COVER SHEET

P W 1 0 5

S.E.C. Registration Number

P H I L T R U S T B A N K

P H I L I P P I N E T R U S T C O M P A N Y

(Company's Full Name)

1 0 0 0 U N I T E D N A T I O N S A V E N U E C O R

S A N M A R C E L I N O S T R E E T M A N I L A

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

MARTIN B. ISIDRO

Contact Person

524-9061

Company Telephone Number

DEFINITIVE INFORMATION STATEMENT

1 2	3 1	2 0 - I S	0 5	1 5
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

M S R D

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

PHILTRUST BANK
PHILIPPINE TRUST COMPANY
P.O. BOX 150
PHILTRUST BANK BUILDING
UNITED NATIONS AVE. CORNER SAN MARCELINO ST., MANILA

TEL.: (632) 524-90-61 TO 76
(632) 498-01-90 TO 99
FAX: (632) 521-73-09 / 498-02-00
SWIFT: PHTBPHMM
EMAIL: ptc@philtrustbank.com

NOTICE OF THE ANNUAL MEETING OF THE STOCKHOLDERS

TO ALL STOCKHOLDERS:

Please be informed that the Annual Meeting of the Stockholders of Philippine Trust Company, also known as PHILTRUST BANK, will be held on Tuesday, May 15, 2018 at 8:00 A.M. at Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila for the election of Directors and the transaction of the following:

1. Opening prayer.
2. Call to order.
3. Proof of service of the required notice of the meeting.
4. Proof of presence of quorum.
5. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on April 25, 2017.
6. Approval of the Annual Report to the Stockholders for the year 2017.
7. Ratification and approval of all the acts and transactions of the Board of Directors, the Board and the Management Committees and the Management, including related party transactions, since the Annual Meeting of the Stockholders on April 25, 2017.
8. Appointment of External Auditor.
9. Election of Directors.
10. Other matters.

Only stockholders as of the Record Date of April 16, 2018 are entitled to attend and vote at the said meeting.

Management is not asking you for a proxy and you are requested not to send Management a proxy. In the event that you cannot attend in person, please accomplish the herein proxy instrument. For validation, please return the same to the Office of the Corporate Secretary not later than five (5) days prior to the date of the meeting.

Your kind presence will be highly appreciated.

Manila, March 28, 2018.

By Authority of the Board of Directors,

MARTIN B. ISIDRO
Corporate Secretary

AGENDA
RATIONALE and DETAILS

1. Opening prayer.

Dr. Jaime C. Laya, Chairman of the Board and President of Philtrust Bank, will welcome the stockholders and will lead in the opening prayer.

2. Call to order

The Chairman will call the meeting to order at 8:00 a.m. as set/approved by the Board of Directors.

Atty. Martin B. Isidro, Corporate Secretary, will introduce the members of the Board of Directors.

3. Proof of service of the required notice of the meeting.

The Corporate Secretary will submit to the Chairman his Affidavit of Service attesting that all stockholders of Philtrust Bank as of the Record Date of April 16, 2018 were duly notified of the annual stockholders' meeting on May 15, 2018.

4. Proof of presence of quorum.

The Corporate Secretary will attest to the presence of a quorum for the validity of the proceedings of the meeting.

5. Reading and approval of the Minutes of the Annual Meeting of the Stockholders held on April 25, 2017.

Copies of the Minutes of the Annual Stockholders' Meeting held on April 25, 2017 will be distributed to the stockholders for their consideration and approval. The items in last year's Agenda, including the approval of the declaration of the cash dividend of P0.20 per share under Other Matters, were the only items acted upon by the stockholders in the said meeting and included in the Minutes thereof.

6. Approval of the Annual Report to the Stockholders for the year 2017.

Copies of the Annual Report for the year 2017, will be distributed to the stockholders for their consideration and approval. The highlights thereof will be discussed by the Chairman.

7. Ratification and approval of all the acts and transactions of the Board of Directors, the Board and the Management Committees and the Management, including related party transactions, since the Annual Meeting of the Stockholders on April 25, 2017.

All the acts and transactions of the Board of Directors, the Board and the Management Committees and the Management, including related party transactions, since the Annual Meeting of the Stockholders held on April 25, 2017, will be presented to the stockholders for their consideration, approval and ratification. These collective actions of the Board, the Committees and the Management accounted for the Bank's remarkable performance the previous year.

8. Appointment of External Auditor.

The stockholders will appoint the external auditor of the Bank for the year 2018 who is accredited by both the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission.

9. Election of Directors.

As approved and nominated by the Board's Corporate Governance, Nomination and Remuneration Committee, the Corporate Secretary will read the Final List of the Eleven (11) Nominees who are eligible for election as directors of the Bank for the ensuing year. They possess all the qualifications and none of the disqualifications for the regular and the independent directors of the Bank.

Cumulative voting will be followed in the election of directors.

The Corporate Secretary, assisted by the auditors, will be tasked to count the votes cast.

10. Other matters.

Matters that are relevant to, and appropriate for, the annual meeting of the stockholders may be discussed.

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20 - IS
INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [/] Definitive Information Statement

2. Name of registrant as specified in its charter

   Philippine Trust Company also known as PHILTRUST BANK

3. Province, country or other jurisdiction of incorporation

   Manila, Philippines

4. SEC Identification Number - PW-105

5. BIR Tax Identification Code - 340-000-541-102

6. Address of Principal Office - Philtrust Bank Building
   1000 United Nations Avenue corner
   San Marcelino Street, Manila

   Postal Code - 1007

7. Telephone Number - (632) 524-90-61

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

   May 15, 2018 at 8:00 A.M. at Philtrust Bank Building
   1000 United Nations Avenue corner San Marcelino Street, Manila

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   April 23, 2018.

10. Securities registered pursuant to Sections 8 and 12 of the Securities Regulation Code (information on number of shares and amount of debt is applicable only to corporate registrants):

    Title of class   Number of shares of common stock

    The Bank's securities are exempt from registration.

11. Are any or all of registrant's securities listed on a Stock Exchange?

    Yes _/_ No ____

    If yes, disclose the name of such stock exchange and the class of securities listec therein:

    The Bank's 1,000,000,000 common shares are listed at the Philippine Stoc Exchange.

PART I.

INFORMATION REQUIRED IN INFORMATION STATEMENT

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

A. GENERAL INFORMATION

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

Date	:	May 15, 2018
Time	:	8:00 A.M.
Place	:	Philtrust Bank Building 1000 United Nations Avenue corner San Marcelino Street Manila

Mailing Address of the Bank:

Philtrust Bank Building
1000 United Nations Avenue corner San Marcelino Street
Manila

The Information Statement is first to be sent to security holders approximately on April 23, 2018.

Item 2. Dissenter's Right of Appraisal

As provided under Title X of the Corporation Code, any stockholder of a corporation shall have the right to dissent and demand payment of the fair value of his shares in the following instances:

1. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those outstanding shares of any class, or of extending or shortening the term of corporate existence;

2. In case of sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the corporate property and assets; and

3. In case of merger or consolidation.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which the vote was taken for a payment of the fair value of his shares, provided that failure to make the demand within such period shall be deemed a waiver of the appraisal right.

There is no item in the Agenda that would cause the exercise by the stockholders of their right of appraisal.

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

a. Other than their election to office, there is no matter to be acted upon in which any Director or Executive Officer of the Bank, at any time since the beginning of the last fiscal year, is involved or had a direct, indirect or substantial interest. No one of the Directors or Executive Officers has an Associate.

b. Other than their election as Directors, there is no matter to be acted upon in which any Nominee is involved or had a direct, indirect or substantial interest. No one of the Nominees has an Associate.

c. No one has informed the Bank of his opposition to any matter to be acted upon by the stockholders.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

Stockholders as of the Record Date of April 16, 2018 shall be entitled to notice of, and to vote at, the meeting. Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares standing in his name. Each share is entitled to one vote. However, in the election of Directors, every stockholder shall be entitled to cumulate his shares in accordance with the provisions of Section 24 of the Corporation Code and give one candidate as many votes as the number of directors to be elected multiplied by the number his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit: provided, that the total number of votes cast by him shall not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the cumulative voting rights in the election of directors.

Every stockholder entitled to vote at any meeting of the stockholders may so vote by proxy, provided that the proxy shall have been appointed in writing by the stockholder himself or by his duly authorized representative and submitted to the Office of the Corporate Secretary not later than five (5) days prior to the scheduled meeting.

Equity Ownership of Foreigners as of March 15, 2018:

	Name of Stockholders	Citizenship	Class of Share	No. of Shares Subscribed and Paid	%
1.	PCD Nominee Corp.	Foreign	Common	228,218	0.0228
2.	Kevin John Worley	American	Common	76	0.0000
	Total			228,294	0.0228%

Security ownership of certain record and beneficial owners of more than 5% as of March 15, 2018:

Title of Class	Name, Address of Record Owner and Relationship to Issuer	Name of Beneficial Owner and Relationship to Record Owner	Citizenship	No. of Shares Held	Percent
Common Shares	Philtrust Realty Corp. P.O. Box 1848, Manila Major Stockholder	U.S. Automotive Co., Inc. *Major Stockholder* Dr. Emilio C. Yap III *Authorized Representative*	Filipino	269,000,014	26.9000%
Common Shares	U.S. Automotive Co., Inc. P.O. Box 3399, Manila Major Stockholder	Dr. Rosalinda Y. Gaw *Major Stockholder* Basilio C. Yap *Authorized Representative*	Filipino	209,873,774	20.9874%
Common Shares	Seabreeze Enterprises, Inc. P.O. Box 4279, Manila Major Stockholder	Basilio C. Yap *Major Stockholder* Basilio C. Yap *Authorized Representative*	Filipino	194,746,709	19.4747%
Common Shares	Orient Enterprises, Inc. P.O. Box 3435, Manila Major Stockholder	Dr. Rosalinda Y. Gaw Miriam C. Cu *Major Stockholders* Atty. Francis Y. Gaw *Authorized Representative*	Filipino	184,783,230	18.4783%
Common Shares	Pioneer Insurance & Surety Corporation P.O. Box 1437 MCC, Makati Major Stockholder	Pioneer Inc. *Major Stockholder* Ernesto O. Chan *Authorized Representative*	Filipino	70,950,696	7.0951%

Security ownership of management as of March 15, 2018:

DIRECTORS

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	1. Dr. Jaime C. Laya *(Chairman and President)*	P 333,250.00	Direct	Filipino	0.0033%
Common Shares	2. Sr. Justice Josue N. Bellosillo (Ret.) *(Vice Chairman and Corporate Counsel)*	P 15,120.00	Direct	Filipino	0.0002%
Common Shares	3. Basilio C. Yap *(Vice Chairman)*	P 13,890,300.00	Direct	Filipino	0.1389%
Common Shares	4. Dr. Emilio C. Yap III *(Vice Chairman)*	P 1,832,630.00	Direct	Filipino	0.0183%
Common Shares	5. Ernesto O. Chan (Independent Director)	P 175,660.00	Direct	Filipino	0.0018%
Common Shares	6. Tomas V. Apacible (Independent Director)	P 15,120.00	Direct	Filipino	0.0002%
Common Shares	7. Chief Justice Hilario G. Davide, Jr. (Ret.) (Independent Director)	P 10,000.00	Direct	Filipino	0.0001%
Common Shares	8. Jose M. Fernandez *(Executive Vice President)*	P 4,400.00	Direct	Filipino	0.0000%
Common Shares	9. Miriam C. Cu *(Senior Vice President)*	P 5,488,810.00	Direct	Filipino	0.0549%
Common Shares	10. Dr. Rosalinda Y. Gaw	P 64,005,100.00	Direct	Filipino	0.6400%
Common Shares	11. Benjamin C. Yap	P 193,100.00	Direct	Filipino	0.0019%

OFFICERS

Title of Class	Name of Beneficial Owner	Amount of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	Atty. Martin B. Isidro *(Senior Vice President Corporate Secretary and Asst. Corp. Counsel)*	P3,202,090.00	Direct	Filipino	0.0320%
Common Shares	Virginia S. Choa-Shi *(Executive Vice President)*	P5,050.00	Direct	Filipino	0.0000%

DIRECTORS AND OFFICERS AS A GROUP

Common Shares	P89,170,630.00	0.8917%
	================	=========

Voting Trust Holders of 5% or more

The Bank has no voting trust holders.

Change in control since the beginning of the last fiscal year

No change in control has occurred since January 1, 2017.

Item 5. Directors and Executive Officers:

(a) Incumbent Directors:

Hereunder are the incumbent Directors of the Bank who were elected during the Annual Stockholders' Meeting held on April 25, 2017 for a term of one (1) year and until their successors are duly elected and qualified. Please refer to Annex "A" hereto attached for their qualifications and business affiliations.

Name	Position	Age	Citizenship	Length of Service
1. Dr. Jaime C. Laya	Chairman	79	Filipino	More than 5 years
2. Senior Justice Josue N. Bellosillo (Ret.)	Vice Chairman	84	Filipino	More than 5 years
3. Basilio C. Yap	Vice Chairman	68	Filipino	More than 5 years
4. Dr. Emilio C. Yap III	Vice Chairman	46	Filipino	More than 5 years
5. Ernesto O. Chan	Independent Director	71	Filipino	6th year as Independent Director
6. Tomas V. Apacible	Independent Director	72	Filipino	6th year as Independent Director
7. Chief Justice Hilario G. Davide, Jr. (Ret.)	Independent Director	82	Filipino	5th year as Independent Director
8. Jose M. Fernandez	Director	75	Filipino	More than 5 years
9. Miriam C. Cu	Director	59	Filipino	More than 5 years
10. Dr. Rosalinda Y. Gaw	Director	70	Filipino	April 26, 2016-Present
11. Benjamin C. Yap	Director	72	Filipino	April 26, 2016-Present

The above Directors possess all the qualifications and none of the disqualifications of directors as mandated by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission.

As in the past, the Bank adopts and complies with the Requirements on Nomination and Election of Independent Directors under SRC Rule 38 and that Independent Directors Chan, Apacible and Davide are compliant therewith.

Atty. Francis Y. Gaw nominated the eleven (11) directors. Atty. Gaw is not related to any of the nominees for independent directors.

Pursuant to the SEC Memorandum Circular No. 5, Series of 2017, the updated Certifications on the Qualification of Independent Directors Chan, Apacible and Davide are hereto attached as Annexes "A1", "A2" and "A3", respectively.

No one of the incumbent directors currently holds government position, or is connected with the government.

(b) Incumbent Corporate/Executive Officers:

At its Organizational Meeting held on May 30, 2017, the Board re-elected/re-appointed the following corporate/executive officers for the year 2017-2018, to wit:

Name	Position	Age	Citizenship
1. Dr. Jaime C. Laya	Chairman of the Board and President *(Former Chairman, Monetary Board and Governor, Central Bank of the Philippines)*	79	Filipino
2. Senior Justice Josue N. Bellosillo (Ret.)	Vice Chairman of the Board and Corporate Counsel *(Retired Senior Justice of the Supreme Court)*	84	Filipino
3. Basilio C. Yap	Vice Chairman of the Board	68	Filipino
4. Dr. Emilio C. Yap III	Vice Chairman of the Board	46	Filipino
5. Atty. Martin B. Isidro	Corporate Secretary and Asst. Corporate Counsel	88	Filipino
6. Atty. Agnes B. Urbano	Asst. Corporate Secretary and Asst. Corporate Counsel	56	Filipino
7. Jose M. Fernandez	EVP/Chief Risk Officer	75	Filipino
8. Virginia S. Choa-Shi	Executive Vice President	62	Filipino
9. Benito D. Chua	VP/Treasurer	62	Filipino
10. Atty. Jacquelin S. Tugonon	VP/Compliance Officer	44	Filipino

All the above officers have been corporate/executive officers of the Bank for more than five (5) years. Please refer to Annex "A" hereto attached for their qualifications and business affiliations.

No one of the above officers has any substantial interest, direct or indirect, in any matter to be acted upon by the stockholders.

No one of the incumbent officers currently holds government position, or is connected with the government.

At the said Organizational Meeting, the Board re-organized the various Board Committees and elected their respective Chairman and Members for a term of one (1) year effective June 1, 2017 consistent with the recommendations of the Code of Corporate Governance for Publicly-Listed Companies under SEC Memorandum Circular No. 19, Series of 2016.

The functions of the Nomination, Election and Remuneration Committee were absorbed by the Corporate Governance Committee henceforth to be known as the Corporate Governance, Nomination and Remuneration Committee composed of three (3) Independent Directors, including its Chairman, to wit:

Chief Justice Hilario G. Davide, Jr. (Ret.)	-	Chairman (Independent Director)
Mr. Ernesto O. Chan	-	Member (Independent Director)
Mr. Tomas V. Apacible	-	Member (Independent Director)

The Chairman and members of the said Committee attended the last two (2) Annual Meetings of the Stockholders.

(c) <u>Nominees for Directors for the Ensuing Year 2018-2019:</u>

For the ensuing year 2018-2019, the Final List of Nominees for the positions of the eleven (11) Directors of the Bank, were screened, evaluated, approved and endorsed by the Corporate Governance, Nomination and Remuneration Committee. No one of the nominees declined his/her nomination, to wit:

1. Dr. Jaime C. Laya
2. Sr. Justice Josue N. Bellosillo
3. Basilio C. Yap
4. Dr. Emilio C. Yap III
5. Ernesto O. Chan, Independent Director
6. Tomas V. Apacible, Independent Director
7. Chief Justice Hilario G. Davide, Jr., Independent Director
8. Jose M. Fernandez
9. Miriam C. Cu
10. Dr. Rosalinda Y. Gaw
11. Benjamin C. Yap

The eleven (11) nominees possess all the qualifications and none of the disqualifications as mandated by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. Further, the nominees for independent directors are compliant with the Requirements on Nomination and Election of Independent Directors under SRC Rule 38 and the Code of Corporate Governance for Publicly-Listed Companies under SEC Memorandum Circular No. 19, Series of 2016. The Corporate Governance, Nomination and Remuneration Committee had taken into consideration, adopted and complied with the said SRC Rule 38 and SEC Memorandum Circular No. 19 before approving and endorsing the nominees for independent directors.

Atty. Francis Y. Gaw nominated the eleven (11) nominees, including the three (3) independent directors. Atty. Gaw is not related to any of the nominees for independent director.

Chief Justice Hilario G. Davide, Jr. currently serves as Independent Director and Vice-Chairman of the Manila Bulletin Publishing Corporation.

No one of the nominees for independent director had served the Bank in such capacity for more than nine (9) years reckoned from his election in 2012.

No one of the above nominees for directors of the Bank has any substantial interest, direct or indirect, in any matter to be acted upon by the stockholders other than their election as directors of the Bank.

No one of the above nominees for directors of the Bank currently holds government position, or is connected with the government.

Please refer to Annex “A” for the business affiliations of the above nominees and Annexes “A1”, “A2” and “A3”, for the updated Certifications on Qualification of the nominees for Independent Directors.

(d) Corporate/Executive Officers for the Ensuing Year 2018-2019:

The Bank’s corporate and executive officers for the ensuing year 2018-2019 will be elected by the Board of Directors in its organizational meeting to be held on a later date. The incumbent officers are expected to be re-elected/re-appointed to their respective positions with no one signifying his/her intention to decline the same.

Significant Employees

The Bank does not expect a significant contribution to its business from employees who are not its corporate or executive officers.

Family Relations

Incumbent Vice Chairmen Basilio C. Yap and Dr. Emilio C. Yap III, and Directors Dr. Rosalinda Y. Gaw and Benjamin C. Yap are relatives by consanguinity.

Involvement in Certain Legal Proceedings

During the past five (5) years up to the present, the Bank has no knowledge that any of its incumbent directors, nominees for election as director or incumbent executive officers is a party to, or any of their properties is subject of, any of the hereunder events that are material to an evaluation of their ability or integrity, as follows:

(a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive either at the time of the bankruptcy or within two years prior to the time;

(b) Any conviction by final judgment in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offense;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self regulatory organization, to have violated a securities or commodities law or regulation and the judgment has not been reversed, suspended, or vacated.

Certain Relationships and Related Transactions

The Bank does not have a parent company and does not have any transaction with promoters.

The Board has approved to consider divesting the Bank's investment in Muralla Grande Inc., as it has not been operational since its creation.

The Bank had not undertaken any transaction during the last two (2) years involving directly the material interest of any director, executive officer or stockholder owning ten percent (10%) or more of total issued and outstanding shares, and members of their immediate family. However, in the ordinary course of business, the Bank has transactions with related parties.

Based on SEC Memorandum Circular No. 19, Series of 2016 and BSP Circular No. 969, Series of 2017, related parties shall cover any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank, the Bank's directors, officers, shareholders and related interests (DOSRI), and their close family members, as well as corresponding persons in affiliated companies, and such other person or judicial entity whose interest may pose a potential conflict with the interest of the Bank.

Related party transactions (RPTs) refer to dealings with the Bank's related parties, regardless of whether a price is charged. RPTs likewise include outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

For the years 2016 and 2017, RPTs consisted mainly of lease, investment in shares of stock, savings and current deposits, advertising services and the grant of credit facilities.

These transactions were done on an arm's length basis and on substantially the same terms, such as rate of interest, maturity, collateral, purpose, surety and service charge, among others, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable condition. They were thoroughly evaluated and reviewed by the RPT Committee prior to their endorsement to the Board of Directors. The Board, on the other hand, has over-all responsibility in ensuing that material RPTs were handled with integrity, in a sound and prudent manner, and compliant with applicable laws and regulations so as to protect the interest of the Bank's stakeholders.

Please refer to the Notes to Financial Statements for a more detailed discussion of RPTs.

Item 6. Compensation of Directors and Executive Officers

Summary of Compensation

Name/Principal Position	*Year*	*Salary*	*Bonus*	*Others*
Dr. Jaime C. Laya *Chairman of the Board and President* Jose M. Fernandez *EVP/Director* Virginia S. Choa-Shi *Executive Vice President* Edmundo C. Medrano* *Executive Vice President* Miriam C. Cu *SVP/Director* Atty. Martin B. Isidro *SVP/Corporate Secretary*	2018**	7,620,000.00	2,595,000.00	15,300,000.00
	2017	8,057,928.53	2,650,293.15	11,535,668.56
	2016	6,184,166.67	2,087,000.00	7,252,733.55
All Directors and Officers As a group	2018**	318,900,000.00	112,870,000.00	156,000,000.00
	2017	309,392,425.79	110,499,965.38	117,453,822.19
	2016	300,222,690.87	108,900,126.54	100,310,306.30

*EVP from December 1, 2016 to June 30, 2017.
**Estimated Compensation.

Each Director receives a per diem of P10,000.00 for his attendance in every Board meeting. The Directors who are members of the Executive Committee receive an additional per diem of P5,000.00 each for their attendance in the Executive Committee meeting.

There is no standard arrangement that would directly or indirectly compensate the Bank's Directors, other than their per diems and the allocated profit-sharing as provided for in the By-Laws.

Employee Retirement Benefit Plan

The Bank maintains a provident plan for the retirement and separation of its regular employees. The plan is being funded by the contributions of the employees and the Bank.

Other employee benefits which are higher than the statutory requirements are provided for in the Collective Bargaining Agreement (CBA) between the Management and the Union which was executed on October 22, 2014 covering a five-year period from January 1, 2015 to December 31, 2019.

Profit Sharing

Article VII of the Bank's Amended By-Laws provides for a percentual bonus or profit sharing equivalent to ten percent (10%) of the total yearly net profits of the Corporation before payment of income tax which is distributed to the employees, the officers and the directors as an incentive to them to help promote the business of the corporation.

Outstanding Warrants or Options

The Bank has no information on any outstanding warrant or option held by its directors or officers.

Item 7. Independent Public Accountant

The stockholders, in their annual meeting held on April 25, 2017, authorized and empowered the Board of Directors to appoint the Bank's external auditor for the year 2017.

Pursuant thereto, the Board, in its meeting held on January 30, 2018, approved the re-appointment of Maceda, Valencia & Co. (MVC), as the Bank's external auditor for the year 2017. However, the Board, in its meeting on February 27, 2018, approved to change the Bank's external auditor from MVC to Reyes Tacandong & Co. considering that SEC-accredited MVC has yet to receive the renewal of its accreditation with BSP. Reyes Tacandong & Co., being accredited by both SEC and BSP, would see to the completion of the audit of the Bank's 2017 financial statements on time for the annual stockholders' meeting and their timely submission to tax authorities and the regulatory agencies concerned.

Pursuant to SRC Rule 68 requiring the five-year rotation of external auditors or engagement partners, Reyes Tacandong & Co. shall assign to the Bank an engagement partner who shall serve as such within the said term limit.

There had been no disagreement between the Bank and its previous external auditor, MVC, concerning the years audited by them.

Representatives of Reyes Tacandong & Co., are expected to be present at the Annual Stockholders' Meeting on May 15, 2018 and have the opportunity to make a statement, if they so desire, and respond to questions regarding the 2017 Audited Financial Statements.

