	₱1,719,759	**₱592,041**	₱1,194,947	₱1,499,673

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Insurance	**₱1,428,680**	₱1,128,939	₱1,078,679	**₱1,287,724**	₱1,044,959	₱1,027,759
Secretarial, janitorial and messengerial	**1,283,655**	1,305,081	1,105,946	**1,199,446**	1,256,605	1,066,364
Marketing expenses	**928,613**	1,064,993	764,767	**836,491**	988,160	731,870
Information technology	**446,393**	499,319	489,036	**418,954**	471,262	465,872
Management and other professional fees	**431,312**	433,398	323,979	**359,078**	374,649	268,137
Travelling	**290,850**	248,433	229,251	**262,954**	223,896	209,116
Litigation expenses	**290,044**	323,726	235,526	**268,075**	304,783	224,669
Postage, telephone and cable	**187,953**	207,828	216,189	**132,872**	158,841	166,034
Entertainment and representation	**136,825**	99,024	86,095	**123,130**	89,944	72,799
Repairs and maintenance	**86,787**	82,113	81,711	**86,787**	82,113	81,711
Freight	**57,039**	45,727	34,195	**54,456**	43,986	32,556
Fuel and lubricants	**16,774**	21,237	25,476	**10,879**	17,521	24,275
Miscellaneous (Notes 13, 31 and 34)	**782,594**	682,926	648,694	**593,173**	547,469	540,824
	₱6,367,519	₱6,142,744	₱5,319,544	**₱5,634,019**	₱5,604,188	₱4,911,986

'Miscellaneous'also includes stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

29. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Retirement benefit liability (included in 'Other liabilities')	**₱1,526,962**	₱3,138,824	**₱1,485,426**	₱3,063,243
Net plan assets (included in 'Other assets')	**7,428**	2,714	**–**	–
	₱1,519,534	₱3,136,110	**₱1,485,426**	₱3,063,243

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2017 and 2016, the Parent Company has two separate regular retirement plans for the employees of PNB and ABC. In addition, the Parent Company provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The latest actuarial valuations for these retirement plans were made as of December 31, 2017. The following table shows the actuarial assumptions as of December 31, 2017 and 2016 used in determining the retirement benefit obligation of the Group:

			Parent Company					
	Consolidated		ABC		PNB		EIP	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate	**5.54%-5.91%**	5.06% - 5.31%	**5.54%**	5.17%	**5.54%**	5.17%	**5.54%**	5.17%
Salary rate increase	**5.00%-8.00%**	5.00% - 8.00%	**6.00%**	6.00%	**6.00%**	6.00%	**–**	–

The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated

2017

	January 1, 2017	Net benefit costs*: Current service cost	Net benefit costs*: Net interest	Net benefit costs*: Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest)	Remeasurements in other comprehensive income: Actuarial changes Arising from demographic assumptions	Remeasurements in other comprehensive income: Actuarial changes arising from experience adjustments	Remeasurements in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurements in other comprehensive income: Subtotal	Contributions by employer	December 31, 2017
Present value of pension obligation	**₱7,512,542**	**₱550,064**	**₱387,047**	**₱937,111**	**(₱557,519)**	**₱–**	**(674,973)**	**(₱192,750)**	**(₱258,392)**	**(₱1,126,115)**	**₱–**	**₱6,766,019**
Fair value of plan assets	**4,376,432**	**–**	**226,243**	**226,234**	**(557,519)**	**(127,963)**	**–**	**–**	**–**	**(127,963)**	**1,329,292**	**5,246,485**
	₱3,136,110	**₱550,064**	**₱160,804**	**₱710,868**	**₱–**	**₱127,723**	**(674,973)**	**(₱192,750)**	**(₱258,392)**	**(₱1,002,182)**	**(₱1,329,292)**	**₱ 1,519,534**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

Consolidated

2016

	January 1, 2016	Net benefit costs*: Current service cost	Net benefit costs*: Past Service cost	Net benefit costs*: Net interest	Net benefit costs*: Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest)	Remeasurements in other comprehensive income: Actuarial changes arising from experience adjustments	Remeasurements in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Remeasurements in other comprehensive income: Subtotal	Others	Contributions by employer	December 31, 2016
Present value of pension obligation	₱6,823,317	₱533,442	₱–	₱326,287	₱859,729	(₱579,110)	₱–	(₱58,823)	₱467,429	₱408,606	₱–	₱–	₱7,512,542
Fair value of plan assets	3,871,359	–	–	186,219	186,219	(579,110)	(50,134)	–	–	(50,134)	–	948,098	4,376,432
	₱2,951,958	₱533,442	₱–	₱140,068	₱673,510	₱–	₱50,134	(58,832)	₱467,429	₱458,740	₱–	(₱948,098)	₱3,136,110

