BDO Private Bank

2017 ANNUAL REPORT

OUR FUTURE, TODAY.

BDO Private Bank

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Corporate Profile

Our Mission

Our purpose is to help clients meet their financial objectives.

Our goal is to be the best in what we do as individuals and as a firm.

Our ideas should be innovative yet appropriate for our clients' needs.

Our executions shall be seamless.

Our service should be par excellence.

Our integrity will not be compromised.

We are BDO Private Bank.

Our Philosophy

We seek to preserve and enhance the value of our clients' assets by achieving returns that outpace predefined market benchmarks.

We encourage diversification among asset classes and individual securities to mitigate price/market volatility. With these, we seek to grow and protect our clients' wealth for the enjoyment of their successors and their heirs.

We customize investment strategies to address each client's unique circumstances, as well as specific preferences for income, liquidity, and risk.

Where appropriate, we pursue cross-border investment opportunities to enhance returns and provide additional diversification.

Our Commitment

Our commitment to provide the best financial service to our clients requires us to be prudent in our design for financial solutions. We undertake to render proper due diligence, objective valuation, and full disclosure of material information. Through this process, we apply global standards in creating active markets for instruments we sponsor and offer to our clients.

Our product offerings are based on an open product architecture model, where clients are offered the best available products regardless of provider, an approach geared towards delivering the highest possible returns to each of our client groups.

In all these, we anchor our commitment on a solid base, a sound balance sheet, and a strong team of professionals.

To Clients

- Deliver high-value products and quality service
- Offer innovative solutions to specific needs
- Provide timely advice and investment/market information

To Shareholders

- Maximize return on investment
- Manage our business with the highest professional, ethical, and moral standards
- Pursue opportunities that improve shareholder value

To Associates

- Create a responsive environment that promotes teamwork
- Recognize individual worth and contribution
- Maintain and enhance the intellectual capital of our associates through rigorous and relevant training and education

Message from the Chairperson

Dear Shareholders,

BDO Private Bank's success is intricately linked to the success of our clients. Our continued growth in 2017 reflects our focus on a thoughtful, balanced and integrated approach to client asset management and emphasis on diversification.

We continue to differentiate ourselves in the Philippine private banking segment by offering products and services tailored to the unique needs of our clients. While it would be easy to focus solely on broadening our product offering, the hallmark of BDO Private Bank remains the quality and breadth of hands-on service we provide our clients.

We remain dedicated to our personalized financial advisory philosophy, which enables our relationship managers to offer finely tuned wealth management advice to meet the sophisticated needs of our exceptional clients and their families. Our services and products are carefully selected to balance the levels of diversification and risk appropriate for each client's individualized investment goals and time horizons. Our relationship managers integrate bespoke financial advice with world-class products and solutions to help each client achieve success.

My fellow directors and I are keenly focused on the future and aligning our strategic focus. The core values we promote to our clients start at the Board level.

On behalf of the Board, I want to thank our management team and each of our dedicated associates for their commitment to BDO's ideals and devotion to our clients. Together, we are building a legacy for our clients and our shareholders.

Yours truly,

Teresita T. Sy
Chairperson

Message from the President

Dear Clients and Shareholders,

BDO Private Bank operates in a dynamic environment, and I believe our continued success year over year is a testament to our ability to continuously refine our product and service offerings to meet the needs of our sophisticated clients. We take pride in our client relationships. We listen, and we respond. We also proactively seek new opportunities and strategies.

Accordingly, in 2017, we began to implement a multi-year initiative to refocus our strategy. Our plan is based on three pillars. First, we intend to place a greater emphasis on trusteed accounts, which foster long-term relationship development and also provide a stable source of revenue to offset fluctuating trading profits. Second, we will continue to leverage our open architecture to offer best-in-class investment alternatives on a global platform. We were the first Philippine banking institution to implement the open architecture approach and we will continue to explore further international investment options and increase access to foreign asset managers. Third, we are expanding our family office function, allowing us to engage with our clients in more meaningful ways, as well as provide specialized expertise and responsive service.

Our 2017 performance supports the strategic direction we are taking. We registered a 44% year-over-year growth in trusteed accounts. Trading profits were down due to less volatile financial markets, negatively impacting net income. Going forward, BDO Private Bank should be less dependent on trading income. With respect to assets under management (AUM), we recently reset our baseline measurement to reflect the true source of value for the business. We saw modest AUM growth in 2017, an increase of 7% to P300 billion, representing the new benchmark. Shareholder's equity was at P5.349 billion and net income was P414 million.

Looking toward the future, we expect the digitalization of banking to continue to influence all aspects of the business, including how we approach client service. While we use advances in technology to provide a platform for broadening our product offerings, we also are investing in infrastructure and related operational software to enhance our service capabilities. In this digital era, information is available with unrestricted access; as the speed of transactions accelerate and processing becomes automated, we believe the value of the "personal touch" cannot be understated. We continue to find ways to allow our team to spend more one-on-one time with clients.

Our position as the industry leader and as the first and only full-service private bank in the Philippines is the result of thoughtful consideration and care for our clients' best interests. As we set the course for future success and enhance our business model to drive shareholder value over the long-term, we remain committed to our values and founding principles of trust, integrity, privacy, expertise, and transparency.

We are grateful for your continued support.

Sincerely,

Albert S. Yeo
President

Financial Highlights

Summary Financial Review

(Amounts in Philippine Pesos)

	2017	2016
Profitability		
Total Net Interest Income	1,180,065,958	997,995,669
Total Non-interest Income	860,352,007	1,181,063,162
Total Non-interest Expenses	1,401,577,671	1,278,937,186
Pre-provision profit	637,012,919	900,121,645
Allowance for credit losses	1,827,375	-
Net Income	413,852,880	682,784,764
Selected Balance Sheet Data		
Liquid Assets	51,662,299,504	46,567,082,478
Gross Loans and Other Receivables	11,765,399,515	13,574,797,385
Total Assets	64,495,845,543	62,321,409,937
Deposits	56,811,889,972	53,016,032,551
Total Equity	5,348,616,350	5,257,263,381
Selected Ratios		
Return on average equity	7.8%	12.61%
Return on average resources	0.7%	1.20%
CET 1 capital ratio	19.25%	11.94%
Tier 1 capital ratio	19.25%	15.74%
Capital Adequacy Ratio	19.51%	16.31%
Per common share data		
Net Income per share:		
Basic	361.71	244.82
Diluted	361.71	244.82
Book Value	2,470	4,290
Others		
Cash Dividends declared	500,000,000	800,000,000
Headcount		
Officers	186	188
Staff	7	7

OUR STORY

Looking forward

As your wealth evolves, so do your objectives and needs. Experience astute and agile wealth management advisory with BDO Private Bank.

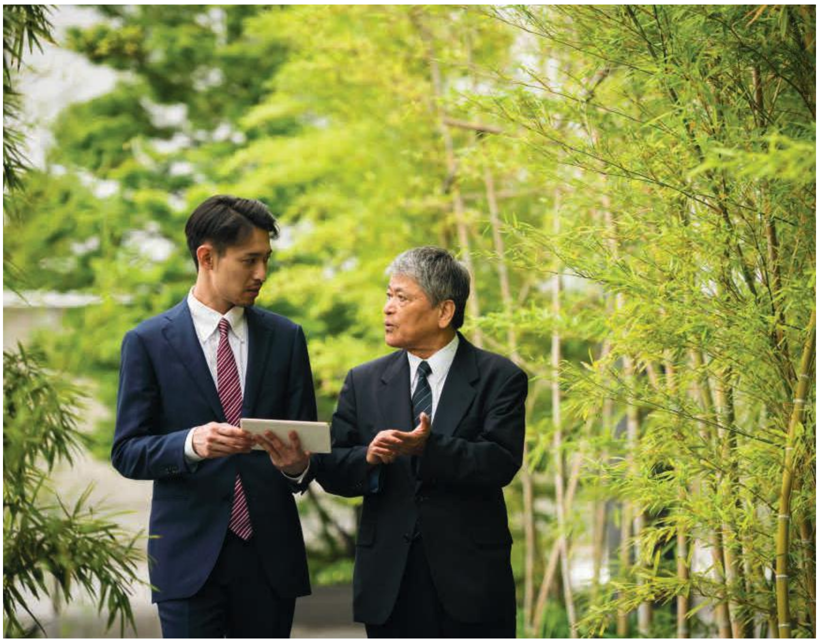
At BDO Private Bank, our mission is simple: to preserve and enhance the value of our clients' wealth for future generations. It takes commitment and resources to meet the sophisticated needs of our exceptional clients, and we remain steadfast in our dedication to our time-tested, hands-on approach to highly individualized financial advice and wealth management. Every service and every product is finely tuned to you, our client, because our business is your success.

Timely and Exceptional Service

BDO Private Bank clients receive the deep expertise, thoughtful advice and dynamic service they need to develop and achieve their financial goals in a fast-changing global marketplace. We appreciate the subtlety and complexity of our clients' lives and careers. When a client opens an account with BDO Private Bank, the first meeting with one of our personal relationship managers is all about the client. Our principal task is to understand your needs and your future life plans for yourself and your family, and to guide you in making the right decisions to meet your goals. We seek to understand underlying objectives: What do you want to achieve in the long term? How do you want loved ones to benefit from all that you have accomplished? What kind of life do you want to live now and in the future?

The personal attention that a client receives from their relationship manager is central to our wealth management advisory philosophy. BDO Private Bank fervently believes in the power of personal communication. While we continue to lead the industry in utilizing the latest technologies and analyses, when it comes to managing information that warrants the utmost discretion, there is no substitute for face-to-face communication. We believe in the efficacy of this model, and invest considerable resources in this approach to serving our clients. That is why we will be implementing new end-to-end software that will empower relationship managers to spend less time managing processes, and more time focusing on providing timely insights and exceptional service to clients.

Our commitment to continuous refinement enhances our ability to build deep client relationships and provide effective



From Day One, with each conversation and every transaction, at all times BDO Private Bank works in the best interest of our clients. That is our commitment to you and that will never change.

financial advice. As testament to our commitment to provide the highest level of service to our clients, we invest in ongoing training for relationship managers. Each understands the relationship between global and local economies, the intricacies of stock markets, and the role that various investment instruments play in a balanced portfolio. Our relationship managers serve as ambassadors for the bank's best practices and lead our unwavering commitment to build extraordinary relationships with our clients.

Our balanced approach to building individual client portfolios ensures a breadth of thoughtfully developed investment solutions.

Tailored Recommendations

We understand that as our clients' wealth evolves, so do their needs. As an industry-leading, full-service asset manager across active and passive, multi-asset and alternative investments, we have the breadth and depth to serve all our clients' needs. Our bank's relationship managers are passionate about serving our clients, coordinating and communicating with departments across the BDO Group to efficiently and effectively complete wealth planning and banking transactions. We work closely with you to prioritize your goals, drawing on BDO's resources and expertise to create a tailored plan to pursue and achieve success as you define it.

We work diligently to ensure our clients have access to the latest information and the best solutions from around the world. BDO Private Bank was the first financial institution to advocate an open architecture platform, giving our clients access to a wide selection of the best available domestic and international products regardless of provider. The primary criteria for selecting an investment product is whether it would help our clients achieve their objectives, and alongside our recommendations, we make sure the client is well informed in order to make the best decision with confidence. This approach is conceived to deliver the highest possible returns to each of our clients, and it is why we provide access to more international investment offerings than ever before, including new offshore mutual funds that allow our clients the widest choice and greatest opportunities.

We recognize that generations have different needs and expectations, and lead the industry by providing investment options with lower initial investment thresholds and competitively priced advisory fees. While the majority of wealth currently lies with the baby boomer generation who are focused on capital preservation, younger generations are starting to save for their future as early as possible. They want outcome-oriented products designed to accumulate and grow their contributions over a thirty- to forty-year period. By tailoring our services and recommendations to our clients' aspirations, we nurture our relationships with the next generation of investors and create solid financial foundations for future growth across tailored time horizons.

Your Trusted Partner

After you have laid out your plans for the future, we recommend an investment approach according to your risk profile. You may delegate the investment of your wealth to us or you can avail of our advisory services to assist you in decision-making. We make available for you three approaches in managing your wealth:

Managed account. If your life is ruled by your dedication to work or passions, we provide a service that demands the least intervention from you. We will tailor a portfolio for you addressing your investment goals and risk aversion. Our wealth advisors, investment managers and analysts will select the appropriate investments to meet your objectives. We will execute your investment mandates at the most opportune time, and provide you with periodic information on the performance of your investments.

Advisory account. This engagement is designed if you want more active involvement and responsibility in managing your wealth. You select your investments, drawing on the ideas and suggestions of our wealth managers for your portfolio. You have access to our capital markets and investment research and we assist you in assessing which asset classes and specific investments will help you achieve your goals.

Execution. If you are more of an independent decision-maker, well versed in the intricacies and movements of volatile markets, we provide you with the platform to execute your investment strategies. You make the day-to-day investment decisions for your portfolio, reacting to changing market situations. To support your active trading in the financial markets, we provide the recording, settlement and custody of your investments to ensure that your wealth is properly accounted for.

Preserving Your Wealth

We advise you on the best framework for holding and preserving your wealth so that you can achieve your long-term goals. One or a combination of structures or vehicles will allow you to efficiently manage and distribute your wealth.

Trust or Foundation. A trust or foundation is a way to ensure preservation and continuity of your wealth through generations. We can act as your trustee and ensure that your letter of wishes are complied with.

Corporate Structure. If utilizing your assets in an operating company is part of your wealth management plan, we will advise you on the legal structures that can hold your assets, optimize exposures and enhance the long-term integrity of your wealth.

Life Insurance. Insurance can be an effective way of providing for the future needs of your family or beneficiaries. With a well-designed policy or special needs trust, you can provide for education, health care, retirement, and succession.

Advisory and Reporting. Whatever you do with your wealth has certain implications; tax, legal or reporting. Our advisors are here to inform you of the relevant laws and regulations to ensure that your wealth plan is compliant and sustainable.

Creating a Long-term Relationship

As your wealth grows in size, your needs evolve and become more complex. BDO Private Bank can provide you with a more comprehensive service to ensure that all your requirements and needs are properly coordinated to achieve your goals. These services include assets consolidation to simplify the monitoring process through an asset consolidator and asset administration designed to handle the growth of the family's wealth or business and ensure continued prosperity and prepare for succession.

BDO Private Bank's wealth management solutions will help you deal with the challenges you face today, as well as guide you in preparing for the future. As we extend our relationship with you, together we can achieve your long-term objectives. We offer the following trust services:

- Estate Planning Advisory
  - Personal Management Trust
    - Bespoke and Special Needs Trust
    - Irrevocable Trust
    - Real Estate Trust
- Life Insurance Trust
- Employee Benefit Trust
- Investment Management (Directional and Discretionary)
- Family Office

Charting Your Life Plan

Planning involves the identification of assets that need to be utilized to ensure that your financial independence continues. We help you allocate these assets for your specific purposes. We assess your tolerance for risk in setting up your medium and long-term portfolios. Whether you prefer a directed or discretionary approach in implementing your life plan, you have access to our open architecture platform for execution services, and the expertise of our senior wealth advisors and analysts. And to ensure that your plan is on-track, we carefully monitor your portfolio on a regular basis, and together we conduct a periodic review of your circumstances and investments.

Privacy and Confidentiality

BDO Private Bank has a long-standing culture of discretion in handling the affairs of its clients; this is fundamental in establishing a successful wealth management relationship anchored on trust. The interest of the Bank is aligned with your interest. We only consider products that pass through the stringent and rigorous evaluation by our Risk Management and Credit Evaluation Groups. Our advisors will only recommend financial products that fit your investment goals, and they will explicitly disclose to you the risks involved in investing.

Awards & Recognition

Best Private Wealth Management Bank in the Philippines
(2008-2017)
Alpha Southeast Asia's 11th Financial Institution Awards 2017

Best Private Bank – Philippines
(2015-2017)
Asian Private Banker Awards for Distinction 2017

Best Private Banking Services Overall – Philippines
(2008-2014, 2016-2017)
Euromoney Private Banking & Wealth Management Survey 2017

Best Private Bank for Asset Management in the Philippines
(2015, 2017)
Euromoney Private Banking & Wealth Management Survey 2017

Best Private Bank in the Philippines
(2008-2017)
FinanceAsia 2017 Country Awards

Best Private Bank in the Philippines
(2015-2017)
Global Finance Best Private Bank Awards 2017

Best Private Bank in the Philippines
(2010-2017)
The Asset Triple A Private Banking, Wealth Management, Investment and ETF Awards 2017

Best Wealth Manager, Philippines
The Asset Triple A Private Banking, Wealth Management, Investment and ETF Awards 2017

Corporate Governance

Corporate governance in BDO Private Bank, similar to its Parent Bank, BDO Unibank, Inc. is about effective oversight, voluntary compliance and sustainable value creation to promote the best interest of its various stakeholders. BDO Private Bank, Inc. affirms its deep commitment to a high standard of corporate governance practice firmly anchored on the principles of accountability, fairness, integrity, transparency and performance consistently applied throughout the institution that support our corporate objective of delivering long-term value. BDOPB's good market reputation has been built on the solid foundation of an ethical corporate culture and responsible business conduct, underpinned by a well-structured and effective system of governance.

2017 was a year of positive change and continual improvement in BDOPB's corporate governance practice. It has incorporated the provisions of BSP Circular 969 on Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions and, where applicable, the recommendations of the SEC Code of Corporate Governance for Publicly-Listed Companies in its Corporate Governance Manual, which form part of its continuing commitment to comply with the latest rules and regulations. It has also continued to follow, where appropriate, the international best practices of corporate governance issued by globally recognized standards setting bodies such as the Organization for Economic Cooperation and Development (OECD) and the ASEAN Corporate Governance Scorecard which serve as essential points of reference.

This report describes the highlights of our corporate governance practices throughout the financial year ended December 31, 2017.

Governance Structure

Board of Directors

Responsibility for good governance resides with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices. It oversees management performance, enterprise risk management framework, internal control system, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and executive management. It considers sustainability issues related to the environment and social factors as part of its sustainable banking practices.

The Board is composed of 10 members and is aided by 3 Advisers. The members of the Board are all professionals with expertise in banking, accounting and finance, international lending, merchandise marketing, strategy formulation, bank regulations and risk management. It is headed by a Non-Executive Chairperson with 4 Independent Directors, 5 Non-Executive Directors and only one Executive Director who is the President. Independent Directors make up 40% of the members of the Board, which exceeds the requirement of SEC and BSP. Non-Executive Directors including Independent Directors comprise 90 % of board strength, more than the requirement of the BSP of at least majority of the Board. This provides independent and objective judgment on significant corporate matters and ensures that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined.

The Board is responsible for the selection of new directors thru the Corporate Governance Committee. It leads the process of identifying and evaluating the nominees for directors. It evaluates the balance, skills, knowledge and experience of the existing Board and the requirements of the Bank. The result of the evaluation determines the role and key attributes that an incoming director should have.

The Governance Committee receives recommendations of potential candidates for new members of the Board who are selected using, to the extent possible, external search firms or external databases. The Committee recommends the most suitable candidate to the Board for appointment or election as director. Each one of the directors owns only one (1) qualifying share of stock, collectively representing 0% of the total outstanding shares of the Bank.

For the reelection of incumbent directors, the Governance Committee also considers the results of the most recent self-assessments of the Board and peer evaluation, attendance record in meetings, participation in Board activities and overall contributions to the functioning of the Board.

In evaluating the suitability of an individual board member and promoting diversity in the composition of the Board, the Governance Committee takes into account the relevant qualifications of every candidate nominated for election such as among others, physical/mental fitness, relevant educational and professional background, personal track record, experience/training, commitment to

Board Snapshot

Director Diversity

Female


Director Age

50-59


60-69


70+


Skills, Experience & Background

Bankers


Entrepreneurs


Public Administration


Board of Directors Meetings 2017

Attendance

Director	Meetings Attended By Director	Total No. of Meetings	Percentage of Attendance
Teresita T. Sy	5	5	100%
Nestor V. Tan	3	5	60%
Josefina N. Tan*	2	2	100%
Albert S. Yeo**	4	4	100%
Elizabeth T. Sy	3	5	60%
Violeta O. LuYm	5	5	100%
Gregory L. Domingo	3	5	60%
Nicasio I. Alcantara	5	5	100%
Johnip G. Cua	5	5	100%
Pedro E.O. Roxas	5	5	100%
Alfonso A. Uy	4	5	80%

* Ms. Josefina N. Tan's term as Director and President ended on April 17, 2017

** Mr. Albert S. Yeo was elected as Director and President only during the April 17, 2017 Annual Shareholders' Meeting, hence, the Board meetings held prior to April 17, 2017 were excluded in the attendance count.

contribute, willingness to serve and interest to remain engaged and involved without regard to race, gender, ethnic origin, religion, age or sexual orientation.

The Board is also responsible for approving the selection and appointment of a competent executive management led by the President, including the heads of units who will exercise control functions i.e. Chief Compliance Officer and Chief Risk Officer. Fit and proper standards are applied in the selection of key officers and utmost consideration is given to their integrity, technical expertise and banking industry experience.

Each year, the composition of the Board and board committees including the skills and competencies of its members is reviewed to ensure appropriate balance of skills and experience, and alignment with the new regulations.

Considering the changes made, complexity and scope of the Bank's business, the Board believes that the current size and composition provides sufficient diversity among its directors that fosters critical discussion and promotes balanced decision by the Board. It views diversity at the Board level which includes difference in skills, experience, gender, sexual orientation or preference, age, education, race, business and other related experience as an essential element in maintaining an effective board for strong corporate governance.

During the year, the Board reviewed and approved the Bank's budget and business targets, declaration of dividends, conversion of preferred shares to common shares and the corresponding amendment of the seventh article of its Articles of Incorporation to reflect the conversion. The Board also reviewed and confirmed the hiring and promotion of senior officers. It approved the release of the 2016 audited financial statements within 60 days from year end.