The aggregate fees billed for professional services rendered by the Bank's external auditors for the audit of the annual financial statements or for services that are normally provided by them in connection with statutory and regulatory filings or engagements are as follows:

SCHEDULE OF EXTERNAL AUDIT FEES AND SERVICES

	MACEDA VALENCIA & CO.	REYES TACANDONG & CO.
	2016	2017
Audit and Audit-Related Fees (Retainer Fees and Audit Engagement Fees)	P1,792,000.00	P3,113,600.00
Tax Fees	-	-
All Other Fees (Reimbursements of various Audit-Related Expenses)	-	77,840.00
Total	P1,792,000.00	P3,191,440.00

The scope of services to be rendered by the external auditor as well as the fees to be charged therefor were previously considered and approved by the Board's Audit Committee. The said Committee is composed of the following Directors who have relevant background, knowledge, skills and/or experience in the areas of accounting, auditing and finance, to wit:

Ernesto O. Chan	-	Chairman (Independent Director)
Tomas V. Apacible	-	Member (Independent Director)
Jose M. Fernandez	-	Member

Mr. Ernesto O. Chan, an independent director, is the Chairman of the Board's Audit Committee as required under SEC Circular No. 19, Series of 2016.

The Chairman and members of the said Committee attended the last two (2) Annual Meetings of the Stockholders.

Audit Committee's Approval Policies and Procedures on Dealings with External Auditors

The Audit Committee shall assist the Board of Directors in fulfilling its oversight responsibilities for: (1) the integrity of the company's financial statements, (2) the company's compliance with legal and regulatory requirements, (3) the independent auditor's qualifications and independence, and (4) the performance of the company's internal audit function and independent auditors.

It shall have the authority to conduct or authorize investigations into any matter within the scope of its responsibility, to wit:

1. Appoint, compensate, and oversee the work of the public accounting firm employed by the organization to conduct the annual audit. This firm will report directly to the audit committee.

2. Resolve any disagreement between management and the auditor regarding financial reporting.
3. Pre-approve all auditing and permit non-audit services performed by the company's external audit firm.
4. Retain independent counsel, accountants, or others to advise the committee or assist in the conduct of an investigation.
5. Seek any information it requires from employees – all of whom are directed to cooperate with the committee's requests – or external parties.
6. Meet with company officers, external auditors, or outside counsel, as necessary.
7. The committee may delegate authority to subcommittees, including the authority to pre-approve all auditing and permit no-audit services, provided that such decisions are presented to the full committee at its next scheduled meeting.

Item 8. Compensation Plans

Compensations are based on the designated salary scheme of the Bank.

Standard Arrangement and Material Terms of Other Arrangements

The Bank has no standard arrangement or any other arrangement with regard to the remuneration of its incumbent officers other than their compensation.

Terms and Conditions of Employment of Executive Officers

The Bank has the usual terms and conditions of employment of all its employees whether rank and file or executives.

C. ISSUANCE AND EXCHANGE OF SECURITIES

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

NOT APPLICABLE

Item 10. Modification or Exchange of Securities

NOT APPLICABLE

Item 11. Financial and other Information

Please refer to the 2017 Audited Financial Statements per Annexes "B" and "B-1" hereto attached.

Item 12. **Mergers, Consolidations, Acquisitions and Similar Matters**

NOT APPLICABLE

Item 13. **Acquisition or Disposition of Property**

There is no acquisition or disposition of any property requiring stockholders' approval.

Item 14. **Restatement of Accounts**

There is no restatement of any asset, capital or surplus account of the Bank requiring stockholders' approval.

D. OTHER MATTERS

Item 15. **Action with Respect to Reports**

At the annual stockholders' meeting scheduled on May 15, 2018, only the matters included in the agenda will be considered and acted upon including the following reports:

1. Approval of the Minutes of the Annual Meeting of the Stockholders held on April 25, 2017.
2. Approval of the Annual Report to Stockholders for the year 2017.
3. Approval/ratification of all the acts and transactions of the Board of Directors, the Board and the Management Committees and the Management including related party transactions, since the last annual meeting of the stockholders held in 2017.

Hereunder is a brief summary of the 2017-2018 resolutions of the Board, the Committees and the Management for ratification of the stockholders:

1. The grant, renewal, increase and reinstatement of credit accommodations.
2. Reorganization of the Board Committees and the Management Committees.
3. Adoption/amendment of various corporate manuals to conform with the requirements of the Securities and Exchange Commission and the Bangko Sentral ng Pilipinas.

4. Sale of the properties foreclosed by the Bank located in Metro Manila and in the provinces.

5. Retirement, promotion and appointment of Bank Officers.

6. Grant of authority to represent the Bank in certain legal and administrative matters.

7. Appointment/Change of external auditor for the year 2017 as authorized by the stockholders.

8. Other acts/resolutions/transactions in the regular course of universal banking operations.

Item 16. Matters Not Required to be Submitted

NOT APPLICABLE

Item 17. Amendment of Charters, By-Laws or other Documents

NOT APPLICABLE

Item 18. Other proposed Action

All the items of the Agenda were acted upon by the stockholders at their previous annual meeting held on April 25, 2017, to wit:

1. Approval of the Minutes of the Annual Meeting of the Stockholders held on April 26, 2016.
2. Approval of the Annual Report to the Stockholders for the year 2016.
3. Ratification and approval of all the acts and transactions of the Board of Directors, the Board and the Management Committees and the Management, including related party transactions, since the Annual Meeting of the Stockholders held in 2016.
4. Appointment of External Auditor.
5. Election of Directors.
6. Declaration of Cash Dividend.

The Minutes of the 2017 Annual Meeting of the Stockholders will be submitted to the stockholders for their approval on May 15, 2018. The said 2017 Minutes include the approval of Agenda Items 1 and 2 above, the ratification of the 2016 acts and transactions under Agenda Item 3; the grant of authority to the Board of

Directors to appoint the Bank's external auditors for the year 2017 under Agenda Item 4; the election of the eleven (11) Directors of the Bank, each of whom obtained the unanimous vote of all the stockholders present or represented at the meeting under Agenda Item No. 5; and the approval, confirmation and ratification of the declaration by the Board of Directors of cash dividend of P0.20 per share under Agenda Item No. 6.

No action was taken with respect to any matter not included in the Agenda.

Item 19. Voting Procedures

Every stockholder entitled to vote shall have the right to vote in person or by proxy the number of shares standing in his name. Each share is entitled to one (1) vote.

With the presence of quorum, a majority vote of all the shares present or represented at the meeting is required to approve the actions of the stockholders, except in the election of directors where cumulative voting is allowed.

Votes will be counted viva voce.

Dr. Jaime C. Laya, Chairman of the Board of Directors and President, shall preside over the Annual Stockholders' Meeting, while the Corporate Secretary, assisted by the auditors, shall count the votes to be cast thereat.

Chairman Laya likewise presided over the last two (2) Annual Meetings of the Stockholders.

Item 20. Statement of Management's Responsibility for Financial Statements and Audited Financial Statements

Please refer to the Statement of Management's Responsibility for Financial Statements and the 2017 Audited Financial Statements hereto attached as Annexes "B" and "B-1", respectively.

Item 21. Management Report and Management's Discussion and Analysis of Financial Condition and Results of Operations

Please refer to Annexes "C", "C-1", "C-2" and "C-3" hereto attached.

SIGNATURE PAGE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Manila on the 20th day of April, 2018.

PHILTRUST BANK
(Philippine Trust Company)

BY:

Martin B. Isidro
Corporate Secretary

Annex "A"

BUSINESS EXPERIENCE OF DIRECTORS AND OFFICERS

Name / Citizenship	*Title*	*Corporation/Affiliation*	*Profession/Occupation*
1. Dr. Jaime C. Laya Filipino 79 years old	Chairman and President Former Governor Former Chairman Independent Director Independent Director Independent Director Independent Director Independent Director Trustee Trustee Trustee Trustee Chairman Chairman Trustee Trustee Columnist	Philtrust Bank Central Bank of the Philippines, 1981- 1984 Monetary Board, Central Bank of the Philippines, 1981-1984 Philippine AXA Life Insurance Co., Inc. GMA Network, Inc. and GMA Holdings, Inc. Ayala Land, Inc., Manila Water Company, Inc., Charter Ping An Insurance Corporation Cultural Center of the Philippines Metropolitan Museum of Manila Yuchengco Museum St. Paul's University-Quezon City Escuela Taller Foundation of the Philippines, Inc., Don Norberto Ty Foundation, Inc. Society for Cultural Enrichment, Inc. Ayala Foundation, Inc., Manila Bulletin Publishing Corp.	Ph.D. – Financial Management CPA
2. Senior Justice Josue N. Bellosillo (Ret.) Filipino 84 years old	Vice Chairman Corporate Counsel Dean	Philtrust Bank Philtrust Bank Centro Escolar University-School of Law and Jurisprudence	Lawyer Retired Senior Justice of the Supreme Court of the Philippines

Name / Citizenship	*Title*	*Corporation/Affiliation*	*Profession/Occupation*
3. Basilio C. Yap Filipino 68 years old	Vice Chairman Chairman Chairman Chairman Chairman/President Chairman/President Chairman /President Chairman/President Chairman/President Chairman/President Chairman/President Vice Chairman Director Director	Philtrust Bank Manila Bulletin Publishing Corp. Manila Hotel Corporation Centro Escolar University U.S. Automotive Co., Inc. Usautoco, Inc. Philtrust Realty Corporation Manila Prince Hotel Corp. Cocusphil Development Corporation U.N. Properties Development Corporation Seabreeze Enterprises, Inc. Euro-Med Laboratories Phil., Inc. MH F&B Ideas Inc. TMH Transport Limousine Services Inc.	MBA / CPA
4. Dr. Emilio C. Yap III Filipino 46 years old	Vice Chairman Vice Chairman/EVP Chairman Vice Chairman Director Director/Vice President Director/Asst. Treasurer/ Asst. Corp. Sec. Director/Vice President Director Director Director Director Director Director Director/VP/Treasurer	Philtrust Bank Manila Bulletin Publishing Corporation Manila Prime Land Holdings, Inc. Manila Hotel Corporation Centro Escolar University U.S. Automotive Co., Inc. Usautoco, Inc. Philtrust Realty Corporation Cocusphil Development Corporation Manila Prince Hotel Corporation U.N. Properties Development Corporation MH F&B Ideas Inc. TMH Transport Limousine Services Inc. Orient Enterprises, Inc. Seabreeze Enterprises, Inc.	Business Executive Doctor of Philosophy in Journalism Honoris Causa Doctor of Philosophy in Business Administration Honoris Causa
5. Ernesto O. Chan Filipino 71 years old	Independent Director* Chairman/Treasurer/SVP Chairman Director Director/Treasurer Director/Treasurer	Philtrust Bank Pioneer Insurance and Surety Corp. Pioneer Intercontinental Insurance Corp. Pioneer Life, Inc. Bancasia Finance and Investment Corp. Bancasia Capital Corp.	Business Executive

*Independent Director reckoned from his election as such in 2012, consistent with SEC Memorandum Circular No. 4, Series of 2017.

Name / Citizenship	*Title*	*Corporation/Affiliation*	*Profession/Occupation*
6. Tomas V. Apacible Filipino 72 years old	Independent Director* Adviser Fellow Former Congressman	Philtrust Bank Philippine Cancer Society Institute of Corporate Directors Batangas, First District (June 2010 – June 2013)	MBA
7. Chief Justice Hilario G. Davide, Jr. (Ret.) Filipino 82 years old	Independent Director Independent Director/ Vice Chairman Chairman Trustee Chairman Chairman Chairman Chairman Member Independent Director	Philtrust Bank (April 30, 2013 to date) Manila Bulletin Publishing Corporation (2011 to date) Kompass Credit and Financing Corporation University of San Carlos, Cebu City Chief Justice Claudio Teehankee Memorial Foundation, Inc. Knights of Columbus Fr. George J. Willmann, SJ Charities, Inc. Knights of Columbus of the Philippines Foundation, Inc. Heart of Francis Foundation, Inc. Knights of Rizal-Council of Elders Megawide Construction Corp.	Lawyer Retired Chief Justice of the Supreme Court of the Philippines
8. Jose M. Fernandez Filipino 75 years old	Director Chief Risk Officer Executive Vice President Former Senior Vice Pres.	Philtrust Bank Philtrust Bank Philtrust Bank Philtrust Bank	CPA/MBA
9. Miriam C. Cu Filipino 59 years old	Director Senior Vice President Director/Treasurer Vice President Director/Corporate Sec. Director	Philtrust Bank Philtrust Bank Orient Enterprises, Inc. Brightworld Int'l Trading, Inc. Seabreeze Enterprises, Inc. G.A. Cu Unjieng Realty, Inc.	CPA

* Independent Director reckoned from his election as such in 2012, consistent with SEC Memorandum Circular No. 4, Series of 2017.

Name / Citizenship	*Title*	*Corporation/Affiliation*	*Profession/Occupation*
10. Dr. Rosalinda Y. Gaw Filipino 70 years old	Director Chairman/President Vice Chair/Treasurer/ Corporate Secretary Director/Treasurer/ Corporate Secretary Director/Treasurer/ Corporate Secretary Director/Treasurer/ Corporate Secretary Director/Treasurer/ Corporate Secretary Director/Treasurer/ Corporate Secretary	Philtrust Bank Orient Enterprises Inc. Goldclass Inc. U.S. Automotive Co., Inc. USAUTOCO Inc. Philtrust Realty Corp. Cocusphil Development Corp. U.N. Properties Development Corp.	Business Executive CPA MBA Ph.D
11. Benjamin C. Yap Filipino 72 years old	Director President/Chairman of the Board Chairman of the Board Director Director Director Director Director Director Director	Philtrust Bank Benjamin Favored Son, Inc. House of Refuge Foundation USAUTOCO Inc. Manila Hotel Corporation Centro Escolar University Seabreeze Enterprises, Inc. Philtrust Realty Corp. U.S. Automotive Co., Inc. Euro-Med Laboratories Phil., Inc.	Business Executive

Name / Citizenship	*Title*	*Corporation/Affiliation*	*Profession/Occupation*
Atty. Martin B. Isidro Filipino 88 years old	Corporate Secretary Asst. Corporate Counsel Corp. Information Officer Senior Vice President Former Director Former Congressman, Vice-Mayor, and Councilor	Philtrust Bank Philtrust Bank Philtrust Bank Philtrust Bank Philtrust Bank (December 1, 2003-April 30, 2013; April 29, 2014-June 30, 2014) City of Manila	Lawyer
Virginia S. Choa-Shi Filipino 62 years old	Executive Vice President	Philtrust Bank	Banker
Atty. Agnes B. Urbano Filipino 56 years old	Asst. Corporate Secretary Asst. Corporate Counsel First Vice President	Philtrust Bank Philtrust Bank Philtrust Bank	Lawyer
Benito D. Chua Filipino 62 years old	Treasurer Vice President	Philtrust Bank Philtrust Bank	Banker
Atty. Jacquelin S. Tugonon Filipino 44 years old	Compliance Officer Vice President	Philtrust Bank Philtrust Bank	Lawyer

Annex "A-1"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, **ERNESTO O. CHAN** , Filipino, of legal age and with office address at Pioneer Insurance and Surety Corp., 108 Paseo de Roxas, Makati City, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2012 *.

2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Pioneer Insurance and Surety Corp.	Chairman /Treasurer/SVP	1988/1973-Present
Pioneer Intercontinental Insurance Corp.	Chairman	1988-Present
Pioneer Life, Inc.	Director	2003-Present
Bancasia Finance and Investment Corp.	Director/Treasurer	1979/1980-Present
Bancasia Capital Corp.	Director/Treasurer	1988-Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service/affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.

Done this MAR 2 7 2018 at the City of Manila.

ERNESTO O. CHAN
Affiant

Republic of the Philippines)
City of Manila) s.s.

SUBSCRIBED AND SWORN to before me this MAR 2 7 2018 at the City of Manila affiant exhibiting to me his Tax Identification Number 100-581-717.

NEMESIO M. DOMINGO
Commission No. 2018-079
Notary Public for the City of Manila
Until December 31, 2019
1000 U.N. Ave., Cor San Marcelino St., Manila
MCLE Compliance No. V-0017753
Roll No. 43903 / 05-07-99
PTR No. 6948616, 12/20/17; Manila
IBP No. 03932 / Isabela
TIN 109-213-922

Doc. No. 184 ;
Page No. 38 ;
Book No. I ;
Series of 2018.

* Reckoning year per SEC Memorandum Circular No. 4, Series of 2017.

Annex "A-2"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, TOMAS V. APACIBLE, Filipino, of legal age and with office address at Philtrust Bank, 1000 United Nations Avenue corner San Marcelino Street, Manila, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2012 *.

2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
House of Representatives	Congressman- Batangas-First District	June 2010-June 2013
Institute of Corporate Directors	Fellow	July 2013-Present
Philippine Cancer Society	Adviser	July 2013-Present

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service/affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.

Done this MAR 27 2018 at the City of Manila.

TOMAS V. APACIBLE
Affiant

Republic of the Philippines)
City of Manila) s.s.

SUBSCRIBED AND SWORN to before me this MAR 27 2018 at the City of Manila affiant exhibiting to me his Tax Identification Number 124-134-842.

Doc. No. 185 ;
Page No. 38 ;
Book No. I ;
Series of 2018.

NEMESIO M. DOMINGO
Commission No. 2018-077
Notary Public for the City of Manila
Until December 31, 2019
1000 U.N. Ave., Cor. San Marcelino St., Manila
MCLE Compliance No. V-0017753
Roll No. 43903 / 05-07-99
PTR No. 6948616, 12/20/17; Manila
IBP No. 03932 / Isabela
TIN 109-213-922

* Reckoning year per SEC Memorandum Circular No. 4, Series of 2017.

Annex "A-3"

CERTIFICATION OF INDEPENDENT DIRECTOR

I, HILARIO G. DAVIDE, JR., Filipino, of legal age and with office address at Philtrust Bank, 1000 United Nations Avenue corner San Marcelino Street, Manila, after having been duly sworn in accordance with law, do hereby declare that:

1. I am a nominee for independent director of the Philippine Trust Company, also known as PHILTRUST BANK, and have been its independent director since 2013.

2. I am affiliated with the following companies or organizations:

COMPANY/ORGANIZATION	POSITION/RELATIONSHIP	PERIOD OF SERVICE
Manila Bulletin Publishing Corporation	Independent Director/ Vice Chairman	2011 to date
Kompass Credit and Financing Corporation	Chairman	2014 to date
University of San Carlos, Cebu City	Trustee	Sept. 2014 to date
Chief Justice Claudio Teehankee Memorial Foundation, Inc.	Chairman	2013 to date
Knights of Columbus Fr. George J. Willman, SJ Charities, Inc.	Chairman	2015 to date
Knights of Columbus of the Philippines Foundation, Inc.	Chairman	2015 to date
Heart of Francis Foundation, Inc.	Chairman	2015 to date
Knights of Rizal – Council of Elders	Member	2008 to date
Megawide Construction Corp.	Independent Director	Sept. 2016 to date

3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of Philtrust Bank, as provided for in Section 38 of the Securities Regulation Code, its Implementing Rules and Regulations and other SEC issuances.

4. I am not related to any director/officer/substantial shareholder of Philtrust Bank and its subsidiaries and affiliates.

5. To the best of my knowledge, I am not the subject of any pending criminal or administrative investigation or proceeding.

6. I am not in government service/affiliated with a government agency or GOCC.

7. I shall faithfully and diligently comply with my duties and responsibilities as independent director under the Securities Regulation Code and its Implementing Rules and Regulations, Code of Corporate Governance and other SEC issuances.

8. I shall inform the Corporate Secretary of Philtrust Bank of any change in the abovementioned information within five days from its occurrence.

Done this MAR 2 7 2018 at the City of Manila.

HILARIO G. DAVIDE, JR.
Affiant

Republic of the Philippines)
City of Manila) s.s.

SUBSCRIBED AND SWORN to before me this MAR 2 7 2018 at the City of Manila affiant exhibiting to me his Tax Identification Number 135-900-348.

NEMESIO M. DOMINGO
Commission No. 2018-077
Notary Public for the City of Manila
Until December 31, 2019
1000 U.N. Ave., Cor. San Marcelino St., Manila
MCLE Compliance No. V-0017753
Roll No. 43903 / 05-07-99
PTR No. 6948616, 12/20/17; Manila
IBP No. 03932 / Isabela
TIN 109-213-922

Doc. No. 186 ;
Page No. 39 ;
Book No. I ;
Series of 2018.

Annex "B"

PHILTRUST BANK
PHILIPPINE TRUST COMPANY

PHILTRUST BANK BUILDING
UNITED NATIONS AVE. CORNER SAN MARCELINO ST.,
MANILA, PHILIPPINES

TEL.: (632) 524-90-61 TO 76
(632) 498-01-90 TO 99
FAX: (632) 521-73-09 / 498-02-00
SWIFT: PHTBPHMM
EMAIL: ptc@philtrustbank.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **PHILTRUST BANK (Philippine Trust Company)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud and error.

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

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

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

REYES TACANDONG & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

JAIME C. LAYA
Chairman of the Board and President

LUISA A. LUCIN
Chief Finance Officer

REPUBLIC OF THE PHILIPPINES)
CITY OF MANILA)s.s.

Subscribed and sworn to before me this APR 2 0 2018, affiants exhibiting to me their respective Tax Identification Numbers, as follows:

Jaime C. Laya	TIN 103-175-586
Luisa A. Lucin	TIN 109-213-381

Doc. No. 363
Page No. 74
Book No. I
Series of 2018

April 20, 2018

NEMESIO M. DOMINGO
Commission No. 2018-073
Notary Public for the City of Manila
Until December 31, 2019
1000 U.N. Ave., Cor. San Marcelino St., Manila
MCLE Compliance No. V-0017753
Roll No. 43903 / 05-07-99
PTR No. 6948616, 12/20/17; Manila
IBP No. 03932 / Isabela
TIN 109-213-922

REYES TACANDONG & CO.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
December 29, 2015, valid until December 31, 2018
SEC Accreditation No. 0207-FR-2 (Group A)
September 27, 2016, valid until September 27, 2019

Citibank Tower
8741 Paseo de Roxas
Makati City 1226 Philippines
Phone : +632 982 9100
Fax : +632 982 9111
Website : www.reyestacandong.com

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

Opinion

We have audited the accompanying consolidated financial statements of Philtrust Bank (Philippine Trust Company) (the Parent Bank) and its subsidiary (collectively referred as the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2017, and their consolidated financial performance and their consolidated cash flows for the year ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audit in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audit of the consolidated 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.

Other Matter

The consolidated financial statements of the Group as at and for the years ended December 31, 2016 and 2015 were audited by another auditor, whose report dated March 28, 2017, expressed an unqualified opinion on those statements. The opinion of such other auditor, however, excludes the restatements discussed in Note 4 to consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements as at and for the year ended December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Manual Monitoring of Loans and Receivables
While the automated Loan Management System is being developed, the Parent Bank has continued to utilize its traditional procedures and processes in maintaining loan records. Outstanding loans and receivables as at December 31, 2017 amounting to ₱46,674.9 million, net of allowance for credit and impairment losses, represent 30% of the Group's total assets. Moreover, the related interest income on loans and receivables amounting to ₱1,586.5 million represents 28% and 98% of the total revenue and net income, respectively.

Due to the significant volume of transactions and differences in payment terms and conditions of the loan accounts, additional measures need to be taken to ensure completeness and validity of loans and receivables, accuracy of the interest income, recognition of accrued interest, and timely and complete identification of past due accounts.

Our audit procedures included, among others, (a) obtaining understanding of recording and loan administration processes; (b) verifying the excel summary of significant loan accounts prepared by the Parent Bank by comparing the same with relevant loan documents; (c) re-computing the interest income of significant loan accounts in accordance with the terms and conditions reflected in loan summaries; (d) re-computing accrued interest; and (e) validating the status of the significant loan accounts (i.e., current or past due) and comparing the result with the Parent Bank's listing of past due and non-performing loan accounts.

The potential effect of item (e) in the allowance for impairment and credit losses are addressed in the discussion of key audit matter relating to the "Adequacy of Provision for Credit and Impairment Losses on Loans and Receivables."

The relevant disclosures affecting loans and receivables and interest income are presented in Note 8 to consolidated financial statements.

Adequacy of Provision for Credit and Impairment Losses on Loans and Receivables
As prescribed by the Philippine Accounting Standard 39, *Financial Instruments: Recognition and Measurement*, the Group should continue to regularly assess the carrying values of loans and receivables at the end of each reporting year in order to obtain objective evidence of the existence or absence of any impairment.

The adequacy of allowance for credit and impairment losses is significant in our audit because the determination of the provision for credit and impairment losses requires the application of significant judgment and involves estimation of the amount and timing of future cash flows.