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Parent Company											
	2017											
		Net benefit costs*				Remeasurement losses in other comprehensive income						
	January 1, 2017	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2017
Present value of pension obligation	**₱7,320,262**	**₱519,965**	**₱377,257**	**₱897,222**	**(₱551,248)**	**₱–**	**(₱199,918)**	**(₱674,973)**	**(₱249,522)**	**(₱1,121,413)**	**₱–**	**₱6,544,823**
Fair value of plan assets	**4,257,019**	**–**	**220,088**	**220,088**	**(551,248)**	**(126,376)**	**–**		**–**	**(126,376)**	**1,259,914**	**5,059,397**
	₱3,063,243	**₱519,965**	**₱157,169**	**₱677,134**	**₱–**	**₱126,376**	**(₱196,918)**	**(₱674,973)**	**(₱249,522)**	**(₱995,037)**	**(₱1,259,914)**	**₱1,485,426**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Parent Company												
	2016												
		Net benefit costs*					Remeasurement losses in other comprehensive income						
	January 1, 2016	Current service cost	Past service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Others	Contributions by employer	December 31, 2016
Present value of pension obligation	₱6,666,412	₱492,729	₱–	₱319,738	₱812,467	(₱576,395)	₱–	(₱17,649)	₱435,427	₱417,778	₱–	₱–	₱7,320,262
Fair value of plan assets	3,776,677	–	–	181,658	181,658	(576,395)	(46,429)	–	–	(46,429)	–	921,508	4,257,019
	₱2,889,735	₱492,729	₱–	₱138,080	₱630,809	₱–	46,429	(₱17,649)	₱435,427	₱464,207	₱–	(₱921,508)	₱3,063,243

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

The Group and the Parent Company expect to contribute ₱717.2 million and ₱684.5 million, respectively, to the defined benefit plans in 2018. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2017 is 10.5 years and 9.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Less than one year	**₱1,000,727**	₱347,321	**₱994,778**	₱341,323
More than one year to five years	**3,532,239**	1,671,800	**3,494,358**	1,646,006
More than five years to 10 years	**4,219,144**	3,393,078	**4,126,122**	3,338,327
More than 10 years to 15 years	**3,287,929**	4,877,000	**2,923,039**	4,687,986
More than 15 years	**10,419,581**	22,189,610	**7,201,910**	20,268,606

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cash and cash equivalents	**₱1,793,329**	₱2,101,820	**₱1,755,075**	₱2,042,229
Equity investments				
Financial institutions (Note 34)	**448,357**	491,884	**445,454**	491,884
Others	**334,339**	8,346	**231,453**	5,440
Debt investment				
Private debt securities	**1,569,773**	1,373,837	**1,553,579**	1,354,853
Government securities	**976,062**	261,749	**958,308**	244,533
Investment in UITFs	**101,954**	122,356	**93,024**	101,572
Loans and receivables	**3,713**	3,713	**3,713**	3,713
Interest and other receivables	**21,016**	14,699	**20,767**	14,299
	5,248,543	4,378,404	**5,061,373**	4,258,523
Accrued expenses	**(2,058)**	(1,972)	**(1,976)**	(1,504)
	₱5,246,485	₱4,376,432	**₱5,059,397**	₱4,257,019

All equity and debt investments held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2017 and 2016 includes investments in the Parent Company shares of stock with fair value amounting to ₱445.5 million and ₱491.9 million, respectively.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2017			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱438,162)**	**+1.00%**	**(₱410,516)**
	-1.00%	**494,590**	**-1.00%**	**461,096**
Salary increase rate	**+1.00%**	**451,241**	**+1.00%**	**418,390**
	-1.00%	**(409,485)**	**-1.00%**	**(381,945)**
Employee turnover rate	**+10.00%**	**(105,324)**	**+10.00%**	**(91,209)**
	-10.00%	**105,324**	**-10.00%**	**91,209**

	2016			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱774,902)	+1.00%	(₱751,438)
	-1.00%	913,564	-1.00%	884,722
Salary increase rate	+1.00%	830,911	+1.00%	803,116
	-1.00%	(724,710)	-1.00%	(701,513)
Employee turnover rate	+10.00%	(66,070)	+10.00%	(52,572)
	-10.00%	66,070	-10.00%	52,572

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

30. **Leases**

Operating Leases

Group as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 31.97% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 2.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱787.1 million, ₱824.7 million and ₱881.5 million in 2017, 2016 and 2015, respectively, for the Group, of which ₱668.7 million, ₱787.7 million and ₱727.6 million in 2017, 2016, and 2015, respectively, pertain to the Parent Company.