Its oversight functions include review of operational and financial performance of senior management and work of the various committees in accordance with their mandates.

Improving Board Effectiveness

Board Performance

A yearly self-assessment is conducted focusing on the performance of the Board Committee using an approved set of questionnaires. The performance evaluation process begins with sending out a customized Board Evaluation Questionnaire to each director. Each of them is required to complete the questionnaire and return the same to the Chief Compliance Officer within the specified submission date. A cover letter is attached to the questionnaire explaining the rationale and objectives of the performance evaluation. Based on the returns from each respondent, the ratings and responses are tabulated and consolidated. The Chief Compliance Officer prepares the overall report and presents this to the Corporate Governance Committee for discussion and endorsement to the Board, including the recommended actions and focus areas to improve effectiveness.

For 2017, the results of the self-assessment were presented to the Board including directors' recommendations to improve effectiveness in its governance functions. The overall assessment showed that the Board continues to operate to a very high standard of independence, committees function effectively and senior management has the relevant professional experience, necessary skills and ability to manage the Bank while the directors have rigorously maintained independence of view and the relationships between Board and committee members remain strong.

Director Continuing Education

The continuing education program for Directors is an ongoing process to ensure the enhancement of their skills and knowledge. Yearly, all Directors and key officers are given updates and briefings, and are required to attend a corporate governance seminar on appropriate topics to ensure that they continuously possess the knowledge required for their positions. In 2017, the Directors attended the Seminar on Advanced Corporate Governance. They were also updated on the latest rules and regulations issued by the SEC and BSP.

Succession

Succession planning for the Board and senior management is an important part of the governance process. The Bank adopts the succession planning policy of Parent Bank complete with the succession framework and leadership development plans for senior management, which are reviewed by BDO Unibank's Corporate Governance Committee and subsequently approved by its Board. As part of the periodic review, the succession framework is updated and training programs are conducted accordingly. The Bank has likewise adopted the policy on the Term Limit of Independent Directors of 9 consecutive years of service as a way to refresh the Board membership progressively and in an orderly manner.

Performance Assessment, Education & Remuneration

The Performance Management system of BDOPB follows that of the Unibank. The approval system covers assessment of performance, behavior and developmental needs of the employees.

Training programs are provided to both new hires and incumbents with emphasis on job description-based courses and leadership values.

The Bank also adopts the Remuneration policy of Parent Bank which is geared towards attracting, retaining and motivating employees and members of the Board. The remuneration framework for senior management includes fixed pay, bonuses and long-term Employee Stock Option Plan. It is linked to corporate and individual performance, based on an annual appraisal of senior management officers.

Dividends

On the dividend policy, which is adopted from Parent Bank's, BDOPB likewise recognizes the importance of providing a stable and sustainable dividend stream consistent with its commitment to its shareholder. The Bank has been paying a regular cash dividend and will endeavor to do so while maintaining financial flexibility. The procedures in paying dividends entail prior board approval of the record and payment dates as recommended by Management based on BSP and SEC rules on declaration of cash dividends, and amount to be paid to eligible common shareholders. Upon Board approval, necessary disclosures are made in compliance with regulatory requirements. The full dividend policy statement is published in the BDO corporate website.

Chairperson of the Board

The Chairperson is primarily responsible for leading the Board and ensuring its effectiveness. She provides independent leadership to the Board, fosters constructive relationship between Directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank's business to performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the directors.

Board of Directors

Teresita T. Sy

Chairperson

Filipino, 67 years old

Teresita T. Sy, the Chairperson of BDO Unibank, Inc., was elected to the Board of Directors of BDO Private Bank, Inc. on August 6, 2007. Concurrently, she serves as the Chairperson and/or Director of various subsidiaries and affiliates of BDO: BDO Leasing & Finance, Inc. (PLC), BDO Capital & Investment Corporation, BDO Foundation, Inc., and BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.). Ms. Sy also serves as Adviser to the Board of One Network Bank, Inc. (A Rural Bank of BDO).

Ms. Sy is the Vice Chairperson of SM Investments Corporation (PLC) and Adviser to the Board of SM Prime Holdings, Inc. (PLC). She also sits as Chairperson and/or Director of the following companies: Multi Realty Development Corporation, Belleshare Holdings, Inc. (formerly SM Commercial Properties, Inc.), SM Mart, Inc., SM Retail, Inc., and First Asia Realty Development Corp. A graduate of Assumption College with a degree in Bachelor of Arts and Science in Commerce major in Management, she brings to the board her diverse expertise in banking and finance, retail merchandising, mall and real estate development.

Nestor V. Tan

Vice Chairman

Filipino, 59 years old

Nestor V. Tan, the President and CEO of BDO Unibank, Inc., was elected to the Board of Directors and named Vice-Chairman of BDO Private Bank, Inc. on December 3, 2003. Concurrently, he holds vice chairmanships and/or directorships in the following subsidiaries of BDO Unibank, Inc.: BDO Leasing and Finance, Inc. (PLC), BDO Capital & Investment Corporation, BDO Insurance Brokers, Inc., BDO Life Assurance Holdings Corp. (formerly Generali Pilipinas Holding Company), BDO Life Assurance Company, Inc. (formerly Generali Pilipinas Life Assurance Company, Inc.), BDO Remit (USA), Inc., and SM Keppel Land, Inc. He also concurrently holds the Chairmanship of BDO Strategic Holdings Inc., One Network Bank, Inc. (A Rural Bank), BancNet, Philippine Dealings System Holding Corp. and RBB Micro Finance Foundation. He is a Trustee of BDO Foundation, Inc., the De La Salle University Board of Advisors, and the Asian Institute of Management. At present, he is the Director of the Asian School of Business & Technology, and serves as President and Director of the Bankers Association of the Philippines and the BAP Credit Bureau. He is also the Chairman of the Philippine Dealings System Holdings Corporation and the RBB Microfinance Foundation Board of Trustees.

Prior to joining BDO, Mr. Tan was Chief Operating Officer of the Financial Institutions Services Group of BZW, the investment banking subsidiary of the Barclays Group. His banking career spans nearly four decades and includes posts at global financial institutions, among them Mellon Bank (now BNY Mellon) in Pittsburgh, PA; Bankers Trust Company (now Deutsche Bank) in New York; and the Barclays Group in New York and London. He holds a bachelor's degree in Commerce from De La Salle University and an MBA from the Wharton School, University of Pennsylvania.

Albert S. Yeo

President and Director

Filipino, 58 years old

Albert S. Yeo is the President and a Director of BDO Private Bank, Inc. He was elected to the Board on April 17, 2017. Prior to joining BDO, he was a senior financial advisor in Merrill Lynch & Co., USA. His 32 years career in finance and investments included other global institutions namely UBS Financial Service, Prudential Securities, Inc., IBJ Schroder Bank & Trust and with the Rizal Commercial Banking Corp.

Mr. Yeo holds a Master in Business Administration from Wharton School, University of Pennsylvania and a Bachelor of Science degree in Management Engineering, magna cum laude, from the Ateneo de Manila University.

Elizabeth T. Sy

Non-Executive Director

Filipino, 65 years old

Elizabeth Sy has served on the Board of BDO Private Bank for 10 years, having been elected to the Board on August 6, 2007. She is a member of the Executive Committee and Trust Committee of BDO Private Bank, Inc. She is also the Chairperson and President of SM Hotels and Convention Corporation where she steers SM's continuous growth in the tourism, leisure, and hospitality industry. Ms. Sy likewise serves as Adviser to the Boards of SM Investments Corporation and SM Prime Holdings, Inc., and as Co-Chairperson of Pico De Loro Beach and Country Club. She holds a degree in Business Administration from Maryknoll College.

Pedro Emilio O. Roxas

Independent Director

Filipino, 61 years old

Pedro Emilio O. Roxas was elected to the Board of Directors of BDO Private Bank, Inc. on February 16, 2001. He is the Chairman of the Audit Committee, and also serves as member of the Corporate Governance and Related Party Transactions (RPT) Committees of BDO Private Bank, Inc. Additionally, he is the Chairman of Roxas Hodings, Inc., Roxas & Company, Inc., Roxaco Land Corporation, Club Punta Fuego, and Hawaiian-Phil. Co. and is a Director of Brightnote Assets Corporation. He is also an Independent Director of Philippine Long Distance Telephone Company (PLDT), MERALCO, and Cemex Holdings, Inc. Mr. Roxas holds a bachelor's degree in Business Administration from the University of Notre Dame.

Violeta O. LuYm

Non-Executive Director

Filipino, 71 years old

Violeta O. LuYm has served as Director of BDO Private Bank, Inc. for 9 years, having been first elected to the Board on March 10, 2008. Ms. LuYm serves as a member of the Audit Committee, Corporate Governance Committee, and Related Party Transactions (RPT) Committee of the Bank. She is the Chairperson of the Board of Directors of BDO Securities Corporation, and the Director and Treasurer of BDO Capital & Investment Corporation. She also sits on the boards of directors of Tangiers Resources Corporation, Venture Vision Realty Development Corporation, and Philippine Equity Corporation, and is a Director and Treasurer of various mutual fund companies under the Philequity Group of Funds. Ms. LuYm is the Corporate Secretary of Homeworld Shopping Corporation. She functioned as a Director of Equitable Savings Bank Inc. from 2007 to 2008; BDO Financial Services from 1997 to 2007; Banco De Oro-EPCI, Inc. from 1998 to 2007; and Vantage Equities, Inc. in 2011. In the past, she has held senior officer positions in the following financial institutions: Security Bank & Trust Co., Bancom Development Corp., International Corporate Bank, Bancom Finance Corp., BDO Commercial Bank, and BDO Universal Bank. She graduated from Assumption College and received her MBA from UCLA.

Alfonso A. Uy

Independent Director

Filipino, 78 years old

Alfonso A. Uy has been a member of the Board for 10 years, having been elected as independent director of BDO Private Bank, Inc. on August 6, 2007. He is a member of the Risk Management Committee and Trust Committee of BDO Private Bank, Inc. He is the Chairman of various corporations, namely La Filipina Uygongco Corporation, Capiz Sugar Central, Inc., Philippine Foremost Milling Corp., Excel Farm Corporation, Amigo Agro-Industrial Development Corporation, and Mindanao Grain Processing Corporation. He is also the Chairman Emeritus of the Iloilo Economic Development Foundation and President of Uygongco Foundation Inc. Additionally, he sits on the Boards of Directors of Steag State Power Inc., Global Business Power Corporation, and Aboitiz Power Corporation. He was formerly the Vice Chairman of Panay Power Holding Corporation. Mr. Uy holds a Bachelor of Science degree in Chemical Engineering, magna cum laude, from the Central Philippine University.

Nicasio I. Alcantara

Independent Director

Filipino, 75 years old

Nicasio I. Alcantara was elected to the Board of Directors of BDO Private Bank, Inc. on September 14, 2009. He serves as the Chairman of the Corporate Governance and Related Party Transactions Committees and is a member of the Bank's Audit Committee. Mr. Alcantara is also the Chairman of the Board of ACR Mining Corp. and Conal Corporation; Chairman and President of Fial, Niacor and Punta Properties, Inc. and is Vice-Chairman of Aviana Development Corporation. He is currently a Director of Alsons Corporation, Alsons Development and Investment Corporation, Alsons/AWS Information System, Inc., Alsons Security company, Inc., Conal Holdings Corporation, Aquasur Resources Corporation, Alsons Aquaculture Corporation, Alsons Land Corporation, Finfish Hatcheries, Inc., Indophil Resources NL, Site Group International Ltd., Sarangani Agricultural Co., Inc., Sarangani Energy Corporation, Seafront Resources Corporation, Seawood Holdings, Inc., Alsing Power Holdings, Inc., Southern Philippines Power Corporation, Alsons Power Holdings Corporation, Western Mindanao Power Corporation, San Ramon Power, Inc., Sarangani Energy Corporation,. Prior to this, Mr. Alcantara held the position of Chairman and CEO of Petron Corporation, Chairman/President of various corporations, namely, Alsons Insurance Brokers Corp., Alsons Aquaculture Corp., Alsons Consolidated Resources, Inc., Davao Industrial Plantaion, Inc., Iligan Cement Corporation, Alsons Cement Corporation, Northern Mindanao Power Corporation, Southern Philippines Power Corporation and Refractories Corporation of the Philippines. He was also the Chairman of Alsons Prime Investments Corporation until 2015, and served as Director of Bank One Savings, Bancasia Capital Corporation, and C. Alcantara & Sons, Inc. He also served as member of the Board of Trustees of WWF-Philippines from 2008-2013. Mr. Alcantara holds a Master's degree in Business Administration from Sta. Clara University, California, and a Bachelor of Science degree in Business Administration from the Ateneo de Manila University.

Gregory L. Domingo

Non-Executive Director

Filipino, 63 years old

Gregory L. Domingo was elected to the Board of Directors of BDO Private Bank, Inc. on April 18, 2016, and he serves as a member of the Trust Committee and Risk Management Committee. Previous to his election as Director, he was the Secretary of the Department of Trade and Industry from July 2010 to December 2015. His government service includes posts as Undersecretary of DTI–Industry and Investments Group (IIG), Managing Head of the Board of Investments, Vice Chairman of the National Development Council (NDC), and membership in the respective boards of the Philippine Economic Zone Authority (PEZA), Philippine Export-Import Credit Agency (PHILEXIM), and National Power Corporation (NAPOCOR).
Mr. Domingo was formerly the Vice Chairman of Belle Corporation. Additionally, he served as Director of several private companies, among them SM Investments Corporation, BDO Private Bank, Inc., Pampanga Sugar Development Company (PASUDECO), and Manila Electric Company (MERALCO). He also served as Managing Director of Chase Manhattan Bank/Chemical Bank (New York); President of Carmelray-JTCI Corporation; and Vice President of Seamen's Bank for Savings (New York). Mr. Domingo has worked for other financial institutions in New York and Pennsylvania, including First Boston, Drexel Burnham Lambert, and Mellon Bank/Girard Bank. Mr. Domingo holds a Bachelor of Science degree in Management Engineering from Ateneo de Manila University, a master's degree in Business Administration from the Asian Institute of Management where he graduated with distinction, and a Masters in Science Operations Research from the Wharton School of the University of Pennsylvania. In 2016, he was certified as a Data Scientist by the NYC Data Science Academy in New York City.

Johnip G. Cua

Independent Director

Filipino, 61 years old

Johnip G. Cua has been a Director of BDO Private Bank, Inc. for almost 10 years, having been elected to the Board on March 10, 2008. Director Cua is the Chairman of the Trust Committee and is a member of the Risk Management Committee of the Bank. He was formerly the President of Procter & Gamble Philippines, Inc., and is presently the Chairman of the Board of Xavier School, Inc. and P&Gers Fund, Inc., and Chairman and President of Taibrews Corporation. He is a member of the Board of Trustees of Xavier School Educational & Trust Fund and of MGCC Foundation; a Director of Interbake Marketing Corporation, Teambake Marketing Corporation, Bakerson Corporation, and Lartisan Corporation; and a member of the Board of Advisors of LT Group, Inc. Additionally, Mr. Cua serves as Independent Director of Philippine Airlines, Inc., PAL Holdings, Inc., Century Pacific Food, Inc., STI Education Systems Holdings, PhilPlans First, Inc., Eton Properties Philippines, Inc., MacroAsia Corporation, MacroAsia Catering Services, Inc., MacroAsia Airport Services Corporation, MacroAsia Properties Development, Corp., and Allied Botanical Corporation. Mr. Cua holds a Bachelor of Science degree in Chemical Engineering from the University of the Philippines, Diliman.

Harley T. Sy

Adviser to the Board

Raissa Hechanova-Posadas

Adviser to the Board

Josefina N. Tan

Adviser to the Board

Board Committees

The Board is supported by seven (7) committees with their respective mandates and composition as follows:

Executive Committee

Chairperson: Teresita T. Sy

Members:
Nestor V. Tan
Albert S. Yeo
Elizabeth T. Sy

Functions:

The Board has empowered the Executive Committee to act on its behalf to approve board items which may be referred to it by Management in between regular quarterly board meetings. These items include the approval of actions pertaining to Anti Money Laundering, Compliance, Bank Signatories, approval of manuals, policies or procedures and other matters of an urgent nature.

Audit Committee

Chairperson: Pedro E.O. Roxas (Independent Director)

Members:
Nicasio I. Alcantara (Independent Director)
Violeta O. LuYm (Non-Executive Director)

Functions:

The Board Audit Committee (BAC) is empowered to assist the Board of Directors in fulfilling its oversight function over the Bank's financial reporting process, system of internal control, overall management of risks and governance processes, Internal and External Audit functions and compliance with applicable rules and regulations, as set forth in its Terms of Reference.

Composed of three board members (two of whom are independent directors), the BAC conducted five regular meetings in 2017.

In 2017, the BAC performed the following:

1. On financial reporting process:

    - Extensively reviewed and discussed with Management, Internal Audit and External Audit the annual audited financial statements for the year ended December 31, 2017 including the internal controls on the financial reporting process ensuring compliance with accounting standards and tax regulations before endorsing the same to the Board of Directors.
    - Reviewed and discussed with Management the quarterly unaudited financial statements and results of operations prior to endorsement to the Board of Directors for approval.

2. On its oversight function over Internal Audit

    - Approved the Internal Audit's annual plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year.
    - Reviewed the Internal Audit Charter.
    - Regularly received audit reports, reviewed and discussed high and moderate risk findings relating to operational, financial and compliance controls including risk management systems with impact to financials, reputation and information security.
    - Invited key management officers to discuss high risk issues and their action plans to resolve or mitigate the same. The Committee continued to keep track of the timely resolution of findings including updates on Information Technology's security controls and action plans in further strengthening IT risk management.
    - Ensured Internal Audit's independence and free access to all records, properties and information to be able to fully carry out its functions.
    - Assessed the performance of the Chief Internal Auditor and key Audit Officers.

3. On its oversight function over External Audit

   - Discussed and reviewed with the External Auditor the content of the engagement letter, audit plan, scope of work, focus areas, engagement team, among others prior to commencement of audit work.
   - Discussed comprehensively the external audit reports, with focus on internal controls, risk management, governance and matters with financial impact.
   - Reviewed the management letter as well as Management's response and action taken on the external auditor's findings.

4. On its oversight over the Compliance function:

   - Reviewed and approved the annual plans and compliance roadmaps, enhanced manuals and independent testing frameworks of the Compliance and Anti-Money Laundering (AML) Units.
   - Reviewed the results and monitored the progress of the Independent Compliance and AML Testing.
   - Consistently monitored the timely submission of regulatory requirements, compliance to mandatory ratios as well as continuous improvement of the Bank's Compliance and AML system.
   - Discussed in detail the BSP Report of Examination (ROE) and reviewed Management's reply to the findings, observations and recommendations making sure that committed actions are implemented.
   - Recommended enhancing the AML training program by making the modules focused and fit for the needs of employees based on their role and function in the organization.

Reports on cases in operations as well as non-loan related cases with impact to financials, information systems and reputation were discussed and reviewed. Highlighted in these discussions were the risk assessment, legal handling and root cause analyses, aimed at determining the control weaknesses as well as providing solutions thereto.

The members of the BAC attended the Advanced Corporate Governance Seminar on July 19, 2017.

The Board Audit Committee, with the objective of determining its own performance in the year 2017, conducted a self-assessment. The BAC, likewise, evaluated the performance of the Internal Audit, the Compliance and Anti-Money Laundering Units and External Audit.

Management's corrective action on internal control weaknesses, compliance issues and major risk areas cited by BSP, Internal Audit, External Audit, Compliance and AML Units and other regulatory bodies were constantly monitored by the BAC.

The Board Audit Committee reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems and governance processes of the Bank based on information obtained from the External Auditor, the reasonable assurance provided by the Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDO Private Bank, Inc.

Corporate Governance Committee

Chairman: Nicasio I. Alcantara (Independent Director)

Members:
Pedro E.O. Roxas (Independent Director)
Violeta O. LuYm (Non-Executive Director)

Functions:

- Assists the Board in fulfilling its responsibilities for corporate governance across the Bank.
- Ensures the compliance of corporate governance principles and practices of the Bank; monitoring corporate governance new regulations and recommending appropriate changes; reviewing and reporting to the Board on corporate governance regulatory or compliance issues; reviewing and recommending to the Board on best practices to be adopted as applicable; and, reviewing periodically the disclosure of corporate governance policies and information in the Bank's website.
- Primarily tasked to assist the Board in formulating the governance policies and overseeing the implementation of the governance practices across the Bank.
- Annually, it also conducts the performance evaluation of the Board of Directors, its committees, executive management, peer evaluation of directors, and conducts a self-evaluation of its performance.
- Provides an assessment of the outcome and reports to the Board the final results of the evaluation including recommendations for improvement and areas to focus to enhance effectiveness.
- Oversees the continuing education program for directors and key officers and proposes relevant trainings for them.

For 2017, the Committee focused on the preparation and submission of a new Corporate Governance Manual aligned with Parent Bank's which further revised its Corporate Governance Manual to include in particular, Definition and Term Limit of Independent Directors and Related Party Transactions Policy to comply with the specific regulatory requirements enunciated in BSP Circular 969 and 895, respectively. It also recommended the reconstitution of certain Board committees to conform with the requirements of BSP Circular 969. The committee conducted the annual evaluation of the Board, committees, executive management and directors including the self-evaluation of its performance.

The continuing education of directors is a vital part of the governance initiatives. On July 19, 2017, the members of the Committee attended the Advanced Corporate Governance Seminar.

Attendees:

The Committee had 3 meetings during the year.