Our audit procedures included, among others, (a) understanding of the loan products, credit policy and loan loss provisioning policies and processes; (b) assessing internal controls over the established processes involving (i) identification of past due accounts, (ii) credit quality mapping, (iii) assessment of borrowers' repayment capabilities, and (iv) aggregation of accounts that shared similar credit risk characteristics; (c) evaluating the methodologies, inputs and assumptions used to determine specific and collective impairment assessment; (d) for accounts that have been subjected to specific assessment, recalculating the recoverable amount of selected loan accounts and comparing with the carrying amount; and (e) for accounts that have been subjected to collective assessment, testing the reasonableness of impairment loss by comparing such with the established loss rates.

We also reviewed the adequacy of the Group's disclosures pertaining to credit risk, aging, maturity and other information relevant to assessment of collectability of loans and receivables, and sufficiency of allowance for credit and impairment losses. These disclosures are presented in Notes 5 and 8 to consolidated financial statements.

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 financial statements and our auditors' 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 auditors' report.

Our opinion on the consolidated 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 financial statements, our responsibility is to read the other information identified in the foregoing when these become available and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Financial Statements

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA 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, these could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 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 ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for the 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 consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' 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.

REYES TACANDONG & CO.

Haydee M. Reyes

HAYDEE M. REYES
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Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2017
Valid until January 13, 2020
PTR No. 6607959
Issued January 3, 2018, Makati City

April 20, 2018
Makati City, Metro Manila

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

Amounts in Thousands

	Note	**2017**	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
ASSETS				
Cash and Other Cash Items	7	**₱828,754**	₱755,071	₱770,763
Due from Bangko Sentral ng Pilipinas	7	**25,498,556**	29,267,559	29,589,835
Due from Other Banks	7	**4,147,236**	4,345,921	3,019,471
Loans and Receivables	8	**46,674,948**	55,163,114	45,361,463
Available-for-Sale Financial Assets	9	**66,673,293**	51,798,313	46,446,107
Held-to-Maturity Investments	10	**3,426,567**	5,452,376	4,598,766
Bank's Premises, Furniture, Fixtures and Equipment	11	**2,710,421**	2,714,701	2,618,787
Investment Properties	12	**2,809,157**	2,805,577	2,852,913
Deferred Tax Assets	25	**1,011,205**	870,089	720,296
Other Assets	13	**175,961**	186,399	160,493
		₱153,956,098	₱153,359,120	₱136,138,894
LIABILITIES AND EQUITY				
Deposit Liabilities	14			
Demand		**₱1,752,118**	₱1,711,051	₱1,384,090
Savings		**86,979,160**	87,665,769	74,150,329
Time		**40,933,052**	40,701,873	36,480,375
		129,664,330	130,078,693	112,014,794
Managers Checks and Demand Draft Outstanding		**127,460**	116,525	85,953
Accrued Taxes, Interest and Other Expenses	15	**278,835**	233,904	203,887
Other Liabilities	16	**188,130**	131,510	238,390
Retirement Liability	20	**7,228**	8,577	8,498
Total Liabilities		**130,265,983**	130,569,209	112,551,522
Equity				
Share Capital	17	**10,000,000**	10,000,000	10,000,000
Reserves	17	**72,320**	72,320	72,320
Surplus		**11,816,850**	10,405,091	9,538,286
Other Equity Reserves		**1,800,945**	2,312,500	3,976,766
Total Equity		**23,690,115**	22,789,911	23,587,372
		₱153,956,098	₱153,359,120	₱136,138,894

See accompanying Notes to Consolidated Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

Amounts in Thousands

	Note	**2017**	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
INTEREST INCOME ON:				
Available-for-sale financial assets	9	**₱2,735,363**	₱2,330,774	₱2,127,576
Loans and receivables	8	**1,586,537**	1,822,170	1,988,191
Deposits from Bangko Sentral ng Pilipinas and other banks	7	**1,230,837**	1,104,827	883,621
Held-to-maturity investments	10	**176,354**	371,973	342,883
		5,729,091	5,629,744	5,342,271
INTEREST EXPENSE ON DEPOSIT LIABILITIES	14	**2,739,342**	2,861,910	2,608,964
NET INTEREST INCOME		**2,989,749**	2,767,834	2,733,307
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	8	**477,205**	519,101	108,002
OTHER INCOME				
Net foreign exchange gains		**46,772**	39,747	49,416
Service charges and commissions		**59,983**	52,214	52,287
Others	19	**1,425,659**	834,267	496,094
		1,532,414	926,228	597,797
OPERATING EXPENSES				
Compensation and employee benefits	20	**900,679**	822,242	764,434
Occupancy and equipment-related expenses	21	**219,904**	200,899	183,609
Others	22	**978,860**	845,269	800,148
		2,099,443	1,868,410	1,748,191
INCOME BEFORE INCOME TAX		**1,945,515**	1,306,551	1,474,911
INCOME TAX EXPENSE	25	**333,756**	239,746	405,721
NET INCOME		**₱1,611,759**	₱1,066,805	₱1,069,190
BASIC AND DILUTED EARNINGS PER SHARE	18	**₱1.61**	₱1.07	₱1.07

See accompanying Notes to Consolidated Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

Amounts in Thousands

	Note	**2017**	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
NET INCOME		**₱1,611,760**	₱1,066,805	₱1,069,190
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be subsequently reclassified to profit or loss:				
Net unrealized loss on available-for-sale financial asset	9	**(391,513)**	(1,865,782)	(865,053)
Translation adjustment	9	**(121,141)**	201,427	254,900
Item that will not be subsequently reclassified to profit or loss -				
Remeasurement gain (loss) of retirement liability, net of deferred tax	20	**1,099**	89	(62)
		(511,555)	(1,664,266)	(610,215)
TOTAL COMPREHENSIVE INCOME (LOSS)		**₱1,100,205**	(₱597,461)	₱458,975

See accompanying Notes to Consolidated Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

Amounts in Thousands

	Note	**2017**	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
SHARE CAPITAL	17	**₱10,000,000**	₱10,000,000	₱10,000,000
RESERVES	17	**72,320**	72,320	72,320
SURPLUS				
Balance at beginning of year				
As previously reported		**10,627,175**	9,760,711	8,734,849
Prior period adjustments		**(222,084)**	(222,425)	(265,753)
As restated		**10,405,091**	9,538,286	8,469,096
Net income		**1,611,759**	1,066,805	1,069,190
Cash dividends	17	**(200,000)**	(200,000)	–
Balance at end of year		**11,816,850**	10,405,091	9,538,286
OTHER EQUITY RESERVES				
Cumulative Unrealized Gain on Available-for-Sale Financial Assets	9			
Balance at beginning of year				
As previously reported		**2,090,043**	3,672,682	4,336,951
Prior period adjustments		**(240,439)**	42,704	243,488
As restated		**1,849,604**	3,715,386	4,580,439
Net unrealized losses		**(391,513)**	(1,865,782)	(865,053)
Balance at end of year		**1,458,091**	1,849,604	3,715,386
Cumulative Translation Adjustment				
Balance at beginning of year				
As previously reported		**–**	–	–
Prior period adjustments		**456,327**	254,900	11,412
As restated		**456,327**	254,900	11,412
Translation adjustment		**(121,141)**	201,427	243,488
Balance at end of year		**335,186**	456,327	254,900
Cumulative Remeasurement Gain on Retirement Liability	20			
Balance at beginning of year		**6,569**	6,480	6,542
Net remeasurement gain (loss)		**1,099**	89	(62)
Balance at end of year		**7,668**	6,569	6,480
		1,800,945	2,312,500	3,976,766
		₱23,690,115	₱22,789,911	₱23,587,372

See accompanying Notes to Consolidated Financial Statements.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

(With Comparative Figures for 2016 and 2015)

Amounts in Thousands

	Note	**2017**	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		**₱1,945,515**	₱1,306,551	₱1,474,911
Adjustments for:				
Gain on sale of:				
Available-for-sale financial assets	19	**(859,162)**	(599,614)	(365,639)
Investment properties	19	**(476,265)**	(89,238)	(17,018)
Bank's premises, furniture fixtures and equipment		**(666)**	(14,699)	(1,262)
Provision for credit and impairment losses	8	**477,205**	519,101	108,002
Depreciation and amortization	11	**148,136**	124,869	113,647
Retirement benefits	20	**47,073**	45,470	44,553
Dividend income	19	**(23,841)**	(23,817)	(19,321)
Operating income before working capital changes		**1,257,995**	1,268,623	1,337,873
Decrease (increase) in:				
Loans and receivables		**6,034,137**	(12,898,658)	(10,593,805)
Other assets		**6,124**	(27,316)	(47,856)
Increase (decrease) in:				
Deposit liabilities		**(414,363)**	18,015,545	9,306,407
Manager's checks and demand drafts outstanding		**10,935**	30,572	21,843
Accrued taxes, interest and other expenses		**42,924**	30,017	11,185
Other liabilities		**56,620**	(74,349)	75,753
Net cash generated from operations		**6,994,372**	6,344,434	111,400
Contributions to the retirement fund	20	**(46,852)**	(45,264)	(44,375)
Income tax paid		**(331,749)**	(388,442)	(333,988)
Dividend received		**23,841**	23,817	19,321
Net cash provided by (used in) operating activities		**6,639,612**	5,934,546	(247,642)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of:				
Available-for-sale financial assets	9	**(22,364,546)**	(10,543,945)	(8,765,108)
Investment properties	12	**–**	(46,236)	(34,613)
Bank's premises, furniture, fixtures and equipment	11	**(80,752)**	(174,669)	(130,882)
Held-to-maturity investments	10	**–**	(2,657,275)	(282,708)
Proceeds from:				
Sale of available-for-sale financial assets		**7,836,074**	6,354,735	7,072,293
Sale of investment properties		**2,239,398**	136,804	–
Maturities of held-to-maturity investments		**2,025,809**	2,166,812	888,472
Sale of bank's premises, furniture, fixtures and equipment		**10,400**	17,710	28,731
Net cash used in investing activities		**(10,333,617)**	(4,746,064)	(1,223,815)

	Note	2017	2016 (As Restated - Note 4)	2015 (As Restated - Note 4)
CASH FLOWS FROM A FINANCING ACTIVITY				
Cash dividends paid	17	**(₱200,000)**	(₱200,000)	₱–
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,894,005)**	988,482	(1,471,457)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7			
Cash and other cash items		**755,071**	770,763	989,827
Due from Bangko Sentral ng Pilipinas		**29,267,559**	29,589,835	31,907,100
Due from other banks		**4,345,921**	3,019,471	1,954,599
		34,368,551	33,380,069	34,851,526
CASH AND CASH EQUIVALENTS AT END OF YEAR	7			
Cash and other cash items		**828,754**	755,071	770,763
Due from Bangko Sentral ng Pilipinas		**25,498,556**	29,267,559	29,589,835
Due from other banks		**4,147,236**	4,345,921	3,019,471
		30,474,546	₱34,368,551	33,380,069
OPERATING CASH FLOWS FROM INTEREST				
Interest received		**₱5,655,289**	₱5,635,117	₱5,052,560
Interest paid		**2,741,967**	2,858,336	2,596,787
NONCASH INVESTING INFORMATION				
Reclassification of loans and receivables to investment properties	12	**₱1,833,563**	₱34,151	₱29,000

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(With Comparative Information for 2016 and 2015)

1. General Information

Philtrust Bank (Philippine Trust Company) (the "Parent Bank") is one of the oldest private commercial banks in the Philippines. Founded on October 21, 1916, the Parent Bank's history parallels the growth of the Philippine banking system. The Parent Bank's corporate life was extended to another 50 years from October 21, 2016.

The Parent Bank was conferred full universal bank status on June 5, 2007. Its principal activities are commercial and investment banking. It offers domestic, international and trust services. Its domestic services are: savings, checking and time deposits, money market placements, business loans, remittances, fund transfer, safety deposit services and securities investments. International transactions include: travelers cheque, foreign exchange, Foreign Currency Deposit Unit (FCDU) transactions, commercial letters of credit, international remittances and collections through a network of 61 local branches.

In order to achieve better delivery of the bank's services, the Parent Bank has put up 65 automated teller machines (ATM): 45 on-site distributed at its head office and branches and 20 off-site as at December 31, 2017.

The Parent Bank also provides investment management, estate administration, escrow services, administration of savings, insurance and pension plans, stock registry and transfer services.

The Parent Bank has its primary listing on the Philippine Stock Exchange, Inc. (PSE) on February 17, 1988.

On November 27, 2014, the Parent Bank established Muralla Grande, Inc. (MGI), a wholly owned subsidiary whose primary purpose is to engage in real estate business. As at December 31, 2017, MGI has not yet started its commercial operations.

The Parent Bank and its subsidiary are collectively referred to as the "Group".

The principal office of the Parent Bank is located at 1000 United Nation Avenue corner San Marcelino St., Manila.

Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as at and for the year ended December 31, 2017 (with comparative figures for 2016 and 2015) were approved and authorized for issuance by the Board of Directors (BOD) on April 20, 2018, as recommended for approval by the Audit Committee on the same date.

2. Summary of Significant Accounting Policies

Basis of Preparation and Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), issued by the Philippine Financial Reporting Standards Council and adopted by the SEC, including SEC pronouncements. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC).

Measurement Bases

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale (AFS) financial assets that have been measured at fair value, and retirement liability that is carried at the present value of defined benefit obligation.

Historical cost is generally based on the fair value of the consideration given in exchange of assets and fair value of the consideration received in exchange for incurring liability. 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 Group uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in Note 5, *Financial Risk Management.*

Functional and Presentation Currency

Items in the consolidated financial statements of each entity in the Group are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The consolidated financial statements are presented in Philippine Peso, which is the Parent Bank’s functional currency.

The financial statements of the Parent Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts. All values are rounded to the nearest thousands, except when otherwise indicated.

Presentation of Consolidated Financial Statements
The Group presents its consolidated statement of financial position broadly in the order of liquidity. An analysis of recoveries or settlements within 12 months (current) after the reporting date is presented in Note 5.

The Group presents all items of income and expenses in two statements: a consolidated statement of income and a consolidated statement of comprehensive income.

The Group presents a third consolidated statement of financial position at the beginning of the preceding year when it makes a retrospective restatement or reclassification of items that have a material effect on the information in the consolidated statement of financial position at the beginning of the preceding year. The related notes to the third consolidated statement of financial position are not required to be disclosed. An analysis of the retrospective restatement made by the Group is presented in Note 4.

Adoption of New and Amended PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2017.

- Amendments to PAS 7, *Statement of Cash Flows - Disclosure Initiative* – The amendments require entities to provide information that enable the users of financial statements to evaluate changes in liabilities arising from financing activities.

- Amendments to PAS 12, *Income Taxes - Recognition of Deferred Tax Assets for Unrealized Losses* – The amendments clarify the accounting for deferred tax assets related to unrealized losses on debt instruments measured at fair value, to address diversity in practice.

- Amendments to PFRS 12, *Disclosures of Interests in Other Entities – Clarification of the Scope of the Standard* – The amendments are part of the Annual Improvements to PFRS 2014-2016 Cycle and clarify that the disclosure requirements in PFRS 12 apply to interests in entities within the scope of PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* except for summarized financial information for those interests (i.e. paragraphs B10-B16 of PFRS 12).

The adoption of the foregoing new and amended PFRS did not have any material effect on the consolidated financial statements of the Group. Additional disclosures have been included in the notes to consolidated financial statements, as applicable.

New and Amended PFRS in Issue But Not Yet Effective
Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2017 and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2018:

- PFRS 9, *Financial Instruments* – This standard will replace PAS 39, *Financial Instruments: Recognition and Measurement* (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

  PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and its contractual cash flow characteristics.

  For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss (FVPL) that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

  For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

  For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.

  The derecognition provisions are carried over almost unchanged from PAS 39.

  The Group has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017.

  - Based on the Group’s existing business model, it is anticipated that all the financial assets and financial liabilities should continue to be measured on the same bases as currently under PAS 39.

  - Concerning impairment, the Group is currently assessing the extent of the impact of expected credit loss. It is anticipated that the application of the expected credit loss model of PFRS 9 will result in earlier recognition of credit losses. However, it is not practicable to provide a reasonable estimate of that effect until the detailed review that is in progress has been completed.

  - The Group has no transaction wherein hedge accounting requirements will apply.

- PFRS 15, *Revenue from Contract with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.).

  Based on the current accounting treatment of the Group's major sources of revenue, the Group does not anticipate that the application of PFRS 15 will have a significant impact on its financial position and/or financial performance, apart from providing more extensive disclosures on the Group's revenue transactions. However, as the Group is still in the process of assessing the full impact of the application of PFRS 15 on the consolidated financial statements, it is not practicable to provide a reasonable financial estimate of the effect until the Group completes the detailed review.

- Amendment to PFRS 15, *Revenue from Contract with Customers - Clarification to PFRS 15* – The amendments provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

- 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 nonmonetary 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.

Effective for annual periods beginning on or after January 1, 2019 -

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

  For the Parent Bank's non-cancellable operating lease commitments as at December 31, 2017, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Parent Bank will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Parent Bank completes the review.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the consolidated financial statements of the Group, except for PFRS 9, PFRS 15 and PFRS 16 as discussed in the foregoing. Additional disclosures will be included in the consolidated financial statements of the Group, as applicable.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Bank and its subsidiary. A subsidiary is an entity controlled by the Parent Bank. The Parent Bank has control when it is exposed, or has right to variable returns from its investment with the investee and it has the ability to affect those returns through its power over the investee.

A subsidiary is consolidated from the date of acquisition or incorporation, being the date on which the Parent Bank obtains control, and continues to be consolidated until the date such control ceases. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Bank gains control until the date the Parent Bank ceases to control the subsidiary.

MGI is the Parent Bank's only subsidiary as at December 31, 2017, 2016 and 2015.

The financial statements of the subsidiary are prepared for the same reporting year as the Parent Bank, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Changes in the controlling equity ownership (i.e., acquisition of non-controlling interest or partial disposal of interest over a subsidiary) that do not result in a loss of control are accounted for as equity transactions.

The Parent Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to elements evidencing control.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or liability in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of a financial instrument. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by the regulation or convention in the marketplace are recognized on the settlement date, the date that an asset is delivered to or by the Group.

Initial Recognition. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in the case of an asset) or received (in the case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

"Day 1" Difference. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data observable from the market, the Group recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss unless it qualifies for recognition as some other type of asset. For each transaction, the Group determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) AFS financial assets. Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the financial instruments are acquired or incurred and whether these 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.

As at December 31, 2017 and 2016, the Bank has no financial assets at FVPL.

Loans and Receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less any allowance for impairment. Any interest earned on loans and receivables is recognized as part of "Interest income" presented in profit or loss on an accrual basis. 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. The periodic amortization is included as part of "Interest income" recognized in profit or loss. Accrued interest, including both accrued coupon and amortized discount/premium, are presented under "Accrued interest receivables" in the consolidated statement of financial position. Gains or losses are recognized in profit or loss when loans and receivables are derecognized, as well as through the amortization process.

Included in this category are cash and cash equivalents, and loans and receivables (excluding accrued rent based on straight-line accounting).

For purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and other cash items, due from Bangko Sentral ng Pilipinas (BSP) and due from other banks, with original maturities of three months or less from the date of acquisition and subject to insignificant risk in fluctuations in value, and are used by the Group in the management of its short-term commitments.

AFS Financial Assets. AFS financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. These are purchased and held indefinitely, and may be sold in response to liquidity requirement or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value or at cost less impairment in the case of unquoted equity securities. 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 profit or loss. The unrealized gains (losses) arising from the fair valuation of AFS financial assets are reported as "Unrealized gains and losses on AFS financial assets" in other comprehensive income and presented under "Other Reserves" in the equity section of the consolidated statement of financial position.

Interests earned or paid on the investments are recognized as “Interest income” in profit or loss using the effective interest method. Dividends earned on investments are recognized in profit or loss when the right of the payment has been established. These financial assets are classified as noncurrent assets unless the intention is to dispose such assets within the 12 months from the end of reporting year.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as gain on sale of investments in profit or loss. Where the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis.

AFS financial assets are classified as noncurrent assets unless the intention is to dispose such assets within the 12 months from the end of reporting year.

This category includes the Parent Bank’s investments in government and other debt securities, and listed and unlisted equity securities.

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.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any impairment in value. 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. The amortization is recognized as “Interest income” in profit or loss. Accrued interest, including both accrued coupon and amortized discount/premium, are presented under “Accrued interest receivables” in the consolidated statement of financial position. Gains and losses are recognized in profit or loss when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized as “Provision for credit and impairment losses” in profit or loss. The effect of the restatement of the foreign currency-denominated HTM investments is recognized in profit or loss.

The Group cannot classify financial assets as HTM investments if the Group, during the current financial year or during the two preceding years, sold or reclassified more than an insignificant amount of HTM investments before maturity (in relation to the total amount of HTM investments) other than sales or reclassifications that:

- are so close to maturity or the financial asset’s call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value;

- occur after the Group has collected substantially all of the financial asset’s original principal through scheduled payments or prepayments; or

- are attributable to an isolated event that is beyond the Group’s control, is non-recurring and could not have been reasonably anticipated by the Group.

Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets.

This category includes the Parent Bank's investments in government securities.

Other Financial Liabilities. Issued financial instruments or their components, which are not designated as financial liabilities at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial assets 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.
After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortization cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process. Any effects of restatement of foreign currency-denominated liabilities are recognized in profit or loss.

Included in this category are the Group's deposit liabilities, managers checks and demand draft outstanding, accrued taxes, interest and other expenses (excluding accrued rent based on straight-line accounting and statutory payables), and other liabilities.

Classification of Financial instruments between Liability and Equity
A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity, or

- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or

- Satisfy the obligation other than by the exchange of fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have any unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Derecognition of Financial Assets and Liabilities

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

- the right to receive cash flows from the asset has 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 substantially all the risks and rewards of the asset nor transferred control of 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 the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Where an existing financial liability is replaced by another 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. The difference in the respective carrying amounts is recognized in profit or loss.

Financial Guarantees. In the ordinary course of business, the Parent Bank provides financial guarantees. Financial guarantees are initially recognized in the consolidated statement of financial position at fair value. Subsequently, the initial fair value is amortized over the term of the financial guarantee. The guarantee liability is subsequently carried at the higher of the amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable).

Impairment of Financial Assets
The Group assesses at the end of each reporting year whether there is objective evidence that a financial asset or group of financial assets may be 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.

Loans and Receivables. For loans and receivables carried at amortized cost, 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 the Group determines that no objective evidence of impairment exists for 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. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, 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. Any impairment loss is recognized in profit or loss.

The carrying amount of an impaired financial asset is reduced to its net realizable value through the use of an allowance account. For an impaired financial asset, interest income continues to be recognized using the rate of interest based on the original effective interest rate of the asset. Loans, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

For the purpose of a collective evaluation of impairment, financial assets are group on the basis of such credit risk characteristics as type of borrower, 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 changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

AFS Financial Assets Carried at Fair Value. In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. 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 consolidated statements of total comprehensive income – is removed from the equity section and recognized in profit or loss. Impairment losses on equity securities are not reversed through the profit or loss. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Investment income" in profit or loss. If in subsequent year, 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 profit or loss, the impairment loss is reversed through profit or loss.

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

HTM Investments. For HTM investments, the Group assesses whether there is objective evidence of impairment. 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 estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to profit or loss. Interest income continues to be recognized based on the original effective interest rate (EIR) of the asset. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amount formerly charged are credited to the "Provision for credit and impairment losses" in profit or loss, and the allowance account is reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

Offsetting of Financial Assets and Liabilities
Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the Group has a legal right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the consolidated statement of financial position.

Repurchase and Reverse Repurchase Agreements
Securities sold subject to repurchase agreements ('repos') are reclassified in the consolidated financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and receivables to other banks or to customers and included in the consolidated statement of financial position under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the consolidated financial statements.

Bank's Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment in value and depreciable properties are stated at cost less accumulated depreciation, amortization, and any impairment in value.

Historical cost includes expenditure that is directly attributable to the acquisition of the items which comprises its purchase price, import duties and any directly attributable costs of bringing the assets to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as separate assets, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the asset can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which these are incurred.

Depreciation and amortization are calculated using the straight-line method to allocate cost or residual values over the estimated useful lives as follows:

	Number of Years
Building and improvements	25
Furniture, fixture and equipment	5
Transportation equipment	5

Leasehold improvements are amortized over the shorter of the lease term (normally ranging from five to 10 years) and the useful lives of the related improvements (ranges from five to 10 years). Major renovations are amortized over the remaining life of the related assets.

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever assets or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset in carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than the estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An item of Bank's premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss, in the year the item 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 measured, in which case the investment property acquired is measured at carrying amount of the asset given up. Foreclosed properties are recognized as "Investment properties" upon: (a) entry of judgment in case of judicial foreclosure; (b) execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the "Deed of Dacion" in case dation in payment (dacion en pago). Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation, and any impairment in value. Land is carried at cost less impairment losses, if any.

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

Depreciation is calculated on a straight-line basis using the remaining useful life from the time of acquisition of the investment properties but not to exceed 40 years for both buildings and condominium units.