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

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱721,241**	₱439,613	**₱584,733**	₱319,498
Beyond one year but not more than five years	**1,575,142**	988,042	**1,329,240**	766,990
More than five years	**252,116**	280,004	**186,720**	212,890
	₱2,548,499	₱1,707,659	**₱2,100,693**	₱1,299,378

Group as Lessor
The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2017, 2016 and 2015, total rent income (included under 'Miscellaneous income') amounted to ₱424.8 million, ₱376.6 million and ₱338.1 million, respectively, for the Group and ₱290.6 million, ₱275.3 million and ₱266.1 million, respectively, for the Parent Company (Note 28).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱285,885**	₱313,458	**₱216,416**	₱164,501
Beyond one year but not more than five years	**521,046**	302,910	**488,264**	265,821
More than five years	**115,663**	34,849	**89,471**	16,155
	₱922,594	₱651,217	**₱794,151**	₱446,477

Finance Lease
Group as Lessor
Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the bank's net investment outstanding in respect of the finance lease (EIR method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱ 1,557,543**	₱1,738,954	**₱28,909**	₱23,509
Beyond one year but not more than five years	**1,308,300**	1,273,921	**43,000**	40,100
More than five years	**25,200**	36,500	**25,200**	36,500

(Forward)

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Gross investment in finance lease contracts receivable (Note 10)	**₱2,891,043**	₱3,049,375	**₱97,109**	₱100,109
Less amounts representing finance charges	**62,612**	355,743	**62,612**	56,880
Present value of minimum lease payments	**₱2,828,431**	₱2,693,632	**₱34,497**	₱43,229

31. **Income and Other Taxes**

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be reduced by 33.00% of interest income subjected to final tax.

MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence.FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294 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 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016	2015
Current						
Regular	**₱1,898,387**	₱1,058,065	₱761,872	**₱1,577,777**	₱880,828	₱501,682
Final	**636,353**	665,615	543,084	**518,923**	429,058	512,401
	₱2,534,740	₱1,723,680	1,304,956	**2,096,700**	1,309,886	1,014,083
Deferred	**(212,527)**	(206,459)	314,538	**26,976**	(81,514)	96,238
	₱2,322,213	₱1,517,221	₱1,619,494	**₱2,123,676**	₱1,228,372	₱1,110,321

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱5,745,464**	₱5,142,623	**₱5,161,135**	₱4,695,139
Accumulated depreciation on investment properties	**523,003**	521,069	**514,119**	511,623
Deferred revenue	**98,819**	97,622	**98,819**	97,622
Pension	**56,239**	24,442	**–**	–
Deferred reinsurance on commission	**17,027**	13,382	**–**	–
Unrealized loss on AFS investment	**–**	1,116	**–**	830
Others	**96,843**	58,859	**8,904**	10,188
	6,537,395	5,859,113	**5,782,977**	5,315,402
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,615,522**	1,448,798	**1,600,310**	1,448,798
Unrealized foreign exchange gains	**1,021,943**	664,971	**1,024,520**	665,237
Fair value adjustments due to business combination	**948,194**	1,043,112	**948,194**	1,043,112
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Unrealized trading gains on financial assets at FVPL	**164,480**	105,646	**164,480**	105,646
Deferred acquisition cost	**19,648**	19,354	**–**	–
Gain on remeasurement of previously held interest	**160,272**	160,272	**164,429**	164,429
Others	**193,132**	198,310	**139,749**	137,436
	4,842,100	4,376,899	**4,795,645**	4,301,094
	₱1,695,295	₱1,482,214	**₱987,332**	₱1,014,308

* *Balance includes DTL amounting to ₱736.4 million acquired from business combination*

As of December 31, 2017 and 2016, the Group's net deferred tax liabilities as disclosed in Other liabilities' (Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million and on accelerated depreciation on property and equipment amounting to ₱9.3 million.

Benefit from deferred tax charged directly to OCI during the year follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Net unrealized losses (gains) on AFS investments	**₱–**	₱286	₱2,887	**₱–**	₱–	₱2,887
Remeasurement losses on retirement plan	**554**	2,204	2,277	**–**	–	2,277

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million in 2016. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱3.7 million in 2016.

Unrecognized Deferred Tax Assets

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Allowance for impairment and credit losses	**₱1,259,578**	₱1,676,551	**₱776,012**	₱1,112,654
Unamortized past service cost	**716,019**	603,280	**716,019**	603,280
Accrued expenses	**473,101**	442,562	**469,473**	442,537
Retirement liability	**445,628**	919,383	**445,628**	918,973
NOLCO	**430,886**	439,659	**–**	–
Unearned income	**106,881**	122,269	**106,881**	122,269
Derivative liabilities	**103,025**	69,593	**103,025**	69,593
Provision for IBNR	**46,645**	65,000	**–**	–
Other equity reserves	**21,064**	31,701	**21,064**	31,701
Conveyance of real estate inventories held for sale	**–**	34,321	**–**	34,321
Others	**5**	4,243	**–**	4,242
	₱3,602,832	₱4,408,562	**₱2,638,102**	₱3,339,570

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱263,581	₱4,231	₱170,349	Not applicable
2015	2,670	3,042	260,537	Not applicable
2016	2	2,668	–	2019
	₱266,253*	₱9,941	₱430,886	

The Group has net operating loss carryforwards for US federal tax purposes of USD6.2 million as of December 31, 2017 and 2016, respectively, and net operating loss carryforwards for California state tax purposes of USD4.1 million as of December 31, 2017 and 2016, respectively.