Trust Committee

Chairman: Johnip G. Cua (Independent Director)

Members:
Alfonso A. Uy (Independent Director)
Elizabeth T. Sy
Gregory L. Domingo
Albert S. Yeo (President)
Juan Sabino P. Lizares (Trust Officer)

Functions:

- Primarily responsible for overseeing the fiduciary activities of the Bank.
- Ensures that fiduciary activities are done in accordance with applicable laws, rules and regulations and prudent practices; effective risk management framework and internal controls in place and continue to be relevant, comprehensive and effective.
- Reviews and approves the opening and closing of trust, investment management and other fiduciary accounts of the Bank's Wealth Advisory and Trust Group as well as account related transactions including investments activities and investment outlets, new products and services offering, establishment and renewal of lines and limits with financial institutions and counterparties.
- Reviews trust and other fiduciary accounts and the overall performance and accountabilities under its management, the industry position of the business, the compliance and risk management of the group.
- Oversees and evaluates the performance of the Trust Officer.

Attendees:

The Trust Committee met six (6) times in 2017.

Risk Management Committee

Chairman: Nestor V. Tan

Members:
Albert S. Yeo
Johnip G. Cua (Independent Director)
Alfonso A. Uy (Independent Director)
Gregory L. Domingo (Independent Director)

Functions:

- Responsible for the oversight of the Bank's Risk Management system to ensure its effectiveness.
- Develops the Bank's risk plan and policies, designs and implements the appropriate risk management strategies for identifying, quantifying, managing and controlling risk exposures including preventing and/or minimizing the impact of losses when they occur.
- Supports the Board in performing its risk oversight functions and reviews the overall risk management philosophy, risk appetite levels and tolerance limits, oversees the implementation and review of the risk management plan on an integrated enterprise-wide basis, system of limits of management of discretionary authority delegated by the Board and takes immediate corrective actions when breached and Management's activities in managing credit, liquidity, market, operational, legal and other risk exposures.
- Responsible for the continuing assessment of the relevance, comprehensiveness and effectiveness of the risk management plan, and revises it when needed including how the business and operating units are addressing and managing these risks.
- Reviews risk reports that control and monitor risk exposures and limits.

In 2017, the Committee conducted regular discussions of the Bank's exposures (including the Trust Unit) to credit risks (including country risks), market & liquidity risks, and operational risks, including risk mitigation strategies, where necessary and applicable; large exposures and concentration, asset quality, results of credit stress tests and its impact on capital adequacy; approved the liquidity gaps and results of liquidity stress tests; Value-at-Risk (VAR), Earnings-at-Risk (EAR), results of market risk stress tests and its impact on capital adequacy; operational risk profile of the Bank, significant operational losses and impact on capital adequacy, results of Business Continuity Plan (BCP) testing and any information security incidents; approved the results of the annual review of the Bank's risk management policies and limits; the newly developed or redeveloped risk management models and conducted a discussion on the performance of all implemented models; conducted a discussion on the results of the BSP-mandated stress tests (i.e. BSP Uniform Stress Test and Real Estate Stress Test) for banks; and the profile of client complaints/requests and a general description of the resolution/actions taken, in compliance with BSP Circular 857 on Consumer Protection.

Attendees:

The Committee met 11 times in 2017.

Credit Committee

Chairperson: Teresita T. Sy

Members:
Nestor V. Tan
Albert S. Yeo

Functions:

- Acts as the main approving body for Bank exposures, loans and investments as well as other credit-related issues.
- Approves credit and investment proposals, except those involving DOSRI or related party accounts, and subject to such limitations that may be imposed by the Board of Directors.
- Approves, reviews and revises credit related polices, procedures, and other credit risk standards.

Attendees:

The Committee had 63 meetings during the year.

Related Party Transactions Committee

Chairman: Nicasio I. Alcantara (Independent Director)

Members:
Pedro E.O. Roxas (Independent Director)
Violeta O. LuYm (Non-Executive Director)

Functions:

- Assists the Board in its oversight of the conduct of all Related Party Transactions (RPTs) to protect the interest of the Bank and its stakeholders.
- Ensures proper disclosure of all approved RPTs in accordance with applicable legal and regulatory requirements and confirmation by majority vote at the Annual Stockholders' meeting of the Bank's significant transactions with related parties.

During the year, the Committee reviewed its Revised Related Party Transactions Policy and endorsed for approval of the Board material transactions of DOSRI, subsidiaries and affiliates and other related parties. It also reviewed for revision and alignment with Parent Bank, its Terms of Reference to align the same with the provisions of BSP Circular 969.

Attendees:

The RPT Committee had 4 meetings in 2017.

Independent Control Functions

Compliance

BDO's Group Compliance System forms the processes, people, policies and other components that, as an integral unit, ultimately drive the bank's initiatives to conform to industry laws, regulations and standards.

BDOPB Compliance Office is responsible for overseeing, coordinating, monitoring and ensuring compliance of the Bank with existing laws, rules and regulations through the implementation of the overall compliance system and program in accordance with the requirements of the BSP and other regulatory agencies, including but not limited to the identification and control of compliance risks, prudential reporting obligations as well as compliance training.

The Anti-Money Laundering Unit (AMLU) under the Compliance Office, together with the Bank's Anti-Money Laundering Committee (AMLC), focuses on the enforcement of the Anti-Money Laundering Act and its implementing rules and regulations, as well as the Terrorism Financing Prevention and Suppression Act of 2012; the monitoring and reporting of covered and suspicious transactions, and conduct of AML training, aimed towards mitigating the risk of the Bank being used for money-laundering and terrorist financing activities.

Recognizing that the most effectual way to prevent money laundering, combat terrorist financing and stop the flow of funds is through the detection and reporting of money laundering and terrorist financing red flags, the AMLU, in coordination with the Parent Bank, has established policies and guidelines articulated in a Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MLPP) aligned with AML laws and BSP regulations, for frontliners and responsible bank officers to comply with. The Bank's MLPP supports the conduct of proactive and targeted monitoring initiatives to identify suspected money launderers and terrorists as well as terrorist-related transactional activities.

The Bank is also part of a BDO Group-wide program of providing e-Learning training courses. The Bank's AMLU also conducts an annual live face-to-face training on AML and other legal and regulatory updates to all Bank units including the Client Lounges.

BDOPB Compliance Office oversees adherence to the Corporate Governance Manual, Code of Conduct and Personal Trading Policy and other regulatory requirements. It engages regulators on their annual examinations, reports to senior management and the Board significant compliance issues and regulatory findings. The unit is headed by a Chief Compliance Officer (CCO) who reports directly to the Board Audit Committee.

Internal Audit

The Internal Audit function of the Bank is part of the scope of BDO Unibank's Internal Audit which covers the entire Group including foreign and local subsidiaries and offices. It adheres to the principles required by the ISPPIA (International Standard for the Professional Practice of Internal Auditing), COSO Internal Control - Integrated Framework, COBITS (Control Objectives for Information and Related Technology), the Internal Audit Definition and Code of Ethics.

It provides assurance and a systematic, disciplined approach to evaluate and improve effectiveness of risk management, internal control, and governance processes. Upholding a commitment to integrity and accountability, Internal Audit provides value to senior management and governing bodies as objective source of independent advice.

IA reports directly to the Board Audit Committee through the Chief Internal Auditor, (parent bank and respective subs) seeking approval for the annual audit plan, providing updates on accomplishments, reporting results of audit conducted and tracking resolution of audit findings.

Risk Management

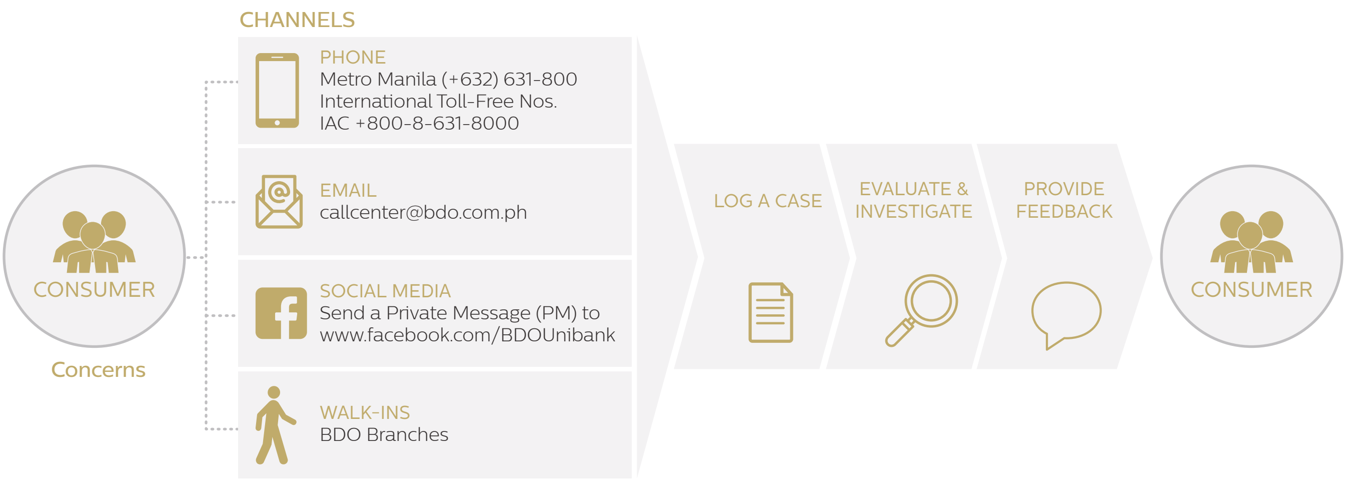
The Risk Management Unit (RMU) is responsible for developing guidelines and policies for effective risk management. It is also responsible for identifying the key risk exposures, assessing and measuring the extent of risk exposures of the Bank in the conduct of its business. It performs independent monitoring and objective assessment of decisions to accept particular risks whether these are consistent with board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures. On a regular basis, it reports to the Risk Management Committee, a board committee, the results of the RMU's assessment and monitoring. RMU is staffed by competent personnel with sufficient experience, qualifications, knowledge of the banking business as well as risk disciplines. It is headed by a Chief Risk Officer (CRO) who is independent from executive functions, business line responsibilities, operations and revenue-generating functions. The CRO reports directly to the Risk Management Committee and can only be appointed and replaced with prior approval from the Board.

The Bank's RMU is part of an integrated risk management framework covering the BDO Universal Bank Group to address the material risks it faces in its banking activities.

Consumer Protection Practices

BDOPB adopts the BDO Group's Guiding Principles on Consumer Protection, which was approved by the Board of Directors of Parent Bank on 29 August 2015 and serves as the Group's framework for defining its Consumer Protection Risk Management System (CPRMS). As specified in the CPRMS, consumer protection practices are embedded in the banking operations, and considered in the development and implementation of products and services. BDO's Code of Conduct reflects the Bank's commitment to ensuring that its customers are always treated fairly and professionally.

A Consumer Assistance Management System (CAMS) was established by Parent Bank in November 2015 to address consumer concerns for the entire conglomerate. To ensure its effective implementation, the Customer Contact Center (CCC) of Parent Bank was designated to receive customer requests, inquiries, complaints or other feedback, it then assigns these to the responsible units for their appropriate handling, monitors resolution and reports the summary to Senior Management and to the Board's Risk Management Committee (RMC) on a periodic basis. Below is the illustration of the CAMS.



Related Party Transactions

To maintain transparency of related party transactions between and among the Bank and its subsidiaries, affiliated companies, directors, officers, stockholders, related interests (DOSRI), the Bank complies fully with the legal and regulatory requirements pertaining to the proper approval and disclosure of such transactions.

Policies and procedures have been put in place to manage potential conflicts of interest arising from related party transactions such as credit accommodations, products or services extended by the Bank to directors or officers in their personal capacity or to their company. The Executive Committee reviews and approves material related party transactions and endorses these to the full Board for independent review and approval. All directors except the interested parties can scrutinize the transactions to ensure that these are done on an arms-length basis and in accordance with regulations. Approved related party transactions are properly tagged for monitoring and reporting.

Compliance with the SEC Code of Corporate Governance

As of December 31, 2017, BDO Private Bank, Inc., hand in hand with its Parent Bank, has substantially complied with the recommendations of the SEC Code of Corporate Governance except for the following reservations made by Parent Bank: 1) Policy on retirement age of directors; 2) Disclosure of board and executive remuneration on an individual basis, and 3) Adoption of a globally recognized standard/framework in reporting sustainability and non-financial issues.

On the retirement age of directors, we adopt the policy statement laid down by BDO Unibank Board recognizing the fact that chronological age is not the main factor in determining effectiveness of the director in discharging its duties and responsibilities. Rather, the Board also considers the valuable wisdom that the senior directors can impart. By law, once shareholders elect directors, they could not be removed because of age. Hence, the implementation of the retirement age policy for directors has been held in abeyance.

On the disclosure of the remuneration on an individual basis for Board members and Executive Officers, the Board has serious reservations given the possible adverse security issues and poaching of talents by competitors in the industry. Hence, it has decided it will not be to the best interest of the Bank to do so at this time. It will disclose the remuneration figures on a consolidated basis only.

On the reporting of sustainability and non-financial issues, our Parent Bank is part of the Sustainable Business Framework of the SM Investments Inc.(SMIC) in reporting of economic, environmental, social and governance issues of its business. SMIC's ESG Report is compliant with the globally recognized standard in reporting sustainability and non-financial issues.

As a wholly-owned subsidiary of a leading practitioner of good corporate governance in the Philippines, BDOPB also aims to apply the essential principles, and comply with the provisions, of the SEC Code of Corporate Governance to the extent possible and appropriate to the business. We are confident that it will be beneficial for our business and that it will open opportunities for the Bank to achieve greater heights in pursuing its objectives with integrity and transparency, and in bringing the most benefit to its clients and stakeholders.

Corporate Social Responsibility Initiatives

The employees and clients of BDO Private Bank support the initiatives of BDO Foundation, Inc., the corporate social responsibility arm of BDO Unibank, Inc., especially on its disaster response initiatives.

Looking Ahead

Following the lead of its Parent Bank, BDOPB is now entering the era of digital transformation and surely, we are looking at ways to optimize the use of the new technologies to strengthen further our corporate governance practices while remaining vigilant on the risks of digitization to our business operations. In ensuring that the Bank stays as the market leader in its niche in the Philippine financial services industry, we are focused on maximizing the effectiveness of our corporate governance practices as a business enabler and driver of our performance in the proper context of risks and rewards, opportunities and prospects for the Bank in this new era. This is essential in going forward into the future as we continue to compete and remain relevant to our various stakeholders.

Financial Statements

Statement of Management's Responsibility for Financial Statements

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

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

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

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditor appointed by the stockholders, have audited the financial statements of the Bank in accordance with the Philippine Standards on Auditing, and in their report to the Board of Directors and stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit

Teresita T. Sy
Chairman of the Board

Albert S. Yeo
President

Maria Lourdes M. Sevilla
Vice President
Head - Financial Control Department

SUBSCRIBED and SWORN to me before this 1st day of March, 2018 affiant exhibiting to me their Competent Evidence of Identity (CEI), as follows:

NAME	CEI Number	Date and Place of Issue
Teresita T. Sy	CTC No. – 00052502	02.08.2018/Manila
Albert S. Yeo	SSS No. – 03-6738633-1	
Maria Lourdes M. Sevilla	SSS No. – 33-3535551-1	

WITNESS BY HAND AND SEAL on the day first above - mentioned in Makati City.

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Series of 2018

Atty. GERVACIO B. ORTIZ, JR.
Notary Public for Makati City
Until December 31, 2018
PTR No. 5909514 / 01-03-2017 / Makati
IBP No. 655155 Lifetime Member
Appt. No. M104 / 2017 / Roll No. 40091
MCLE Compliance No. V-0006934
Unit 102 Peninsula Court Bldg.
8735 Makati Ave., Makati City

Report of Independent Auditors

The Board of Directors
BDO Private Bank, Inc.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

2nd Floor, BDO Equitable Tower
8751 Paseo de Roxas, Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of BDO Private Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits 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 Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As disclosed in Note 23 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 and RR No. 19-2011 require the supplementary information to be presented in the notes to the financial statements. Such supplementary information is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under Securities Regulation under Rule 68, as amended, of the SEC.

PUNONGBAYAN & ARAULLO

By: Leonardo D. Cuaresma, Jr.
Partner

CPA Reg. No. 0058647
TIN 109-227-862
PTR No. 6616006, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 0007-AR-4 (until April 30, 2018)
Firm - No. 0002-FR-4 (until April 30, 2018)
BIR AN 08-002511-7-2017 (until June 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until December 31, 2018)

February 12, 2018

Statements of Financial Position

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
RESOURCES			
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**P 11,977,051,895**	P 13,009,025,298
DUE FROM OTHER BANKS	6	**8,586,596,043**	4,199,450,659
TRADING AND INVESTMENT SECURITIES			
Financial asset at fair value through profit or loss	7	**3,712,526,265**	5,492,374,569
Available-for-sale securities	8	**14,406,226,533**	18,366,501,754
Held-to-maturity investments	9	**12,979,898,768**	5,499,730,198
LOANS AND RECEIVABLES - Net	10	**11,694,542,996**	13,505,779,820
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**42,142,781**	43,926,451
OTHER RESOURCES - Net	12	**1,096,860,262**	2,204,621,188
TOTAL RESOURCES		**P 64,495,845,543**	P 62,321,409,937
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	13		
Demand		**P 42,661,234,121**	P 41,170,648,966
Time		**14,150,655,851**	11,845,383,585
Total Deposit Liabilities		**56,811,889,972**	53,016,032,551
DERIVATIVE FINANCIAL LIABILITIES	15	**1,978,070,331**	3,683,300,283
ACCRUED EXPENSES AND OTHER LIABILITIES	16	**357,268,890**	364,813,722
Total Liabilities		**59,147,229,193**	57,064,146,556
EQUITY	17	**5,348,616,350**	5,257,263,381
TOTAL LIABILITIES AND EQUITY		**P 64,495,845,543**	P 62,321,409,937

See Notes to Financial Statements.

Statements of Income

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
INTEREST INCOME ON			
Available-for-sale securities	8	**P 538,529,889**	P 584,375,914
Loans and receivables	10	**466,400,635**	509,779,358
Held-to-maturity investments	9	**404,821,186**	187,197,362
Due from Bangko Sentral ng Pilipinas and other banks	6	**327,893,805**	101,498,623
Financial assets at fair value through profit or loss	7	**41,501,679**	51,228,164
		1,779,147,194	1,434,079,421
INTEREST EXPENSE ON			
Deposit liabilities	13	**596,792,147**	433,850,476
Bills payable	14	**385,634**	1,647,654
Others	21	**1,903,455**	585,622
		599,081,236	436,083,752
NET INTEREST INCOME		**1,180,065,958**	997,995,669
IMPAIRMENT LOSSES	10	**1,827,375**	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**1,178,238,583**	997,995,669
OTHER INCOME			
Service charges, fees and commissions	18	**713,878,572**	669,197,522
Foreign exchange gain - net		**144,364,552**	33,223,686
Trading and securities gain - net	7, 8	**-**	363,231,927
Reversal of allowance for impairment	10	**-**	113,604,170
Others		**2,108,883**	1,805,857
		860,352,007	1,181,063,162
OTHER EXPENSES			
Employee benefits	21	**429,035,143**	449,087,085
Taxes and licenses	23	**290,121,559**	257,363,152
Supervision		**108,729,270**	96,440,463
Insurance		**108,620,634**	81,724,557
Representation and entertainment		**102,336,333**	89,149,999
Third party information	19	**58,271,423**	64,527,666
Occupancy	26	**47,631,867**	46,071,711
Transportation and travel		**46,849,412**	44,359,965
Management and professional fees	22	**30,441,719**	8,130,846
Depreciation and amortization	11, 12	**28,678,063**	24,145,600
Trading and securities loss - net	7, 8	**5,556,276**	-
Others	20	**145,305,972**	117,936,142
		1,401,577,671	1,278,937,186
PROFIT BEFORE TAX		**637,012,919**	900,121,645
TAX EXPENSE	23	**223,160,039**	217,336,881
NET PROFIT		**P 413,852,880**	P 682,784,764

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
NET PROFIT		**P 413,852,880**	P 682,784,764
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that are or will be reclassified subsequently to profit or loss			
Unrealized gains (losses) on available-for-sale (AFS) securities	8, 17	**166,770,073**	(130,206,463)
Transfer of realized gains on disposed AFS securities to statements of income	8, 17	**(7,803,256)**	(73,842,781)
Amortization of unrealized losses on reclassified held-to-maturity securities to statements of income	8	**15,787,943**	16,657,617
		174,754,760	(187,391,627)
Item that will not be reclassified to profit or loss			
Actuarial gains (loss) on remeasurement of post-employment defined benefit obligation, net of tax	21	**2,745,329**	(12,523,070)
Total Other Comprehensive Income (Loss) – net of tax		**177,500,089**	(199,914,697)
TOTAL COMPREHENSIVE INCOME		**P 591,352,969**	P 482,870,067

See Notes to Financial Statements.

Statements of Changes in Equity

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Share Capital (Note 17)		Surplus (Note 17)		Revaluation Reserves		
	Preferred Stock	Common Stock	Reserve	Free	Unrealized Gains (Losses) on Available-for-sale Securities (Note 17)	Accumulated Actuarial Gains (Losses) (Note 17)	Total Equity
BALANCE AS OF JANUARY 1, 2017	P 1,225,000,000	P 940,000,000	P 231,738,271	P 3,168,525,003	(P 232,182,447)	(P 75,817,446)	P 5,257,263,381
Conversion of preferred to common stock	(1,225,000,000)	1,225,000,000	-	-	-	-	-
Total comprehensive income for the year	-	-	-	413,852,880	174,754,760	2,745,329	591,352,969
Cash dividend	-	-	-	(500,000,000)	-	-	(500,000,000)
Transfer to surplus reserves	-	-	66,394,432	(66,394,432)	-	-	-
BALANCE AS OF DECEMBER 31, 2017	**P -**	**P 2,165,000,000**	**P 298,132,703**	**P 3,015,983,451**	**(P 57,427,687)**	**(P 73,072,117)**	**P 5,348,616,350**
BALANCE AS OF JANUARY 1, 2016	P 1,225,000,000	P 940,000,000	P 173,018,204	P 3,344,460,306	(P 44,790,820)	(P 63,294,376)	P 5,574,393,314
Total comprehensive income for the year	-	-	-	682,784,764	(187,391,627)	(12,523,070)	482,870,067
Cash dividend	-	-	-	(800,000,000)	-	-	(800,000,000)
Transfer to surplus reserves	-	-	58,720,067	(58,720,067)	-	-	-
BALANCE AS OF DECEMBER 31, 2016	P 1,225,000,000	P 940,000,000	P 231,738,271	P 3,168,525,003	(P 232,182,447)	(P 75,817,446)	P 5,257,263,381

See Notes to Financial Statements.