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 view to sale.

Investment properties are derecognized when they have either been disposed off or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of investment properties are recognized in profit or loss in the year of retirement or disposal. Gains and losses on retirement or disposal are determined by comparing proceeds with carrying amount.

Foreclosed Properties. Foreclosed properties of land or building are classified under investment properties from foreclosure date, accounted for using cost model.

Assets foreclosed which are available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups) and which sale is highly probable, are recognized as noncurrent assets (or disposal groups) held for sale and are accounted for at the lower of cost and fair value less cost to sell. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Other foreclosed non-financial assets which are not land or building, or to be used by the Group for its operations are classified as “Bank’s Premises, Furniture, Fixture and Equipment” and is accounted for at cost. Financial assets held as collaterals are classified as AFS financial assets when foreclosed.

Computer Software

Computer software is measured on initial recognition at cost. Subsequently, it is measured at cost less accumulated amortization and any impairment losses. Internally-generated software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software will be amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal 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 profit or loss when the asset is derecognized.

Impairment of Nonfinancial Assets

At each reporting date, the Group assesses whether there is any indication of impairment on bank's premises, furniture, fixtures and equipment, investment properties and computer software. 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 (or cash-generating units) 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 cash-generating unit to which it belongs. Where the carrying amount of an asset (or cash generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) 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 assessment of the time value of money and the risks specific to the asset (or cash-generating unit). In determining fair value lest cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded entities or other available fair value indicators.

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 profit or loss.

After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognized.

Interest Income. Interest income is recognized in profit or loss for all financial instruments measured at amortized cost and interest-bearing financial instruments classified as AFS financial assets as these accrue, using the EIR.

EIR 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 liability. The calculation takes into account all the contractual terms of the financial instruments including any fees or incremental costs that are directly attributable to the instrument and are integral part of the effective interest rate, but not future credit losses. The EIR is established on the initial recognition of the financial asset and liability and is not revised subsequently. The carrying amount of the financial asset or liability is adjusted if the Group revises its estimates of payments or receipts. The change in carrying amount is recognized in profit or loss as interest income or expense.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows.

Net Foreign Exchange Gains (Losses). Foreign exchange gains and losses arising from the settlement of such transactions or from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Service Charges and Commissions. Service charges and penalties, which are presented under "Service charges and commissions" in profit or loss are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility.

Commissions arising from providing transaction services are recognized upon completion of the transaction.

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 recognized in profit or loss under "Other Operating Income."

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

Other Income. Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectibilty of the entire sales price is reasonably assured. Income from sale of services is recognized upon rendition of the service. Other operating income is recognized when earned and upon disposal of the investments.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the EIR of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, 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:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- a renewal option is exercised or an extension is granted, unless that term of the renewal or extension was initially included in the lease term;
- there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- 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 any of the scenarios above, and at the date of renewal or extension period for the second scenario.

The Group as a Lessee. Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The Group as a Lessor. The Group is also a party of operating leases as a lessor. Lease payments received are recognized as income in profit or loss 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 year in which these are earned.

Employee Benefits

Short-term Benefits. Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognized for the amount expected to be paid under short-term cash bonus, short-term compensated absences or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be measured reliably.

Post-employment Benefits. The Parent Bank operates a funded, defined contribution (DC) plan covering its regular employees wherein the Parent Bank pays a fixed contribution into a separate entity known as the trustee; which administers, manages and invests the funds. The Parent Bank, however, is covered under Republic Act (RA) No. 7641, *The Philippine Retirement Law*, which provides for its qualified employees a defined benefit (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA 7641.

Accordingly, the Parent Bank accounts for its retirement obligation under the higher of the DB obligation relating to the minimum guarantee and the obligation arising from the DC plan. For the DB minimum guarantee plan, the liability is determined based on the present value of the excess of the projected DB obligation over the projected DC obligation at the end of the reporting year. The DB obligation is calculated annually by a qualified independent actuary using the projected unit credit method. The Parent Bank determines the net interest expense (income) on the net DB liability (asset) for the year by applying the discount rate used to measure the DB obligation at the beginning of the year to the then net DB liability (asset), taking into account any changes in the net DB liability (asset) during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the DB plan are recognized in profit or loss.

The DC liability, on the other hand, is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for any margin on asset returns where this is reflected in the DC benefits.

Remeasurements of the net DB liability, which comprise actuarial gains and losses, the return on unallocated plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Parent Bank recognizes gains or losses on the settlement of a DB plan when the settlement occurs.

Termination Benefits. Termination benefits are recognized as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognized if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be measured reliably.

Income Taxes

The tax expense for the year comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to 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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Tax. Deferred tax is provided using the liability method on all temporary differences at the consolidated statement of financial position 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 with certain exceptions. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits from the excess of the minimum corporate income tax (MCIT) over the regular corporate income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized when it arises 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 profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Equity

Share Capital. Share capital is measured at par value for all shares issued.

Reserves. Reserves pertain to a portion of the Parent Bank’s income from trust operations set-up on a yearly basis in compliance with the BSP regulations. Reserves also include of reserve for contingencies and self-insurance.

Surplus. Surplus includes all current and prior year results as disclosed in profit or loss and which are available for dividend declaration and not restricted for use by the Group.

Dividends Declaration. Dividends are recognized as a liability and deducted from equity when approved by the BOD of the Group and the BSP. Dividends for the year that are approved after year end are dealt with as an event after the reporting date.

Other Comprehensive Income (Loss). Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year in accordance with PFRS. Other comprehensive income (loss), which is presented as “Other equity reserves”, pertains to cumulative unrealized gains (losses) on AFS financial assets, cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

Earnings per Share (EPS)

The Group presents basic and diluted EPS data for its common shares. Basic EPS is computed by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential common shares, if any.

Segment Reporting

Operating segments are components of the Group: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Group's operating businesses are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

Provisions

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

Contingencies

A contingent asset is not recognized in the consolidated financial statements but disclosed when an inflow of economic benefits is probable. Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed in the notes to consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Events after the Reporting Year

The Group identifies events after the end of the reporting year as those events, both favorable and unfavorable, that occur between the end of the reporting year and the date when the financial statements are authorized for issue. The consolidated financial statements of the Group are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting year. Non-adjusting events after the end of the reporting year are disclosed in the notes to consolidated financial statements, when material.

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

3. Significant Judgment, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the consolidated financial statements and related disclosures. The judgment, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the consolidated financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments
In the process of applying the Group's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on the amounts recognized in the consolidated financial statements.

Determining Functional Currency. The Parent Bank uses its judgment to determine the 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 Parent Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;

- the currency in which funds from financing activities are generated; and

- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Parent Bank, the functional currency of the Parent Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Parent Bank operates.

Determination of Reportable Operating Segments. Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Bank's chief operating decision maker, which is defined to be the Parent Bank's BOD, in order to allocate resources to the segment and assess its performance. The Group reports separate information about an operating segment that meets any of the following quantitative thresholds:

(a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic segment.

As at December 31, 2017, 2016 and 2015, the Group's operating segments consist of its treasury and lending activities.

Determining the Classification of Lease Agreements. The Group has entered into various lease agreements as either a lessor or lessee. The Group has determined that in all of these lease agreements, the lessor retains all significant risks and benefits of ownership over the leased properties. Accordingly, these leases are accounted for as operating leases.

Rent income amounted to ₱45.3 million in 2017 (₱52.8 million and ₱31.8 million in 2016 and 2015, respectively) (see Note 23).

Rent expense amounted to ₱71.8 million in 2017 (₱76.0 million and ₱70.0 million in 2016 and 2015, respectively) (see Note 23).

Evaluating Contingencies. The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

Determining Fair Value of Financial Instruments. Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. 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.

The Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets. The fair values of the Group's financial instruments are presented in Note 5 to consolidated financial statements.

Determining Classification of HTM investments. The classification to HTM investment requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling a significant amount close to maturity – it will be required to reclassify the entire portfolio as AFS financial assets. The investment would therefore be measured at fair value and not at amortized cost.

Distinction between Investment Properties and Owner-occupied Properties. The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties consist of a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production of services or for administrative purposes. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production of services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making judgment.

The Group classifies all properties which have a portion that is earning rentals and another portion which are used in production of services or used in administrative purposes as owner-occupied properties based on the criterion above. In this case, such properties were included in the account "Bank's premises, furniture, fixtures and equipment."

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Assessing Impairment Losses on Loans and Receivables. The Group reviews its loans and receivables at each reporting date to assess whether an additional provision for credit losses should be recorded in the consolidated statements of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the 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. This collective allowance takes into consideration on any deterioration in the loan or investment rating since it was granted or acquired. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

As at December 31, 2017, loans and receivables of the Group are carried at ₱46,674.9 million (₱55,163.1 million as at December 31, 2016) (see Note 8).

Assessing Impairment Losses on AFS Financial Assets. The Group treats AFS equity investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more of the original cost of investment, and 'prolonged', greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discounted factors for unquoted equities.

As at December 31, 2017, the carrying value of the Group's AFS financial assets amounted to ₱66,673.3 million (₱51,798.3 million as at December 31, 2016) (see Note 9). The Group assessed that no allowance for impairment losses on AFS financial assets is necessary as at December 31, 2017 and 2016.

Assessing Impairment Losses on HTM Investments. The Group determines that HTM investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Group evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

As at December 31, 2017, the carrying value of the Group's HTM investments amounted to ₱3,426.6 million (₱5,452.4 million as at December 31, 2016) (see Note 10). The Group assessed that no allowance for impairment losses on HTM investments is necessary as at December 31, 2017 and 2016.

Estimating Useful Lives of Bank's Premises, Furniture, Fixtures and Equipment, Investment Properties, and Computer Software. The Group estimates the useful lives of bank's premises, furniture, fixtures and equipment, investment properties, and computer software, and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the bank's premises, furniture, fixtures and equipment, investment properties, and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and computer software in 2017 and 2016.

The carrying amounts of depreciable assets are as follows:

	Note	**2017**	2016
Investment properties	12	**₱1,737,881**	₱1,119,067
Bank's premises, furniture, fixtures and equipment	11	**732,444**	736,724
Computer software	13	**7,231**	10,819
		₱2,477,556	₱1,866,610

Assessing Impairment on Non-financial Assets. The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

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

The carrying values of the Group's non-financial assets are:

	Note	**2017**	2016
Bank's premises, furniture, fixtures and equipment	11	**₱2,710,421**	₱2,714,701
Investment properties	12	**2,809,157**	2,805,577
Computer software	13	**7,231**	10,819
		₱5,526,809	₱5,531,097

Determining the Retirement Liability. The present value of the excess of the projected DB minimum guarantee over the projected DC obligation at the end of the reporting period depends on a number of factors that are determined on an actuarial basis. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of retirement obligations.

The Parent Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligations. In determining the appropriate discount rate, the Parent Bank considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related retirement obligation.

Other key assumptions for retirement obligations are based in part on current market conditions. Additional information is disclosed in Note 20.

As at December 31, 2017, retirement liability amounted to ₱7.2 million (₱8.6 million as at December 31, 2016).

Assessing Realizability of Deferred Tax Assets. The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result in derecognition when the expected tax law to be enacted has a possible risk on the realization. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

As at December 31, 2017, deferred tax assets amounted to ₱ 1,011.2 million (₱870.1 million as at December 31, 2016) (see Note 25).

As at December 31, 2017, deferred tax assets on NOLCO amounting ₱399.7 million (₱317.9 million as at December 31, 2016) were not recognized (see Note 25). Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

4. Prior Period Adjustments and Reclassifications

The 2016 and 2015 consolidated financial statements have been restated and reclassified to reflect the following:

- Accrual of interest income on loans and receivables amounting to ₱13.7 million and ₱56.7 million in 2016 and 2015, respectively.
- Correction of previously capitalized filing fee for extension of corporate life amounting to ₱42.1 million and ₱43.0 million in 2016 and 2015, respectively.
- Correction on the fair value adjustments on AFS financial assets amounting to ₱39.0 million and ₱42.7 million in 2016 and 2015, respectively.
- Additional depreciation on investment properties amounting to ₱20.1 million in 2016 and 2015.
- Correction of previously capitalized advertising expense amounting to ₱17.5 million and ₱23.3 million in 2016 and 2015, respectively.
- Recognition of cumulative translation adjustment amounting to (₱121.1million), ₱201.4 million and ₱255.0 million in 2017, 2016 and 2015, respectively.

The following is the summary of financial impact of the restatement and reclassification adjustments to the 2016 and 2015 consolidated financial statements (amounts in thousands).

	December 31, 2016		
	Assets	Equity	Net Income
Balances as Previously Reported	₱153,365,316	₱22,796,107	₱1,066,464
Prior Period Adjustments			
Interest income on loans and receivables	70,367	70,367	13,690
Filing fee for extension for corporate life recognized as expense	(42,093)	(42,093)	880
Adjustment on unrealized fair value changes of AFS financial assets and cumulative translation adjustments	(39,012)	(39,012)	–
Additional depreciation on investment properties	22,004	22,004	(20,051)
Advertising expense	(17,462)	(17,462)	5,822
	(6,196)	(6,196)	341
Balances as Restated	₱153,359,120	₱22,789,911	₱1,066,805

	December 31, 2015		
	Assets	Equity	Net Income
Balances as Previously Reported	₱136,063,715	₱23,512,193	₱1,025,862
Prior Period Adjustments			
Interest income on loans and receivables	56,677	56,677	56,677
Filing fee for extension for corporate life recognized as expense	(42,973)	(42,973)	880
Adjustment on unrealized fair value changes of AFS financial assets and cumulative translation adjustments	42,704	42,704	–
Additional depreciation on investment properties	42,055	42,055	(20,051)
Advertising expense	(23,284)	(23,284)	5,822
	75,179	75,179	43,328
Balances as Restated	₱136,138,894	₱23,587,372	₱1,069,190

	January 1, 2015	
	Assets	Equity
Balances as Previously Reported	₱126,286,730	₱23,150,662
Prior Period Adjustments		
Additional depreciation on investment properties	62,106	62,106
Adjustment on intangible assets	(43,853)	(43,853)
Amortization of prepaid advertising expense	(29,106)	(29,106)
	(10,853)	(10,853)
Balances as Restated	₱126,275,877	₱23,139,809

5. Financial Risk Management

Risk Management Framework

The BOD of the Group is responsible for establishing and maintaining a sound risk management system. It is the primary responsibility of the BOD to establish the risk culture and the risk management organization and incorporate the risk process as an essential part of the corporate strategic planning.

The Group classifies the major risks that the Group manages between quantifiable risks such as credit, liquidity and markets risks, and non-quantifiable risks such as operations risk, among others.

Through the direction of the BOD, the following comprise the risk management structure of the Group:

Executive Committee. The Executive Committee plays the crucial role of analyzing, evaluating, and approving product attributes such as: market, liquidity and credit risk; operations risk; control and compliance; audit, legal and regulatory; and system and technology issues for new activities/products.

Risk Management Committee (RMC). The RMC is responsible for the creation and oversight of the Group’s corporate risk policy. It is tasked to identify and analyze the risks faced by the Group, to set and recommend to the BOD the system of risk limits and controls, and to ensure that each business unit continuously monitors the adequacy and soundness of policies, assumptions and practices.

Budget, Asset and Liability Committee (BALCO). The BALCO ensures that at all times the Group maintains adequate liquidity, sufficient capital and appropriate funding to meet all business requirements and complies with all regulatory requirements.

Credit and Loan Review Committee (CLRC). The CLRC is primarily responsible for credit risk management of the Group. It establishes the standards for credit analysis, define credit risk measurements, establish internal risk ratings and review the credit risk infrastructure's ability to support the Group's risk policies.

Risk Management Group (RMG). The RMG is an in independent business function to identify, analyze, and measure risks from the Group's trading, position-taking, lending, borrowing, and other transactional activities.

Audit Committee (AC). The AC is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk managements system in placed in relation to the risks faced by the Group. The Group's AC is assisted in its oversight role by Internal Audit. Internal Audit (IA) undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

Credit Risk
Credit risk is the risk that a customer or counterparty will be unable or unwilling to pay obligations on time or in full as expected or previously contracted, subjecting the Group to a financial loss. The goal of the Group's credit risk management is to maximize the risk-adjusted rate of return by maintaining credit risk exposure within the approved parameters.

The Group's credit risk covers mostly loan portfolio analysis, where the Group employs risk management techniques to quantify and qualify cyclical versus specific risks for a given portfolio under potentially adverse economic conditions. Diversification against loan concentration, such as lending in a single geographic area or business sector, enables the Group to manage risks associated with its largest exposures in the market.

Credit Risk Management

Measurement of Credit Risk. In measuring credit risk at a counterparty level, the Group mainly relies on its sound lending philosophy and considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. The Group uses two statistical-based credit risk methodology in measuring credit risk namely: default-probability models, which predict future losses and thus anticipate provisioning and capital needs, and risk-adjusted return on capital (RAROC) techniques, which incorporate credit risk into the initial loan pricing and eventually evaluate the true economic capital needs of the Group.

Loans and Receivables. The clients of the Group are segmented and internally rated based on the standard BSP classifications:

- Unclassified – these are loans that do not have any greater-than normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- Loans especially mentioned – 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 the credit risk of the Group.
- Substandard – these are loans which appear to involve a substantial degree of risk to the Group because of unfavorable record or unsatisfactory characteristics. Further, these loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or potential nature, or a significant deterioration in collateral.
- Doubtful – these are loans which have the weaknesses similar to those of the Sub-standard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.
- Loss – these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

Debt Securities and Other Bills. For debt securities and other bills, external rating agencies such as Standard & Poor's and Moody's ratings or their equivalents are used by the Group for managing credit exposures. Likewise, investments in these securities and bills are reviewed through its regular meetings with top management as a way to gain credit quality mix and maintain a readily available source to meet funding requirements.

Risk Limit Control and Mitigation Policies
Sufficient client information, to enable a comprehensive assessment of the true risk profile of the borrower or counterparty, are gathered and at a minimum certain factors are considered in documentation and credit approvals.

Overall credit limits at individual borrower's or counterparty's level and groups of connected counterparties that aggregate in a comparable and informative manner are established by the Group as one of the core risk control. Subsequent credit administration and monitoring is also maintained through a well-structured internal risk rating system, which allows a more accurate determination of the overall characteristics of the credit portfolio, concentration of risk, problem credits and adequacy of loan loss reserves.

The Group employs some of these specific control and mitigation measures as outlined below.

Collateral
One of the most traditional and common practice in mitigating credit risk is requiring security for loans and receivables. The Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and receivables are:

- Mortgage over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities deposits, and equities

In order to preserve the collateral for loans and receivables, management monitors the market value of real property collateral on an annual basis and as needed for marketable securities. Key management considers the existing market value of collateral during the review of the credit facilities and adequacy of the allowance for credit losses. Upon careful evaluation, the Group may seek additional collateral from the counterparty for the relevant individual loans and receivables, in order to minimize credit or impairment loss.

The following table presents the breakdown of loans receivable from customers by type of security:

	2017		2016	
	Amount	**Percentage**	Amount	Percentage
Secured:				
Real estate mortgage	**₱8,273,790**	**16.97%**	₱7,751,270	13.64%
Hold-out	**2,125,252**	**4.36%**	1,973,477	3.47%
Shares of stock	**1,525,783**	**3.13%**	691,793	1.22%
Chattel mortgage	**814,150**	**1.67%**	2,213,194	3.89%
Others	**21,793,925**	**44.69%**	29,702,004	52.25%
Unsecured	**14,227,156**	**29.18%**	14,514,152	25.53%
	₱48,760,056	**100.00%**	₱56,845,890	100.00%

Credit-Related Commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same risk as loans. Documentary and commercial letters of credit – which are written undertaking by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

The Group monitors the term to maturity of credit commitments because long-term commitments generally have a greater degree of credit risk than short-term commitments.

Impairment and Provisioning Policies

The Group's credit-quality mapping on loans and receivables is based on the standard BSP classifications. Impairment provisions, however, are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

Loans with Renegotiated Terms. Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Write-off Policy. The Group writes off a loan or an investment debt security balance, and any related allowances for credit and impairment losses, when Group's Credit Department determines that the loan or security is uncollectible. This determination is made after considering information such as the occurrence of significant changes in the borrower's/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, write-off decisions generally are based on a product-specific past due status. All write-offs are approved by the BOD.

The table below shows the Group's loans receivable from customers and the related allowance for credit and impairment losses.

	2017		2016	
	Loans and Receivables	**Allowance for Credit and Impairment Losses**	Loans and Receivables	Allowance for Credit and Impairment Losses
Unclassified	**₱44,153,218**	**₱–**	₱47,825,357	₱513,546
Loans especially mentioned	**2,757,028**	**1,323,945**	2,221,641	111,082
Substandard	**–**	**–**	5,559,845	1,141,354
Doubtful	**7,000**	**3,500**	639,958	319,979
Loss	**1,842,810**	**1,842,810**	599,089	559,089
	₱48,760,056	**₱3,170,255**	₱56,845,890	₱2,685,050

<u>Maximum Exposure to Credit Risk before Collaterals Held or Other Credit Enhancements</u>
Credit risk exposures relating to significant on-balance sheet financial assets are as follows (amounts in millions):

	Note	**2017**	2016
Due from BSP	7	**₱25,498,556**	₱29,267,559
Due from other banks	7	**4,147,236**	4,345,921
Loans and receivables	8	**46,674,948**	55,163,114
AFS debt securities	9	**64,570,868**	51,145,318
HTM investments	10	**3,426,567**	5,452,376
		₱144,318,175	₱145,374,288

The above table represents the maximum credit exposure of the Group without taking into account any collateral held or other credit enhancements. The exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

Credit risk exposures relating to off-balance sheet items are as follows:

	2017	2016
Trust department accounts	**₱897,242**	₱881,518
Unused commercial letters of credit	**363,091**	206,100
Bills for collection	**22,069**	26,792
Others	**1,190**	29,178
	₱1,283,592	₱1,143,588

<u>Credit Quality of Loans Receivable from Customers</u>
Loans receivables from customers are summarized as follows:

	Note	**2017**	2016
Neither past due nor impaired		**₱44,153,218**	₱47,825,357
Past due but not impaired		**2,764,028**	8,421,444
Impaired		**1,842,810**	599,089
		48,760,056	56,845,890
Allowance for credit and impairment losses	8	**(3,170,255)**	(2,685,050)
		₱45,589,801	₱54,160,840

Neither Past Due nor Impaired. The table below shows loans receivable from customers that were neither past due nor impaired which consist mainly of accounts with Unclassified rating and those loans accounts in a portfolio to which an impairment has been allocated on a collective basis, per class that the Group held as at December 31, 2017 and 2016 (amounts in millions).

	2017	2016
Retail/Individuals	**₱1,196**	₱1,885
Small and medium enterprises	**3,561**	2,831
Private corporations	**17,687**	13,524
Bangko Sentral ng Pilipinas	**21,709**	29,585
	₱44,153	₱47,825

Past Due but not Impaired. The table below shows the aging analysis of past due but not impaired loans receivables from customers per class that the Group held as at December 31, 2017 and 2016. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans (amounts in millions).

	2017			
	Individuals	**Small and Medium Enterprises**	**Private Corporation**	**Total**
Over 180 days	**₱1,017**	**₱118**	**₱1,629**	**₱2,764**
Fair value of collateral	**₱1,131**	**₱–**	**₱1,561**	**₱2,692**

	2016			
	Individuals	Small and medium enterprises	Private corporation	Total
Over 180 days	₱1,625	₱1,953	₱4,844	₱8,422
Fair value of collateral	₱–	₱5,156	₱5,203	₱10,359

Individually Impaired. The table below shows the gross amount of individually impaired loans receivables from customers by class that the Group held as at December 31, 2017 and 2016 (amounts in millions).

	2017	2016
Retail/Individuals	**₱657**	₱271
Small and medium enterprises	**373**	60
Private corporation	**813**	268
	₱1,843	₱599
Fail value of collateral	**₱1,199**	₱367

Credit Quality of Other Financial Assets

Due from BSP. This account consists of fully performing balances. Details are as follows:

	2017	2016
Clearing account	**₱18,298,556**	₱17,927,559
Term deposit accounts	**2,700,000**	9,000,000
Overnight deposit accounts	**4,500,000**	2,340,000
	₱25,498,556	₱29,267,559

Due from Other Banks. This account consists of fully performing balances presented by credit ratings of counterparty banks. Details are as follows:

	2017	2016
AA- to AA+	**₱–**	₱326,427
A to AA	**2,941,265**	1,264,486
BBB to BB+	**1,205,971**	2,755,008
	₱4,147,236	₱4,345,921

Debt Securities, Treasury Bills and Other Government Securities. This account consists of fully performing balances presented by credit ratings based on Standard & Poor's. Details are as follows

	2017		
	AFS Financial Assets	**HTM Investments**	**Total**
A- to A+	**₱–**	**₱–**	**₱–**
BBB to BB-	**63,875,384**	**2,719,489**	**66,594,873**
Unrated	**2,797,909**	**707,078**	**3,504,987**
	₱66,673,293	**₱3,426,567**	**₱70,099,860**

	2016		
	AFS Financial Assets	HTM Investments	Total
A- to A+	₱–	₱–	₱–
BBB to BB-	46,627,957	4,712,467	51,340,424
Unrated	5,170,356	739,909	5,910,265
	₱51,798,313	₱5,452,376	₱57,250,689

Other Financial Assets. The Group's other financial assets as at December 31, 2017 and 2016 consists mainly of other investments, other receivables and cash items from various unrated counterparties with good credit standing.