Unrecognized Deferred Tax Liabilities

As of December 31, 2017, there was a deferred tax liability of ₱698.8 million (₱727.2 million in 2016) for temporary differences of ₱2.2 billion (₱2.4 billion in 2016) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015 (As Restated – Note 2)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(1.67)**	(3.68)	(4.62)	**(1.78)**	(3.78)	(5.10)
Net non-deductible expenses	**2.51**	6.90	10.14	**1.98**	6.23	8.12
Optional standard deduction	**(0.25)**	(0.02)	(0.38)	**–**	–	–
Tax-exempt income	**(4.11)**	(7.82)	(6.85)	**(3.49)**	(9.22)	(8.63)
Tax-paid income	**(6.76)**	(2.19)	(3.77)	**(6.80)**	(1.91)	(3.15)
Net unrecognized deferred tax assets	**2.44**	(3.80)	(3.70)	**0.73**	(3.88)	(5.91)
Effective income tax rate	**22.16%**	19.39%	20.82%	**20.64%**	17.44%	15.33%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. EAR are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱136.8 million in 2017, ₱99.02 million in 2016, and ₱86.1 million in 2015 for the Group, and ₱123.1 million in 2017, ₱89.9 million in 2016, and ₱72.8 million in 2015 for the Parent Company (Note 28).

32. **Earnings Per Share**

The following tables reflect the net income and share data used in the earnings per share computations:

Earnings per share attributable to equity holders of the Parent Company:

	2017	2016 (As Restated – Note 2)	2015
a) Net income attributable to equity holders of the Parent Company	**₱8,160,570**	₱7,123,952	₱6,131,365
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,140	1,249,020
c) Basic/Diluted earnings per share (a/b)	**₱6.53**	₱5.70	₱4.91

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2017	2016 (As Restated – Note 2)	2015
a) Net income attributable to equity holders of the Parent Company	**₱8,160,570**	₱4,860,050	₱5,773,434
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱6.53**	₱3.89	₱4.62

As of December 31, 2017, 2016 and 2015, there are no potential common shares with dilutive effect on the basic earnings per share.

33. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱88.0 billion and ₱75.2 billion as of December 31, 2017 and 2016, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱1.0 billion and ₱924.8 million (included under 'AFS Investments') as of December 31, 2017 and 2016, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2017, 2016 and 2015 amounting to ₱300.0 million, ₱311.9 million and ₱256.2 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱23.9 million, ₱19.4 million and ₱16.6 million in 2017, 2016 and 2015, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

34. Related Party Transactions

Regulatory Reporting
In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.
The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2017 and 2016, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Total Outstanding DOSRI Accounts*	**₱8,184,175**	₱11,900,939	**₱8,184,175**	₱11,900,939
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of DOSRI accounts to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.02%	**0.02%**	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%

**Includes outstanding unused credit accommodations of ₱192.3 million as of December 31, 2017 and ₱178.7 million as of December 31, 2016.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

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% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

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. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees.

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investors			
Deposit Liabilities		**₱181,440**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	**₱1,880**		Interest expense on deposits
Net deposits	**61,366**		Net deposits during the period
Subsidiaries			
Receivables from customers		**2,263,933**	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	**6,644,960**		
Loan collections	**6,395,361**		
Loan commitments		**9,344,497**	Omnibus line; credit line
Interbank loans receivable		**126,739**	Foreign currency-denominated interbank term loans with interest rates ranging from 0.65% to 1.00% and maturity terms ranging from 33 to 172 days
Availments	**2,536,360**		
Settlements	**2,526,014**		
Due from other banks		**360,954**	Foreign currency-denominated demand and time deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		**3,620**	Interest accrual on receivables from customers and interbank loans receivable
Dividend Receivable		**20,000**	Dividend declaration of subsidiaries
Accounts Receivable		**186,863**	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		**4,827,320**	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2017
Net withdrawals	**₱637,902**		Net withdrawals during the period
Bills payable		**₱186,591**	Foreign currency-denominated bills payable with interest rates ranging from 0.87% to 1.90% and maturity terms ranging from 30 to 172 days
Availments	**2,743,583**		
Settlements	**4,333,988**		
Due to other banks		**32,238**	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accounts Payable		**29**	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		**12,306**	Accrued interest on deposit liabilities and bills payable
(Forward)			
Rental deposit		**11,292**	Advance rental deposit received for 2 years and 3 months
Interest income	**59,979**		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	**83,717**		Interest expense on deposit liabilities and bills payable
Rental income	**47,732**		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	**1,710,647**		Outright purchase of securities
Sales	**763,355**		Outright sale of securities
Trading loss	**17,443**		Loss from sale of investment securities
Affiliates			
Receivables from customers		**23,881,936**	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	**20,063,712**		
Loan Collections	**16,162,613**		
Loan commitments		**13,836,350**	Omnibus line; credit line
Investment in non-marketable equity securities		**20,000**	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		**432,377**	Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	**1,825,274**		
Accrued interest receivable		**1,441**	Accrued interest on receivables from customers
Rental deposits		**10,171**	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		**13,496,612**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	**2,578,242**		Net deposits during the period
Accrued interest payable		**35**	Accrued interest payable from various deposits
Other liabilities		**4**	Various manager's check related to EISP and premium insurance
Accrued other expenses		**353,658**	Accruals in relation to promotional expenses
Interest income	**609,817**		Interest income on receivable from customers
Interest expense	**75,798**		Interest expense on deposit liabilities
Service fees and commission income	**124,743**		Bancassurance fees earned based on successful referrals and other milestones
Rental expense	**17,924**		Monthly rent payments with term ranging from 24 to 240 months