Statements of Cash Flows

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 637,012,919**	P 900,121,645
Adjustments for:			
Interest received		**2,196,169,493**	1,371,971,384
Interest income	6, 7, 8, 9, 10	**(1,779,147,194)**	(1,434,079,420)
Interest expense	13, 14, 21	**599,081,236**	436,083,752
Interest paid		**(569,780,360)**	(397,471,283)
Fair value losses (gain)	7	**214,980,786**	(39,939,779)
Depreciation and amortization	11, 12	**28,678,063**	24,145,600
Unrealized foreign exchange gains		**(14,835,833)**	(23,971,014)
Provision for (reversal of) allowance for impairment	10	**1,827,375**	(113,604,170)
Operating profit before changes in resources and liabilities		**1,313,986,485**	723,256,715
Decrease in financial assets at fair value through profit or loss		**1,137,478,781**	379,564,544
Decrease (increase) in available-for-sale (AFS) securities		**4,085,213,975**	(7,860,001,346)
Increase in loans and receivables		**(736,081,391)**	(1,296,427,735)
Decrease (increase) in other resources		**1,093,133,723**	(354,334,993)
Increase in deposit liabilities		**3,768,460,000**	10,662,865,555
Increase (decrease) in derivative financial liabilities		**(1,705,229,952)**	692,727,839
Increase (decrease) in accrued expenses and other liabilities		**(10,159,971)**	107,561,661
Cash generated from operations		**8,946,801,650**	3,055,212,241
Cash paid for income taxes		**(214,202,747)**	(190,602,135)
Net Cash From Operating Activities		**8,732,598,903**	2,864,610,106
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of held-to-maturity (HTM) investments	9	**(7,387,442,901)**	(1,430,396,154)
Acquisitions of bank premises, furniture, fixtures and equipment	11	**(17,767,469)**	(23,792,543)
Proceeds from maturity of HTM investments	9	**1,000,000**	10,000,000
Net Cash Used in Investing Activities		**(7,404,210,370)**	(1,444,188,697)
CASH FLOW FROM FINANCING ACTIVITY			
Dividends paid	17	**(500,000,000)**	(1,300,000,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**828,388,533**	120,421,409
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	**13,009,025,298**	9,440,381,444
Due from Other Banks	6	**4,199,450,659**	2,999,033,912
Securities purchased under reverse repurchase agreement	10	**6,411,289,697**	11,059,928,889
		23,619,765,654	23,499,344,245
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	**11,977,051,895**	13,009,025,298
Due from Other Banks	6	**8,586,596,043**	4,199,450,659
Securities purchased under reverse repurchase agreement	10	**3,387,574,515**	6,411,289,697
Unquoted Debt Securities Classified as Loans	10	**496,931,734**	-
		P 24,448,154,187	P 23,619,765,654

Supplemental Information on Noncash Investing and Financing Activities

1. The total dividend paid in 2016, amounting to P1,300 million, includes P500 million of dividends declared in 2015 but were only paid in 2016.
2. In 2016, the Bank reclassified a portion of Computer equipment with a carrying amount of P7.7 million from Furniture, fixtures and equipment to Computer software account (see Notes 11 and 12).
3. In 2016, as the two year tainting provision has ended, the Bank reclassified government securities amounting to P3,995 million from AFS to HTM investments (see Notes 8 and 9).

Other Information

Certain amounts of securities purchased under reverse repurchased agreement and unquoted debt securities classified as loans with remaining maturities of three months or less from placement date are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Loans and Other Receivables in the statements of financial position (see Note 2.3).

See Notes to Financial Statements.

Notes to Financial Statements

BDO PRIVATE BANK, INC.
(A WHOLLY OWNED SUBSIDIARY OF BDO UNIBANK, INC.)

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Organization and Operations

On December 22, 1995, the Bangko Sentral ng Pilipinas (BSP) authorized BDO Private Bank, Inc. (the Bank) to operate as a commercial bank. The Bank was incorporated in the Philippines to engage in banking activities, as well as to engage in and carry on the business of a trust Bank and to operate a foreign currency deposit unit.

The Bank is a wholly owned subsidiary of BDO Unibank, Inc. (BDO Unibank), a publicly listed bank incorporated and domiciled in the Philippines. BDO Unibank is authorized to operate as an expanded commercial bank and to engage in trust and foreign currency deposit operations.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791).

The Bank's registered office, which is also its principal place of business, is located at the 2nd Floor, BDO Equitable Tower, 8751 Paseo de Roxas, Makati City. The registered office of BDO Unibank is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of and for the year ended December 31, 2016) were authorized for issue by the Bank's Board of Directors (BOD) on February 12, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resources, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents statements of comprehensive income separate from the statements of income.

The Bank presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2017 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2017:

PAS 7 (Amendments)	:	Statement of Cash Flows – Disclosure Initiative
PAS 12 (Amendments)	:	Income taxes – Recognition of Deferred Tax Assets for Unrealized Losses

Discussed below are the relevant information about these amendments.

(i) PAS 7 (Amendments), *Statement of Cash Flows – Disclosure Initiative.* The amendments are designed to improve the quality of information provided to users of financial statements about changes in an entity's debt and related cash flows (and non-cash changes). The amendments require an entity to provide disclosures that enable users to evaluate changes in liabilities arising from financing activities. An entity applies its judgment when determining the exact form and content of the disclosures needed to satisfy this requirement. Moreover, they suggest a number of specific disclosures that may be necessary in order to satisfy the above requirement, including: (a) changes in liabilities arising from financing activities caused by changes in financing cash flows, foreign exchange rates or fair values, or obtaining or losing control of subsidiaries or other businesses; and, (b) a reconciliation of the opening and closing balances of liabilities arising from financing activities in the statement of financial position including those changes identified immediately above. Management has applied these amendments and have no significant impact as the Bank has no changes in liabilities classified under financing activities.

(ii) PAS 12 (Amendments), *Income Taxes – Recognition of Deferred Tax Assets for Unrealized Losses.* The focus of the amendments is to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost. The amendments provide guidance in the following areas where diversity in practice previously existed: (a) existence of a deductible temporary difference; (b) recovering an asset for more than its carrying amount; (c) probable future taxable profit against which deductible temporary differences are assessed for utilization; and, (d) combined versus separate assessment of deferred tax asset recognition for each deductible temporary difference. The application of these amendments has had no impact on the Bank's financial statements.

(b) Effective in 2017 that are not Relevant to the Bank

The Annual Improvements to PFRS (2014-2016 Cycle) which covers PFRS 12, *Disclosure of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale,* is mandatorily effective for annual periods beginning on or after January 1, 2017 but is not relevant to the Bank's financial statements.

(c) Effective Subsequent to 2017 but not Adopted Early

There are new PFRS, amendments, interpretation and annual improvements to existing standards effective for annual periods subsequent to 2017, which are adopted by the FRSC. Management will adopt the relevant pronouncements, in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 40 (Amendment), *Investment Property – Reclassification to and from Investment Property* (effective from January 1, 2018). The amendment states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendment provided a non-exhaustive list of examples constituting change in use.

(ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39, *Financial Instruments: Classification and Measurement*, and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected credit loss (ECL) model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The standard also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

Based on an assessment and comprehensive study of the Bank's financial assets and financial liabilities as of December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined the impact of PFRS 9 (2014) on the financial statements as follows:

- The Bank's financial assets at FVTPL are composed of government securities, private debt securities and derivatives (see Note 7). The Bank's government and private debt securities will qualify under the SPPI test. These securities will either continue to be measured at FVTPL or at amortized cost for those held under the 'hold to collect business model' upon application of PFRS 9 (2014). On the other hand, derivatives do not qualify under the SPPI test and will continue to be measured at fair value, with mark-to-market fluctuations directly recognized in profit or loss, upon application of PFRS 9 (2014).

- Available-for-sale (AFS) securities are substantially composed of government and private debt securities (see Note 8). Both government and private debt securities classified as AFS securities qualify under the SPPI test. Thus, these securities will either continue to be measured at fair value through other comprehensive income (FVOCI) subject to recycling upon disposal for those held under the 'hold to collect and sell business model' or at amortized cost for those held under the 'hold to collect business model'.

- Held-to-maturity (HTM) investments are primarily composed of government and private debt securities bearing fixed interest rates and defined maturity dates (see Note 9). The Bank initially assessed that the contractual cash flows of government and corporate bonds classified in this portfolio qualify under the SPPI test. Thus, upon application of PFRS 9 (2014), these financial assets will either be measured at amortized cost for those held under the 'hold to collect business model' or at FVOCI for those held under the 'hold to collect and sell business model'.

- Cash and cash equivalents and loans and receivables qualify under the SPPI test and the held-to-collect business model. Upon application of PFRS 9 (2014), these financial assets will continue to be measured at amortized cost.

- Most of the financial liabilities of the Bank are measured at amortized cost. Upon application of PFRS 9 (2014), management has assessed that the amortized cost classification for most of the financial liabilities will be retained except for derivative financial liabilities which will still be measured at FVTPL (see Note 15).

- In applying the ECL methodology of PFRS 9 (2014), the Bank will adopt the general three-stage model of impairment on its loans and receivables, government and private debt securities classified as financial assets at FVOCI or amortized cost. Management has assessed that the application of the ECL model will cause an increase in impairment losses as compared with PAS 39.

(iii) PFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2018). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: International Financial Reporting Interpretations Committee (IFRIC) 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers,* and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Based on an assessment of the Bank's revenue streams as of December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that its significant sources of revenues pertain to its lending and investing activities which generate interest income, service charges, fees and commissions, trading and foreign exchange gain. Except for service charges, fees, and commissions, substantial amount of the Bank's revenues are generated from financial instruments which are covered by PFRS 9.

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration - Interpretation on Foreign Currency Transactions and Advance Consideration* (effective from January 1, 2018). The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The Interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

(v) PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*.

For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right of use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similarly to a purchased asset and depreciated or amortized. The lease liability is accounted for similarly to a financial liability using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

Management is currently assessing the impact of this new standard in its financial statements.

(vi) PFRS 9 (Amendment), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendment clarifies that prepayment features with negative compensation attached to financial instruments may still qualify under the SPPI test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI. Management is currently assessing the impact of this amendment in its financial statements.

(vii) IFRIC 23, *Uncertainty Over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above. Management is currently assessing the impact of this interpretation in its financial statements.

(viii) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization.* The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Financial Assets

Financial assets are recognized when the Bank becomes a party to the contractual terms of the financial instrument. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

(a) Classification and Measurement of Financial Assets

Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVTPL, loans and receivables, HTM investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss. A more detailed description of the four categories of financial assets is summarized below and in the succeeding pages.

(i) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Bank to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables.

The Bank's financial assets categorized as loans and receivables are presented as Due from BSP, Due from Other Banks, Loans and Receivables and Margin deposits (under Other Resources) in the statements of financial position. Due from BSP and Due from Other Banks are considered cash and cash equivalents, which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Loans and receivables include receivables from customers, Securities Purchased Under Reverse Repurchase Agreement (SPURRA), Unquoted Debt Securities Classified as Loans (UDSCL), and all other receivables from customers and other banks.

For purposes of reporting cash flows, cash and cash equivalents include amounts due from BSP and other banks, SPURRA and certain UDSCL with remaining maturities of three months or less from placement date.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

If the Bank was to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank. Upon tainting, the Bank shall not classify any financial assets as HTM investments for the next two reporting periods after the year of tainting.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Bank's AFS securities include government and private debt securities and unquoted equity securities.

All financial assets within this category are subsequently measured at fair value, except for equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured which are carried at cost, less impairment loss, if any. Gains and losses are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

(b) Impairment of Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot be identified yet with the individual financial assets in the group. The Bank recognizes impairment loss based on the category of financial assets as follows:

(i) Carried at Amortized Cost– Loans and Receivables and HTM Investments

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost 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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.
If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

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 foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of collective impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., the Bank's or BSP's grading process that considers asset type, industry, collateral type, status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the historical loss experience and to remove the effects of conditions in the historical loss experience that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognized as an income in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

(ii) Carried at Cost – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(iii) Carried at Fair Value – AFS Financial Assets

When a decline in the fair value of an AFS financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from Revaluation Reserves to profit or loss as reclassification adjustment even though the financial assets has not been derecognized.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(c) Items of Income and Expense Related to Financial Assets

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading and securities gain under Other Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

(d) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.4 Derivative Financial Instruments

The Bank is a party to various foreign currency forward contracts, cross currency and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Bank's foreign exchange and interest rate exposure as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and through valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the profit on day one.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognized in profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, and other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

2.5 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.6 Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, derivative financial liabilities and accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation). Financial liabilities are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as interest expense in the statements of income.

Deposit liabilities and bills payable are recognized initially at fair value, which is the fair value of consideration received (issue price), net of direct issue costs, and are subsequently measured at amortized cost. Any difference between the proceeds received, net of transaction costs and the redemption value is amortized in the profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities are recognized initially at fair value and subsequently valued at fair value with changes in fair value charged to profit or loss.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank and subject to the requirements of BSP Circular 888.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.
The difference between carrying amount of financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.7 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.8 Intangible Assets

Intangible assets pertain to computer software licenses. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight line basis over the estimated useful life. The expected useful life of computer software is five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.9 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

The estimated useful life of furniture, fixtures, and equipment is five years. Leasehold improvements are amortized over the lease term or five years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment including related accumulated depreciation and impairment losses 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 from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of income in the year the item is derecognized.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Equity

Preferred and common stocks represent the nominal value of shares that have been issued.

Surplus reserves pertain to appropriations for the trust reserves requirement computed based on existing BSP regulation equivalent to 20% of the Bank's authorized capital stock.

Surplus free includes all current and prior period results as reported in the statement of income, reduced by the amounts of dividends declared.

Revaluation reserves include unrealized gains (losses) on AFS securities which pertain to mark-to-market valuation of AFS securities and accumulated actuarial gains (losses) which relate to remeasurement of post-employment defined benefit plans.

2.12 Related Party Transactions and Relationships

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.13 Revenue and Cost Recognition

Revenue comprises revenue from interests, service charges, fees and commissions, and trading and securities gains.

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs incurred or to be incurred can be measured reliably. In addition, the following specific recognition criteria must also be met before revenue and costs is recognized:

(a) Interest Income and Expense

Interest income and expense are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

(b) Service Charges, Fees and Commissions

Service charges, fees and commissions are recognized on an accrual basis when the service has been provided. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

(c) Trading and Securities Gain/Loss

Trading and securities gain/loss is recognized when the significant risk and rewards over investment are transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the security. Trading and securities gain/loss also includes results from the mark-to-market valuation of FVTPL securities at the end of each reporting period.

Cost and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. All finance costs are reported in profit or loss on an accrual basis.

2.14 Leases – Bank as Lessee

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments (net of any incentive received from the lessor) are recognized as expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes 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.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statements of income under Foreign exchange gain – net.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as AFS securities are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income (loss).

2.16 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment and other resources are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell, and value in use based on an internal discounted cash flow evaluation. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's recoverable amount exceeds its carrying amount.

2.17 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) *Post-employment Defined Benefit Plan*

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of interpolated yields of government bonds as published by Philippine Dealing & Exchange Corp. (PDEx), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Others under Interest Expense account in the statements of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into an independent entity such as the Social Security System. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Bank's shareholders after certain adjustments. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Unavailed leaves of employees under the retirement plan are valued and funded as part of the present value of defined benefit obligation under (a) above.

(f) Employee Stock Option Plan

The Bank grants stock option plan to its senior officers (from vice-president up) for their contribution to the Bank's performance and attainment of team goals. The stock option plan gives qualified employees the right to purchase the BDO Unibank's shares at an agreed strike price. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on the Bank's performance in the preceding year and amortized over five years (vesting period) starting from date of approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification.

Liability recognized on the stock option plan for the amount charged by BDO Unibank attributable to the qualified officers of the Bank is included under Accrued Expenses and Other Liabilities in the statement of financial position and the related expense is presented in Employee benefits under Other Expenses in the statement of income (see Notes 16 and 21.1).

2.18 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the end of each reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense 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.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.19 Trust Operations

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Bank.

2.20 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may likely differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Classification of Financial Assets as HTM Investments*

The Bank follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments up to maturity. If the Bank fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as AFS securities. In such a case, the investments would, therefore, be measured at fair value, not at amortized cost.

In 2013, the Bank reclassified its entire HTM investments to AFS securities, which were disposed in 2014. In accordance with the two-year tainting provision of PAS 39, the Bank did not classify financial assets as HTM from 2013 to 2015. The two-year tainting provision has ended in 2016 and the Bank started classifying financial assets under the HTM portfolio (see Notes 8 and 9). Had the Bank remained tainted, the entire class of HTM investments will be measured at fair value resulting in unrealized fair value loss of P175,464,281 and P68,128,463 in 2017 and 2016, respectively.

(b) *Impairment of AFS Securities*

The Bank follows the guidance of PAS 39 in determining when an investment is permanently impaired, which requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the significant or prolonged decline in the fair value of an investment below its costs and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management has not recognized impairment loss on its AFS securities in 2017 and 2016.

(c) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements as a lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgement will result in either overstatement or understatement of assets and liabilities.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) Impairment of Financial Assets (Loans and Receivables, HTM Investments and AFS Securities)

The Bank reviews its Loans and receivables, HTM investments and AFS securities portfolios to assess for impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

As a result of its loan loss provisioning assessment, the Bank recognized impairment loss on loans and receivables amounting to P1,827,375 in 2017 (nil in 2016) and reversed allowance for impairment amounting to P113,604,170 in 2016 (nil in 2017) (see Note 10).

(b) Fair Value Measurements for Financial Instruments

The Bank carries certain financial assets and financial liabilities at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial resources and liabilities would affect profit or loss and equity.

The table below summarizes the carrying amounts and fair values by categories of those financial assets and financial liabilities in the statements of financial position (amounts in thousands):

	Notes	2017 Carrying Amounts	2017 Fair Values	2016 Carrying Amounts	2016 Fair Values
Financial Assets					
Loans and receivables					
Due from BSP	6	**P 11,977,052**	**P 11,977,052**	P 13,009,025	P 13,009,025
Due from other banks	6	**8,586,596**	**8,586,596**	4,199,451	4,199,451
Receivables from customers – net	10	**4,626,195**	**4,705,072**	6,938,200	7,090,572
Other receivables – net	10	**7,068,348**	**7,068,348**	6,567,580	6,567,580
Other resources*	12	**990,349**	**990,349**	2,093,659	2,093,659
		33,248,540	**33,327,417**	32,807,915	32,960,287
Financial assets at FVTPL:	7				
Derivative financial assets		**2,770,691**	**2,770,691**	4,610,130	4,610,130
Government bonds		**555,100**	**555,100**	123,497	123,497
Private debt securities		**386,735**	**386,735**	758,748	758,748
		3,712,526	**3,712,526**	5,492,375	5,492,375
AFS securities:	8				
Government debt securities		**8,034,660**	**8,034,660**	10,636,425	10,636,425
Private debt securities		**6,366,066**	**6,366,066**	7,724,576	7,724,576
		14,400,726	**14,400,726**	18,361,001	18,361,001
HTM investments	9				
Government debt securities		**12,423,692**	**12,247,174**	5,499,730	5,431,389
Other debt securities		**556,207**	**557,583**	-	-
		12,979,899	**12,804,757**	5,499,730	5,431,389
		P 64,341,691	**P 64,245,426**	P 62,161,021	P 62,245,052
Financial Liabilities					
Financial liabilities at amortized cost:					
Deposit liabilities	13	**P 56,811,890**	**P 56,662,159**	P 53,016,033	P 52,914,862
Other liabilities**	16	**216,743**	**216,743**	228,206	240,700
Financial liabilities at fair value:					
Derivative financial liabilities	15	**1,978,070**	**1,978,070**	3,683,300	3,683,300
		P 59,066,703	**P 58,856,972**	P 56,927,539	P 56,838,862

* *Other resources include margin deposits, petty cash and other deposits.*
** *Other liabilities include manager's check, accrued expenses, unclaimed balances and other liabilities.*

(i) Due from BSP and other banks

Due from BSP pertains to deposits made by the Bank to the BSP for clearing, reserve requirements and placement of excess liquidity in Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) in 2017 and 2016, respectively. Due from other banks include interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) Financial assets at FVTPL (except derivatives) and AFS securities

The fair value of financial assets at FVTPL and AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

(iii) Derivatives

The fair values of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The Bank uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(iv) Receivables from customers and other receivables

Receivables from customers and other receivables are presented net of provisions for impairment, if any. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(v) Deposits and borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(vi) Other resources and liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

For financial instruments that are liquid or which have relatively short-term maturities (less than three months), the Bank assumes that the carrying amounts approximate their fair value. This applies to due from BSP and other banks, SPURRA, UDSCL, demand deposits, short-term time deposits and other liabilities. This assumption also applies to floating rate financial instruments (e.g., receivable from customers, deposit liabilities) with repricing frequencies of every three months or less.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and computer software are reviewed periodically and are updated 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. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Analyses of the carrying amounts of bank premises, furniture, fixtures, and equipment and computer software are disclosed in Notes 11 and 12, respectively.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2017 and 2016 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 12 and 23.

(e) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.16). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on non-financial assets were recognized in 2017 and 2016.