Concentrations of Risk of Financial Assets with Credit Exposure

An analysis of concentration of credit risk by sector on due from banks, loans and receivables, AFS financial assets and HTM investments are shown below (amounts in millions):

	2017			
	Sovereign	**Bank**	**Retail/ Individuals**	**Total**
Due from BSP and other banks	**₱25,499**	**₱4,147**	**₱–**	**₱29,646**
AFS financial assets	**66,673**	**–**	**–**	**66,673**
HTM investments	**3,427**	**–**	**–**	**3,427**
Loans and receivables	**–**	**–**	**46,675**	**46,675**
	₱95,599	**₱4,147**	**₱46,675**	**₱146,421**

	2016			
	Sovereign	Bank	Retail/ Individuals	Total
Due from BSP and other banks	₱29,268	₱4,346	₱–	₱33,614
AFS financial assets	51,798	–	–	51,798
HTM investments	5,452	–	–	5,452
Loans and receivables	–	–	55,163	55,163
	₱86,518	₱4,346	₱55,163	₱146,027

Presents information on the concentration of credit risk exposure on loans receivables from customers as to industry as at December 31, 2017 and 2016:

	2017		2016	
	Amount	**Percentage**	Amount	Percentage
Financial intermediaries	**₱23,889,152**	**48.99%**	₱31,737,670	55.83%
Wholesale and retail trade	**7,441,669**	**15.26%**	7,024,976	12.36%
Real estate, renting and business activities	**4,785,236**	**9.81%**	4,729,449	8.32%
Manufacturing	**2,709,277**	**5.56%**	3,221,065	5.67%
Agriculture	**1,920,196**	**3.94%**	1,664,042	2.93%
Construction	**1,915,172**	**3.93%**	1,981,113	3.49%
Accommodation and food service activities	**1,399,099**	**2.87%**	1,636,518	2.88%
Information and communication	**1,095,428**	**2.25%**	993,453	1.75%
Transportation, storage and communication	**623,543**	**1.28%**	531,631	0.94%
Education	**603,643**	**1.24%**	568,460	1.00%
Health and social work	**356,377**	**0.73%**	366,024	0.64%
Arts, entertainment and recreation	**344,719**	**0.71%**	346,180	0.61%
Professional, scientific and technical activities	**120,992**	**0.25%**	85,925	0.15%
Administrative and support service activities	**98,669**	**0.20%**	42,808	0.08%
Private households with employed persons	**9,339**	**0.02%**	15,404	0.03%
Mining and quarrying	**2,845**	**0.01%**	15,404	0.03%
Other service activities	**1,444,700**	**2.96%**	1,885,768	3.32%
	₱48,760,056	**100.00%**	₱56,845,890	100.00%

Foreclosed Collaterals. Repossessed properties are sold as soon as practicable and are classified initially under "Investment Properties" in the consolidated statement of financial position. As at December 31, 2017, the related foreclosed collaterals have an aggregate carrying amount of ₱2.7 billion (₱2.7 billion as at December 31, 2016). Foreclosed collaterals include real estate (land, building and improvements), auto or chattel, bonds and stocks.

Liquidity Risk. Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations in all currencies when they become due without incurring unacceptable losses or costs. The Group's liquidity management is characterized by the following elements: a) good management information system, b) effective analysis of funding requirements under alternative scenarios, c) diversification of funding sources, and d) contingency planning.

Liquidity Risk Management

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Group 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.

The Group's net funding requirements are determined by analyzing its future cash flows based on assumptions of the future behavior of assets, liabilities and off balance sheet items, and then calculating the cumulative net excess on shortfall over the time frame for the liquidity assessment. Such analysis of net funding requirements involves construction of a Maturity Ladder and calculation of cumulative net excess or deficit. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities. Scenario stress tests are conducted periodically wherein liquidity managers analyze the behavior of cash flows under different conditions, i.e. from "normal" conditions to "extreme" situations. Finally, the BOD sets the Maximum Cumulative Outflow (MCO) Limit in order to control liquidity gap for each currency.

The table below shows the maturity profile of the Group's assets and liabilities, based on contractual undiscounted cash flows (amounts in millions):

	2017				
	On Demand	**Less than One year**	**One to Five years**	**Over Five years**	**Total**
Financial Assets					
Cash and other cash items	**₱829**	**₱–**	**₱–**	**₱–**	**₱829**
Due from BSP	**25,499**	**–**	**–**	**–**	**25,499**
Due from other banks	**4,147**	**–**	**–**	**–**	**4,147**
Loans and receivables	**–**	**38,280**	**6,085**	**2,310**	**46,675**
AFS financial assets - debt securities	**–**	**151**	**14,506**	**52,016**	**66,673**
HTM investments	**–**	**–**	**1,031**	**2,396**	**3,427**
	30,475	**38,431**	**21,622**	**56,722**	**147,250**
Financial Liabilities					
Deposit liabilities	**–**	**121,527**	**8,137**	**–**	**129,664**
Manager's checks and demand drafts outstanding	**–**	**127**	**–**	**–**	**127**
Accrued interest, taxes and others expenses	**–**	**279**	**–**	**–**	**279**
Other liabilities	**–**	**188**	**–**	**–**	**188**
	–	**122,121**	**8,137**	**–**	**130,258**
	₱30,475	**(₱83,690)**	**₱13,485**	**₱56,722**	**₱16,992**

	2016				
	On Demand	Less than One year	One to Five years	Over Five years	Total
Financial Assets					
Cash and other cash items	₱755	₱–	₱–	₱–	₱755
Due from BSP	29,268	–	–	–	29,268
Due from other banks	4,346	–	–	–	4,346
Loans and receivables	14	50,355	3,558	1,236	55,163
AFS financial assets - debt securities	–	791	3,155	47,852	51,798
HTM investments	–	2,000	1,033	2,419	5,452
	34,383	53,146	7,746	51,507	146,782

(Forward)

	2016				
	On Demand	Less than One year	One to Five years	Over Five years	Total
Financial Liabilities					
Deposit liabilities	₱–	₱121,545	₱2,793	₱5,741	₱130,079
Manager's checks and demand drafts outstanding	–	117	–	–	117
Accrued interest, taxes and others expenses	–	234	–	–	234
Other liabilities	–	132	–	–	132
	–	122,028	2,793	5,741	130,562
	₱34,388	(₱68,882)	₱4,953	₱45,766	₱16,220

Market Risk. Market risk is the risk of loss, immediate or overtime due to adverse fluctuations in the price or market value of instruments, products, and transactions in the Group's overall portfolio. The value of these financial instruments may change as a result of changes in interest rate, foreign exchange rate, and other market changes. The Group's market risk originates from its inventory of foreign exchange and debt securities. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on investments.

The Group manages market risk inherent in the Group's portfolio using three measures namely: a) sensitivity analysis of the position or portfolio to market factors, b) factor volatility norm for estimating the expected movement in the market risk factor, and c) value-at-risk (VaR), which is a tool for measuring the potential loss from an unlikely adverse event in a normal market environment.

Interest Rate Risk. Interest rate risk involves the movements of rates across yield curves of one or more instruments. The principal risk to which financial instruments are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. The Group manages its resources and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for interest rate repricing. Group's management monitors compliance with these limits.

The details of the Group's exposure to interest rate risk at the reporting date are shown below in reference to their contractual repricing or maturity dates (amounts in millions):

	2017				
	Repricing				
	Less than One Year	**One to Five Years**	**Over Five Years**	**Non-repricing**	**Total**
Financial Assets					
Due from BSP	**₱–**	**₱–**	**₱–**	**₱25,499**	**₱25,499**
Due from other banks	**–**	**–**	**–**	**4,147**	**4,147**
Loans and receivables	**44,058**	**2,175**	**442**	**–**	**46,675**
AFS financial assets - debt securities	**–**	**–**	**–**	**66,673**	**66,673**
HTM investments	**–**	**–**	**–**	**3,427**	**3,427**
	44,058	**2,175**	**442**	**99,746**	**146,421**
Financial Liabilities					
Deposit liabilities	**121,527**	**8,137**	**–**	**–**	**129,664**

(Forward)

	2017				
	Repricing				
	Less than One Year	**One to Five Years**	**Over Five Years**	**Non-repricing**	**Total**
Manager's checks and demand drafts outstanding	**₱–**	**₱–**	**₱–**	**₱127**	**₱127**
Accrued interest, taxes and others expenses	**–**	**–**	**–**	**277**	**277**
Other liabilities	**–**	**–**	**–**	**188**	**188**
	121,527	**8,137**	**–**	**592**	**130,256**
Total Interest Gap	**(₱77,469)**	**(₱5,962)**	**₱442**	**₱99,154**	**₱16,165**

	2016				
	Repricing				
	Less than One Year	One to Five Years	Over Five Years	Non-repricing	Total
Financial Assets					
Due from BSP	₱–	₱–	₱–	₱29,268	₱29,268
Due from other banks	–	–	–	4,346	4,346
Loans and receivables	54,342	99	623	–	55,064
AFS financial assets - debt securities	–	–	–	51,798	51,798
HTM investments	–	–	–	5,452	5,452
	54,342	99	623	90,864	145,928
Financial Liabilities					
Deposit liabilities	121,554	2,793	5,732	–	130,079
Manager's checks and demand drafts outstanding	–	–	–	117	117
Accrued interest, taxes and others expenses	–	–	–	234	234
Other liabilities	–	–	–	132	132
	121,554	2,793	5,732	483	130,562
Total Interest Gap	(₱67,212)	(₱2,694)	(₱5,109)	₱90,381	₱15,366

The Group computes stress test on interest sensitive assets and liabilities, except for AFS financial assets through gapping. The details of the reported stress testing on interest gaps at the reporting date are shown below:

	2017			
	Less than One Month	**One to Three Months**	**Over Three Months**	**Total**
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱40,754**	**₱7,111**	**₱3,609**	**₱51,474**
Liabilities	**88,728**	**1,566**	**630,211**	**720,505**
Gap	**(47,974)**	**5,545**	**(626,602)**	**(669,031)**
Cumulative Asset - Liability Gap	**(₱47,974)**	**(₱42,429)**	**(₱669,031)**	**₱–**
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	**₱72**	**₱–**	**₱–**	**₱72**
Liabilities	**44**	**462**	**104**	**610**
Gap	**28**	**(462)**	**(104)**	**(538)**
Cumulative Asset - Liability Gap	**₱28**	**(₱434)**	**(₱538)**	**₱–**

	2016			
	Less than One Month	One to Three Months	Over Three Months	Total
Peso-denominated Interest Sensitive Assets and Liabilities				
Assets	₱55,679	₱10,022	₱2,070	₱67,771
Liabilities	87,929	1,978	845	90,752
Gap	(32,250)	8,044	1,225	(22,981)
Cumulative Asset - Liability Gap	(32,250)	(24,206)	(22,981)	–
Foreign-denominated Interest Sensitive Assets and Liabilities				
Assets	₱80	₱–	₱–	₱80
Liabilities	56	464	98	618
Gap	24	(464)	(98)	(538)
Cumulative Asset - Liability Gap	₱24	(₱440)	(₱538)	₱–

The details of the reported impact of negative gaps on net interest income at the reporting date are shown below (amounts in millions):

	2017		2016	
	Amount	**Percentage to Net Income**	Amount	Percentage to Net Income
Peso-denominated				
50 bps increase in Php interest rates	**(₱197.25)**	**(12.24%)**	(₱114.90)	(10.77%)
100 bps increase in Php interest rates	**(394.50)**	**(24.48%)**	(229.79)	(21.54%)
Foreign-denominated				
50 bps increase in USD interest rates (in USD)	**(2.69)**	**–**	(2.69)	–
100 bps increase in USD interest rates (in USD)	**(5.38)**	**–**	(5.38)	–
50 bps increase in USD interest rates (in Php)	**(134.21)**	**(8.33%)**	(133.85)	(12.55%)
100 bps increase in USD interest rates (in Php)	**(268.42)**	**(16.66%)**	(267.69)	(25.1%)
Peso-denominated				
50 bps decrease in Php interest rates	**197.25**	**12.24%**	114.90	10.77%
100 bps decrease in Php interest rates	**394.50**	**24.48%**	229.79	21.54%
Foreign-denominated				
50 bps decrease in USD interest rates (in USD)	**2.69**	**–**	2.69	–
100 bps decrease in USD interest rates (in USD)	**5.38**	**–**	5.38	–
50 bps decrease in USD interest rates (in Php)	**134.21**	**(8.33%)**	133.85	12.55%
100 bps decrease in USD interest rates (in Php)	**268.42**	**(16.66%)**	267.69	25.1%

The Group also calculates price volatility on AFS financial assets (through Modified duration) in case of changes in interest rates. The following details are shown below:

	2017				
	Market value	**- 50 bps**	**- 100 bps**	**+ 50 bps**	**+ 100 bps**
Peso-denominated:					
Less than one year	**₱151,437**	**₱742**	**₱1,484**	**(₱742)**	**(₱1,484)**
One to three years	**6,801,339**	**62,742**	**125,483**	**(62,742)**	**(125,483)**
Three to five years	**7,704,188**	**135,605**	**271,211**	**(135,605)**	**(271,211)**
Five to 15 years	**13,618,457**	**454,177**	**908,353**	**(454,177)**	**(908,353)**
Over 15 years	**2,417,329**	**140,920**	**281,840**	**(140,920)**	**(281,840)**
	30,692,750	**794,186**	**1,588,371**	**(794,186)**	**(1,588,371)**
Foreign-denominated:					
Less than one year	**$–**	**$–**	**$–**	**$–**	**$–**
One to three years	**–**	**–**	**–**	**–**	**–**
Three to five years	**–**	**–**	**–**	**–**	**–**
Five to 15 years	**140,165**	**5,707**	**11,414**	**(5,707)**	**(11,414)**
Over 15 years	**571,900**	**40,880**	**81,776**	**(40,880)**	**(81,776)**
Total in USD	**$712,065**	**$46,587**	**$93,190**	**($46,587)**	**($93,190)**
Total in Philippine Peso	**₱35,553,447**	**2,326,484**	**4,652,968**	**(2,326,484)**	**(4,652,968)**
Total (Philippine Peso and FX)	**₱66,246,197**	**₱3,120,670**	**₱6,241,339**	**(₱3,120,670)**	**(₱6,241,339)**
As percentage of AFS financial assets		**4.68%**	**9.36%**	**(4.68%)**	**(9.36%)**

	2016				
	Market value	- 50 bps	- 100 bps	+ 50 bps	+ 100 bps
Peso-denominated:					
Less than one year	₱151,471	₱746	₱1,493	(₱746)	(₱1,493)
One to three years	713,566	6,127	12,254	(6,127)	(12,254)
Three to five years	2,391,039	40,453	80,906	(40,453)	(80,906)
Five to 15 years	8,836,912	299,528	599,057	(299528)	(599,057)
Over 15 years	3,938,472	216,399	432,798	(216,399)	(432,798)
	16,031,460	563,253	1,126,508	(563,253)	(1,126,508)
Foreign-denominated:					
Less than one year	$–	$–	$–	$–	$–
One to three years	–	–	–	–	–
Three to five years	–	–	–	–	–
Five to 15 years	172,674	6,008	12,019	(6,009)	(12,019)
Over 15 years	534,591	36,200	72,400	(36,200)	(72,400)
Total in USD	$707,265	$42,208	$84,419	($42,209)	($84,419)
Total in Philippine Peso	₱35,165,192	₱2,098,651	₱4,197,301	(₱2,098,651)	(₱4,197,302)
Total (Philippine Peso and FX)	₱51,196,652	₱2,661,904	₱5,323,809	(₱2,661,904)	(₱5,323,810)
As percentage of AFS financial assets		5.20%	10.40%	(5.20%)	(10.40%)

Foreign Exchange Risk. Foreign exchange risk arises on financial instruments that are denominated in a foreign currency other than the functional currency in which they are measured. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

Information on the Group's foreign-denominated monetary assets and liabilities in their Philippine Peso equivalents follows (amounts in thousands):

	2017	
	USD	**In Peso**
Financial Assets:		
Cash and other cash items	**$4,439**	**₱221,524**
AFS financial assets	**712,066**	**35,553,944**
HTM investments	**58,587**	**2,925,236**
Loans and receivables	**9,094**	**454,628**
	784,186	**39,155,332**
Financial Liabilities:		
Deposit liabilities		
Savings	**43,802**	**2,187,017**
Time	**728,305**	**36,364,272**
Accrued interest payable	**1,127**	**56,277**
Other liabilities	**691**	**35,036**
	773,925	**38,642,602**
Net Foreign Currency Denominated Assets	**$10,261**	**₱512,730**

	2016	
	USD	In Peso
Financial Assets:		
Cash and other cash items	$3,487	₱173,404
AFS financial assets	707,017	35,152,869
HTM investments	59,380	2,952,376
Loans and receivables	10,808	537,335
	780,692	38,815,984
Financial Liabilities:		
Deposit liabilities		
Savings	$56,099	2,789,257
Time	733,219	36,455,664
Accrued interest payable	1,244	61,845
Other liabilities	95	4,688
	790,657	39,311,454
Net Foreign Currency Denominated Assets	($9,965)	(₱495,470)

Foreign currency liabilities generally consist of foreign currency deposits in the Group's FCDU, 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 deposits are generally used to fund the Group's foreign currency denominated loans and FCDU investment portfolio. Banks are required by the BSP to match foreign currency assets with the foreign currency liabilities held through FCDU. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held through FCDU.

The Group 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 engaged.

Operational Risk. Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market, and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. Operational risks arise from Group operations.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions;
- Requirements for the reconciliation and monitoring of transactions;
- Compliance with regulatory and other legal requirements;
- Documentation of controls and procedures;
- Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- Requirements for the reporting of operational losses and proposed remedial action;
- Development of contingency plans;
- Training and professional development;
- Ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Fair Value Estimation

The table below presents a comparison of carrying amounts and estimated fair values of all of the Group's financial instruments as at December 31:

	2017		2016	
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial Assets:				
Cash and other cash items	**₱828,754**	**₱828,754**	₱755,071	₱755,071
Due from BSP	**25,498,556**	**25,498,556**	29,267,559	29,267,559
Due from other banks	**4,147,236**	**4,147,236**	4,345,921	4,345,921
AFS financial assets	**66,673,293**	**66,673,293**	51,798,313	51,798,313
HTM investments	**3,426,567**	**3,364,513**	5,452,376	5,323,417
Loans and receivables	**46,674,948**	**46,674,948**	55,163,114	55,163,114
Financial Liabilities:				
Deposit liabilities	**129,664,330**	**129,664,330**	130,078,693	130,078,693
Manager's checks and demand drafts outstanding	**127,460**	**127,460**	116,525	116,525
Accrued interest, taxes and others expenses	**276,828**	**276,828**	233,903	233,903
Other liabilities	**188,130**	**188,130**	131,510	131,510

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Cash and other cash items, due from BSP and other banks - The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

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

Equity securities - For publicly traded equity securities, fair values are based on quoted prices published in the Philippine equity markets. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost net of impairment, if any.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Deposit liabilities (time, demand and savings deposits) - Fair values of time deposits are estimated using the discounted cash flow methodology, using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable.

Manager's checks and accrued interest and other expenses - Carrying amounts approximate fair values due to the short-term nature of the accounts.

Other liabilities - Quoted market prices are not readily available for these liabilities. These are reported at cost and are not significant in relation to the Group's total portfolio.

Fair Value Hierarchy

As at December 31, 2017 and 2016, the fair value hierarchy of the Group's financial instruments measured at fair values is presented below (amounts in millions):

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
AFS Financial Assets:				
Government securities	**₱63,336**	**₱–**	**₱–**	**₱63,336**
Listed equity securities	**622**	**–**	**–**	**622**
Others	**2,715**	**–**	**–**	**2,715**
HTM Investments -				
Government securities	**3,427**	**–**	**–**	**3,427**
	₱70,100	**₱–**	**₱–**	**₱70,100**

	2016			
	Level 1	Level 2	Level 3	Total
AFS Financial Assets:				
Government securities	₱46,642	₱–	₱–	₱46,642
Listed equity securities	653	–	–	653
Others	4,503	–	–	4,503
HTM Investments -				
Government securities	5,452	–	–	5,452
	₱57,250	₱–	₱–	₱57,250

There were no transfers between levels 1 and 2 during the year.

6. Capital Risk Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes as at December 31, 2017 and 2016.

Regulatory Qualifying Capital

The Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, the Group currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Under the existing BSP regulations, the determination of the Group's compliance with regulatory requirements and ratios is based on the amount of the Group's unimpaired capital (regulatory capital) as reported to the BSP.

In addition, qualifying capital and risk-weighted assets are computed based on the BSP regulations. 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% for head office and branches. 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 Monetary Board of the BSP.

On August 4, 2006, the BSP, under Circular No. 538, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to the capital adequacy framework of Basel Committee on Banking Supervision Accord II (Basel II). The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its

Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. The qualifying capital of the Parent Bank consists of core Tier 1 Capital and Tier 2 Capital. Tier 1 Capital comprises paid-up share capital, surplus including net income for the year, and surplus reserves, less deductions such as deferred income tax, unsecured credit accommodations to Directors, Officers, Stockholders and Related Interests (DOSRI), and unrealized fair value losses on AFS financial assets. Tier 2 Capital includes net unrealized fair value gains on AFS financial assets, unsecured subordinated debt, and general loan loss provisions for BSP reporting purposes.

The Basel II framework following Circular 538 took into effect on July 1, 2007 and was relevant until 2013. As at December 31, 2013, the Bank's CAR under Circular No. 538 is 38.33%.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the Bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6.0% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required CAR remains at 10% which includes the capital conservation buffer. In addition, existing capital requirements as at December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III.

The CAR of the Parent Bank under the Basel III and Basel II framework for the years ended December 31, 2017 and 2016, respectively, are shown in the table below.

	2017	2016
Tier 1 capital	**₱23,979**	₱23,046
Tier 2 capital	**172**	172
Gross qualifying capital	**24,151**	23,218
Less: Regulatory adjustments/ required deductions	**(4,743)**	(3,516)
Total qualifying capital	**₱19,408**	₱19,702
Risk weighted assets	**43,559**	52,327
CAR (%)	**44.56%**	37.65%
CET1 (%)	**55.05%**	44.04%

The Parent Bank has fully complied with the CAR requirement of the BSP for each of the year presented.

In October 9, 2014, BSP's Monetary Board approved the new minimum capitalization for banks through Circular 854, amending Subsection X111.1 of the Manual of Regulation for Banks (MORB). The Parent Bank, as a universal bank with 61 branches to date, including Head Office, is required to maintain a minimum capital of ₱15 billion. As at December 31, 2017, the Parent Bank has complied with the required capitalization.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

7. Cash and Cash Equivalents

	2017	2016
Cash and other cash items	**₱828,754**	₱755,071
Due from BSP	**25,498,556**	29,267,559
Due from other banks	**4,147,236**	4,345,921
	₱30,474,546	₱34,368,551

Due from other banks represents balances of funds on deposit with other domestic and foreign banks.

Effective interest earned on BSP deposits ranges from 2.5% to 3.5% in 2017 (2.5% to 3% in 2016 and 2% to 2.5% 2015). Effective interest earned on deposits with other banks is 0.25% to 0.75% in 2017 (0.25% to 0.45% in 2016 and 0.05% in 2015).

Interest income amounted to ₱1,230.8 million in 2017 (₱1,104.8 million and ₱883.6 million in 2016 and 2015, respectively).

8. Loans and Receivables

This account consists of:

	2017	2016 (As restated - see Note 4)
Loans receivable from customers	**₱48,760,056**	₱56,845,890
Other receivables:		
Accrued interest	**1,154,317**	1,080,515
Sales contract	**27,976**	20,449
Accounts receivables	**22,324**	28,780
	49,964,673	57,975,634
Allowance for credit and impairment losses	**(3,289,725)**	(2,812,520)
	₱46,674,948	₱55,163,114

Loans receivable from customers consists of:

	2017	2016 (As restated - see Note 4)
Loans and receivables	**₱25,009,025**	₱24,980,695
Repurchase agreements and certificate of assignments	**21,709,185**	29,584,651
Agrarian reform	**2,029,188**	2,073,608
Customers' liabilities under letter of credit/ trust receipts	**12,658**	206,936
	₱48,760,056	₱56,845,890

Interest income on loans and receivables consists of:

	2017	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Loans receivable from customers	**₱1,445,050**	₱1,787,321	₱1,956,465
Items in litigation	**140,181**	33,802	30,045
Sales contract receivables	**1,306**	1,047	1,681
	₱1,586,537	₱1,822,170	₱1,988,191

BSP Parent Bank's Reporting

Past due loans amounted to ₱1.20 billion (2.11% of total loan portfolio) as at December 31, 2017 ₱1.10 billion (2.37% of total loan portfolio) as at December 31, 2016.