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2017		
Miscellaneous expenses	**₱306,566**		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	**1,216**		Outright purchase of securities
Sales	**31,500**		Outright sale of securities
Trading gains	**2**		Gain from sale of investment securities
Associate			
Deposit liabilities		**₱337,471**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Rental deposits		**27**	Advance rental and security deposits received for three months
Deferred income		**988,187**	Unamortized portion of income related to the sale of PNB Life
Interest expense	**650**		Interest expense on deposit liabilities
Service fees and commission income	**197,942**		Bancassurance fees earned based on successful referrals and income related to the sale of PNB Life

(Forward)

Key Management Personnel			
Loans to officers		**12,743**	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	**2,197**		Settlement of loans and interest
Other equity reserves		**77,651**	Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		**1,129,366**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accued interest receivable		**837**	Interest accrual on receivables from customers and sales contract receivable
Deposit liabilities		**1,970,230**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		**86**	Various manager's checks
Interest income	**18,588**		Interest income on receivable from customers
Interest expense	**36,572**		Interest expense on bills payable

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2016		
Significant Investors			
Deposit Liabilities		₱120,074	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱5,633		Interest expense on deposits
Net withdrawals	110,585		Net withdrawals during the period
Subsidiaries			
Receivables from customers		2,014,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	6,876,000		
Loan collections	6,740,334		
Loan commitments		7,433,296	Omnibus line; credit line
Interbank loans receivable		116,393	Foreign currency-denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Availments	1,349,191		
Settlements	1,390,990		

(Forward)

	2016		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Due from other banks		₱428,290	Foreign currency-denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		2,849	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		5,465,222	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net withdrawals	₱501,832		Net withdrawals during the period
Bills payable		1,776,997	Foreign currency-denominated bills payable with
Availments	1,971,729		interest rates ranging from 0.20% to 2.00% and
Settlements	2,097,198		maturity terms ranging from 30 to 183 days
Due to other banks		45,211	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		9,261	Accrued interest on deposit liabilities and bills payable
Rental deposit		10,900	Advance rental deposit received for 2 years and 3 mos.
Interest income	75,684		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	149,832		Interest expense on deposit liabilities and bills payable
Rental income	55,003		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,549,350		Outright purchase of securities
Sales	1,218,139		Outright sale of securities
Trading loss	965		Loss from sale of investment securities
Affiliates			
Receivables from customers		19,404,084	Secured by hold-out on deposits, government
Loan releases	14,798,065		securities, real estate and mortgage trust indenture;
Loan Collections	13,248,403		Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan commitments		2,941,216	Omnibus line; credit line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from ₱5.00 to ₱100.00 per share
Sales contract receivable		2,257,651	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Accrued interest receivable		26,739	Accrued interest on receivables from customers
Rental deposits		10,171	Advance rental and security deposits received for two months, three months and two years
Operating lease		7,575	Lease contract for 5 years
Deposit liabilities		₱10,918,370	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	3,499,520		Net deposits during the period
Accrued interest payable		52	Accrued interest payable from various deposits
Interest income	388,599		Interest income on receivable from customers
Interest expense	75,633		Interest expense on deposit liabilities
Gain on sale of investment property	1,281,742		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Rental income	53,253		Monthly rent income from related parties

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2016		
Rental expense	₱13,213		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expense	438		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	–		Gain from sale of investment securities
Associate			
Deposit liabilities		₱352,146	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Other liabilities		115	Various manager's check related premium insurance
Interest expense	29,440		Interest expense on deposit liabilities
Rental income	10,158		Rental income from a five-year lease agreement, monthly rental subject to 5% escalation rate
Key Management Personnel			
Loans to officers		14,941	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,057		Settlement of loans and interest
Other equity reserves		105,670	Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		940,860	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		940,053	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		1,133	Various manager's check
Interest income	4,524		Interest income on receivable from customers
Interest expense	19,051		Interest expense on bills payable
Miscellaneous income	5		Premiums collected

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2017 and 2016 in relation to amounts due from related parties.