(f) Valuation of Post-employment Defined Benefit Obligation

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rate of return on plan assets, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Bank pursues its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The Bank believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Bank is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Bank's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Bank ensures:

- strong financial position by maintaining capital ratios in excess of regulatory requirements,
- sound management of liquidity, and
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Bank ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Bank's activities and transactions.

Risk management at the Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the Board-Level Committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

Within the Bank's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing the Bank's statement of financial position, including the Bank's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Bank is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the Risk Function, in conjunction with the Risk Takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level, and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Bank's business. The goal of the risk management process is to ensure rigorous adherence to the Bank's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

4.1 Market Risk

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities and derivatives. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and BOD.

4.1.1 Foreign Exchange Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities plus contingent assets less contingent liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines. The Bank's foreign exchange exposure is primarily foreign exchange trading with corporate accounts and other financial institutions. The Bank, as a market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

The Bank's foreign exchange exposure during the day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

The tables below set out the composition of the Bank's financial resources and financial liabilities as to currency as of December 31, 2017 and 2016 (amounts in thousands):

	2017		
	Foreign Currencies	**Philippine Peso**	**Total**
Resources:			
Due from BSP	**P –**	**P 11,977,052**	**P 11,977,052**
Due from other Banks	**8,320,342**	**266,254**	**8,586,596**
Financial assets at FVTPL	**477,060**	**3,235,466**	**3,712,526**
AFS securities	**8,445,661**	**5,960,565**	**14,406,226**
HTM investments	**2,023,121**	**10,956,778**	**12,979,899**
Loans and receivables	**436,343**	**11,258,200**	**11,694,543**
Other resources	**988,907**	**1,442**	**990,349**
	P 20,691,434	**P 43,655,757**	**P 64,347,191**
Liabilities:			
Deposit liabilities	**P 22,170,813**	**P 34,641,077**	**P 56,811,890**
Derivative financial liabilities	**45,010**	**1,933,060**	**1,978,070**
Other liabilities	**2,142**	**214,601**	**216,743**
	P 22,217,965	**P 36,788,738**	**P 59,006,703**

	2016		
	Foreign Currencies	Philippine Peso	Total
Resources:			
Due from BSP	P –	P 13,009,025	P 13,009,025
Due from other Banks	4,157,829	41,622	4,199,451
Financial assets at FVTPL	844,812	4,647,563	5,492,375
AFS securities	10,708,949	7,657,553	18,366,502
HTM investments	597,127	4,902,603	5,499,730
Loans and receivables	357,820	13,147,960	13,505,780
Other resources	2,092,217	1,442	2,093,659
	P 18,758,754	P 43,407,768	P 62,166,522
Liabilities:			
Deposit liabilities	P 16,027,144	P 36,988,889	P 53,016,033
Derivative financial liabilities	53,315	3,629,985	3,683,300
Other liabilities	2,111	226,095	228,206
	P 16,082,570	P 40,844,969	P 56,927,539

4.1.2 Interest Rate Risk

The Bank prepares a gap analysis in the banking book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all financial assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating or based on behavioural assumptions if more applicable.

In the interest rate gap presented, loans and investments are profiled based on next repricing if floating; or contracted maturity if fixed; while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The following table shows the amounts of the Bank's resources and liabilities that are subject to different interest rate arrangements as of December 31, 2017 and 2016 (amounts in thousands):

	2017		2016	
	Resources	**Liabilities**	Resources	Liabilities
Subject to floating interest rates	**P 386,834**	**P 55,536**	P 181,528	P 49,191
Subject to fixed interest rates	**54,859,883**	**58,182,573**	51,127,152	55,614,517
Non-interest-bearing	**9,249,129**	**909,120**	11,012,730	1,400,439
	P 64,495,846	**P 59,147,229**	P 62,321,410	P 57,064,147

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2017 and 2016 based on expected interest realization or recognition are presented below (amounts in millions):

	2017					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-rate Sensitive**	**Total**
Resources:						
Due from BSP	**P 11,977**	**P –**	**P –**	**P –**	**P –**	**P 11,977**
Due from other banks	**8,586**	**–**	**–**	**–**	**–**	**8,586**
Trading and investment securities	**1,451**	**739**	**13,499**	**11,698**	**3,713**	**31,100**
Loans and receivables	**6,308**	**1,974**	**2,747**	**665**	**–**	**11,694**
Other resources*	**–**	**–**	**–**	**42**	**1,097**	**1,139**
Total Resources	**28,322**	**2,713**	**16,246**	**12,405**	**4,810**	**64,496**
Liabilities and Equity:						
Deposit liabilities	**38,056**	**3,967**	**5,233**	**1,528**	**8,028**	**56,812**
Other liabilities	**–**	**–**	**–**	**–**	**2,335**	**2,335**
Total Liabilities	**38,056**	**3,967**	**5,233**	**1,528**	**10,363**	**59,147**
Equity	**–**	**–**	**–**	**–**	**5,349**	**5,349**
Total Liabilities and Equity	**38,056**	**3,967**	**5,233**	**1,528**	**15,712**	**64,496**
On-book Gap	**9,734**	**1,254**	**11,013**	**10,877**	**(10,902)**	**–**
Cumulative On-book Gap	**(9,734)**	**10,988**	**25**	**10,902**	**–**	–
Contingent Resources	**4,355**	**777**	**–**	**–**	**–**	**5,132**
Contingent Liabilities	**4,248**	**750**	**–**	**–**	**–**	**4,998**
Off-book Gap	**107**	**27**	**–**	**–**	**–**	**134**
Cumulative Total Gap	**(P 9,627)**	**(P 10,854)**	**P 159**	**P 11,036**	**P 134**	**P –**

	2016					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-rate sensitive	Total
Resources:						
Due from BSP	P 5,682	P –	P –	P –	P 7,327	P 13,009
Due from other banks	2,295	1	5	–	1,898	4,199
Trading and investment securities	3,072	1,690	10,555	8,098	5,944	29,359
Loans and receivables	7,025	1,771	2,855	1,855	–	13,506
Other resources*	–	–	–	–	2,248	2,248
Total Resources	18,074	3,462	13,415	9,953	17,417	62,321
Liabilities and Equity:						
Deposit liabilities	36,399	2,027	4,131	–	10,459	53,016
Other liabilities	–	–	–	–	4,048	4,048
Total Liabilities	36,399	2,027	4,131	–	14,507	57,064
Equity	–	–	–	–	5,257	5,257
Total Liabilities and Equity	36,399	2,027	4,131	–	19,764	62,321
On-book Gap	(18,325)	1,435	9,284	9,953	(2,347)	–
Cumulative On-book Gap	(18,325)	(16,890)	(7,606)	2,347	–	–
Contingent Resources	5,522	1,727	–	–	–	7,249
Contingent Liabilities	5,569	1,740	–	–	–	7,309
Off-book Gap	(47)	(13)	–	–	–	(60)
Cumulative Total Gap	(P 18,372)	(P 16,950)	(P 7,666)	P 2,287	(P 60)	P –

* *Other resources include bank premises, furniture, fixtures and equipment, margin deposits, petty cash and other deposits.*

The Bank's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level which is a percentage of projected earnings. The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other already established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in the Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the Bank's portfolios exceed tolerable levels.

Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the following assumptions stated below are the assumptions on which the model is based to give rise to some limitations.

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the Bank's trading portfolios as of December 31, 2017 and 2016 follows:

	December 31, 2017		December 31, 2016	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**P 1,601,195**	**P 26,381,096**	P 3,385,214	P 58,779,684
Interest rate risk – Peso	**25,159,027**	**246,419,942**	25,873,814	363,122,332
Interest rate risk – USD	**3,760,124**	**184,268,396**	21,850,657	431,126,409
	P 30,520,346	**P 457,069,434**	P 51,109,685	P 853,028,425

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2017 and 2016 is shown below (amounts in millions).

	2017			
	Change in Interest Rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change in annualized net interest income	**P 99.55**	**(P 99.55)**	**P 49.77**	**(P 49.77)**
As a percentage of the Bank's net interest income for 2017	**8.44%**	**(8.44%)**	**4.22%**	**(4.22%)**
Earnings-at-risks	**P 247.74**			

	2016			
	Change in Interest Rates (in basis points)			
	-100	+100	-50	+50
Change in annualized net interest income	P 165.15	(P 165.15)	P 82.57	(P 82.57)
As a percentage of the Bank's net interest income for 2016	16.55%	(16.55%)	8.27%	(8.27%)
Earnings-at-risks	P 211.76			

4.2 Liquidity Risk

Liquidity risk is the risk that there will could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2017 and 2016, in accordance with the account classifications of the BSP, are presented as follows (amounts in millions). The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows using the primary contractual maturities or behavioural assumptions on core levels (e.g. core deposit liabilities), if the latter is more relevant in profiling the liquidity gap. Such undiscounted cash flows may differ from the amounts included in the statements of financial position because certain items in the statements of financial position are based on discounted cash flows.

	2017				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Resources:					
Due from BSP	**P 11,977**	**P –**	**P –**	**P –**	**P 11,977**
Due from other banks	**8,587**	**–**	**–**	**–**	**8,587**
Trading and investment securities	**1,451**	**739**	**13,499**	**15,410**	**31,099**
Loans and receivables	**6,128**	**1,787**	**3,114**	**665**	**11,694**
Other resources*	**–**	**–**	**–**	**1,139**	**1,139**
Total Resources	**28,143**	**2,526**	**16,613**	**17,214**	**64,496**

	2017				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Liabilities and Equity:					
Deposit liabilities	**P 10,132**	**P 1,086**	**P 1,460**	**P 44,134**	**P 56,812**
Other liabilities**	**115**	**158**	**–**	**2,062**	**2,335**
Total Liabilities	**10,247**	**1,244**	**1,460**	**46,196**	**59,147**
Equity	**–**	**–**	**–**	**5,349**	**5,349**
Total Liabilities and Equity	**10,247**	**1,244**	**1,460**	**51,545**	**64,496**
On-book Gap	**17,896**	**1,282**	**15,153**	**(34,331)**	**–**
Cumulative On-book Gap	**17,896**	**19,178**	**34,331**	**–**	**–**
Contingent Resources	**5,084**	**2,709**	**29,850**	**142**	**37,785**
Contingent Liabilities	**5,033**	**2,568**	**29,376**	**140**	**37,117**
Off-book Gap	**51**	**141**	**474**	**2**	**668**
Cumulative Total Gap	**P 17,497**	**P 19,370**	**P 34,997**	**P 668**	**P –**

	2016				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Resources:					
Due from BSP	P 13,009	P –	P –	P –	P 13,009
Due from other banks	4,196	–	3	–	4,199
Trading and investment securities	4,141	1,690	10,555	12,973	29,359
Loans and receivables	7,014	1,688	2,979	1,825	13,506
Other resources*	51	1,998	26	173	2,248
Total Resources	28,411	5,376	13,563	14,971	62,321
Liabilities and Equity:					
Deposit liabilities**	14,190	670	1,334	36,822	53,016
Other liabilities	89	–	–	3,959	4,048
Total Liabilities	14,279	670	1,334	40,782	57,064
Equity	–	–	–	5,257	5,257
Total Liabilities and Equity	14,279	670	1,334	46,039	62,321
On-book Gap	14,132	4,706	12,229	(31,067)	–
Cumulative On-book Gap	14,132	18,838	31,067	–	–
Contingent Resources	7,246	23,097	26,398	3,510	60,251
Contingent Liabilities	7,419	22,838	25,878	3,440	59,576
Off-book Gap	(173)	259	520	70	675
Cumulative Total Gap	P 13,959	P 18,924	P 31,673	P 675	P –

* *Other resources include margin deposits, petty cash and other deposits.*
** *Other liabilities include manager's check, accrued expenses, unclaimed balances and other liabilities.*

Contractual Maturity Analysis - Derivative Financial Liabilities

As of December 31, 2017 and 2016, the Bank's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows have contractual maturities as follows (amounts in thousands):

	2017				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Cross-currency swaps	**P 9**	**P 310,205**	**P 1,581,680**	**P 1,864**	**P 1,893,758**
Interest rate swaps	**2,422**	**44,700**	**37,190**	**–**	**84,312**
	P 2,431	**P 354,905**	**P 1,618,870**	**P 1,864**	**P 1,978,070**

	2016				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Cross-currency swaps	P 52,691	P 1,925,642	P 1,435,725	P 122,411	P 3,536,469
Forwards	62,847	21,607	–	–	84,454
Interest rate swaps	1,044	32,459	28,874	–	62,377
	P 116,582	P 1,979,708	P 1,464,599	P 122,411	P 3,683,300

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, derivatives and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The RMG performs account risk ratings and ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or issuer, or groups of borrowers or issuers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by securing eligible collateral/guarantees.

The RMG reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

The table below shows the maximum exposure to credit risk for the components of the statements of financial position, including derivatives. The maximum exposure is gross, before the effect of mitigation through the use of netting and collateral agreements (amounts in thousands).

	Notes		**2017**		2016
Due from BSP	6	**P**	**11,977,052**	P	13,009,025
Due from other banks	6		**8,586,596**		4,199,451
Financial assets at FVTPL	7				
Derivatives			**2,770,691**		4,610,130
Government securities			**555,100**		123,497
Private debt securities			**386,735**		758,748
AFS securities	8				
Government securities			**8,034,660**		10,636,425
Private debt securities			**6,366,066**		7,724,576
HTM investments	9				
Government securities			**12,423,692**		5,499,730
Private debt securities			**556,207**		-
Loans and receivables (gross)	10				
Receivable from customer			**4,697,052**		7,007,218
Other receivables			**7,068,347**		6,567,580
Other resources	12				
Margin deposits			**988,907**		2,092,217
Others			**1,442**		1,442
Total			**64,412,547**		62,230,039
Loan commitments	26		**72,335**		179,653
		P	**64,484,882**	P	62,409,692

The following table sets out the credit quality by class of the Bank's on-book financial assets (gross of allowance for impairment) as of December 31, 2017 and 2016 (amounts in thousands).

	2017					
	Cash and Cash Equivalents*		**Loans and Receivables**		**Trading and Investment Securities**	
Neither past due nor impaired:						
Grade: Unclassified	**P**	**25,438,503**	**P**	**7,880,894**	**P**	**31,093,151**

	2016					
	Cash and Cash Equivalents*		Loans and Receivables		Trading and Investment Securities	
Neither past due nor impaired:						
Grade: Unclassified	P	25,713,425	P	7,163,508	P	29,353,106

* *In addition to the accounts that comprise cash and cash equivalent in Note 2.3, the amount also includes margin deposits with foreign bank and other financial assets classified under Other Resources (see Note 12) totalling P990,349 and P2,093,659 as of December 31, 2017 and 2016, respectively.*

The Bank holds some collateral against loans to customers in the form of deposits and money market investments; fixed, floater and zero coupon bonds and notes guaranteed by the government; fixed, floater or zero coupon bonds issued by domestic corporations; and listed and publicly traded liquid equity issues. The market values of collaterals are based on the previous day's closing price and are revalued daily. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activities.

Estimate of the fair value of collateral and other security enhancements held against the following loans and receivables risk groupings as of December 31 follows (amounts in thousands):

		2017		2016
Neither past due nor impaired				
Equities	**P**	**693,155**	P	1,231,639
Real properties		–		618,333
Debt Securities		**598,995**		426,459
Others		**67,603**		301,341
	P	**1,359,753**	P	2,577,772

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance for impairment) at the reporting date is shown below (amounts in thousands).

	2017					
		Cash and Cash Equivalents*		**Loans and Receivables**		**Trading and Investment Securities**
Concentration by sector:						
Financial and insurance activities	**P**	**25,438,503**	**P**	**5,023,007**	**P**	**6,848,898**
Electricity, gas, steam and air-conditioning supply		**–**		**645,042**		**940,578**
Arts, entertainment and recreation		**–**		**1,141,351**		**–**
Real estate activities		**–**		**240,818**		**1,211,843**
Transportation and storage		**–**		**5,029**		**117,572**
Construction		**–**		**90,927**		**–**
Information		**–**		**93,452**		**–**
Wholesale and retail trade		**–**		**–**		**54,479**
Government		**–**		**–**		**20,949,557**
Mining and quarrying		**–**		**–**		**–**
Other service activities		**–**		**641,268**		**970,224**
	P	**25,438,503**	**P**	**7,880,894**	**P**	**31,093,151**
Concentration by location:						
Philippines	**P**	**25,438,503**	**P**	**4,730,061**	**P**	**25,467,903**
Other		**–**		**3,150,833**		**5,625,248**
	P	**25,438,503**	**P**	**7,880,894**	**P**	**31,093,151**

	2016		
	Cash and Cash Equivalents*	Loans and Receivables	Trading and Investment Securities
Concentration by sector:			
Financial and insurance activities	P 25,713,425	P 716,117	P 8,425,888
Electricity, gas, steam and air-conditioning supply	–	1,149,324	1,267,266
Arts, entertainment and recreation	–	1,153,086	464,895
Real estate activities	–	1,477,173	1,605,580
Transportation and storage	–	1,136,827	119,673
Construction	–	90,462	–
Wholesale and retail trade	–	–	53,044
Government	–	–	15,952,765
Mining and quarrying	–	–	1,365,745
Agriculture	–	–	–
Other service activities	–	1,440,519	98,250
	P 25,713,425	P 7,163,508	P 29,353,106
Concentration by location:			
Philippines	P 25,713,425	P 7,153,513	P 25,405,719
Other	–	9,995	3,947,387
	P 25,713,425	P 7,163,508	P 29,353,106

* *In addition to the accounts that comprise cash and cash equivalent in Note 2.3, the amount also includes margin deposits with foreign bank and other financial assets classified under Other Resources (see Note 12) totalling P990,349 and P2,093,659 as of December 31, 2017 and 2016, respectively.*

4.4 Equity Risk

Equity risk is the risk that the fair values of equity investments will decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant equity risk.

4.5 Operational Risk

Operational risk is the risk of loss due to the Bank's:

- failure to comply with defined Bank operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

The Bank manages its operational risks by having policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

4.5.1 Framework

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. Under the Bank's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of risk in the Bank. The business and service unit heads, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their respective businesses. The RMG provides the common risk language and management tools across the Bank as well as monitors the implementation of the ORM framework and policies.

The Bank continued to pursue its proactive management of identified operational risks, focusing on the ongoing adoption of the Risk and Control Self-Assessment process so that business process owners could document both their operational risks and the control mechanisms they have put in place to manage those risks. This ORM tool allows the Bank to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

5. FAIR VALUE MEASUREMENT AND DISCLOSURES

5.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

5.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2017 and 2016 (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	**P –**	**P 2,770,691**	**P –**	**P 2,770,691**
Government securities	**555,100**	**–**	**–**	**555,100**
Private debt securities	**386,735**	**–**	**–**	**386,735**
AFS securities:				
Government debt securities	**8,034,660**	**–**	**–**	**8,034,660**
Private debt securities	**6,366,066**	**–**	**–**	**6,366,066**
Total Resources	**P 15,342,561**	**P 2,770,691**	**P –**	**P 18,113,252**
Liabilities:				
Derivatives financial liabilities	**P –**	**P 1,978,070**	**P –**	**P 1,978,070**
December 31, 2016				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P –	P 4,610,130	P –	P 4,610,130
Private debt securities	758,748	–	–	758,748
Government securities	123,497	–	–	123,497
AFS securities:				
Government debt securities	10,636,425	–	–	10,636,425
Private debt securities	7,724,576	–	–	7,724,576
Total Resources	P 19,243,246	P 4,610,130	P –	P 23,853,376
Liabilities:				
Derivatives financial liabilities	P –	P 3,683,300	P –	P 3,683,300

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

Described below is the information about how the fair values of the Bank's classes of financial assets are determined.

(a) Debt securities

The fair value of the Bank's debt securities, which are categorized within Level 1 is discussed below.

(i) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price as appearing in the PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(ii) For other quoted debt securities, fair value is determined to be the current mid price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(b) Derivatives

The fair value of derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2 (b)(iii)].

5.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2017				
Resources:				
Due from BSP	**P 11,977,052**	**P –**	**P –**	**P 11,977,052**
Due from other banks	**8,586,596**	**–**	**–**	**8,586,596**
HTM investments	**12,804,757**	**–**	**–**	**12,804,757**
Loans and other receivables	**7,068,348**	**–**	**4,705,072**	**11,773,420**
Other resources	**988,907**	**–**	**1,442**	**990,349**
Total Resources	**P 41,425,660**	**P –**	**P 4,706,514**	**P 46,132,174**
Liabilities:				
Deposit liabilities	**P 42,661,234**	**P –**	**P 14,000,925**	**P 56,662,159**
Other liabilities	**–**	**–**	**216,743**	**216,743**
	P 42,661,234	**P –**	**P 14,217,668**	**P 56,878,902**

		Level 1		Level 2		Level 3		Total
December 31, 2016								
Resources:								
Due from BSP	P	13,009,025	P	–	P	–	P	13,009,025
Due from other banks		4,199,451		–		–		4,199,451
HTM investments		5,431,389		–		–		5,431,389
Loans and other receivables		6,567,580		–		7,090,572		13,658,152
Other resources		2,092,217		–		1,442		2,093,659
Total Resources	P	31,299,662	P	–	P	7,092,014	P	38,391,676
Liabilities:								
Deposit liabilities	P	41,170,649	P	–	P	11,744,213	P	52,914,862
Other liabilities		–		–		240,700		240,700
	P	41,170,649	P	–	P	11,984,913	P	53,155,562

For financial assets and financial liabilities with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

There have been no significant transfers among Levels 1 and 3 in the reporting periods.