BSP Circular 351 issued on September 19, 2002, authorizes banks that have no unbooked useful valuation reserves and capital adjustments required by the said regulatory body, to exclude from non-performing classification, loans classified as loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that, interest on said loans shall not be accrued.

Non-performing accounts (over 30 days past due), net of accounts in the "loss" category and covered with 100% reserves (excluded under BSP Circular 351), are as follows:

	2017	2016
Non-performing accounts (NPL 30)	**₱4,606,838**	₱1,172,898
Loss category loans with 100% reserves	**(1,842,810)**	(911,426)
Net NPL 30	**₱2,764,028**	₱261,472

Non-performing loans (NPLs) represented approximately 9.45% of the loan receivable portfolio as at December 31, 2017 (2.06% as at December 31, 2016).

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

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing 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 10% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

The range of average interest rates of loans and receivables of the Group for the years ended December 31 follows:

	2017	2016
Commercial loans -		
Philippine Peso	**2.13% to 9.00%**	1.60% to 9.00%
Real estate mortgages	**3.50% to 9.00%**	3.00% to 9.00%

Allowance for credit and impairment losses relate to the following:

	2017	2016
Loan receivables from customers	**₱3,170,255**	₱2,685,050
Other receivables:		
Accrued interest	**116,951**	124,951
Accounts receivable	**2,519**	2,519
	₱3,289,725	₱2,812,520

With the foregoing level of allowance for credit and impairment losses, management believes that the Group has sufficient allowance to cover for any losses that the Group may incur from the non-collection or non-realization of its receivables and other risk assets.

Movements in allowance for credit and impairment losses on loans and receivables were as follows:

	2017	2016
Balance at beginning of year	**₱2,812,520**	₱2,318,574
Provision	**477,205**	519,101
Recovery	**–**	(25,155)
Balance at end of year	**₱3,289,725**	₱2,812,520

9. AFS Financial Assets

This account consists of:

	2017	2016 (As restated - see Note 4)
Debt securities:		
Government securities	**₱61,673,700**	₱46,681,640
Others	**2,897,168**	4,463,678
	64,570,868	51,145,318
Equity securities:		
Listed	**2,102,257**	652,827
Unlisted	**168**	168
	2,102,425	652,995
	₱66,673,293	₱51,798,313

Movements in AFS financial assets are as follows:

	2017	2016 (As restated - see Note 4)
Balance at beginning of year	**₱51,798,313**	₱46,446,107
Additions	**22,364,546**	10,543,945
Disposals	**(6,578,310)**	(5,568,640)
Unrealized fair value losses	**(391,513)**	(1,865,782)
Net amortization of premium	**(417,927)**	242,171
Foreign exchange gain	**(101,816)**	2,000,512
Balance at end of year	**₱66,673,293**	₱51,798,313

Classification of AFS financial assets:

	2017	2016 (As restated - see Note 4)
Current	**₱152,264**	₱27,963
Non-current	**66,521,029**	51,770,350
	₱66,673,293	₱51,798,313

Unlisted Equity Securities

This account comprise of shares of stock of private corporations that are carried at cost since fair value cannot be reliably estimated due to lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value. There is currently no market for these investments and the Group intends to hold them for long-term.

No impairment loss on permanent decline in value of AFS financial assets was recognized operations in 2017, 2016 and 2015.

Movements in cumulative unrealized gain on AFS financial assets are as follow:

	2017	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Balance at beginning of year	**₱2,051,031**	₱3,715,386	₱4,336,951
Fair value changes	**(512,654)**	(1,664,355)	(621,565)
Balance at end of year	**₱1,538,377**	₱2,051,031	₱3,715,386

The range of average interest rates of AFS debt securities are as follows:

Peso-denominated	3.25% to 6.25%
Foreign-denominated	2.75% to 7.75%

In 2017, interest income from AFS financial assets amounted to ₱2,735.4 million (₱2,330.8 million and ₱2,127.6 million in 2016 and 2015, respectively).

Gain from sale of AFS financial assets amounted to ₱859.2 million in 2017 (₱599.6 million and ₱365 million in 2016 and 2015, respectively).

10. HTM Investments

Movements in this account are as follows:

	2017	2016
Balance at beginning of year	**₱5,452,376**	₱4,598,766
Maturities	**(2,031,537)**	(1,856,377)
Foreign exchange gain	**12,309**	60,702
Amortization of premium	**(6,581)**	(7,990)
Additions	**–**	2,657,275
Balance at end of year	**₱3,426,567**	₱5,452,376

Classification of HTM investments:

	2017	2016
Current	**₱1,331**	₱2,000,000
Non-current	**3,425,236**	3,452,376
	₱3,426,567	₱5,452,376

The range of average interest rates of HTM investments are as follows:

Peso-denominated	7.00% to 7.75%
Foreign-denominated	3.70% to 6.50%

In 2017, interest income from HTM investments amounted to ₱176.4 million (₱372.0 million and ₱342.9 million in 2016 and 2015, respectively).

11. Bank's Premises, Furniture, Fixtures and Equipment

	2017				
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost					
Balance at beginning of year	**₱1,977,977**	**₱1,071,319**	**₱466,076**	**₱154,523**	**₱3,669,895**
Additions	**–**	**36,229**	**39,717**	**4,806**	**80,752**
Disposal	**–**	**–**	**(9,004)**	**(13,873)**	**(22,877)**
Balance at end of year	**1,977,977**	**1,107,548**	**496,789**	**145,456**	**3,727,770**
Accumulated Depreciation and Amortization					
Balance at beginning of year	**–**	**422,411**	**428,705**	**104,078**	**955,194**
Depreciation and amortization	**–**	**41,022**	**30,400**	**3,876**	**75,298**
Disposal	**–**	**–**	**(4,217)**	**(8,926)**	**(13,143)**
Balance at end of year	**–**	**463,433**	**454,888**	**99,028**	**1,017,349**
Carrying Amount	**₱1,977,977**	**₱644,115**	**₱41,901**	**₱46,428**	**₱2,710,421**

	2016				
	Land	Buildings and Improvements	Furniture, Fixtures and Equipment	Transportation Equipment	Total
Cost					
Balance at beginning of year	₱1,928,127	₱965,788	₱468,879	₱152,752	₱3,515,546
Additions	49,850	105,531	14,527	4,761	174,669
Disposal	–	–	(17,330)	(2,990)	(20,320)
Balance at end of year	1,977,977	1,071,319	466,076	154,523	3,669,895
Accumulated Depreciation and Amortization					
Balance at beginning of year	–	388,033	404,913	103,813	896,759
Depreciation and amortization	–	34,378	38,111	3,255	75,744
Disposal	–	–	(14,319)	(2,990)	(17,309)
Balance at end of year	–	422,411	428,705	104,078	955,194
Carrying Amount	₱1,977,977	₱648,908	₱37,371	₱50,445	₱2,714,701

Gain from sale of bank premises, furniture, fixtures and equipment amounted to ₱665,508 in 2017 (₱14.7 million and ₱1.3 million in 2016 and 2015, respectively).

Breakdown of depreciation and amortization:

	Note	**2017**	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Bank's premises, furniture and equipment		**₱75,298**	₱75,744	₱63,521
Investment properties	12	**68,524**	43,889	43,766
Computer software	13	**4,314**	5,236	6,360
		₱148,136	₱124,869	₱113,647

Cost of fully depreciated bank's premises, furniture, fixtures and equipment amounted to ₱201.7 million as at December 31, 2017 (₱191.1 million as at December 31, 2016).

12. Investment Properties

		2017		
	Note	**Land**	**Buildings and Improvements**	**Total**
Cost				
Balance at beginning of year		**₱1,713,562**	**₱1,578,421**	**₱3,291,983**
Additions		**81,534**	**1,753,703**	**1,835,237**
Disposals		**(697,834)**	**(1,486,000)**	**(2,183,834)**
Balance at end of year		**1,097,262**	**1,846,124**	**2,943,386**
Accumulated Depreciation and Amortization				
Balance at beginning of year		**–**	**458,323**	**458,323**
Depreciation and amortization	11	**–**	**68,524**	**68,524**
Disposals		**–**	**(428,516)**	**(428,516)**
Balance at end of year		**–**	**98,331**	**98,331**
Accumulated Impairment Losses				
Balance at beginning of year		**27,052**	**1,031**	**28,083**
Provision	22	**–**	**8,881**	**8,881**
Reversal		**(1,066)**	**–**	**(1,066)**
Balance at end of year		**25,986**	**9,912**	**35,898**
Carrying Amount		**₱1,071,276**	**₱1,737,881**	**₱2,809,157**

	Note	2016 (As restated - see Note 4) Land	Buildings and Improvements	Total
Cost				
Balance at beginning of year		₱1,724,163	₱1,607,104	₱3,331,267
Additions		29,386	16,850	46,236
Disposals		(39,987)	(45,533)	(85,520)
Balance at end of year		1,713,562	1,578,421	3,291,983
Accumulated Depreciation and Amortization				
Balance at beginning of year		–	452,388	452,388
Depreciation and amortization	11	–	43,889	43,889
Disposals		–	(37,954)	(37,954)
Balance at end of year		–	458,323	458,323
Accumulated Impairment Losses				
Balance at beginning of year		24,934	1,031	25,965
Provision	22	2,118	–	2,118
Balance at end of year		27,052	1,031	28,083
Carrying Amount		₱1,686,510	₱1,119,067	₱2,805,577

The investment properties consist entirely of real estate properties foreclosed in settlement of loans and receivables. The difference between the fair value of the investment property upon foreclosure and the carrying value of the loan is recognized under “Gain on asset foreclosure and dacion transactions” in the consolidated statement of income.

Loans and receivables amounting to ₱1,833.6 million were reclassified to assets held for sale in 2017 (₱34.2 million and ₱29.0 million in 2016 and 2015, respectively).

The aggregate fair value of the investment properties amounted to ₱5.1 million in 2017 and 2016. Fair value has been determined based on valuations made by independent or in-house appraisers. 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 fair value measurement is categorized as Level 2 (significant observable inputs).

Gain from sale of investment properties amounted to ₱476.2 million in 2017 (₱89.2 million and ₱17.0 million in 2016 and 2015, respectively).

Direct operating expenses from investment properties not generating rent income amounted to ₱68.5 million in 2017 (₱43.9 million and ₱43.8 million in 2016 and 2015, respectively).

13. Other Assets

This account consists of:

	2017	2016 (As restated - see Note 4)
Prepaid expenses	**₱104,740**	₱115,065
Documentary stamp tax	**21,192**	20,653
Other investments	**20,700**	21,923
Computer software	**7,231**	10,819
Others	**22,098**	17,939
	₱175,961	₱186,399

Prepaid expenses comprise of business taxes and licenses, and insurance premium paid in advance.

Other investments represent the required minimum amount of investment in various banking facilities to avail of their services and support the viability and sustainability of the banking network system.

Others consist mainly of utility deposits, security deposits and bid amount on auctioned properties.

Movements in computer software are as follows:

	Note	2017	2016 (As restated - see Note 4)
Cost			
Balance at beginning of year		**₱44,379**	₱38,185
Additions		**726**	6,194
Balance at end of year		**45,105**	44,379
Accumulated amortization			
Balance at beginning of year		**33,560**	28,324
Amortization	11	**4,314**	5,236
Balance at end of year		**37,874**	33,560
		₱7,231	₱10,819

14. **Deposit Liabilities**

Classification of deposit liabilities:

	2017	2016
Current	**₱121,527,051**	₱121,553,003
Non-current	**8,137,279**	8,525,690
	₱129,664,330	₱130,078,693

Non-FCDU deposit liabilities are subject to liquidity reserves equivalent to 11.00% starting July 15, 2005 (under Circular No. 491), and statutory reserve equivalent to 10.00% starting August 5, 2011 (under Circular No. 732). Prior to August 5, 2011, statutory reserve requirement was 9.00%. In accordance with Circular No. 832 issued in 2014, reserve requirement effective on the May 30, 2014 reserve week shall be 20.00% for deposits and deposit substitutes and 4.00% for long-term negotiable certificates of deposits.

As at December 31, 2017 and 2016, the Parent Bank is in compliance with such regulations.

Available reserves of the Parent Bank based on the 4th quarter report submitted to the BSP are as follows:

	2017	2016
Cash and other cash items	**₱828,754**	₱755,071
Due from BSP	**25,498,556**	29,267,559
	₱26,327,310	₱30,022,630

The deposit liabilities bear annual fixed interest rate of 0.25% to 3.25% in 2017 (0.25% to 3.25% in 2016 and 2015).

Interest expense on deposit liabilities consists of:

	2017	2016	2015
Savings deposits	**₱1,653,170**	₱1,716,831	₱1,540,122
Time deposits	**1,086,172**	1,145,079	1,068,842
	₱2,739,342	₱2,861,910	₱2,608,964

15. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2017	2016
Accrued expenses and other taxes	**₱203,625**	₱154,701
Accrued interest	**64,992**	67,617
Income tax payable	**2,007**	–
Others	**8,211**	11,586
	₱278,835	₱233,904

Others represent accrued employee incentives.

16. Other Liabilities

This account consists of:

	2017	2016
Accounts payable	**₱86,967**	₱54,416
Withholding taxes payable	**38,683**	41,534
Outstanding acceptances	**32,255**	3,291
Due to the Treasurer of the Philippines	**13,100**	12,080
Others	**17,125**	20,189
	₱188,130	₱131,510

Accounts payable comprise of accrued payroll and tellers' honorarium.

Outstanding acceptances pertains to the total liabilities of the Bank to its correspondent bank arising from customer trade for which the Bank has given accommodations to the buyer/importer in the form acceptance credit.

Due to the Treasurer of the Philippines pertains to remaining balances of dormant accounts surrendered to the Treasurer of the Philippines

Others consist mainly of deferred charges, deposits, dormant deposit accounts and other miscellaneous liabilities.

Classification of other liabilities:

	2017	2016
Current	**₱164,631**	₱108,099
Non-current	**23,499**	23,411
	₱188,130	₱131,510

17. **Equity**

<u>**Share Capital**</u>
Share capital as at December 31, 2017 and 2016 consists of:

	Amount
Authorized - 2.2 billion shares at ₱10 par value	₱22,000,000
Issued and outstanding -	
1.0 billion shares at ₱10 par value	10,000,000

<u>**Reserve**</u>
The reserves as at December 31, 2017 and 2016 consist of:

	Amount
Reserve for trust business	₱320
Reserve for self-insurance	33,342
Reserve for contingencies	38,658
	₱72,320

In compliance with the existing BSP regulations, 10.00% of the Parent Bank's income from trust business is appropriated to reserves. This yearly appropriation is required until the reserve for trust business equals 20.00% of the Parent Bank's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Bank's personnel or third parties.

<u>**Cash Dividends**</u>

The BOD of the Parent Bank approved the declaration and payment of the following cash dividends to its common shareholders:

Date of Declaration	Date of Record	Date of Payment	Dividend per Share	Amount
July 6, 2017	July 11, 2017	July 12, 2017	₱0.20	₱200,000
April 26, 2016	June 30, 2016	July 11, 2016	0.20	200,000

18. **Earnings Per Share**

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	2017	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Net Income	**₱1,611,760**	₱1,066,805	₱1,069,190
Weighted average of outstanding common shares	**1,000,000**	1,000,000	1,000,000
	₱1.61	₱1.07	₱1.07

As at December 31, 2017 and 2016, there were no outstanding dilutive potential common shares.

19. **Other Operating Income**

This account consists of:

	Note	**2017**	2016	2015
Gain on sale of AFS financial assets		**₱859,162**	₱599,614	₱365,639
Gain on sale of investment properties	12	**476,265**	89,238	17,018
Rental income	23	**45,286**	52,798	31,778
Dividend income		**23,841**	23,817	19,321
Others		**21,105**	68,800	62,338
		₱1,425,659	₱834,267	₱496,094

20. **Compensation and Employee Benefits**

	2017	2016	2015
Salaries and other employee benefits	**₱824,416**	₱748,410	₱692,751
Retirement benefits	**47,073**	45,470	44,553
Dental, medical and hospitalization	**14,650**	13,879	12,930
SSS, HDMF and Philhealth premiums	**14,540**	14,483	14,200
	₱900,679	₱822,242	₱764,434

Retirement Benefits

The Parent Bank has a funded, DC plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits in relation to the proportion of the fair value of the total contributions on their attainment of the retirement age. The assets of the fund are being administered by trustees and are held separately from those of the Parent Bank.

Under the R.A. 7641, *The Retirement Pay Law*, the Parent Bank also provides for its qualified employees a defined benefit (DB) minimum guarantee, which is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service.

The present value of the DB minimum guarantee under the R.A. 7641 amounted to ₱7.2 million as at December 31, 2017 (₱8.6 million as at December 31, 2016). The Parent Bank has no unallocated DC plan assets as at December 31, 2017 and 2016.

The Parent Bank is exposed to the risk of changes in government securities yields, wherein a decrease in government securities yields will increase the projected DB minimum guarantee, although this will be partially offset by an increase in the value of any unallocated plan assets' securities holdings.

Following are the details of the present value of the DB minimum guarantee obligation:

	2017	2016
Balance at beginning of year	**₱8,577**	₱8,498
Interest expense	**154**	136
Current service cost	**67**	70
Remeasurement gain arising from:		
Experience adjustments	**(1,565)**	(103)
Changes in financial assumptions	**(5)**	(24)
Balance at end of year	**₱7,228**	₱8,577

Following are the details of the retirement benefits recognized for the DB minimum guarantee obligation and DC plan contributions:

	2017	2016	2015
Interest expense	**₱154**	₱136	₱113
Current service cost	**67**	70	65
Additional retirement benefits recognized	**221**	206	178
Retirement benefits on DC plan (contributions during the year)	**46,852**	45,264	44,375
	₱47,073	₱45,470	₱44,553

Details of cumulative remeasurement gain (loss) follow:

	2017		
	Cumulative Remeasurement Gain	**Deferred Tax** (see Note 23)	**Net**
Balance at beginning of year	**₱9,385**	**₱2,816**	**₱6,569**
Remeasurement gain	**1,569**	**471**	**1,098**
Balance at end of year	**₱10,954**	**₱3,287**	**₱7,667**

	2016		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax (see Note 23)	Net
Balance at beginning of year	₱9,257	₱2,777	₱6,480
Remeasurement gain	127	38	89
Balance at end of year	₱9,384	₱2,815	₱6,569

The average duration of the defined benefit obligation at the end of the reporting year is 12 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2017:

One to five years	₱1,973
Six to 10 years	2,827
11 to 15 years	14,136
16 years and above	57,178
	₱76,114

The Parent Bank's assumptions are based on actual historical experience and external data regarding salary and discount rate trends. The Parent Bank considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of DB obligation.

21. **Occupancy and Equipment-Related Expenses**

This account consists of:

	Note	**2017**	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Depreciation and amortization	11	**₱148,136**	₱124,869	₱113,647
Rentals	23	**71,768**	76,030	69,962
		₱219,904	₱200,899	₱183,609

22. **Other Operating Expenses**

This account consists of:

	Note	**2017**	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Insurance		**₱266,402**	₱239,643	₱216,873
Taxes and licenses		**265,236**	200,777	210,253
Security, messengerial and janitorial		**146,560**	132,981	130,069
Supervision and examination fees		**78,365**	40,784	16,202
Communication, light and water		**51,124**	51,209	56,030
Documentary stamp tax		**34,195**	15,020	23,419
Information technology		**26,977**	31,459	20,640
Promotion and business development		**23,259**	22,584	33,194
Repairs and maintenance		**11,949**	12,765	11,164
Professional fees		**10,025**	7,270	7,392
Provision on impairment allowance of investment properties	12	**8,881**	2,118	–
Stationary and office supplies		**7,275**	6,713	6,960
Transportation		**4,243**	4,421	5,262
Donation and contributions		**1,080**	1,267	86
Others		**43,288**	76,258	62,604
		₱978,859	₱845,269	₱800,148

Others include expenses incurred for commemorative coins and Bank's anniversary celebrations.

23. Leases

Operating Lease Commitments - The Group as a Lessor

Included in Parent Bank's premises are properties of which a portion is being leased out to earn rentals. These non-cancellable leases have escalation clauses based on prevailing market condition.

Rent income from leased properties which is included in "Other operating income" account in the consolidated statement of income amounted to ₱45.3 million in 2017 (₱52.8 million and ₱31.8 million in 2016 and 2015, respectively) (see Note 19).

Future minimum rental receivables under operating leases are as follows:

	2017	2016
Within one year	**₱43,047**	₱35,735
After one year but not more than five years	**153,809**	145,837
After more than five years	**217,086**	261,425
	₱413,942	₱442,997

Operating Lease Commitments - The Group as a Lessee

The Parent Bank leases a number of branch and office premises under non-cancellable operating leases. The leases typically run for a period up to five years, with the option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

Rental expense which is included in "Occupancy and equipment-related expenses" amounted to ₱71.8 million in 2017 (₱76.0 million and ₱70.0 million in 2016 and 2015, respectively) (see Note 21).

Future minimum rental payables under operating leases are as follows:

	2017	2016
Within one year	**₱42,005**	₱60,220
After one year but not more than five years	**94,461**	108,997
After more than five years	**21,640**	84,691
	₱158,106	₱253,908

24. **Related Party Transactions**

In the ordinary course of business, the Group has transactions with related parties summarized as follows.

Nature of Transactions	Year	Transactions during the Year	Outstanding Balances
Entities Under Common Management			
Loans and receivables	**2017**	**₱140.0**	**₱1,000.0**
	2016	–	860.0
Investment in shares of stocks	**2017**	**–**	**659.4**
	2016	–	747.7
Deposit liabilities	**2017**	**–**	**23.2**
	2016	–	43.9
Rent income	**2017**	**27.1**	**–**
	2016	28.4	–
Rent expense	**2017**	**2.6**	–
	2016	0.6	–
Stockholders			
Loans and receivables	**2017**	**305.0**	**780.0**
	2016	–	475.0
Rent expense	**2017**	**5.9**	–
Related Interests			
Loans and receivables	**2017**	**–**	**659.7**
	2016	–	800.0

<u>Terms and Conditions</u>

Investments in Shares of Stocks. Investment in listed equity securities, which are classified as AFS financial assets. These are fully paid, and unimpaired.

Loans and Receivables. Bills discounted loan with a term of three to five years and a nominal interest rate of 3.5% to 5.0%.

Deposit Liabilities. Earn interest at the prevailing bank deposit rates; unimpaired; and unrestricted as to withdrawals.

Rental Income. Lease transaction, as a lessor, with term of one to 25 years and renewable upon mutual agreement of the parties.

Rental Expense. Lease transaction, as a lessee, with term of one to two years and renewable upon mutual agreement of the parties.

<u>Compensation of Key Management Personnel</u>

Compensation of key management personnel included under compensation and employee benefits.

	2017	2016	2015
Short-term employee benefits	**₱146,933**	₱144,756	₱137,496
Post-employment retirement benefits	**20,820**	16,304	28,709
	₱167,753	₱161,060	₱166,205

Regulatory Reporting

In the ordinary course of business, the Parent Bank has loans and other transactions with its directors, officers, stockholders and related interests (DOSRI). Under the Parent Bank'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 individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Bank. In the aggregate, loans to DOSRI generally should not exceed the Parent Bank's total capital funds or 15.00% of the Parent Bank's total loan portfolio, whichever is lower. As at December 31, 2017 and 2016, the Parent Bank has complied with all these regulatory requirements.

In January 31, 2007, 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, the total outstanding exposures of the bank shall not exceed 10.00% of the bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective February 15, 2007.

Loans to Parent Bank Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to ₱2.4 billion as at December 31, 2017 (₱2.1 billion as at December 31, 2016).

25. Income Taxes

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Income tax expense' in the consolidated statement of income.

Effective in May 2004, RA No. 9294 restored the tax exemption of FCDU and offshore banking units (OBU). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBU, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBU or other depository banks under the expanded system is subject to 10% final income tax.