<u>Outsourcing Agreement between the Parent Company and PNB GRF</u>

The 'Pangarap Loans', which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. On March 19, 2004, the Parent Company and PNB GRF entered into an agreement where the Parent Company agreed to undertake all impaired Pangarap Loans of PNB GRF. PNB GRF transfers the impaired loans at their carrying values on a quarterly basis or when aggregate carrying value of the impaired loans amounts to HK$2.0 million, whichever comes earlier. Subject to BOD approval, PNB GRF regularly declares special dividends (recognized as a liability). These special dividends are being offset against the intercompany receivables from the Parent Company.

Financial Assets at FVPL traded through PNB Securities
As of December 31, 2017 and 2016, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱28.6 million and ₱27.2 million, respectively. The Parent Company recognized trading losses amounting to ₱16.6 million in 2017 and ₱13.5 million in 2016 and trading gains amounting to ₱7.2 million in 2015 from the trading transactions facilitated by PNB Securities.

Investment in OHBVI
The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2017	2016	2015
Short-term employee benefits	**₱661,253**	₱581,302	₱589,199
Post-employment benefits	**60,554**	61,544	51,365
	₱721,807	₱642,846	₱640,564

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance. In 2017 and 2016, total per diem given to the BOD amounted to ₱39.4 million and ₱43.2 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies. In 2017, Key Management Personnel received 43,803 Parent Bank Shares in relation to the centennial bonus distribution.

Joint Arrangements
The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These Joints Arrangements qualify as Joint Operations under PFRS 11.

In July 2016, the Bank executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

Outsourcing Agreement between the Parent Company and PNB SB
PNB SB entered into a "Deed of Assignment" with the Parent Company for the purchase, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total carrying value of ₱5.2 billion in July and August 2016 and ₱5.0 billion on July 15, 2015. The purchase includes the assignment of the promissory notes and other relevant credit documents as well

as collateral/s and other accessory contract thereto and was implemented in tranches in various dates. The total consideration paid for the purchased loans amounted to ₱5.0 billion in 2016. In 2016, the Parent Company recognized gain of ₱18.3 million.

PNB SB and the Parent Company entered into a servicing agreement pertaining to the purchased loan portfolio. The agreement shall be valid and binding until terminated by the either party if so required by the BSP or upon a 60-day prior written notice to the other party. As to the amount of service fee, the Parent Company shall charge PNB SB with the amount it charges it customers.

Service charges pertain to outsourced services rendered by the Parent Company, including legal and information technology services. These are payable on a monthly basis.

PNB SB has available credit lines with the Parent Company amounting to ₱750 million and ₱1.3 billion as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the credit lines remain undrawn.

Claim from PNB Gen

In 2015, the Parent Company recognized income amounted to ₱716.2 million under 'Miscellaneous income' arising from the fire insurance claims of the Parent Company from PNB Gen on involving the Ever Gotesco Grand Central ('Insured Property') which was mortgaged to the Parent Company by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively 'Ever Gotesco Group') to secure certain credit accommodations. The insurable interest of the Parent Company (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of the Parent Company, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱5.2 billion and ₱4.4 billion as of December 31, 2017 and 2016, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Investment in PNB Shares	**₱445,454**	₱491,884	**₱445,454**	₱491,884
Deposits with PNB	**63,387**	330,716	**58,332**	330,678
Investment in UITFs	**201,021**	122,306	**93,025**	101,572
Total Fund Assets	**₱709,862**	₱904,906	**₱596,811**	₱924,134
Unrealized gain (loss) on HFT (PNB shares)	**(₱46,430)**	₱23,423	**(₱46,430)**	₱23,423
Interest income	**3,276**	15,602	**571**	14,952
	(43,154)	39,025	**(45,859)**	38,375
Trust fees	**(6,083)**	(4,821)	**(5,872)**	(4,912)
Fund income (loss)	**(₱49,237)**	₱34,204	**(₱51,731)**	₱33,463

As of December 31, 2017 and 2016, the retirement fund of the Group and the Parent Company include 9,008,864 PNB shares classified under HFT. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

The gain of the Fund arising from the sale of investment in the shares of the Parent Company amounted to ₱14.4 million.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

35. **Provisions, Contingent Liabilities and Other Commitments**

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

In 2017, the Group and the Parent Company's outstanding provisions for legal claims decreased by ₱330.0 million, from ₱1.3 billion at the end of 2016 to ₱1.0 billion as of December 31, 2017.