5.4 *Offsetting of Financial Assets and Financial Liabilities*

The table below shows the financial assets of the Bank as of December 31, 2017 and 2016 which are subject to offsetting, enforceable master netting arrangements and similar agreements which are not set off in the statements of financial position (amounts in thousands):

	December 31, 2017							
		Financial Assets		**Financial Liabilities Available for Set-off**		**Collateral Received**		**Net Amount**
Financial assets at FVTPL								
Currency forwards	**P**	**310,132**	**P**	**282,098**	**P**	**–**	**P**	**28,034**
Interest rate swaps		**35,469**		**35,469**		**–**		**–**
Loans and receivables								
Receivables from customers		**173,670**		**–**		**67,603**		**106,067**
Other resources								
Margin deposits on currency forwards		**985,119**		**985,119**		**–**		**–**
	P	**1,504,390**	**P**	**1,302,686**	**P**	**67,603**	**P**	**134,101**

	December 31, 2016			
	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
Financial assets at FVTPL				
Currency forwards	P 748,228	P 690,818	P –	P 57,410
Interest rate swaps	27,108	27,108	–	–
Loans and receivables				
Receivables from customers	289,462	–	289,462	–
Other resources				
Margin deposits on currency forwards	2,086,748	2,086,748	–	–
	P 3,151,546	P 2,804,674	P 289,462	P 57,410

The following financial liabilities with net amounts presented in the statements of financial position are not set-off in the statements of financial position subject to offsetting, enforceable master netting arrangements and similar agreements which are (amount in thousands):

	December 31, 2017			
	Financial Liabilities	**Financial assets Available for Set-off**	**Collateral Given**	**Net Amount**
Deposit liabilities	**P 67,603**	**P 173,670**	**P –**	**(P 106,067)**
Financial liabilities				
Currency forwards	**1,267,217**	**282,098**	**985,119**	**–**
Interest rate swaps	**44,589**	**35,469**	**–**	**9,120**
	P 1,379,409	**P 491,237**	**P 985,119**	**(P 96,947)**

	December 31, 2016			
	Financial Liabilities	Financial assets Available for Set-off	Collateral Given	Net Amount
Deposit liabilities	P 301,341	P 289,462	P –	P 11,879
Financial liabilities				
Currency forwards	2,777,566	690,818	2,086,748	–
Interest rate swaps	33,191	27,108	–	6,083
	P 3,112,098	P 1,007,388	P 2,086,748	P 17,962

For the financial assets and financial liabilities subject to enforceable master netting arrangements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. DUE FROM BSP AND OTHER BANKS

6.1 Due from BSP

This account is composed of the following:

	2017	2016
Mandatory reserves	**P 7,772,321,917**	P 7,326,909,743
Other than mandatory reserves	**4,204,729,978**	5,682,115,555
	P 11,977,051,895	P 13,009,025,298

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Deposits with the BSP other than mandatory reserves comprise of ODF and TDF as of December 31, 2017 and 2016.

Due from BSP other than mandatory reserves both bear annual effective interest rates of 2.50% to 3.50% in 2017 and 2016, except for the amounts within the required reserve as determined by BSP. Total interest income earned amounted to P275,190,111 and P83,019,779 in 2017 and 2016, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

Due from BSP is included in cash and cash equivalents for cash flow statement reporting purposes.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank is required to maintain reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to (a) settlement of obligations with the BSP, and (b) withdrawals to meet cash requirements.

6.2 Due from Other Banks

The balance of this account represents regular deposits with the following:

	Note	2017	2016
Foreign banks		**P 7,942,343,483**	P 3,826,272,931
Local banks	22.1 (c)	**644,252,560**	373,177,728
		P 8,586,596,043	P 4,199,450,659

A breakdown of this account by currency follows:

		2017		2016
United States (U.S.) dollar	**P**	**8,148,051,557**	P	3,842,563,498
Philippine peso		**266,253,564**		41,621,312
Other foreign currencies		**172,290,922**		315,265,849
	P	**8,586,596,043**	P	4,199,450,659

These deposits earn effective interest at rates ranging from 0.25% to 1.67% and 0.6% to 0.83% per annum in 2017 and 2016, respectively.

The total interest earned on due from other banks amounted to P52,703,694 in 2017 and P18,478,844 in 2016, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	Notes		2017		2016
Derivatives	15, 22.1	**P**	**2,770,691,178**	P	4,610,130,225
Government securities			**555,100,450**		123,496,508
Private debt securities			**386,734,637**		758,747,836
		P	**3,712,526,265**	P	5,492,374,569

As to currency, this account is composed of the following:

		2017		2016
Philippine peso	**P**	**3,235,466,231**	P	4,647,562,678
Foreign currencies		**477,060,034**		844,811,891
	P	**3,712,526,265**	P	5,492,374,569

Government securities consist of various treasury bills and other securities issued by the government that earn coupon interest from 3.63% to 9.88% per annum both in 2017 and 2016, respectively.

Private debt securities include local and foreign private corporate securities that earn coupon interest from 4.25% to 7.38% and 4.25% to 7.45% per annum in 2017 and 2016, respectively.

In 2017, effective interest rate range from 3.54% to 4.91% and 1.38% to 4.67% for peso denominated and foreign currency denominated FVTPL securities, respectively. In 2016, effective interest rate range from 3.56% to 4.93% and 1.40% to 5.65% for peso denominated and foreign currency denominated FVTPL securities, respectively. The total interest earned on financial assets at FVTPL are presented in the statements of income which amounted to P41,501,679 and P51,228,164 in 2017 and 2016, respectively.

The Bank recognized net realized trading gains on financial assets at FVTPL amounting to P233,015,709 and P249,449,367 in 2017 and 2016, respectively. Unrealized loss of P214,980,786 in 2017 and unrealized gain of P39,939,779 in 2016 were recognized by the Bank. Both unrealized and realized trading gains and losses are presented as part of Trading and Securities Gain - net in the statements of income.

8. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2017	2016
Debt securities:		
Government securities	**P 8,034,660,211**	P 10,636,425,190
Private debt securities	**6,366,066,222**	7,724,576,464
Equity securities – not quoted	**5,500,100**	5,500,100
	P 14,406,226,533	P 18,366,501,754

As to currency, this account is composed of the following:

	2017	2016
Foreign currencies	**P 8,445,661,130**	P 10,708,948,940
Philippine peso	**5,960,565,403**	7,657,552,814
	P 14,406,226,533	P 18,366,501,754

Changes in the Bank's holdings of AFS securities are summarized below.

	Note	**2017**	2016
Balance at beginning of year		**P 18,366,501,754**	P 14,680,773,762
Additions		**6,733,144,570**	23,868,137,071
Disposals		**(10,952,249,407)**	(16,727,631,468)
Fair value gains		**166,770,073**	130,206,463
Foreign currency revaluation		**92,059,543**	409,825,033
Reclassification to HTM investments	9	**–**	(3,994,809,107)
Balance at end of year		**P 14,406,226,533**	P 18,366,501,754

In 2016, the Bank reclassified government securities from AFS securities with total carrying value and unrealized fair value losses of P3,994,809,107 and P88,158,119, respectively, to HTM investments [see Note 9 and Note 3.1(a)]. Of the total unrealized fair value losses, P15,787,943 and P16,657,617 were amortized in 2017 and 2016, respectively. As of December 31, 2017 and 2016, the outstanding unamortized fair value losses amounted to P55,712,558 and P71,500,502, respectively (see Note 17.4). The estimated amount of cash flows that the Bank expects to recover from these securities as of the date of reclassification amounted to P3,919,113,917 with annual effective interest rates ranging from 3.84% to 4.70%.

Debt securities earn interest from 3.25% to 7.38% per annum both in 2017 and 2016. These debt securities pertain to local and foreign securities issued by government and private entities.

Effective interest rate of peso–denominated AFS securities range from 3.06% to 6.63% and 1.41% to 6.73% in 2017 and 2016, respectively. On the other hand foreign currency denominated AFS securities earn effective interest ranging 1.05% to 6.71% in 2017 and 2.40% to 7.26% in 2016.

Total interest earned on AFS securities amounted to P538,529,889 in 2017 and P584,375,914 in 2016. Net loss on the disposal of AFS securities amounted to P7,803,256 in 2017 and net gains of P73,842,781 in 2016 are included as part of Trading and Securities Gain – Net in the statements of income.

In compliance with the regulations that govern the Bank's trust functions, government bonds owned by the Bank with a total face value of P1,850,000,000 and P3,599,460,000 as of December 31, 2017 and 2016, respectively, are deposited with the BSP (see Note 24).

9. HELD-TO-MATURITY INVESTMENTS

This account is composed of the following:

	2017	2016
Debt securities:		
Government securities	**P 12,423,691,627**	P 5,499,730,198
Private debt securities	**556,207,141**	–
	P 12,979,898,768	P 5,499,730,198

As to currency, this account is composed of the following:

	2017	2016
Philippine peso	**P 10,956,778,220**	P 4,902,602,902
Foreign currencies	**2,023,120,548**	597,127,296
	P 12,979,898,768	P 5,499,730,198

Changes in the Bank's HTM investments are summarized below.

	2017	2016
Balance at beginning of year	**P 5,499,730,198**	P -
Additions	**7,387,442,901**	1,430,396,154
Interest accrued	**78,889,836**	60,553,923
Foreign currency revaluation	**14,835,833**	23,971,014
Maturities	**(1,000,000)**	(10,000,000)
Reclassification from AFS securities	**–**	3,994,809,107
Balance at end of year	**P 12,979,898,768**	P 5,499,730,198

Interest earned on HTM investments amounted P404,821,186 and P187,197,362 in 2017 and 2016, respectively. The carrying value of the securities reclassified to HTM from AFS amounted to P3,874,782,752 as of December 31, 2016. The remaining unamortized unrealized losses amounted to P55,712,558 and P71,500,502 as of December 31, 2017 and 2016, respectively (see Note 8).

In compliance with the regulations that govern the Bank's trust functions, government bonds owned by the Bank are deposited with the BSP with a total face value of P1,328,100,000 and P1,000,000 as of December 31, 2017 and 2016, respectively (see Note 24).

10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	2017	2016
Receivables from customers		
- commercial	**P 4,697,051,854**	P 7,007,217,551
Allowance for impairment	**(70,856,519)**	(69,017,565)
	4,626,195,335	6,938,199,986
UDSCL	**3,479,250,283**	–
SPURRA	**3,387,574,515**	6,411,289,697
Other receivables	**201,522,863**	156,290,137
	P 11,694,542,996	P 13,505,779,820

The maturity profile of the Bank's receivables from customers follow:

	2017	2016
Within one year	**P 772,419,067**	P 2,217,109,495
Beyond one year within five years	**3,180,338,226**	3,034,495,395
Beyond five years	**744,294,561**	1,755,612,661
	P 4,697,051,854	P 7,007,217,551

As to security, receivables from customers are classified into:

	2017	2016
Secured		
Real estate mortgage	**P –**	P 169,196,926
Others	**873,085,684**	1,827,289,414
Unsecured	**3,823,966,170**	5,010,731,211
	P 4,697,051,854	P 7,007,217,551

The SPURRA held by the Bank has an average term of one day both in 2017 and 2016. Also, UDSCL amounting to P496,931,734 in 2017 (nil in 2016) has remaining maturities of three months or less from placement date. Thus, for purposes of reporting cash flows, such SPURRA and UDSCL are included as part of cash and cash equivalent (see Note 2.3).

Receivables from customers earn effective interest at rates ranging from 2.00% to 6.75% and 1.55% to 7.56% per annum in 2017 and 2016, respectively. The total interest earned on loans and receivables amounted to P466,400,635 and P509,779,358 in 2017 and 2016, respectively.

Movements of the Bank's allowance for impairment are as follows:

	2017	2016
Balance at beginning of year	**P 69,017,565**	P 181,050,261
Provision for (reversal of) impairment	**1,827,375**	(113,604,170)
Changes due to foreign exchange rate	**11,579**	1,571,474
Balance at end of year	**P 70,856,519**	P 69,017,565

The Bank recognized additional impairment loss amounting to P1,827,375 in 2017 (nil in 2016). In 2016, the Bank reversed allowance for impairment amounting to P113,604,170 (nil in 2017) as a result of its reassessment of loan loss provisioning at that year.

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2017 and 2016 are shown below.

	Furniture, Fixtures and Equipment	**Leasehold Improvements**	**Total**
December 31, 2017			
Cost	**P 151,836,070**	**P 142,619,273**	**P 294,455,343**
Accumulated depreciation and amortization	**(126,011,805)**	**(126,300,757)**	**(252,312,562)**
Net carrying amount	**P 25,824,265**	**P 16,318,516**	**P 42,142,781**
December 31, 2016			
Cost	P 136,437,535	P 140,344,839	P 276,782,374
Accumulated depreciation and amortization	(117,243,275)	(115,612,648)	(232,855,923)
Net carrying amount	P 19,194,260	P 24,732,191	P 43,926,451
January 1, 2016			
Cost	P 152,941,172	P 129,886,503	P 282,827,675
Accumulated depreciation and amortization	(134,149,643)	(103,709,483)	(237,859,126)
Net carrying amount	P 18,791,529	P 26,177,020	P 44,968,549

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2017 and 2016, as follows:

	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Balance at January 1, 2017, net of accumulated depreciation and amortization	**P 19,194,260**	**P 24,732,191**	**P 43,926,451**
Additions	**15,493,035**	**2,274,434**	**17,767,469**
Depreciation and amortization charges for the year	**(8,863,030)**	**(10,688,109)**	**(19,551,139)**
Balance at December 31, 2017, net of accumulated depreciation and amortization	**P 25,824,265**	**P 16,318,516**	**P 42,142,781**
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 18,791,529	P 26,177,020	P 44,968,549
Additions	13,338,036	10,454,507	23,792,543
Reclassification, net of accumulated depreciation	(7,671,955)	–	(7,671,955)
Depreciation and amortization charges for the year	(5,263,350)	(11,899,336)	(17,162,686)
Balance at December 31, 2016, net of accumulated depreciation and amortization	P 19,194,260	P 24,732,191	P 43,926,451

In 2016, the Bank reclassified portion of its equipment to computer software in Other Resources (see Note 12).

Total cost of fully depreciated assets, consisting of furniture, fixtures and equipment amounted to P105,490,161 and P104,685,385 in 2017 and 2016, respectively, and are still being used by the Bank.

The BSP requires that investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with this requirement.

12. OTHER RESOURCES

This account consists of:

	Note	**2017**	2016
Margin deposits		**P 988,907,240**	P 2,092,217,400
Deferred tax assets	23	**31,401,303**	36,901,581
Creditable withholding taxes		**26,759,245**	20,345,361
Computer software– net		**25,771,580**	26,668,432
Prepaid expenses		**12,846,230**	6,393,751
Documentary stamps		**5,278,806**	16,663,286
Others		**5,895,858**	5,431,377
		P 1,096,860,262	P 2,204,621,188

Margin deposits consist of placements with foreign banks that are offered by the Bank as security on its derivative transactions with certain counterparties. Interest rates on margin deposits ranged between 0.08% to 0.36% both in 2017 and 2016, respectively.

In 2016, the Bank acquired computer software of P12,882,937 and reclassified portion of the Bank's equipment to computer software amounting to P7,671,955 (see Note 11). Amortization charges related to software costs amounted to P9,126,924 and P6,982,914 in 2017 and 2016, respectively, and are included as part of Depreciation and Amortization in the statements of income.

13. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2017	2016
Within one year	**P 48,315,074,402**	P 48,900,092,920
Beyond one year up to five years	**8,496,815,570**	4,115,939,631
	P 56,811,889,972	P 53,016,032,551

The classification of the Bank's deposit liabilities as to currency follows:

	2017	2016
Philippine peso	**P 34,641,076,867**	P 36,988,888,224
Foreign currencies	**22,170,813,105**	16,027,144,327
	P 56,811,889,972	P 53,016,032,551

Interest expense on deposit liabilities comprises of:

	2017	2016
Demand	**P 461,305,911**	P 320,275,305
Time	**135,486,236**	113,575,171
	P 596,792,147	P 433,850,476

Interest rates on time deposits ranged between 1.5% to 2.48% and 0.13% to 2.10% per annum for 2017 and 2016, respectively. For demand deposits, interest rates ranged from 0.13% to 2.63% in 2017 and 0.38% to 2.63% in 2016.

14. BILLS PAYABLE

Bills payable represents the Bank's borrowings from other local and foreign banks and entities which bear annual interest rates of 2.5% in both 2017 and 2016. As of December 31, 2017 and 2016, the Bank has no outstanding secured liabilities and assets pledged as security.

15. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for both hedging and non-hedging purposes. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency and interest swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of all these. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation.

This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favorable or unfavorable as a result of fluctuations in market interest rates, foreign exchange rates and other underlying relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below [see Notes 7 and 22.1(b)].

	Notional Amount	Fair Values	
		Assets	Liabilities
December 31, 2017			
Free-standing			
Cross currency swaps	**P 11,530,554,276**	**P 2,529,081,875**	**P 1,893,758,627**
Interest rate swaps	**10,418,065,000**	**113,575,240**	**84,311,704**
Forward contracts			
Sell: USD/PHP	**5,132,303,600**	**126,871,635**	**–**
Futures	**603,790,000**	**1,162,428**	**–**
	P 27,684,712,876	**P 2,770,691,178**	**P 1,978,070,331**
December 31, 2016			
Free-standing			
Cross currency swaps	P 42,102,682,470	P 4,489,971,361	P 3,536,468,830
Interest rate swaps	10,108,780,000	109,964,489	62,377,004
Forward contracts			
Sell: USD/PHP	6,913,912,000	10,194,375	84,454,449
	P 59,125,374,470	P 4,610,130,225	P 3,683,300,283

The changes in fair value of derivative assets and liabilities determined using a valuation technique amounted to a loss of P102,458,811 and a gain of P121,833,547 in 2017 and 2016, respectively, and were included in unrealized fair value gains in FVTPL (see Note 7).

16. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Note	**2017**	2016
Manager's check		**P 117,657,138**	P 101,176,092
Accrued expenses		**89,574,430**	119,210,364
Accrued taxes		**66,892,465**	64,435,144
Post-employment defined benefit obligation	21.2	**38,542,853**	39,101,705
Withholding taxes		**32,427,004**	29,553,721
Sundry credits		**1,708,613**	77,127
Others		**10,466,387**	11,259,569
		P 357,268,890	P 364,813,722

In 2016, accrued expenses include amount payable to BDO Unibank amounting to P51,121,396 representing the Bank's liability arising from the stock option plan offered to the Bank's employees [see Note 2.17(f)]. The Bank's liability to BDO Unibank arising from the stock option plan were all settled as of December 31, 2017.

17. EQUITY

17.1 Capital Stock

Capital stock as of December 31, 2017 and 2016 consists of (number of shares and amounts in thousands):

	Number of Shares Authorized		Number of Shares Issued and Outstanding		Amount	
	2017	2016	**2017**	2016	**2017**	2016
Preferred shares						
Balance at beginning of year	**1,250**	1,250	**1,225**	1,225	**P 1,225,000**	P 1,225,000
Conversion to common shares	**(1,225)**	–	**(1,225)**	–	**(1,225,000)**	–
Reclassification to common shares	**(25)**	–	**–**	–	**–**	–
Balance at end of year	**–**	1,250	**–**	1,225	**P –**	P 1,225,000
Common shares						
Balance at beginning of year	**1,250**	1,250	**940**	940	**P 940,000**	P 940,000
Conversion of preferred shares	**1,225**	–	**1,225**	–	**1,225,000**	–
Reclassification from preferred shares	**25**	–	**–**	–	**–**	–
Balance at end of year	**2,500**	1,250	**2,165**	940	**P 2,165,000**	P 940,000

By the majority vote of the Bank's BOD and by the vote of the stockholders owning or representing at least 2/3 of the outstanding capital stock, the conversion of the Bank's entire preferred shares into common shares was approved during the BOD and Stockholders meeting held on April 17, 2017, to be effected through:

- Conversion of its 1,225,000 outstanding preferred shares with a par value of P1,000 per share into 1,225,000 outstanding common shares with a par value of P1,000 per share; and

- Reclassification of its 25,000 unissued preferred shares with a par value of P1,000 per share into 25,000 unissued common shares with a par value of P1,000 per share. The conversion and reclassification was approved by the Philippine Securities and Exchange Commission (SEC) on October 20, 2017.

As of December 31, 2017 and 2016, the Bank has one only stockholder owning 100 or more shares of the Bank's capital stock.

17.2 Preferred Shares

Prior to the conversion and reclassification (see Note 17.1), the Bank has authorized and issued preferred shares equivalent to 1,250,000 and 1,225,000, respectively. The following were the features of the Bank's preferred shares:

(a) The BOD may specify the terms, conditions, qualifications, restrictions and privileges of the preferred non-voting stock. All preferred shares shall be of equal rank, preference, priority and shall be identical in all respects regardless of series.

(b) The holders of serial preferred stock shall be entitled to receive dividends, when, as and if declared by the BOD out of funds legally available and not before any dividends on the common stock shall be paid or set apart for payments.

(c) The holders of the preferred shares shall not be entitled to vote at any meeting of the stockholders for the election of directors or for any other purpose or participate in any action taken by the Bank or its stockholders.

17.3 Common Shares

The Bank's authorized common stock increased to 2,500,000 shares in 2017 from 1,250,000 shares in 2016. The Bank's common stock has voting rights and a par value of P1,000 per share.