The components of income tax expense are as follows:

	2017	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Current taxes:			
Final tax	**₱471,217**	₱388,441	₱333,988
MCIT	**4,126**	1,136	4,830
Deferred income tax	**(141,587)**	(149,831)	66,903
	₱333,756	₱239,746	₱405,721

The reconciliation of income tax expense at statutory tax rate and income tax expense presented in the consolidated statement of income:

	2017	2016 (As restated - see Note 4)	2015 (As restated - see Note 4)
Income tax expense at statutory tax rate	**₱583,655**	₱307,184	₱442,473
Tax effects of:			
FCDU income	**(475,810)**	(311,691)	(224,664)
Nondeductible expenses	**423,816**	283,239	170,830
Interest income subjected to final tax	**(274,966)**	(195,073)	(166,993)
Movement in unrecognized deferred tax asset and expiration of NOLCO and MCIT	**84,213**	165,290	205,566
Nontaxable income	**(7,152)**	(9,203)	(21,491)
	₱333,756	₱239,746	₱405,721

Details of deferred tax assets are as follows:

	2017	2016
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱997,687**	₱852,181
MCIT	**10,091**	13,798
Accrued rent expense	**4,614**	3,004
Retirement liability	**2,168**	2,573
	1,014,560	871,556
Deferred tax liability on -		
Rent receivable	**(3,355)**	(1,467)
	₱1,011,205	₱870,089

As at December 31, 2017, deferred tax asset on NOLCO amounting to ₱399.7 million (₱317.9 million as at December 31, 2016) was not recognized. Management assessed that it is not probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

Details of NOLCO are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2013	2016	₱470,689	(₱470,689)	₱–
2014	2017	172,817	–	172,817
2015	2018	336,811	–	336,811
2016	2019	550,155	–	550,155
		₱1,530,472	(₱470,689)	₱1,059,783

Details of MCIT are as follows:

Year of incurrence	Year of expiry	Amount	Expired	Balance
2014	2017	₱7,832	(₱7,832)	₱–
2015	2018	4,829	–	4,829
2016	2019	1,136	–	1,136
2017	2020	4,126	–	4,126
		₱17,923	(₱7,832)	₱10,091

26. Trust Operations

Securities and other properties (other than deposits) held by the Parent Bank in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying consolidated statement of financial position since these are not assets of the Parent Bank (see Note 27).

In compliance with the requirements of current banking regulations relative to the Parent Bank's trust functions: (a) government securities included under held to maturity investments in the consolidated statements of financial position with a total face value of ₱10 million as at December 31, 2017 and 2016 are deposited with the BSP as security for the Parent Bank's faithful compliance with its fiduciary obligations; and (b) a certain percentage of the Parent Bank's trust fee income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20.00% of the Group's authorized share capital.

27. Commitments and Contingent Assets and Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying consolidated financial statements. Management does not anticipate any material losses as a result of these transactions.

The following is a summary of contingencies and commitments of the Group with the equivalent peso contractual amounts:

	2017	2016
Trust department accounts	**₱897,242**	₱881,518
Unused commercial letters of credit	**363,091**	206,100
Inward bills for collection	**19,418**	25,333
Outward bills for collection	**2,652**	1,459
Outstanding guarantees issued	**1,036**	–
Late deposits/payments received	**149**	29,174
Items held as collateral	**4**	4
	₱1,283,592	₱1,143,588

28. Financial Performance Ratios

The key financial performance indicators of the Group are presented below:

	2017	2016	2015
Return on average equity	**6.37%**	4.60%	4.40%
Return on average assets	**0.96%**	0.74%	0.78%
Net margin	**1.64%**	1.55%	2.14%
Capital to risk assets	**44.56%**	37.65%	38.54%

29. **Segment Information**

A segment is a distinguishable component of the Group that is engaged either in providing types of services (business segment).

The table below present financial information on business segments as at and for the years ended December 31, 2017, 2016 and 2015:

	2017		
	Treasury Group	**Lending Group**	**Total**
Segment revenue			
Interest income from treasury operations	**₱4,142,554**	**₱–**	**₱4,142,554**
Interest income from lending operations	**–**	**1,586,537**	**1,586,537**
Other income	**876,477**	**655,937**	**1,532,414**
Interest expense	**(2,739,342)**	**–**	**(2,739,342)**
Provision for credit and impairment losses	**–**	**(477,205)**	**(477,205)**
	2,279,689	**1,765,269**	**4,044,958**
Compensation and employee benefits	**(503,014)**	**(397,665)**	**(900,679)**
Occupancy and equipment-related expenses	**(122,813)**	**(97,091)**	**(219,904)**
Other operating expenses	**(546,676)**	**(432,183)**	**(978,859)**
Income tax expense	**(4,126)**	**(329,630)**	**(333,756)**
Segment Operating Profit (Loss)	**₱1,103,061**	**₱508,699**	**₱1,611,760**
Segment Assets	**₱83,856,238**	**₱70,099,860**	**₱153,956,098**

	2016		
	Treasury Group	**Lending Group**	**Total**
Segment revenue			
Interest income from treasury operations	₱3,807,574	₱–	₱3,807,574
Interest income from lending operations	–	1,822,170	1,822,170
Other income	412,541	513,687	926,228
Interest expense	(2,861,910)	–	(2,861,910)
Provision for credit and impairment losses	–	(519,101)	(519,101)
	1,358,205	1,816,756	3,174,961
Compensation and employee benefits	(345,779)	(476,463)	(822,242)
Occupancy and equipment-related expenses	(84,484)	(116,415)	(200,899)
Other operating expenses	(355,463)	(489,806)	(845,269)
Income tax expense	(1,136)	(238,610)	(239,746)
Segment Operating Profit (Loss)	₱571,343	₱495,462	₱1,066,805
Segment Assets	₱96,108,431	₱57,250,689	₱153,359,120

	2016		
	Treasury Group	**Lending Group**	**Total**
Segment revenue			
Interest income from treasury operations	₱3,354,080	₱–	₱3,354,080
Interest income from lending operations	–	1,988,191	1,988,191
Other income	205,058	392,739	597,797
Interest expense	(2,608,964)	–	(2,608,964)
Provision for credit and impairment losses	–	(108,002)	(108,002)
	950,174	2,272,928	3,223,102
Compensation and employee benefits	(216,962)	(547,472)	(764,434)
Occupancy and equipment-related expenses	(52,112)	(131,497)	(183,609)
Other operating expenses	(227,099)	(573,049)	(800,148)
Income tax expense	(4,830)	(400,891)	(405,721)
Segment Operating Profit (Loss)	₱449,171	₱620,019	₱1,069,190
Segment Assets	₱85,094,021	₱51,044,873	₱136,138,894

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

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

We have audited the accompanying consolidated financial statements of Philtrust Bank (Philippine Trust Company) (the Parent Bank) and its subsidiary as at and for the year ended December 31, 2017, on which we have rendered our report dated April 20, 2018.

In compliance with Securities Regulation Code Rule 68, as amended, we are stating that the Parent Bank has 72 stockholders owning 100 or more shares each.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2017
Valid until January 13, 2020
PTR No. 6607959
Issued January 3, 2018, Makati City

April 20, 2018
Makati City, Metro Manila

REPORT OF INDEPENDENT AUDITORS
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philtrust Bank (Philippine Trust Company)
Philtrust Bank Bldg., 1000 United Nations Avenue corner
San Marcelino St., Manila

We have audited in accordance with Philippine Standards on Auditing, the accompanying consolidated financial statements of the Philtrust Bank (Philippine Trust Company) and its subsidiary (collectively referred as the Group) as at and for the year ended December 31, 2017 (with comparative figures for 2016 and 2015), and have issued our report dated April 20, 2018. Our audit was made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary schedules are the responsibility of the Group's management. These supplementary schedules include the following:

- Financial ratios
- Adoption of Effective Accounting Standards and Interpretations
- Schedules Required by Part II of SRC Rule 68, as Amended
- Reconciliation of Retained Earnings Available for Dividend Declaration
- Map of Group Structure

These schedules are presented for purposes of complying with Securities Regulation Code Rule 68 Part II, as amended, and are not part of the basic consolidated financial statements. This information have been subjected to the auditing procedures applied in the audit of the consolidated financial statements, including comparing such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves. In our opinion, the information is fairly stated in all material respect in relation to the consolidated financial statements taken as a whole.

REYES TACANDONG & CO.

HAYDEE M. REYES
Partner
CPA Certificate No. 83522
Tax Identification No. 102-095-265-000
BOA Accreditation No. 4782; Valid until December 31, 2018
SEC Accreditation No. 0663-AR-3 Group A
Valid until August 30, 2020
BIR Accreditation No. 08-005144-006-2017
Valid until January 13, 2020
PTR No. 6607959
Issued January 3, 2018, Makati City

April 20, 2018
Makati City, Metro Manila

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND SUBSIDIARY

Index to Consolidated Financial Statements

As at and For the Year Ended December 31, 2017

Table of Contents

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule I - Reconciliation of Retained Earnings Available for Dividend Declaration
DECEMBER 31, 2017
Amounts in Thousands

Unappropriated Retained Earnings, beginning	₱10,325,115
Adjustments for prior-year adjustments	(250,832)
Unappropriated Retained Earnings, as adjusted, beginning	10,074,283
Net income during the period closed to Retained Earnings	1,611,759
Less: Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	(45,763)
	1,565,996
Less: Dividend declarations during the period	(200,000)
Total Retained Earnings, End Available For Dividend	₱11,440,279

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule II - Financial Soundness Indicators

DECEMBER 31, 2017

	2017	2016
Current Ratio(1)	0.594	0.688
Debt to Equity Ratio(2)	5.499	5.729
Asset to Equity Ratio(3)	6.499	6.729
Interest Coverage Ratio(4)	0.710	0.457
Net Interest Margin Ratio(5)	0.122	0.113
Return on Assets(6)	0.010	0.007
Return on Equity(7)	0.068	0.047
Solvency Ratio(8	0.014	0.009

(1) Current ratio is measured as current assets divided by current liabilities.
(2) Debt to equity ratio is measured as total liabilities divided by total equity.
(3) Asset to equity ratio is measured as total assets divided by total equity.
(4) Interest coverage ratio is measured by EBIT, or earnings before interest and taxes, divided by total financing costs.
(5) Net interest margin ratio is derived by dividing net interest income with average interest earning assets.
(6) Return on assets is measured by dividing net income after tax with total assets.
(7) Return on equity is measured by dividing net income after tax with total capital accounts.
(8) Solvency ratio is measured by dividing net income after tax plus depreciation with total liabilities.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule III

SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2017

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRS Practice Statement Management Commentary			✓

Philippine Financial Reporting Standards (PFRS)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments	✓		
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 10	Consolidated Financial Statements	✓		
	Amendments to PFRS 10: Transition Guidance	✓		
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment	✓		
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities	✓		
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities	✓		
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'	✓		
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option			✓
	Amendments to PAS 39: Financial Guarantee Contracts			✓
	Amendments to PAS 39: Reclassification of Financial Assets	✓		
	Amendments to PAS 39: Reclassification of Financial Assets - Effective Date and Transition	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments PAS 39: Embedded Derivatives			✓
	Amendment to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting			✓
PAS 40	Investment Property	✓		
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property	✓		
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC–9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

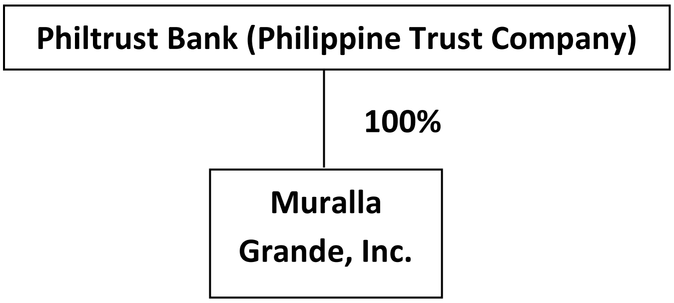
PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures.			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule IV - Map of the Relationships of the Companies within the Group

DECEMBER 31, 2017



PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule A – Financial Assets

DECEMBER 31, 2017

Amounts in Thousands

Name of issuing entity and association of each issue	Number of shares	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
Cash and cash equivalents				
Cash and other cash items		₱828,754	₱828,754	₱–
Due from Bangko Sentral ng Pilipinas (BSP)		25,498,556	25,498,556	1,220,444
Due from other banks		4,147,236	4,147,236	10,393
		₱30,474,546	₱30,474,546	₱1,230,837
AFS Investments – Equity Securities				
Euromed Lab. Phil., Inc.	365,111	₱606,085	₱606,085	₱18,256
Centro Escolar University	207	1,784	1,784	41
Manila Electric Company	34	11,270	11,270	–
San Miguel Corp.	3	344	344	4
Philippine Long Distance Corporation	2	2,764	2,764	142
Casino Espanol De Manila	–	27	27	–
Philippine Columbian Association	–	21	21	–
Manila Executive Center	–	120	120	–
	365,357	₱622,415	₱622,415	₱18,443

Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
AFS Investments – Debt Securities Peso-denominated				
PIID0522L114	₱5,000,000	₱4,935,461	₱4,935,461	₱57,546
PIID0320D087	4,650,000	4,670,317	4,670,317	143,295
PIID1026I057	3,050,000	2,688,254	2,688,254	106,750
PIBD0724D595	2,400,000	2,355,317	2,355,317	75,000
PIBD0723D588	1,500,000	1,407,534	1,407,534	52,500
PIID1527C023	1,500,000	1,476,520	1,476,520	80,625
PIBD2032B183	1,200,000	1,219,998	1,219,998	70,500
PIBD2033C206	1,150,000	909,075	909,075	41,686
PIBD0721C574	1,000,000	967,355	967,355	35,000
PIBD1027E617	1,000,000	972,366	972,366	31,139
PIID1023H046	1,000,000	916,966	916,966	32,500
PIID2032C014	1,000,000	1,016,842	1,016,842	58,750
PIBD2037E214	1,000,000	947,165	947,165	32,375
PIBD0520H735	900,000	879,458	879,458	30,375
PIBD0320A229	700,000	691,621	691,621	22,838
PIBD0522A747	700,000	685,561	685,561	25,978
PIBD0719D531	500,000	510,700	510,700	25,000
PIBD1022H562	500,000	502,658	502,658	24,375
PIBD1024H595	500,000	466,709	466,709	20,625
PIBD1025I608	500,000	462,398	462,398	18,125
PIID1021J039	500,000	514,296	514,296	28,750
PIID1526J019	500,000	524,261	524,261	31,250
PIID2537J015	500,000	524,893	524,893	30,625
PIBD0718H511	150,000	151,789	151,789	7,500
PIBD1022I570	50,000	50,009	50,009	2,375
PIBD0719K560	50,000	49,898	49,898	1,938
	₱31,500,000	₱30,497,421	₱30,497,421	₱1,087,420
AFS Investments – Debt Securities Foreign-denominated				
XS0879849312	$138,000	₱6,851,616	₱6,851,616	₱231,418
US718286BD89	113,312	5,828,982	5,828,982	232,183
US718286BZ91	81,000	5,406,986	5,406,986	270,270
ODTB1023L018	74,200	3,781,077	3,781,077	81,580
US718286CB15	66,000	3,888,582	3,888,582	185,436
US718286CA32	53,000	3,443,273	3,443,273	233,587
XS1277512775	39,375	2,004,232	2,004,232	162,096
USY7083VAD11	31,300	1,565,607	1,565,607	45,976
US718286BG11	22,000	1,400,284	1,400,284	85,134
US718286BN61	15,009	793,509	793,509	65,510
US718286BW60	10,000	589,299	589,299	54,753
	$643,196	₱35,553,447	₱35,553,447	₱1,647,943

Name of issuing entity and association of each issue	Principal amount of bonds or notes	Amount shown on the balance sheet	Valued based on market quotation at balance sheet date	Income received and accrued
HTM Investments				
Peso-denominated				
PIBD1020B508	₱500,000	₱500,000	₱537,677	₱38,750
Foreign-denominated				
US718286CA32	$21,000	1,119,898	1,044,787	40,175
US718286BZ91	20,500	1,101,277	1,057,269	40,337
XS0894336907	10,500	531,595	538,110	20,952
XS0876086975	3,000	153,554	155,463	6,296
XS0975540211	379	20,243	20,154	2,826
	$55,379	₱2,926,567	₱2,815,783	₱110,586

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

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

DECEMBER 31, 2017

Amounts in Millions

Name and designation of debtor	Balance at beginning of year	Additions	Amounts collected	Amounts written off	Current	Noncurrent	Balance at end of year
Centro Escolar University	₱6*	₱24	₱22	₱–	₱–	₱–	₱8
	₱6	₱24	₱22	₱–	₱–	₱–	₱8

Note: Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

*This pertains to accrued three months rental income at ₱2 million per month.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule C – Amounts Receivable from Related Parties which are Eliminated During the Consolidation of the Financial Statements
DECEMBER 31, 2017
Amounts in Thousands

Name of Debtor	Balance at the beginning of the period	Additions	Amounts collected (i)	Amounts written-off(ii)	Current	Non- current	Balance at the end of period

None to report.

i. **If collected was other than in cash, explain.**
ii. **ii. Give reasons to write-off.**

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule D – Intangible Assets - Other Assets
DECEMBER 31, 2017
Amounts in Thousands

Description (i)	Beginning Balance	Additions at Cost (ii)	Charged to cost and expenses	Charged to other accounts	Other charges additions (deduction) (iii)	Ending Balance
Software Cost	₱44,379	₱726	₱–	₱–	₱–	₱45,105
Accumulated Amortization	(33,560)	–	(4,314)	–	–	(37,874)
	₱10,819	₱726	(₱4,314)	₱–	₱–	₱7,231

i.The information required shall be grouped into (a) intangibles shown under the caption intangible assets and (b) deferrals shown under the caption other assets in the related balance sheet. Show by major classifications.

ii. For each change representing other than an acquisition, clearly state the nature of the change and the other accounts affected. Describe cost of additions representing other than cash expenditures.

iii. If provision for amortization of intangible assets is credited in the books directly to the intangible asset account, the amounts shall be stated with explanations, including the amounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule E – Long-Term Debt
DECEMBER 31, 2017
Amounts in Thousands

Title of issue and type of obligation (i)	*Amount authorized by indenture*	*Amount shown under caption "Current portion of long-term debt in related balance sheet" (ii)*	*Amount shown under caption "Long- term debt in related balance sheet" (iii)*	*Interest Rate %*	*Maturity Date*

None to report.

i. Include in this column each type of obligation authorized.

ii. This column is to be totalled to correspond to the related balance sheet caption.

iii. Include in this column details as to interest rates, amounts or numbers of periodic installments, and maturity dates

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule F – Indebtedness to Related Parties
DECEMBER 31, 2017
Amounts in Thousands

Name of Related Parties (i)	*Balance at the beginning of the period*	*Balance at the end of the period (ii)*

None to report.

i. The related party shall be grouped as in Schedule D. The information called for shall be stated for any persons whose investments shown in separately in such related schedule.
ii. For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10% of the related balance at either the beginning or end of the period.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule G – Guarantees of Securities of Other Issuers

December 31, 2017

Amounts in Thousands

Name of the issuing entity of securities guaranteed by the company for which this statement is fled	*Title of issue of each class of securities guaranteed*	*Total amount of guaranteed and outstanding (i)*	*Amount owned by person of which statement is filed*	*Nature of Guarantee (ii)*

None to report.

i. Indicate in the note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

ii. There must be a brief statement of the nature of the guarantee, such as “Guarantee of Principal and Interest”', “Guarantee of Interest” or “Guarantee of Dividend”. If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

PHILTRUST BANK (PHILIPPINE TRUST COMPANY) AND ITS SUBSIDIARY

Schedule H – Share Capital
DECEMBER 31, 2017
Amounts in Thousands

Title of Issue (i)	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption*	*Number of shares reserved for options, warrants, conversion and other rights*	*Number of shares held by related parties (ii)*	*Directors, officers and employees*	*Others (iii)*
Common	2,200,000	1,000,000	–	–	8,998	–

i. Include in this column each type of issue authorized

ii. Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.

iii. Indicate in a note any significant changes since the date of the last balance sheet filed.

Annex “C”

MANAGEMENT REPORT

Description of the general nature and scope of the business of the registrant

(A) Description of Business

(1) Business Development

The Philippine Trust Company, also known as PHILTRUST BANK, was established more than a hundred years ago on October 21, 1916. It is one of the oldest private commercial banks in the country that started as a trust institution. It was granted by the Bangko Sentral ng Pilipinas the authority to operate as a universal bank on June 5, 2007.

Throughout its more than 100 years in banking, Philtrust Bank has acquired a reputation for conservatism and reliability and has enjoyed the trust and confidence of the business community and the general public. This guiding policy has enabled the Bank to grow and expand steadily since its establishment.

Philtrust Bank has been consistently rated as one of the most outstanding banks in the country for its liquid position. It has not borrowed nor availed of any rediscounting facility from the Bangko Sentral ng Pilipinas or other banks, instead it has been a consistent lender to these institutions.

The principal office is located at Philtrust Bank Building, 1000 United Nations Avenue corner San Marcelino Street, Manila. Aside from the Head Office, the Bank has a network of sixty (60) branches.

The Bank looks forward to buying or leasing suitable locations in Metro Manila and in other key cities and provinces to augment its 60 branches, 39 of which are located in Metro Manila while 21 are in the provinces, and to optimize its market presence and its service availability felt in major financial, commercial and population centers in the country. Greater emphasis is being given to regional operations and financing of priority industries supportive of national economic growth.

The Bank does not anticipate any material reclassification, merger, consolidation or purchase/sale of a significant amount of its assets outside the course of its business.

Having officially listed on February 17, 1988, Philtrust Bank is one of the first few banks that traded their shares in the then Manila Stock Exchange and Makati Stock Exchange, presently known as the Philippine Stock Exchange, Inc. (PSE). Its 25th anniversary as a listed company was recognized in a fitting ceremony held at the PSE trading floor on February 26, 2013 attended by its Chairman and President Dr. Jaime C. Laya, Vice Chairmen Senior Justice Josue N. Bellosillo and Basilio C. Yap and Corporate Secretary Martin B. Isidro, and PSE Officers.

(2) Business of Issuer

The Bank offers domestic, international and trust services. Domestic services include checking accounts, savings accounts, time deposits, money market placements, business loans, transfer of funds and collections, remittances, securities investments and safety deposit boxes. International transactions involve commercial letters of credit, collections and remittances, foreign exchange, traveler's checks and FCDU transactions. Trust operations include trust placement, investment management, estate administration/trustee of bond issues, savings and pension plan administration, insurance trust, and acting as escrow agent and stock registrar and transfer agent.

On June 5, 2007, the Bangko Sentral ng Pilipinas granted the Bank authority to operate as a universal bank. The Securities and Exchange Commission approved the registration of the Bank's Amended Articles of Incorporation, with powers among others, to engage in the business of expanded commercial banking as a universal bank, to carry on the business of a trust company, exercise the powers of investment houses as provided in pertinent laws and the power and authority to invest in the equity of allied and non-allied corporations, businesses or undertakings, and to perform such other acts and functions as may be permitted by law.

(3) Holders

The Bank has an authorized capital stock of Twenty Two Billion Pesos (P22,000,000,000.00) divided into Two Billion Two Hundred Million (2,200,000,000) common shares with the par value of P10.00 per share. Paid-up capital stands at Ten Billion Pesos (P10,000,000,000.00). As of March 15, 2018, there are 83 holders of the Bank's 1,000,000,000 issued and outstanding shares, all of which are listed in the Philippine Stock Exchange.

The Top Twenty Stockholders as of March 15, 2018 are as follows:

	NAME OF STOCKHOLDER	TOTAL NUMBER OF SHARES SUBSCRIBED AND PAID	%
1	PHILTRUST REALTY CORPORATION	269,000,014	26.9000
2	U.S. AUTOMOTIVE CO., INC.	209,873,774	20.9874
3	SEABREEZE ENTERPRISES, INC.	194,746,709	19.4747
4	ORIENT ENTERPRISES, INC.	184,783,230	18.4783
5	PIONEER INSURANCE & SURETY CORP.	70,950,696	7.0951
6	MARKETSOURCE CORPORATION	20,077,690	2.0078
7	PCD NOMINEE CORPORATION	19,258,817	1.9259
8	PIONEER LIFE, INC.	8,031,883	0.8032
9	GAW, ROSALINDA Y.	6,400,510	0.6400
10	TAN, TEODORA D.	4,321,814	0.4322
11	PIONEER INTERCONTINENTAL INSURANCE CORPORATION	2,697,385	0.2697
12	PIONEER INSURANCE CO. RETIREMENT PLAN	1,411,116	0.1411
13	YAP, BASILIO C.	1,389,030	0.1389
14	GO, CARLOS S.	683,352	0.0683
15	GO, ENRIQUE S.	683,352	0.0683
16	GO, EUSEBIO S.	683,352	0.0683
17	GO, VICTORIANO S.	683,352	0.0683
18	GOLDCLASS INC.	550,698	0.0550
19	CU, MIRIAM C.	548,881	0.0549
20	GO, ARTURO S.	536,920	0.0537

(4) Quarterly Sales Prices

2016	High	Low
March 31	P120.00	P120.00
June 30	680.00	600.00
September 30	248.00	246.60
December 30	145.00	133.00

2017	High	Low
March 31	P118.00	P118.00
June 30	141.00	113.00
September 30	140.00	112.00
December 30	145.00	145.00

The latest price information on the Bank's shares are as follows:

Date	Open	High	Low	Close	Prev. Close
March 28, 2018	P116.00	P145.00	P111.50	P145.00	P115.00
April 20, 2018	110.00	110.00	110.00	110.00	110.00

(5) Recent Sales of Securities

Based on the PDTC* transmittal letter/upliftment report forwarded to the Bank and the beneficial ownership reports, hereunder is the recent sale of the Bank's shares, to wit:

Transaction Date	Title	Amount	To Whom Sold	Terms
Dec. 19, 2017	Common shares	P55,569,800.00	Goldclass Inc.	550,698 shares at P100.00 per share
			Lodged with PCD Nominee Corp.	5,000 shares at P100.00 per share

*Philippine Depository and Trust Corp.