In 2016, the Group and the Parent Company's outstanding provisions for legal claims increased by ₱401.6 million, from ₱898.7 million at the end of 2015 to ₱1.3 billion as of December 31, 2016.

There were no significant settlements made in 2017.

Tax Assessment

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Trust department accounts (Note 33)	**₱88,001,894**	₱75,238,152	**₱ 88,001,894**	₱75,238,152
Derivative forwards	**84,170,844**	40,000,448	**78,521,063**	34,886,157
Unutilized credit card lines	**34,566,065**	27,018,318	**27,018,318**	27,018,318
Interest rate swaps	**33,610,720**	33,610,720	**31,899,122**	33,610,720
Standby letters of credit	**31,301,441**	26,232,306	**31,246,248**	26,133,083
Deficiency claims receivable	**22,624,776**	22,337,807	**22,576,563**	22,285,950
Derivative spots	**5,086,321**	2,358,455	**5,086,321**	2,358,455
Items held as collateral	**1,823,033**	1,237	**1,823,018**	1,225
Inward bills for collection	**633,732**	1,001,375	**633,732**	974,300
Outward bills for collection	**248,776**	282,212	**116,605**	117,898
Confirmed export letters of credit	**93,985**	100,461	**93,985**	100,461
Unused commercial letters of credit	**57,541**	50,062	**57,541**	50,062
Shipping guarantees issued	**11,198**	13,716	**11,198**	13,716
Other contingent accounts	**311,860**	2,073,225	**297,552**	2,068,481

36. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7, which is effective January 1, 2013, require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

2017

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria** Financial instruments	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets	**₱37,138,999**	**(₱36,646,558)**	**₱492,441**	**(₱44,921)**	**₱–**	**₱3,633,520**
Securities sold under agreements to repurchase (Notes 8)	**14,621,483**	–	**14,621,483**	**(148,225)**	**(14,473,258)**	**(148,225)**
Total	**₱51,760,482**	**(₱36,646,558)**	**₱15,113,924**	**(₱193,146)**	**(₱14,473,258)**	**₱3,485,295**

** Included in bills and acceptances payable in the statements of financial position*

2016

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱28,500,758	(₱28,152,954)	₱347,804	₱199,855	–	₱147,949
Securities sold under agreements to repurchase (Notes 8)	1,972,310	–	1,972,310	–	1,968,603*	3,707
Total	₱30,473,068	(₱28,152,954)	₱2,320,114	₱199,855	₱1,968,603	₱151,656

** Included in bills and acceptances payable in the statements of financial position*

Financial liabilities

2017

Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria** Financial instruments	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities	**₱19,126,140**	**(₱19,390,528)**	**(₱264,388)**	**₱91,071**	**(₱–**	**(₱249,459)**
Securities sold under agreements to repurchase (Notes 9 and 19)*	**35,350,259**	–	**35,350,259**	–	**(39,827,898)**	**-**
Total	**₱54,476,399**	**(₱19,390,528)**	**₱35,085,871**	**₱91,071**	**(₱39,827,898)**	**(₱249,459)**

** Included in bills and acceptances payable in the statements of financial position*

2016

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱15,217,658	(₱15,449,106)	(₱231,448)	₱273,191	₱–	₱–
Securities sold under agreements to repurchase (Notes 9 and 19)*	20,635,171	–	20,635,171	–	24,657,929	–
Total	₱35,852,829	(₱15,449,106)	₱20,403,723	₱273,191	₱24,657,929	₱–

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

37. Assets and Liabilities of Disposal Group Held for Sale

As disclosed in Note 12, the Group entered into a share purchase agreement with Allianz SE for the sale of 51% equity interest in APLII on December 21, 2015. As a result, APLII was classified as a disposal group held for sale and as a discontinued operation. The Group reclassified all the assets and liabilities of APLII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of APLII represented the entirety of the Group's life insurance business until December 21, 2015. With APLII being classified as a discontinued operation in 2015, the consolidated statement of income and comprehensive income were presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. The Group recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statement of income.

The results of operation of APLII follow:

	2016	2015
Interest Income on		
Loans and receivables	₱7,610	₱20,343
Trading and investment securities	195,605	443,116
Deposits with banks and others	5,151	3,504
	208,366	466,963
Net Service Fees And Commission Income	(67,591)	(281,639)
Net insurance premium	508,770	1,716,308
Net insurance benefits and claims	441,090	1,290,439
Net Insurance premium	67,680	425,869
Other Income		
Trading and investment securities gains - net	1,800	20,874
Foreign exchange gains (losses) - net	(876)	11,806
Miscellaneous	80,667	149,061
Total Operating Income	290,046	792,934
Operating Expenses		
Compensation and fringe benefits	71,741	223,322
Taxes and licenses	16,759	39,570
Occupancy and equipment-related costs	7,610	9,764
Depreciation and amortization	4,707	10,704
Provision for impairment, credit and other losses	4,704	32,765
Miscellaneous	39,692	74,573
Total Operating Expense	145,213	390,698