17.4 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Notes	Unrealized Gains (Losses) on AFS Securities	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2017		**(P 232,182,447)**	**(P 75,817,446)**	**(P 307,999,893)**
Unrealized gains during the year	8	**166,770,073**	**-**	**166,770,073**
Amortization of unrealized losses on reclassified HTM securities	8	**15,787,943**	**-**	**15,787,943**
Transfer of net realized gains to profit or loss on disposal of securities	8	**(7,803,256)**	**-**	**(7,803,256)**
Remeasurements of post-employment defined benefit obligation	21.2	**-**	**3,921,898**	**3,921,898**
Other comprehensive income before tax		**174,754,760**	**3,921,898**	**178,676,658**
Tax expense	23.1	**-**	**(1,176,569)**	**(1,176,569)**
Other comprehensive income after tax		**174,754,760**	**2,745,329**	**177,500,089**
Balance as of December 31, 2017		**(P 57,427,687)**	**(P 73,072,117)**	**(P 130,499,804)**
Balance as of January 1, 2016		(P 44,790,820)	(P 63,294,376)	(P 108,085,196)
Transfer of net realized gains to profit or loss on disposal of securities	8	(73,842,781)	-	(73,842,781)
Unrealized gains during the year	8	(130,206,463)	-	(130,206,463)
Amortization of unrealized losses on reclassified HTM securities	8	16,657,617	-	16,657,617
Remeasurements of post-employment defined benefit obligation	21.2	-	(17,890,100)	(17,890,100)
Other comprehensive loss before tax		(187,391,627)	(17,890,100)	(205,281,727)
Tax income	23.1	-	5,367,030	5,367,030
Other comprehensive loss after tax		(187,391,627)	(12,523,070)	(199,914,697)
Balance as of December 31, 2016		(P 232,182,447)	(P 75,817,446)	(P 307,999,893)

17.5 Surplus Reserve

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions, certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2017 and 2016, accumulated appropriated surplus related to the Bank's trust functions amounted to P298,132,703 and P231,738,271, respectively.

17.6 Surplus Free

On July 17, 2017, the BOD approved dividends amounting to P500,000,000 (or P230.95 per share for preferred and common stock). The dividend was paid on July 26, 2017. On July 28, 2016, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for preferred and common stock). The dividend was paid on July 29, 2016 [see Note 22.1 (a)].

17.7 Capital Management

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks.

The BDO Group is complying with the BSP's ICAAP requirements. BDO Unibank is driving the preparation and compliance requirements of the ICAAP bankwide/group-wide policies. Annually, as required, BDO Unibank submits its updated ICAAP to the BSP. The Bank is closely coordinating with BDO Unibank regarding said policies.

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Risk assets consist of total assets after exclusion of 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 as determined by the Monetary Board of the BSP.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is recognized by the Bank as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Further, under an existing BSP circular, commercial banks must meet a minimum capital threshold amounting to P2.0 billion. As of December 31, 2017 and 2016, the Bank has complied with the above capitalization requirement.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2017 and 2016 are as follows:

	2017	2016
Tier 1 Capital		
CET 1	**P 5,348,567,460**	P 3,918,261,112
Additional Tier 1	**–**	1,225,000,000
	5,348,567,460	5,143,261,112
Tier 2 Capital	**70,856,519**	182,621,735
Total Regulatory Capital	**5,419,423,979**	5,325,882,847
Deductions	**(57,172,884)**	(63,570,013)
Total Qualifying Capital	**P 5,362,251,095**	P 5,262,312,834
Total Risk Weighted Assets	**P 27,486,533,380**	P 32,272,302,158
Capital ratios:		
CET 1 Ratio	**19.25%**	11.94%
Capital Conservation Buffer	**13.25%**	5.94%
Tier 1 Capital Ratio	**19.25%**	15.74%
Total Capital Adequacy Ratio	**19.51%**	16.31%

18. SERVICE CHARGES, FEES AND COMMISSIONS

This account is composed of the following:

	Note	**2017**	2016
Trust fees	24	**P 701,479,327**	P 663,944,242
Others – net		**12,399,245**	5,253,280
		P 713,878,572	P 669,197,522

19. THIRD PARTY INFORMATION

Third party information refers to service charges incurred by the Bank for market data obtained from service providers such as Reuters, Prebon, Moody's and Bloomberg (used in the Bank's treasury operations).

20. OTHER EXPENSES

This account is composed of the following:

		2017		2016
Custodianship fees	**P**	**27,783,720**	P	22,509,633
Fines, penalties and other charges		**23,200,000**		12,000,000
Security, messengerial and janitorial services		**19,579,360**		17,618,942
Repairs and maintenance		**18,731,004**		14,823,947
Advertising		**18,642,764**		22,666,950
Transfer fees and charges		**13,892,319**		8,205,668
Communication		**7,789,859**		6,027,953
Stationery and supplies		**4,616,765**		4,867,976
Courier services		**1,490,303**		1,182,221
Contractual services		**1,178,492**		1,546,476
Miscellaneous		**8,401,386**		6,486,376
	P	**145,305,972**	P	117,936,142

21. EMPLOYEE BENEFITS

21.1 Employee Benefits

The total expense recognized by the Bank for employee benefits is broken down below.

	Note		2017		2016
Salaries and wages		**P**	**384,687,621**	P	406,302,084
Post-employment defined benefit	21.2		**33,858,278**		32,398,687
Social security and medical benefits			**9,369,024**		9,757,691
Others			**1,120,220**		628,623
		P	**429,035,143**	P	449,087,085

The salaries and wages account includes the expense recognized arising from the Executive Stock Option Plan [see Note 2.17(f)].

21.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory and multi-employer post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2017 and 2016.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are presented as part of Accrued Expenses and Other Liabilities follow (see Note 16):

	2017	2016
Present value of obligation	**P 410,128,525**	P 395,188,671
Fair value of plan assets	**(371,585,672)**	(356,086,966)
	P 38,542,853	P 39,101,705

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

	2017	2016
Balance at beginning of year	**P 395,188,671**	P 344,661,879
Current service cost	**33,858,278**	32,398,687
Interest cost	**21,735,377**	17,887,952
Remeasurements – Actuarial losses (gains) arising from:		
- experience adjustments	**79,385,863**	3,641,746
- changes in financial assumptions	**(50,410,801)**	10,901,879
- changes in demographic assumptions	**(46,217,061)**	–
Benefits paid	**(23,411,802)**	(14,303,472)
Balance at end of year	**P 410,128,525**	P 395,188,671

The movements in the fair value of plan assets are presented below.

		2017		2016
Balance at beginning of year	**P**	**356,086,966**	P	324,625,335
Interest income		**19,831,922**		17,302,330
Return on plan assets (excluding amounts included in net interest)	**(**	**13,320,101)**	(	3,346,475)
Benefits paid	**(**	**23,411,802)**	(	14,303,472)
Contributions		**32,398,687**		31,809,248
Balance at end of year	**P**	**371,585,672**	P	356,086,966

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

		2017		2016
Placements in debt instruments:				
Government bonds	**P**	**118,662,810**	P	145,141,047
Corporate bonds		**82,664,126**		65,021,480
Cash and cash equivalents		**36,100,529**		41,519,740
Unit investment trust funds (UITF)		**101,901,167**		66,837,524
Loans and other receivables		**18,524,287**		2,955,522
Equity instruments		**8,733,131**		8,225,609
Other properties		**4,999,622**		26,386,044
Balance at end of year	**P**	**371,585,672**	P	356,086,966

Actual return on plan assets amounted to P6,511,821 and P13,955,855 in 2017 and 2016, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit plan are as follows:

	Notes		2017		2016
Recognized in profit or loss:					
Current service cost	21.1	**P**	**33,858,278**	P	32,398,687
Net interest expense			**1,903,455**		585,622
		P	**35,761,733**	P	32,984,309

	Notes	2017	2016
Recognized in other comprehensive income (loss)			
Actuarial gains (losses) arising from changes in:			
- experience adjustment		**(79,385,863)**	(3,641,746)
- financial assumptions		**50,410,801**	(10,901,879)
- demographic assumptions		**46,217,061**	–
Return on plan assets (excluding amounts included in net interest expense)		**(13,320,101)**	(3,346,475)
	17.4	**3,921,898**	(17,890,100)
Deferred tax income (expense)	23.1	**(1,176,569)**	5,367,030
		P 2,745,329	(P 12,523,070)

Current service cost is presented in the statements of income under Employee Benefits while net interest expense is classified as Others under Interest Expense in the statements of income.

Amounts recognized in other comprehensive income (loss) were presented as an item that will not be reclassified subsequently to profit or loss.

In determining retirement benefits, the following actuarial assumptions were used:

	2017	2016
Discount rates	**5.7%**	5.5%
Salary increase rate	**8.2%**	9.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 22 for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of interpolated yields of government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risk Associated with Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risk

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in debt instruments, cash and cash equivalents, UITF, loans and other receivables, equity securities and other properties. Due to the long-term nature of plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plans efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31:

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
December 31, 2017			
Discount rate	**+/- 1%**	**(P 29,736,943)**	**P 34,093,276**
Salary increase rate	**+/- 1%**	**29,316,597**	**(26,209,426)**
December 31, 2016			
Discount rate	+/- 1%	(P 18,959,941)	P 21,168,780
Salary increase rate	+/- 1%	18,120,688	(16,672,914)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the retirement benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of assets as of December 31, 2017 and 2016 consists of debt instruments and UITF, although the Bank also invests in cash and cash equivalents, loans and other receivables, equity securities and other properties.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P38.5 million based on the latest actuarial valuation as of December 31, 2017. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 10 years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P38 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefits payments as of December 31, 2017 from the plan follows:

Within one year	P	62,784,741
More than one year to five years		156,324,940
More than five years		281,242,417
	P	**500,352,098**

22. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of and for the years ended December 31, 2017 and 2016 are as follows (amounts in thousands):

		2017		2016	
Related Party Category	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
BDO Unibank:					
Dividends declared	22.1(a)	**P 500,000**	**–**	P 800,000	–
Derivative transactions	22.1(b)				
Derivative assets					
Buy: USD/PhP		**$ 264,000**	**–**	$ 656,000	–
Interest Rate Swaps		**–**	**P 100,000**	–	P 100,000
Derivative liabilities					
Buy: PhP/USD		**$ 284,000**	**$ 20,000**	$ 668,800	$ 25,300
Interest Rate Swaps		**–**	**P 100,000**	–	P 100,000
FX Spot Transactions					
Buy EUR/ USD		**$ 3,834**	**$ 298**	$ 5,280	–
Buy USD/ EUR		**$ 1,735**	**–**	$ 1,046	–
Buy USD/ AUD		**$ 889**	**–**	$ 108	–
Buy SGD/ USD		**$ 720**	**–**	$ 1,318	–
Buy AUD/ USD		**$ 521**	**–**	$ 700	–
Buy PHP/ USD		**$ 300**	**–**	$ 7,895	–
Buy JPY/ USD		**$ 215**	**–**	$ 122	–
Buy USD/ SGD		**$ 70**	**–**	$ 245	–
Buy USD/ PHP		**–**	**–**	$ 10,785	–
Buy USD/ JPY		**–**	**–**	$ 30	–
Due from other banks (net of withdrawals)	22.1(c)	**P 65,088**	**P 422,406**	P 74,971	P 357,318
Rental	22.1(d)	**P 30,481**	**–**	P 29,140	–
Management services	22.1(e)	**P 20,812**	**–**	P 1,148	–
Accrued expenses		**–**	**–**	P 51,121	51,121
Entity under Common Ownership:					
Deposit liabilities (net of withdrawals)	22.1(c)	**P 497**	**P 111,980**	P 21,335	P –
Key Management Personnel					
Compensation		**P 97,512**	**–**	P 129,037	–

None of the Bank's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

22.1 Nature of Related Party Transactions

The transactions conducted by the Bank with related parties in the normal course of business are described below.

(a) On July 17, 2017, the BOD approved dividends amounting to P500,000,000 (or P230.95 per share for preferred and common stock). Such dividends were paid on July 26, 2017. On July 28, 2016, the Bank declared dividends amounting to P800,000,000 (or P369.52 per share for both preferred and common stocks) which were paid on July 29, 2016 (see Note 17.6).

(b) In 2017 and 2016, the Bank entered into currency forward, interest rate swap and cross currency swap transactions with BDO Unibank. The outstanding derivative assets and liabilities are shown as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative Financial Liabilities account in statements of financial position (see Notes 7 and 15).

(c) The Bank holds demand deposits from BDO Securities Corporation, an entity under common ownership, with annual interest rates at 1.00% for both 2017 and 2016. The Bank maintains deposits with BDO Unibank which are included as part of Due from Other Banks in the statements of financial position (see Note 6.2). The interest rates on these deposits ranged from 0.00% to 0.25% per annum in both 2017 and 2016.

(d) The lease agreement with BDO Unibank for a monthly rental of P2,625,195 was renewed on October 16, 2016. The lease term is for a period of five years and is payable in cash. Total rent expense incurred pertaining to this agreement is presented a part Occupancy account in the statements of income. There were no outstanding payable to BDO Unibank as of December 31, 2017 and 2016 in relation to the lease agreement.

(e) In March 2012, the BSP approved the outsourcing of several functions to BDO Unibank. The arrangement will allow the Bank to tap the resources and expertise of BDO Unibank in the areas covered by the new agreement, specifically in the Bank's asset management, central operations, human resources management, information technology, internal audit services and risk management. Total expense incurred pertaining to this contract is presented as part of Management and Professional Fees account in the statements of income. As of December 31, 2017 and 2016, there are no outstanding liabilities in relation to the agreement.

22.2 Key Management Personnel Compensation

The salaries and short-term benefits given to the Bank's key management personnel are as follows (amounts in thousands):

		2017		2016
Salaries and other benefits	**P**	**87,115**	P	110,270
Retirement expense		**10,397**		18,767
	P	**97,512**	P	129,037

23. TAXES

23.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	Notes	2017	2016
Reported in profit or loss:			
Final tax at 20%, 10%		**P 205,646,048**	P 179,956,671
Minimum corporate income tax (MCIT) at 2% - Regular Banking Unit (RBU)		**12,310,336**	10,473,810
Regular corporate income tax (RCIT) at 30% - Foreign Currency Deposit Unit (FCDU)		**879,947**	654,138
		218,836,331	191,084,619
Deferred tax expense relating to origination and reversal of temporary differences		**4,323,708**	26,252,262
		P 223,160,039	P 217,336,881
Reported in other comprehensive income – Deferred tax expense (income) related to accumulated actuarial gains and losses	17.4, 21.2	**P 1,176,569**	(P 5,367,030)

Current taxes include corporate income tax and final taxes paid on income from FCDU and final withholding tax on gross interest income from debt securities and other deposit substitutes.

In 2017 and 2016, the Bank continued to claim itemized deductions. The Bank is also subject to percentage and other taxes which consist principally of gross receipts tax or GRT, presented as part of Taxes and Licenses in the statements of income.

The reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense attributable to continuing operations follows:

	2017	2016
Tax on pretax profit at 30%	**P 191,103,876**	P 270,036,493
Adjustment for income subjected to lower tax rates	**(105,188,861)**	(42,037,770)
Tax effects of:		
Nondeductible expenses	**131,226,160**	101,343,162
Income from FCDU	**(35,975,139)**	(57,680,010)
Income exempted from income taxes	**16,557,801**	(103,377,153)
Unrecognized deferred tax assets (DTA)	**12,558,751**	16,914,761
Unrecognized MCIT	**12,310,336**	10,473,810
Derecognition of DTA on NOLCO	**567,115**	16,187,511
Derecognition of DTA on temporary difference	**–**	5,476,077
	P 223,160,039	P 217,336,881

The deferred tax assets (included as part of Other Resources – see Note 12) as of December 31 relate to the following:

	Statements of Financial Position 2017	Statements of Financial Position 2016	Statement of Income 2017	Statement of Income 2016	Statement of Comprehensive Income 2017	Statement of Comprehensive Income 2016
Unamortized past service cost	**P 20,088,470**	P 24,853,976	**P 4,765,506**	P 4,765,506	**P –**	P –
Post-employment benefit obligation	**11,312,833**	11,480,489	**(1,008,914)**	(176,832)	**1,176,569**	(5,367,030)
NOLCO	**–**	567,116	**567,116**	16,187,511	**–**	–
Accrued expenses	**–**	–	**–**	5,476,077	**–**	–
Deferred tax assets	**P 31,401,303**	P 36,901,581				
Deferred tax income (expense)			**P 4,323,708**	P 26,252,262	**P 1,176,569**	(P 5,367,030)

The Bank is subject to MCIT which is computed at 2% of gross income, as defined under tax regulations, or RCIT, whichever is higher. In both 2017 and 2016, the Bank is subject to MCIT on its RBU since MCIT was higher than the RCIT.

The details of unrecognized deferred tax assets as of December 31, 2017 and 2016 are as follows:

	2017 Amount	2017 Tax Effect	2016 Amount	2016 Tax Effect
NOLCO	**P 97,245,039**	**P 29,173,512**	P 56,382,537	P 16,914,761
Allowance on general loan loss provision	**70,856,519**	**21,256,956**	69,017,565	20,705,270
MCIT	**34,443,331**	**34,443,331**	31,975,367	31,975,367
Accrued expense	**–**	**–**	17,729,490	5,318,847
	P 202,544,889	**P 84,873,799**	P 175,104,959	P 74,914,245

The composition of and movement in the Bank's NOLCO follow:

Year	Amount	Applied and Expired in Current Year	Remaining Balance	Valid Until
2017	P 40,862,502	P –	P 40,862,502	2020
2016	56,382,537	–	56,382,537	2019
2014	1,890,380	(1,890,380)	–	
	P 99,135,419	**(P 1,890,380)**	**P 97,245,039**	

The composition of and movements in the Bank's MCIT follow:

Year	Amount	Applied and Expired in Current Year	Remaining Balance	Valid Until
2017	P 12,310,336	P –	P 12,310,336	2020
2016	10,473,810	–	10,473,810	2019
2015	11,659,165	–	11,659,165	2018
2014	9,842,392	(9,842,392)	–	2017
	P 44,285,703	**(P 9,842,392)**	**P 34,443,311**	

23.2 Supplemental Information Required By the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 15-2010 and RR No. 19-2011 on November 25, 2010 and December 9, 2011, respectively, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Philippine SEC rules and regulations covering form and content of financial statements under the Securities Regulation Code Rule 68, as amended.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

24. TRUST OPERATIONS

As of December 31, 2017 and 2016, the following securities and other properties held by the Bank in fiduciary or agency capacity for a fee amounting to P701,479,327 and P663,944,242, respectively, presented as Trust Fees under Service Charges, Fees and Commissions in the statements of income (see Note 18) for its customers are not included in the accompanying statements of financial position since these are not resources of the Bank (see Note 26.3):

		2017		2016
Cash	**P**	**35,661,164,532**	P	74,971,061,012
Investments		**250,243,354,020**		188,502,194,276
Real estate		**4,730,724,384**		4,106,162,580
Loans and other receivables		**2,060,602,537**		4,758,333,284
Others		**1,700,586,584**		913,035,176
	P	**294,396,432,057**	P	273,250,786,328

The trust operations of the Bank relate mainly to management of funds. Certain government bonds owned by the Bank are deposited with the BSP, as mentioned in Notes 8 and 9.

25. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some of the financial performance indicators of the Bank:

	2017	2016
Return on average equity		
$\frac{\text{Net profit}}{\text{Average total capital accounts}}$	**7.8%**	12.61%
Return on average common equity		
$\frac{\text{Net profit}}{\text{Average common equity}}$	**9.2%**	16.29%

	2017	2016
Return on average resources		
Net profit / Average total resources	**0.7%**	1.2%
Net interest margin		
Net interest income / Average interest-earning resources	**2.0%**	2.1%
Net income margin ratio		
Net income x 100 / Total revenues	**15.7:1**	26.1:1
Current ratio		
Current resources / Current liabilities	**267%**	154%
Cost to income ratio		
Operating cost / Operating income	**74.7%**	67.6%
Debt to equity ratio		
Total Liabilities / Total Equity	**11.1:1**	10.9:1
Asset to equity ratio		
Total Resources / Total Equity	**12.1:1**	11.9:1
Interest rate coverage		
Earnings before interest and taxes / Interest expense	**2.1:1**	3.1:1
Capital to risk assets ratio*		
Combined credit, market and operational risk	**19.5%**	16.3%

**Computed using balances prepared under PFRS*

26. COMMITMENTS AND CONTINGENT LIABILITIES

26.1 Litigations

On April 6, 2015, the Bank, together with 18 other banks, filed a Petition for Declaratory Relief (with Urgent Application for the Issuance of a Temporary Restraining Order and/or a Writ of Preliminary Injunction) with the Regional Trial Court (RTC) of Makati City against the Department of Finance (DOF), through the Secretary of Finance, and the BIR, through the Commissioner of Internal Revenue. The case involves RR No. 4-2011 on the subject: "Proper Allocation of Costs and Expenses Amongst Income Earnings of Banks and Other Financial Institutions for Income Tax Reporting Purposes", issued by the Secretary of Finance upon the recommendation of the Commissioner of Internal Revenue. The petition seeks the annulment of RR No. 4-2011 and other revenue regulations and memorandum circulars of the same tenor and import as is. The petition also seeks to enjoin the DOF and BIR from enforcing or implementing in any manner RR No. 4-2011, including the issuance of Final Assessment Notices (FANs) based thereon. The case is pending with RTC Makati City, Branch 57 (Civil Case No. 15-287).

On April 27, 2015, RTC Makati granted the Petitioner-Banks' application for a writ of preliminary injunction and issued an Order enjoining DOF and BIR from "enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Applicants, including the issuance of [preliminary assessment notice ("PAN")] or [FAN], as the case may be, based on the subject revenue regulations, pending litigation, unless sooner dissolved." On June 10, 2015, RTC Makati issued an Order which "confirms that the writ of preliminary injunction currently in effect includes a prohibition against the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as Petitioners are concerned."

26.2 Operating Leases Commitments – Bank as Lessee

As of December 31, 2017 and 2016, the estimated minimum future annual rentals of the Bank follow:

		2017		2016
Within one year	**P**	**43,774,229**	P	35,834,766
More than one year but not more than five years		**184,377,198**		149,149,716
More than five years		**–**		39,180,576
	P	**228,151,427**	P	224,165,058

Total rentals from these operating leases amounted to P47,631,867 in 2017 and P46,071,711 in 2016, which were reported as Occupancy in the statements of income.

26.3 Others

In the normal course of its operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become known and quantifiable.

As of December 31, 2017, the Bank's management believes that losses, if any, from the commitments and contingencies will not have a material effect on the Bank's financial statements.