No other transfer of shares involving change in beneficial ownership transpired after the said date.

The latest issuance of securities constituting exempt transactions cover the stock dividend declaration in April 2011, and the full payment of the balance of subscription the issuance and listing of which were approved by the PSE in April 2012.

(6) Dividends

The Stockholders of the Bank, at their annual meeting held on April 25, 2017, unanimously approved, confirmed and ratified the declaration by the Board of Directors earlier on the same day, April 25, 2017, of a cash dividend of P0.20 per share or Two Hundred Million Pesos (P200,000,000.00) out of the surplus profit of the Bank as of December 31, 2016 subject to the approval by the Bangko Sentral ng Pilipinas (BSP).

As no advice against the said cash dividend was received by the Bank from BSP within the reglamentary period, the President, as authorized by the Board of Directors, fixed the record date on July 11, 2017 and the payment date on July 12, 2017.

There are no restrictions that would limit the ability of the Bank to pay dividends on its common shares or likely to do so in the future.

(7) Corporate Governance

The Directors and Management of the Bank are fully aware of, and sensitive to, the needs for good corporate governance. The Bank Management with its traditional and usual practice strictly observes the tenets of good governance in its dealing with depositors, stockholders, employees and other stakeholders.

a) Based on the Performance Evaluation System approved by the Board of Directors, a self-assessment is conducted annually by the Members of the Board, the Management, and the Staff to determine and measure the level of their respective compliance with the Bank's Manual on Corporate Governance.

   Evaluation results for the year 2017 have shown that the Bank's Board, the Directors, the Officers and Staff have complied with their respective duties and responsibilities under the Bank's Manual on Corporate Governance as well as with relevant laws, regulations, and code of best business practice.

b) The Board of Directors approved on May 30, 2017 the amendment of the Bank's Manual on Corporate in accordance with the Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular No. 19, Series of 2016), and the leading practices on good corporate governance.

   As mandated by the said Code, Bank's Directors and key officers attended a corporate governance seminar conducted by the Institute of Corporate Directors on September 30, 2017. It is an annual continuing training program that makes certain directors and key officers are informed of the developments in the business and regulatory environments. It includes corporate governance matters such as audit, internal controls, risk management, sustainability and strategy relevant to banking.

c) There is no deviation from the Bank's Manual on Corporate Governance that would necessitate the imposition of any sanction.

d) The Bank's corporate governance could further be improved through its active participation in annual corporate governance surveys conducted by the PSE, SEC and other regulatory agencies which aim to provide empirical data on the current state of corporate governance and to help publicly-listed companies strengthen their corporate governance structures and mechanisms.

UNDERTAKING

Upon written request by any stockholder, the Bank undertakes to furnish said stockholder a copy of the Bank's Annual Report (SEC Form 17-A), free of charge except for the exhibits attached thereto which shall be charged at cost. Written requests for a copy of SEC Form 17-A shall be addressed to the following:

PHILTRUST BANK
1000 United Nations Avenue
Corner San Marcelino Street, Manila

Attention: **Dr. Jaime C. Laya**
Chairman

PHILTRUST BANK
(Philippine Trust Company)

By:

Martin B. Isidro
Corporate Secretary

ANNEX C1

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2015

Financial Condition

The healthy growth and satisfactory results of operations for the year 2015, once more reaffirmed wisdom of strictly adhering to a sound and conservative banking policies. Our resources, deposits and capital funds rose to a level that reflect the steady firming up of its new role as a meaningful participant in the banking sector of our country. Total resources at year end of 2015 reached a new record high of P136.063 Billion compared to P126.286 Billion, an increase of P9.861 Billion over the previous year. Cash and Other Cash Items declined by 22.13% as funds were shifted to higher yielding securities. Due from Bangko Sentral ng Pilipinas decreased by 7.26% as the funds were invested in Reverse Repurchase Agreements with the Bangko Sentral ng Pilipinas thus increasing Loans & Receivables by 24.45% or by P8.900 Billion compared from last year's level. Due from Other Banks increased by 53.07% due to higher working balances maintained with our correspondent banks. Movements on Other Asset accounts for less than 10% increase/decrease can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities stood at P112.015 Billion a 9.13% or P9.306 Billion increase compared from last year's level of P102.708 Billion. Deposits growth came mainly from all type of deposits. The 34.07% or P21.842 Million increase in Treasurer's Checks represents higher volume of outstanding checks issued. Deferred credits and other liabilities increased by 46.58% due to higher level of trade transactions for the year. All payables were paid within the stated terms.

Capital Funds reached the P23 Billion mark, now at P23.512 Billion compared from last year's level of P23.150 Billion. This is the impact of the P1.025 Billion earnings for the year and the P664.269 Million decrease in Net Unrealized Gains. The Capital Adequacy Ratio (CAR) for the period is 38.24% which is Basel 2 compliant and is well above the Bangko Sentral ng Pilipinas (BSP) maximum requirement of 10%.

The Bank has outstanding commitments, contingent liabilities and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial positions and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors inherent in nature of the issuer's business operations and were not considered unusual.

Results of Operations

The Bank's gross earnings amounted to P5.883 Billion compared to P5.557 Billion from last year's level. The Bank continued to adapt an aggressive stance in the market through sale of bonds and other securities, thus gains from Available for Sale Securities increased by 11.75% while Held to Maturity Securities decreased by 19.73% due to small amount of maturing securities compared from last year's level. Interest on deposit with banks increased by 25.20% due to result of large availment of Bangko Sentral ng Pilipinas of our Reverse Repurchase Agreement. Income from foreign exchange profit increased by 43.42% due to higher exchange rate compared from last year's level. Service charges and fess increased by 18.58% due to higher volume of transactions. Other operating income increased by 33.47% due to higher profits on Sale or Redemption of Investments. Occupancy and Equipment Related Expenses decreased by 11.76% due to disposal of some equipments. The provision for income tax increased by 35.83% due to higher income which was subjected to final tax withheld at source.

With solid performance and sustained growth over the past 99 years, the Bank looks forward with keen anticipation to the incoming years. It will avail of opportunities and meet it challenges with the same dedication and conservative policies that have characterized its corporate life. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective client's ad to offer more excellent customer service. We will further strengthen the corporate governance and risk's management structure.

We are confident that we can successfully meet the challenges of the times, as we have proven in the past, and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2015	Dec. 31, 2014
Return on Average Equity	4.56%	4.65%
Return on Average Assets	0.84%	0.81%
Net Interest Margin	2.14%	2.23%
Capital to Risk Assets	38.24%	37.65%
Cost to Income Ratio	58.02%	57.32%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	$\frac{\text{Net Income after Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income after Income Tax}}{\text{Average Total Assets}}$
3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$
4. Capital to Risk Assets (%)	$\frac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\frac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$

Part II - Other Information

Our financial report for the year 2015 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. There were no cash dividends paid during the year of 2015. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2014. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations. There is no material commitment for capital expenditures. There are no known trends, events or uncertainties that have had a material favorable or unfavorable impact on net revenues from continuing operations. Our Bank does not have any subsidiary. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement. The standard became effective for annual period or after January 1, 2013 but change the mandatory effective date to January 1, 2018. The Bank opted not to implement early adoption of PFRS 9 on its financial reporting. An evaluation was conducted early this year using the outstanding balances of financial statements as of December 31, 2014. We believe that there is no material impact in the financial statements for the adoption of PFRS 9.

For the year 2015, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amount of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discounting operations;
h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period;
i. Any significant elements of income or loss that did not arise from the issuer's continuing operations;
j. Any seasonal aspects that had a material effect on the financial condition or results of operations;
k. There were no events that will trigger direct or contingent financial obligation that is material to the company including any default or acceleration of an obligation.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank for the year 2015**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of December 31,2015 is in **USD26.35 Million**, the peso equivalent of **Php1.26 Billion or 6.28%** of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is small because of low volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for the year and the previous years. It is our view that foreign exchange and interest rates volatility will remain low and manageable for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rates on the major global currencies will remain low up to the medium term. 1.1.3 Net open position of our bank is relatively minimal and manageable.

		II. Liquidity Risk The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php77.87 Billion** while loans amounted to **Php31.60 Billion**. Marginal returns have been affected by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.

2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39-Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the market especially the secondary, must have liquidity, breadth and depth to transact all tenors of financial instruments.

ANNEX C2

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2016

Financial Condition

The year 2016 proved to be another fruitful year for our Bank, as Total Resources reached a new record high of P153.386 Billion compared to P136.064 Billion in 2015. Growth in resources came primarily from deposit liabilities which rose by 16.08% or by P18.015 Billion. Deposit growth came mainly from relatively stable and low cost savings deposits, time deposits and demand deposits with an increase of 18.16%, 11.57% and 23.62% respectively. Due from Bangko Sentral ng Pilipinas, representing 19.08% of Total Resources, decreased by 1.07% as the funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas thus increasing Loans and Other Receivables by 21.64% or by P9.803 Billion compared from last year's level. The 44.20% decrease in Due from Other Banks reflects higher operating balances maintained from both local and foreign correspondent banks. Loans Arising from Repurchase Agreements increased by P10.693 Billion as funds were invested with the Bangko Sentral ng Pilipinas. Available for Sale Securities and Held to Maturity Securities increased by P5.434 Billion and P854.609 Million respectively due to increase in market value and the effect of mark to market valuation at year end. Cash and other cash items decreased by P16.212 Million as funds were invested at Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) with the Bangko Sentral ng Pilipinas. Movements in other asset accounts can be accounted for by transactions in the ordinary course of business.

Deposit liabilities of P130.030 Billion increased by 16.08% compared to last year's level of P112.015 Billion. Deposit growth came mainly from all types of deposits. It continued to be the Bank's main source of funding. The 35.57% increase in Manager's Checks represents higher volume of outstanding checks issued. Deferred credits and other liabilities decreased by 15.73% due to lower level of trade transactions. All payables were paid within stated terms.

Capital Funds at year end closed at P22.796 Billion. Other Comprehensive Income, Net Unrealized Gains/(Losses) decreased by P1.583 Billion or 43.09% due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 37.65%, which is well above the BSP minimum requirements of 10%, is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities and bank guaranties that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial positions and results of operations. Changes in nature and amounts in the financial statements were due more to market related factors.

Results of Operations

The Bank generated a P1.066 Billion net income for the year 2016. Gross earnings amounted to P6.542 Billion compared to P5.883 Billion of last year's level. Declining interest rate on loans resulted in the decrease on interest on loans and advances by 6.37%. Interest on Deposit with Banks increased by P221.206 Million or 25.03% due to higher placements with the Bangko Sentral ng Pilipinas . Income from foreign exchange profits decreased by P9.668 Million due to lower exchange rate compared from last year's level. Other operating income increased by P338.173 Million or by 68.17% due to higher profit on Sale or Redemption of Investments.

Interest expense increased by 9.70% due to higher average of outstanding balance compared form last year's level. Occupancy and Equipment related expenses increased by 8.67% due to advance payments of annual rentals of leased properties. The acquisitions of furniture, fixtures and other equipment resulted to higher provision of depreciation expense by 11.88%. We provided additional allowance for credit losses for the year, thus increasing provision for probable losses by P411.099 Million. The provision for tax expense closed at P240.036 Million compared to P388.441 Million, a 8.76% decrease, as large portion of income earned were subjected to 20% final tax withheld at source.

For the past 100 years, the Bank continued to be conservative in the development and management of depositor and stockholder funds. The Bank also continues to expand in geographic coverage and now have a total of 60 branches of which 36 are located in bank owned buildings. Furthermore, more branches will be opened including ATM offsite and onsite in strategic locations to provide access to our valued clients. The Bank is proud of its record of performance in growth, profitability, liquidity and stability.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2016	Dec. 31, 2015
Return on Average Equity	4.10%	4.56%
Return on Average Assets	0.72%	0.84%
Net Interest Margin	1.94%	2.14%
Capital to Risk Assets	37.65%	38.24%
Cost to Income Ratio	64.51%	58.02%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Capital Accounts}}$
2. Return on Average Assets (%)	$\frac{\text{Net Income After Income Tax}}{\text{Average Total Assets}}$
3. Net Interest Margin (%)	$\frac{\text{Net Interest Income}}{\text{Average Interest Earning Assets}}$

4. Capital to Risk Assets (%)	$\dfrac{\text{Total Qualifying Capital}}{\text{Market and Credit Risk Weighted Exposures}}$
5. Cost to Income Ratio (%)	$\dfrac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$

Part II - Other Information

Our financial report for the year 2016 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. On April 26, 2016, the Board of Directors approved Cash Dividend of P 0.20 per share for stockholders of record as of June 30, 2016. Payment date was set on July 11, 2016. Cash dividends were paid during the third quarter of 2016. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2015. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement. The standard became effective for annual period or after January 1, 2013 but change the mandatory effective date to January 1, 2018. The Bank opted not to implement early adoption of PFRS 9 on its financial reporting. An evaluation was conducted early this year using the outstanding balances of financial statements as of December 31, 2015. We believe that there is no material impact in the financial statements for the adoption of PFRS 9.

For the year 2016, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period;
g. The effect of changes in the composition of the issuer during the interim period, including business combinations, acquisition or disposal of subsidiaries and long term investments, restructurings, and discounting operations;
h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period;
i. Any significant elements of income or loss that did not arise from the issuer's continuing operations;
j. Any seasonal aspects that had a material effect on the financial condition or results of operations;
k. There were no events that will trigger direct or contingent financial obligation that is material to the company including any default or acceleration of an obligation.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank as of December 31, 2016**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of December 31,2016 is in **USD31.37 Million**, the peso equivalent of **Php1.56 Billion or 7.96%** of the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is small because of low volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for the 4th quarter of 2016. It is our view that foreign exchange and interest rates volatility will remain low and manageable for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rates on the major global currencies will remain low up to the medium term. 1.1.3 Net open position of our bank is relatively minimal and manageable.

		II. Liquidity Risk The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php121.26 Billion** while loans amounted to **Php25.197 Billion**. Marginal returns have been affected by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.

2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39-Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the market especially the secondary, must have liquidity, breadth and depth to transact all tenors of financial instruments.

ANNEX C3

Management's Discussion and Analysis of Financial Condition and Results of Operations for Calendar Year 2017

Financial Condition

The Bank closed the year 2017 with Total Resources reaching P153.956 Billion, an increase of P596.978 Million, over the previous year. Due from Bangko Sentral ng Pilipinas decreased by 12.88% as funds were invested in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas. Loans and Receivables decreased by 15.39% or by P8.488 Billion, this was mainly due to decreased in Reverse Repurchase Agreement with the Bangko Sentral ng Pilipinas. Available for Sale Securities increased by 28.72% or by P14.874 Billion as The Bank rationalized its holdings of investment securities. Held to Maturity Investments fell down by 37.15% or by P2.025 Billion as the Bank sold its maturing securities for profit taking. Movements in the other asset accounts can be accounted for by transactions in the ordinary course of business.

Deposit Liabilities closed at P129.664 Billion, compared to P130.078 Billion from last year's level. The 9.38% increase in Manager's Checks represents higher volume of outstanding checks issued. Accrued Taxes and Other Expenses payables increased by 19.21% due to accrual of fringe benefits and interest on deposits. Deferred credits and other liabilities increased by 43.15% due to higher level of trade transactions. All payables were paid within the stated terms.

Capital Funds now at P23.690 Billion, reflected a P900.204 Million increase compared to last year's level of P22.789 Billion. Other Comprehensive Income, Net Unrealized Gains (Losses) decrease by 21.16% or by P391.513 Million due largely on account of mark to market valuation of investments. The Capital Adequacy Ratio (CAR) for the period is 44.56%, which is well above the BSP minimum requirements of 10% is indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

The Bank has outstanding commitments, contingent liabilities, and bank guarantees that arise from the normal course of operations. The Bank does not anticipate any losses that will materially affect its financial position and results of operation. Changes in nature and amounts in the financial statement were due more to market related factors inherent in nature of the issuers business operations and were not considered unusual.

Results of Operations

Total Gross Earnings amounted to P7.261 Billion compared to P6.556 Billion of the previous year. Declining interest rates on loans resulted in the decrease on interest on loans and advances by 12.93% or by P235.633 Million. The Bank continued to adapt an aggressive stance in the market through sales of bonds and securities, thus gains from Available for Sale Securities increased by 17.36% or by

P404.589 Million while Held to Maturity Securities decreased by 52.59% or by P195.619 Million due to small amount of maturing securities compared from last year's level. Interest on deposits with Banks increased by 11.41% due to large availment of Reverse Repurchase Agreement with the Bangko Sentral. Income from foreign exchange profit increased by 17.67% due to higher exchange rate compared from last year's level. Service charges and fees increased by 14.88% or by P7.769 Million due to higher volume of transactions. Other operating income increased by 70.89% due to higher profits on Sale or Redemption of Investments. We provided additional allowance for credit losses for the year, thus provision for probable losses closed at P477.205 Million. Other operating expenses increased by 15.80% brought about by higher GRT remittances and other related BIR payments. Provision for income tax increased by 31.21% compared from last year's level due to higher income subjected to 20% final tax. Net income for the period closed as P1.612 Billion.

For the past 101 years, the Bank continued to be conservative in the development of depositors' and stockholders' funds. The Bank will continue to focus on its core business and to deepen its banking relationship with more prospective clients and to offer more excellent customer service.

We are confident that we can successfully meet the challenges of the times as we have proven in the past and make the Bank an even stronger financial institution. We will continue investing in technology and thereby fully support electronic commerce in the coming years.

Key Performance Indicators

The performance of the bank is reflected in the following financial ratios:

	Dec. 31, 2017	Dec. 31, 2016
Return on Average Equity	6.37%	4.60%
Return on Average Assets	0.96%	0.74%
Net Interest Margin	1.64%	1.55%
Capital to Risk Assets	44.56%	37.65%
Cost to Income Ratio	50.31%	64.51%

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

Key Performance Indicator	Formula
1. Return on Average Equity (%)	Net Income After Income Tax / Average Total Capital Accounts
2. Return on Average Assets (%)	Net Income After Income Tax / Average Total Assets
3. Net Interest Margin (%)	Net Interest Income / Average Interest Earning Assets
4. Capital to Risk Assets (%)	Total Qualifying Capital / Market and Credit Risk Weighted

Exposures

5. Cost to Income Ratio (%)	$\dfrac{\text{Total Operating Expenses}}{\text{Net Interest Income + Other Income}}$

Part II - Other Information

Our financial report for the year 2017 was prepared in compliance with Generally Accepted Accounting Principles as set forth in Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, PAS and SIC/IFRIC interpretations which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements. The same accounting policies and methods of computation were consistently followed in our financial statements as compared with the annual audited financial statements. On April 25, 2017, the Board of Directors approved Cash Dividend of P 0.20 per share for stockholders of record as of July 11, 2017. Payment date was set on July 12, 2017. Cash dividends were paid during the third quarter of 2017. There were no material contingencies or any other unusual events or transactions affecting our financial condition since December 31, 2016. There are no known trends, demands, commitments, events or uncertainties that would have had a material conflict on our financial condition or results of operations or unfavorable impact on net revenues from continuing operations. There is no material commitment for capital expenditures. We don't anticipate any events that may cause any default or acceleration of an obligation. There are no material off-balance sheet transactions, arrangements, obligations, including contingent obligations with unconsolidated entities.

PFRS 9, Financial Instruments: Classification and Measurement. The standard became effective for annual period or after January 1, 2013 but change the mandatory effective date to January 1, 2018. The Bank opted not to implement early adoption of PFRS 9 on its financial reporting. An evaluation was conducted early this year using the outstanding balances of financial statements as of December 31, 2016. The Bank has performed a preliminary assessment of the impact of PFRS 9 on the financial statements based on an analysis of the financial assets and liabilities and the facts and circumstances that exist as at December 31, 2017. The Bank has no transaction wherein hedge accounting requirements will apply.

For the year 2017, the Bank had no transactions that would require the following information or disclosures:

a. Explanatory comments about the seasonality or cyclicality of interim operations;
b. The nature and amounts of items affecting assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidents;
c. The nature and amount of changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years, if those changes have a material effect in the current interim period;
d. Issuances, repurchases and repayments of debt and equity securities;
e. Segment revenue and segment result for business segments or geographical segments, whichever is the issuer's primary basis of segment reporting;
f. Material events subsequent to the end of the interim period that have not been reflected in the financial statements for the interim period.
g. The effect of changes in the composition of the issuer during the interim

period, including business combinations, acquisition or disposal of subsidiaries and long terms investments, restructurings, and discontinuing operations;

h. Existence of material contingencies and any other events or transactions that are material to an understanding of the current interim period.

i. Any significant elements of income or loss that did not arise from the Issuer's continuing operations,

j. Any seasonal aspects that had a material effect on the financial condition or results of operations.

FINANCIAL RISK DISCLOSURE		REMARKS
a. Assess the financial risk exposures of the company and its subsidiaries particularly on currency, interest, credit, market and liquidity risks. If any change thereof would materially affect the financial condition and results of operation of the company, provide a discussion in the report on the qualitative and quantitative impact of such risks and include a description of any enhancement in the company's risk management policies to address the same;		A. **Assessment of Financial Risk Exposure of the Bank as of December 31, 2017**. **I. Market Risk**: Foreign Exchange and Interest Rates. 1.1 **Foreign Exchange Position** The net overbought open FX position of the bank, the bulk of which is in USD as of December 31, 2017 is in **USD42.317 Million**, the peso equivalent of **Php2.113 Billion** or **10.95% o**f the bank's unimpaired capital which is well within the 20 percent limit prescribed by BSP regulation. The overbought (long) USD position is exposed to foreign exchange risk as well as interest rate risk. But the probability of risks is small because of low volatility of exchange rates and owing to effective monetary policy of BSP and strong economic fundamentals of the country. In our specific case, the bank consistently made foreign exchange gain for this fourth quarter of 2017. It is our view that foreign exchange and interest rates volatility will remain low and manageable for the following reasons: 1.1.1 BSP's effective management of foreign exchange reserves vis-à-vis the major global currencies, to wit: USD, EURO, SGD, GBP, JPY, HKD and AUD. 1.1.2 The interest rates on the major global currencies will remain low up to the medium term. 1.1.3 Net open position of our bank is relatively minimal and manageable.

		II. Liquidity Risk The risk profile of the bank's balance sheet remains low with more concentration in liquid assets and investments in government securities other than lending. Liquid assets and investment securities accounted for **Php122.546 Billion** while loans amounted to **Php24.608 Billion**. Marginal returns have been affected by the distribution in our assets portfolio but the bank has always been strategically conservative in business policy. **III. Credit Risk** The bulk of bank loans are fully secured by real estate. Some major loan accounts are backed by guarantees, and a small percentage of the loans are clean, without collateral or guarantee but extended to clients who are known to the bank for their good credit reputation. The lending process begins with credit selection and continues to administration and review of loan accounts on a regular basis. Reporting to and review by the credit committee are parts of the whole credit process and done on a regular basis.
b. Evaluate whether the company could provide clearer and more transparent disclosure regarding its financial instruments including but not limited to the following information:		
1. A description of the financial instruments of the company and the classification and measurements applied for each. If material in amount, provide detailed explanation on complex securities particularly on derivatives and their impact on the financial condition of the company;		1. The bank has none of hedging or derivatives financial contracts. The bank main financial contracts are: Available for Sale Securities and Held to Maturity Securities. The bulk of these securities are securitized government obligations.

2. The amount and description of the company's investment in foreign securities;		2. The bank has no investment in foreign securities or equities.
4. An explanation of how risk is incorporated and considered in the valuation of assets or liabilities;		4. Asset and liability management involved in matching the economic characteristics of the bank cash flows. Our bank strives to match inflows and outflows despite the natural structural difference of the terms of assets and liabilities by averaging and scheduling terms and maturities of assets vs. liabilities. We look at duration, the fixed/floating nature of our commitments, the repricing period and over liquidity position and stress testing. Strategic decisions are made regarding interest rate exposure. Impairments are recognized via valuation reserves as in loan valuation.
6. The criteria used to determine whether the market for a financial instrument is active or inactive, as defined under PAS 39-Financial instruments.		6. Before our bank makes any investment decision, it is a precondition that the market especially the secondary, must have liquidity, breadth and depth to transact all tenors of financial instruments.