(Forward)

	2016	2015
Results from Operating Activities	₱144,833	₱402,236
Provision for income tax	21,049	44,305
Results from Operating Activities, net of tax	123,784	357,931
Gain on remeasurement	1,644,339	–
Gain on Sale of Discontinued Operation	834,535	–
Transaction Costs	153,307	–
Provision for Income Tax	185,449	–
Net Income from Discontinued Operations	₱2,263,902	₱357,931
Attributable to:		
Equity holders of the Parent Company	₱2,239,145	₱286,345
Non-controlling interests	24,757	71,586
	₱2,263,902	₱357,931

The major classes of assets and liabilities of APLII classified as disposal group held for sale to equity holders of the Parent follows:

	2016
Assets	
Cash and other cash items	₱546,621
Financial assets at fair value through profit or loss	14,506,651
AFS investments	7,922,461
HTM investments	1,254,898
Other receivables	473,259
Property and equipment - net	31,931
Other assets	41,791
	₱24,777,612
Liabilities	
Financial liabilities at fair value through profit or loss:	₱14,475,772
Accrued taxes, interest and other expenses	76,938
Insurance contract liability	7,097,270
Other liabilities	577,348
	₱22,227,328
Net assets of disposal group held for sale	2,550,284
Amounts included in accumulated OCI:	
Net unrealized gain on AFS investments	₱34,876
Remeasurement losses on retirement plan	(18,070)
	₱16,806

Cash flows from (used in) discontinued operations follow:

	2016	2015
The net cash flows directly associated with disposal group:		
Operating	₱171,535	₱1,210,588
Investing	(267,458)	(903,161)
	(₱95,923)	₱307,427

38. **Notes to Statements of Cash Flows**

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.55 billion, ₱882.2 million and ₱504.0 million in 2017, 2016 and 2015, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱1.53 billion, ₱869.9 million and ₱498.3 million in 2017, 2016, and 2015, respectively.

In 2015, the Group classified APLII as disposal group held for sale and as discontinued operation and classified assets, liabilities, and reserves of APLII amounting to ₱23.5 billion, ₱21.5 billion, and ₱0.1 billion, respectively, as held for sale.

In 2015, the Group transferred investment properties with a carrying value of ₱2.0 billion and ₱1.2 billion to property and equipment and to Other Assets (presented as 'Real Estate Investments Held under Development'), respectively.

In 2016, the Group and the Parent Company reclassified certain properties from 'Property and equipment' to 'Investment property' with aggregate carrying amount of ₱4.7 billion and ₱3.2 billion, respectively. These properties mainly consist of the office spaces in the Allied Bank Center in Makati leased out and land in Buendia, Makati being held for future development.

For the Group, investment properties acquired through foreclosure and rescission amounted to ₱0.6 billion, ₱0.7 billion and ₱0.5 billion in 2017, 2016 and 2015, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission amounted to ₱0.5 billion, ₱0.6 billion, and ₱0.4 billion in 2017, 2016 and 2015, respectively.

In 2016, the Group and the Parent Company applied transferred payables from Maybank amounting to ₱1.8 billion under bills payable and ₱1.6 billion under accrued interest payable against the principal and accrued interest components of the transferred receivables.

Interest income of the Group includes fair value amortization of loans and receivables amounting to ₱6.1 million, ₱9.2 million, and ₱16.9 million in 2017, 2016 and 2015, respectively.

Interest expense of the Group includes fair value amortization of deposit liabilities amounting to ₱10.7 million, ₱30.3 million, and ₱80.4 million in 2017, 2016 and 2015, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱256.1 million, ₱338.6 million and ₱352.4 million in 2017, 2016 and 2015, respectively.

39. **Approval of the Release of the Financial Statements**

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 23, 2018.

40. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2017 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,195,272,356
Documentary stamp taxes	1,803,180,144
Real estate tax	154,675,360
Local taxes	65,777,106
Others	64,413,138
	₱3,283,318,104

2. Withholdings taxes

	Remitted	Outstanding
Withholding Taxes on Compensation and Benefits	₱1,138,558,393	₱ 175,154,458
Final income taxes withheld on interest on deposits and yield on deposit substitutes	426,733,553	53,661,809
Expanded withholding taxes	167,935,552	16,125,382
VAT withholding taxes	1,367,169	271,019
Other Final Taxes	52,404,911	2,453,399
	₱1,786,999,578	₱247,666,067

Tax Cases and Assessments

As of December 31, 2017, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

SGV
Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine National Bank
Philippine National Bank Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, included in this Form 17-A, and have issued our report thereon dated February 23, 2018. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
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February 26, 2018, valid until February 25, 2021
PTR No. 6621305, January 9, 2018, Makati City

February 23, 2018