The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	Notes	**2017**	2016
Trust department accounts	24	**P 294,396,432,057**	P 273,250,786,328
Cross currency swap receivable	15	**11,530,554,276**	42,102,682,470
Cross currency swap payable	15	**11,530,554,276**	42,102,682,470
Interest rate swap receivable	15	**10,418,065,000**	10,108,780,000
Interest rate swap payable	15	**10,418,065,000**	10,108,780,000
Forward exchange sold	15	**5,132,303,600**	6,913,912,000
Loan commitments	4.3	**72,334,814**	179,652,627
Spot exchange bought		**343,688,785**	632,619,676
Spot exchange sold		**343,622,185**	632,553,076
Outstanding guarantees		**12,667,050**	12,667,050

Supplementary Management Disclosures

(AMOUNTS IN PHILIPPINE PESOS)

On Capital Structure and Capital Adequacy

A. CET 1 Capital and Breakdown of Components (including deductions solely from CET 1)

	2017	2016
Paid-up common stock	2,165,000,000	940,000,000
Retained earnings	3,314,067,263	3,286,261,005
Other comprehensive income	(130,499,803)	(307,999,892)
Sub-total	5,348,567,460	3,918,261,112
Less deduction:		
Deferred income tax	31,401,304	36,901,581
Other intangible assets	25,771,580	26,668,432
Total CET 1 capital	5,291,394,576	3,854,691,099

B. Tier 1 Capital and Breakdown of Components (including deductions solely from Tier 1)

	2017	2016
Paid-up common stock	2,165,000,000	940,000,000
Paid-up perpetual and non-cumulative preferred stock	-	1,225,000,000
Retained earnings	3,314,067,263	3,286,261,005
Other comprehensive income	(130,499,803)	(307,999,892)
Sub-total	5,348,567,460	5,143,261,112
Less deduction:		
Deferred income tax	31,401,304	36,901,581
Other intangible assets	25,771,580	26,668,432
Total Tier 1 capital	5,291,394,576	5,079,691,099

C. Tier 2 Capital and Breakdown of Components

	2017	2016
General loan loss provision	70,856,519	69,021,735
Total Tier 2 capital	70,856,519	69,021,735

D. Computation of Qualifying Capital

	2017	2016
Tier 1 capital	5,348,567,460	5,143,261,112
Tier 2 capital	70,856,519	69,021,735
Gross qualifying capital	5,419,423,979	5,212,282,847
Less: Required deductions	57,172,884	63,570,013
Total qualifying capital	5,362,251,095	5,148,712,834

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital which includes paid-up common and preferred, surplus including current year profit, and surplus reserves, less deduction for deferred income tax and other intangible assets. The other component of regulatory capital is Tier 2 (supplementary) capital, which is the general loan loss provision.

E. Capital Conservation Buffer

	2017	2016
Common Equity Tier 1 Capital	5,291,394,576	3,854,691,099
Less: CET 1 requirement	1,649,192,003	1,936,338,129
Capital Conservation Buffer	3,642,202,573	1,918,352,970
Capital Conservation Buffer Ratio	13.25%	5.94%

F. Capital Requirements for Credit Risk

	2017	2016
On-Balance Sheet	18,689,409,249	20,935,493,135
Off-Balance Sheet	27,134,013	48,597,575
Counterparty (Trading Book)	3,205,865,034	4,818,716,507
Total	21,922,408,296	25,802,807,218
Capital Requirements	2,192,240,830	2,580,280,722

G. Capital Requirements for Market Risk

	2017	2016
Interest Rate Exposures	1,682,032,858	2,841,292,250
Foreign Exchange Exposures	534,700,187	489,857,390
Total	2,216,733,045	3,331,149,640
Capital Requirements	221,673,305	333,114,964

H. Capital Requirements for Operational Risk

	2017	2016
Basic Indicator	3,347,392,039	3,138,345,300
Total	3,347,392,039	3,138,345,300
Capital Requirements	334,739,204	313,834,530

I. Computation of Capital Adequacy Ratio – Total and Tier 1

	2017	2016
Total Qualifying Capital	5,362,251,095	5,148,712,834
Credit risk-weighted assets	21,922,408,296	25,802,807,218
Market risk-weighted assets	2,216,733,045	3,331,149,640
Operational risk-weighted assets	3,347,392,039	3,138,345,300
Risk weighted assets	27,486,533,380	32,272,302,158
Total capital ratio	19.51%	15.95%
Tier 1 capital ratio	19.25%	15.74%
CET 1 ratio	19.25%	11.94%

Full Reconciliation of all Regulatory Capital Elements back to the Balance Sheet in the Audited Financial Statements

As of December 31, 2017	Per AFS	Adj – AFS to Regulatory	Regulatory Capital CET 1	Tier 1	Tier 2	Qualifying
Common Stock	2,165,000,000		2,165,000,000	2,165,000,000		2,165,000,000
Surplus – Free/Reserve	3,314,116,154	(48,884)[a]	3,314,067,263	3,314,067,263		3,314,067,263
General Loan Loss Provisions	–	70,856,519[b]			70,856,519	70,856,519
Other Comprehensive Income						
Unrealized Fair Value G/L on AFS	(57,427,686)		(57,427,686)	(57,427,686)		(57,427,686)
Accumulated Actuarial G/L	(73,072,117)		(73,072,117)	(73,072,117)		(73,072,117)
Cumulative Translation Adj						
	5,348,616,351	70,807,635	5,348,567,460	5,348,567,460	70,856,519	5,419,423,979
Regulatory Adjustments/ Deductions						
Deferred Income Tax	–	(31,401,304)	(31,401,304)	(31,401,304)		(31,401,304)
Other Intangible Assets	–	(25,771,580)	(25,771,580)	(25,771,580)		(25,771,580)
	5,348,616,351	13,634,752	5,291,394,576	5,291,394,576	70,856,519	5,362,251,095

(a) Various audit adjustments	(48,884)
	(48,884)
(b) 1% Loan Loss Prov	70,856,519
	70,856,519

Comprehensive Explanations of How Ratios Involving Components for Regulatory Capital are Calculated

	Regulatory Capital Ratios		
	CET 1	Tier 1	Qualifying
Components of Regulatory Ratios			
Regulatory Capital	5,291,394,576	5,291,394,576	5,362,251,095
Risk Weighted Assets	27,486,533,380	27,486,533,380	27,486,533,380
Computation of Regulatory Ratios			
$\frac{\text{Qualifying Capital}}{\text{Risk Weighted Assets}}$			19.51%
$\frac{\text{Tier 1 Capital}}{\text{Risk Weighted Assets}}$		19.25%	
$\frac{\text{CET 1 Capital}}{\text{Risk Weighted Assets}}$	19.25%		

On-Balance Sheet (BS) Assets

Type of Exposures	2017								
			Risk Weights						
	Principal Amount	Exposures After CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand									-
Checks and Other Cash Items									-
Due from Bangko Sentral ng Pilipinas	11,977,051,894.83	11,977,051,894.83	11,977,051,894.83						11,977,051,894.83
Due from Other Banks	8,586,596,044.26	8,586,596,044.26		1,915,660,455.01	6,026,683,027.94		644,252,561.31		8,586,596,044.26
Financial Assets Designated at FVTPL	-	-							-
Available for Sale Securities	14,401,488,432.93	14,401,488,432.93	6,001,612,129.72	809,972,880.01	3,456,810,200.47		4,133,093,222.73		14,401,488,432.93
Held to Maturity	12,967,762,271.01	12,967,762,271.01	10,388,434,581.57	556,207,141.07	2,023,120,548.37		-		12,967,762,271.01
Unquoted Debt Securities Classified as Loans	3,479,250,283.21	3,479,250,283.21			3,479,250,283.21				3,479,250,283.21
Loans and Receivables	4,422,230,291.51	4,422,230,291.51					4,422,230,291.51		4,422,230,291.51
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	3,387,574,515.42	3,387,574,515.42	3,387,574,515.42						3,387,574,515.42
Sales Contract Receivable	-	-							-
Real and Other Properties Acquired	-	-							-
Other Assets	1,304,054,963.71	1,304,054,963.71					1,304,054,963.71		1,304,054,963.71
Total Exposures	60,526,008,696.89	60,526,008,696.89	31,754,673,121.54	3,281,840,476.09	14,985,864,059.99	-	10,503,631,039.26	-	60,526,008,696.89
Total Risk-weighted On-BS Assets Not Covered by CRM			31,754,673,122	3,281,840,476	14,985,864,060	-	10,503,631,039		60,526,008,697
Total Risk-weighted On-BS Assets Covered by CRM*			201,955,141		72,956,170				274,911,311
Total Risk-weighted On-BS Assets			31,956,628,263	3,281,840,476	15,058,820,230	-	10,503,631,039	-	60,800,920,008
Computed Risk Weight/Capital Charge			-	*656,368,095*	*7,529,410,115*	-	*10,503,631,039*	-	*18,689,409,249*

**The types of eligible credit risk mitigants used on On Balance Sheet Assets are GS, ROP and Deposits*

On-Balance Sheet (BS) Assets

	2016								
			Risk Weights						
Type of Exposures	Principal Amount	Exposures After CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand									-
Checks and Other Cash Items									-
Due from Bangko Sentral ng Pilipinas	13,009,025,298	13,009,025,298	13,009,025,298						13,009,025,298
Due from Other Banks	4,199,450,659	4,199,450,659		14,315,696	3,811,957,235		373,177,728		4,199,450,659
Financial Assets Designated at FVTPL	-	-							-
Available for Sale Securities	18,361,001,654	18,361,001,654	7,284,739,814	98,443,796	3,440,769,365		7,537,048,679		18,361,001,654
Held to Maturity	5,499,730,198	5,499,730,198	4,902,602,902		597,127,296		-		5,499,730,198
Loans and Receivables	6,647,567,552	6,647,567,552					6,647,567,552		6,647,567,552
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	6,411,289,697	6,411,289,697	6,411,289,697						6,411,289,697
Sales Contract Receivable	-	-							-
Real and Other Properties Acquired	-	-							-
Other Assets	2,346,520,330	2,346,520,330					2,346,520,330		2,346,520,330
Total Exposures	56,474,585,387	56,474,585,387	31,607,657,710	112,759,492	7,849,853,896	-	16,904,314,289	-	56,474,585,387
Total Risk-weighted On-BS Assets Not Covered by CRM			31,607,657,710	112,759,492	7,849,853,896	-	16,904,314,289		56,474,585,387
Total Risk-weighted On-BS Assets Covered by CRM			192,250,000		167,400,000				359,650,000
Total Risk-weighted On-BS Assets			31,799,907,710	112,759,492	8,017,253,896	-	16,904,314,289	-	56,834,235,387
Computed Risk Weight/Capital Charge			-	*22,551,898*	*4,008,626,948*	-	*16,904,314,289*	-	*20,935,493,135*

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2017 Risk Weights 0%	20%	50%	75%	100%	150%	Total
Guarantees Issued	12,667,050					12,667,050		12,667,050
Transaction-related contingencies	–					–		–
Commitments with an original maturity of up to one (1) year	14,466,963					14,466,963		14,466,963
	27,134,013	–	–	–	–	27,134,013	–	27,134,013
Computed Risk Weight/Capital Charge		–	–	–	–	*27,134,013*	–	*27,134,013*

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2016 Risk Weights 0%	20%	50%	75%	100%	150%	Total
Guarantees Issued	12,667,050					12,667,050		12,667,050
Transaction-related contingencies	–					–		–
Commitments with an original maturity of up to one (1) year	35,930,525					35,930,525		35,930,525
	48,597,575	–	–	–	–	48,597,575	–	48,597,575
Computed Risk Weight/Capital Charge		–	–	–	–	*48,597,575*	–	*48,597,575*

On External Credit Assessments

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings of Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to sovereigns, MDBs, LGUs, Government Corporations and Corporates.

On Interest Rate Risk in the Banking Books

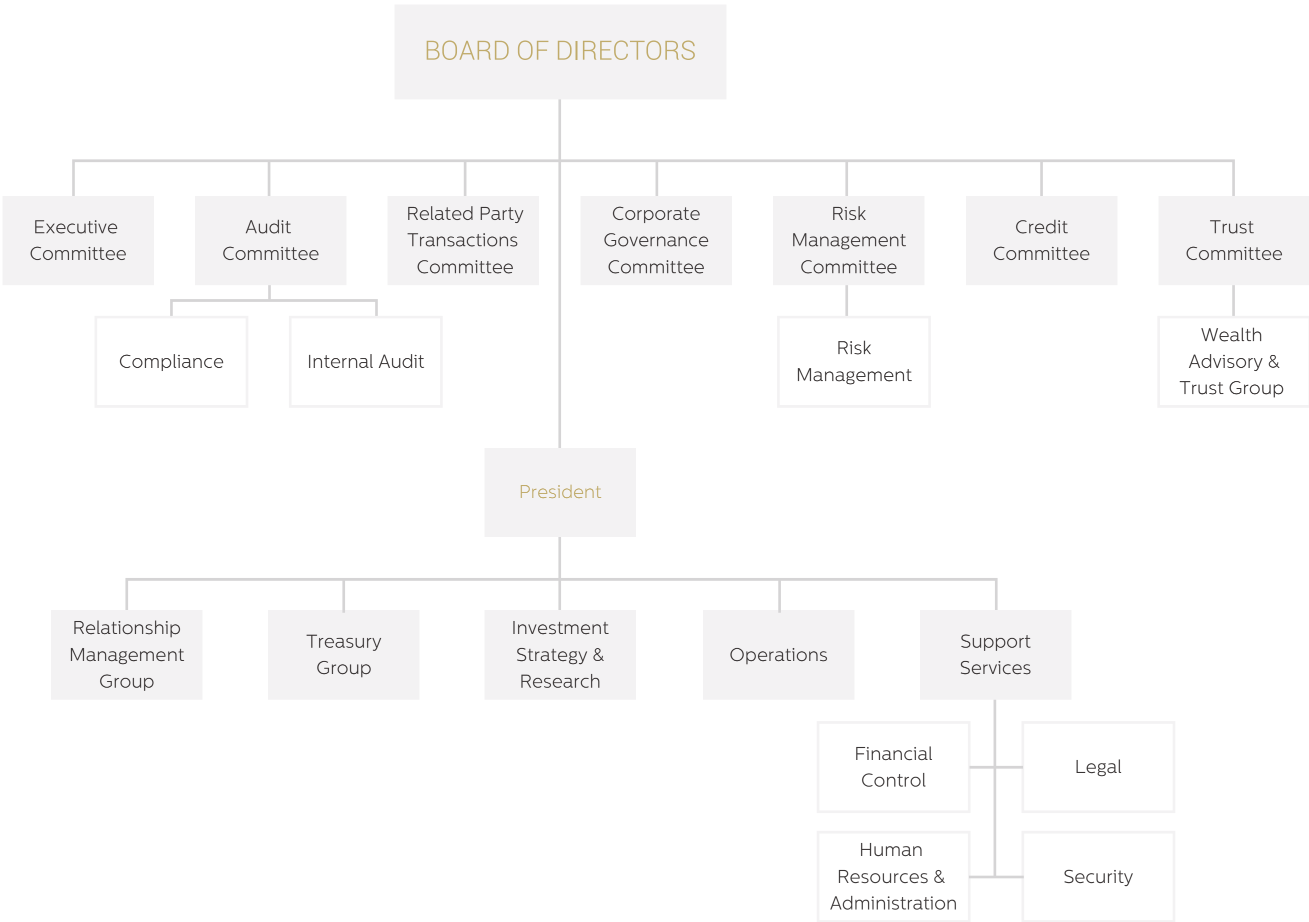
For interest rate risks in the banking book (IRRBB), please refer to NFS Section 4.1.2. Earnings-at-Risk (EaR) is calculated using a 1-year holding period and is measured on a monthly basis.

Disclosure Statements on the ff:

Eligible Credit Risk Mitigants including Credit Derivatives
Credit Protection Given by the Bank
Structured Products
Hedging and Continuing Effectiveness of Hedges
Securitization Structures

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits, government and corporate issued securities. There are no securitization exposures, no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in structured products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

Organizational Structure



Management Directory

As of December 31, 2017

PRESIDENT AND DIRECTOR
Albert S. Yeo

TREASURY

SENIOR VICE PRESIDENT AND TREASURER
Jose Paolo Enrique A. Magpale

SENIOR ASSISTANT VICE PRESIDENTS
Anne Catherine G. Hernandez
Paolo Joaquin C. Marañon

ASSISTANT VICE PRESIDENT
Ryan Paul G. Marbella

RELATIONSHIP MANAGEMENT

EXECUTIVE VICE PRESIDENT
Stella L. Cabalatungan

SENIOR VICE PRESIDENTS
Jonathan T. Cua
Sonia Maribel D. Go

FIRST VICE PRESIDENTS
Jose Rene C. Carlos
Cheryll B. Gaviño
Judy L. Go
Ma. Clotilde G. Medalla
Francis Jay F. Nacino
Arlene Marie H. Uson
Beatriz Y. Zalazar

VICE PRESIDENTS
Rossana C. Chan
Catherine S. Choa
Michele Y. Lao
Charisse B. Recto
Ma. Elena I. Rigor
Eleanor D. Wee
Belinda Rose S. Yap
Avery U. Yu

SENIOR ASSISTANT VICE PRESIDENTS
Anna Patricia A. Dee
Joy Kerwin U. Dela Cruz
Christopher John S. Jorge
Christy K. Ortega
Jonalyn T. See
Donna Marie C. Uy
Tommy Y. Yu

ASSISTANT VICE PRESIDENTS
Maria Cristina D. Acta
Gina Camille G. Barrica
Theresita G. Herrera
Pinky Marissa Y. Tan

INVESTMENT STRATEGY & ECONOMIC RESEARCH

SENIOR VICE PRESIDENTS
Richard Emil R. Grau
Jose Noel M. Mendoza

WEALTH ADVISORY & TRUST

SENIOR VICE PRESIDENT AND TRUST OFFICER
Juan Sabino P. Lizares

FIRST VICE PRESIDENTS
Pollyanna B. Diokno
Evelyn K. Sy
Steven C. Te
Frederick N. Tiu

VICE PRESIDENTS
Patricia Lei S. Alvarillo
Lilli Ann D.S. Bautista
Candy U. Dy
Maria Vilma D. Fabian
Michael Geronimo G. Martin
Dalisay S. Molas
Edlyn L. Quiroz
Blandina Uvyhilda B. Vicente

Management Directory
(continued)

As of December 31, 2017

SENIOR ASSISTANT VICE PRESIDENTS
Jones Mark L. Chan
Andrei Ian D. Chua
Julian Raphael B. Favila

ASSISTANT VICE PRESIDENTS
John Naphtali D. Cabuyao
Marie Therese T. Chan
Martin Antonio L. Español
Jose Lis L. Leagogo
Manuel P. Mallari, Jr.
Jaime T. Reyes, II

FINANCIAL CONTROL

VICE PRESIDENT
Maria Lourdes M. Sevilla

ASSISTANT VICE PRESIDENT
Rosalia G. Bautista

OPERATIONS

FIRST VICE PRESIDENT
Wendeline Therese M. Tumolva
Ma. Ramona T. Torres

SENIOR ASSISTANT VICE PRESIDENT
Rowena Remedios I. Estrella

COMPLIANCE & LEGAL

VICE PRESIDENT
Benjamin V. Teodoro

SENIOR ASSISTANT VICE PRESIDENT
Mary Elizabeth H. Bayhon

ASSISTANT VICE PRESIDENT
Maria Arleli Rose B. Malonzo

RISK MANAGEMENT

FIRST VICE PRESIDENT
Brenda S. Taruc

HUMAN RESOURCES & ADMINISTRATION

FIRST VICE PRESIDENT
Ma. Remedios B. Lapuz

ASSISTANT VICE PRESIDENT
Annaliza G. Valmonte

Products and Services

PRODUCTS

Peso and Foreign Currency Settlement Accounts

Multi-Currency Deposits

Foreign Exchange

Multi-Currency Fixed Income/Equity Securities

Derivatives

WEALTH ADVISORY SERVICES

Financial Planning

Strategic Investment Advisory

Investment Management (Asset Allocation, Portfolio Construction, Investment Selection)

TRUST SERVICES

Estate Planning Advisory

Personal and Management Trust

- Bespoke and Special Needs Trust
- Irrevocable Trust
- Real Estate Trust

Life Insurance Trust

Employee Benefit Trust

Investment Management (Directional and Discretionary Mandate)

Family Office

BDO Private Bank Lounges

MAKATI

G/F to 2/F and 10/F
BDO Equitable Tower
8751 Paseo de Roxas
Makati City
Telephone: +632 848-6300
Facsimile: +632 478-3233

GREENHILLS

Mezzanine Floor
BDO Ortigas Building
209 Ortigas Avenue
Greenhills, San Juan City
Telephone: +632 702-6290, 721-0042
Facsimile: +632 721-0035

BINONDO

9/F BDO Tower
Dasmariñas Street corner Marquina Street
Binondo, Manila
Telephone: +632 702-6286, 243-0225, 243-3844
Facsimile: +632 243-3851

ALABANG

7/F Tower 2, Insular Life Corporate Center
Insular Drive, Filinvest Corporate City
Alabang, Muntinlupa City
Telephone: +632 771-2381, 771-2383
Facsimile: +632 771-2382

QUEZON CITY

4/F BDO Delta Quezon Avenue Building
Quezon Avenue Extension
West Triangle, Quezon City
Telephone: +632 588-9812
Facsimile: +632 374-8238

CEBU

14/F Cebu Tower
Cebu Business Park
Mindanao Avenue corner Bohol Avenue
Cebu City
Telephone: +6332 236-6769, 236-4648, 236-6177
Facsimile: +6332 236-4647

DAVAO

2/F BDO C.M. Recto Building
383 C.M. Recto Street
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Telephone: +6382 225-5003, 222-5235, 222-5236
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