

Your Bank. Your Future.

UNIONBANK

ANNUAL
REPORT
2017

› ABOUT UNIONBANK

Union Bank of the Philippines (UnionBank) is a publicly-listed universal bank that distinguishes itself through superior technology, unique branch sales and service culture, and centralized backroom operations. It has consistently been recognized as one of Asia's leading companies in banking and finance, ranking among the country's top 10 universal banks in terms of key performance ratios in profitability, liquidity, solvency and efficiency.

UnionBank's corporate vision is to become one of the top three universal banks in the Philippines, not in terms of asset size or branch network, but in terms of metrics under financial value to stakeholders, operational excellence, customer franchise/share of wallet, unique customer experience, and delivering superior and innovative products and services. It is grounded on its purpose of "Making the Diff!" by connecting and enabling communities through Smart Banking in the spirit of Ubuntu.

Throughout its 36 years of existence, UnionBank has always been quick to embrace innovation, embedding technology in its way-of-doing-business and leveraging it in making strides to empower its customers.

UnionBank is clearly a leader in Philippine digital banking. Most notably, the Bank was the first among its peers to start the first bank website; pioneer online banking in the country and launch the country's first electronic savings account, among many other firsts.

Through the years, the Bank has won numerous awards in key areas of Banking and Finance including "Most Innovative Bank of the Year" from The European's Global Banking and Finance Awards; "Digital Bank of the Year - Philippines" from The Asset Triple A Awards; "Best Universal Bank" from London-based Capital Finance International; and "Best Digital Bank-Philippines" from Asiamoney Banking Awards.



The caret symbol marks the beginning of a string in programming language. For UnionBank, it is symbolic of beginning the transformation using technology to drive new experiences.

In math, the caret symbol is used to express 'to the power of' or it is an exponential function with multiplier effects. As such, it is also symbolic of UnionBank using the digital realm to exponentially enhance customer experiences and enable new ways of banking.

> UNIONBANK CREDO

We are a dynamic and caring team of bold, smart and engaged experts committed to make the difference for our customers, shareholders, community and UnionBankers by creating meaningful experiences and innovative services and solutions thereby converting our customers into advocates.

We Make Da Diff!

UNIONBANK DNA

PURPOSE

To Make Da Diff in the lives of others, in the communities we serve by connecting and enabling communities through Smart Banking in the spirit of *Ubuntu*

BRAND

PROMISE	Smart Banking
ATTRIBUTES	REaCh: Relevant, Expert and Challenging Convention

VALUES

MAGIS	Do More, Do Better, Do Greater
UBUNTU	Engage community, because a person becomes human only when he belongs
INTEGRITY	Deliver on Promises, Practice Fairness, Own Up to Actions and Consequences

VISION

To become one of the Top 3 universal banks in the Philippines by building a bank of enduring greatness

To achieve this vision, UnionBank has adopted 5 key strategic imperatives, referred to as "FOCUS 2020," which is an acronym for the following:

- F**inancial value: Enhance the financial value of the Bank's operations;
- O**perational excellence: Increase productivity while reducing costs;
- C**ustomer franchise: Increase customer base and reduce customer attrition;
- U**nionBank brand/experience: Establish a unique brand image in strategic markets; and
- S**uperior innovation: Continue to offer innovative products and services.

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With every success,
go for more



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**CONCEPCION
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CORPORATION:**
Solutions, Comfort,
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**VIVO
MOBILE:**
Continuously
creating the
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FIVE-YEAR FINANCIAL HIGHLIGHTS (CONSOLIDATED)

in Billions of Philippine Pesos	2013	2014	2015	2016	2017
Total Resources	396.1	445.8	441.7	524.4	622.1
Total Loans and Other Receivables - net	142.1	139.2	179.6	235.4	281.0
Total Deposit Liabilities	298.2	311.1	311.6	376.5	447.6
Total Capital Funds	45.0	55.8	59.5	67.6	74.0
Market Capitalization	80.8	70.5	60.4	79.0	91.7
Net Revenues	21.5	20.4	20.2	25.3	25.1
Operating Expenses	10.4	9.8	11.4	11.8	13.5
Net Income	9.0	8.4	6.0	10.1	8.4

Per Share Data*

Earnings Per Share	8.53	7.94	5.68	9.50	7.95
Cash Dividend Per Share**	2.12	2.67	2.10	1.50	1.90
Book Value Per Share	42.51	52.76	56.21	63.86	69.91
Price Per Share	76.36	66.65	57.05	74.60	86.65

* Adjusted Per Share values to reflect 65% Stock Dividend Declaration in 2014

** Earned for the year but declared and paid the following year

Capital Ratios*

Total Capital Adequacy Ratio	18.5%	17.6%	16.2%	15.7%	14.4%
Tier 1 Ratio	16.0%	14.0%	13.1%	13.0%	12.1%

* Implementation of Basel III effective January 1, 2014

TWO-YEAR FINANCIAL HIGHLIGHTS (PARENT BANK)

BALANCE SHEET (in Php Bn)	2016	2017
Total Resources	460.3	555.0
Total Loans and Other Receivables - net	171.9	212.0
Total Deposit Liabilities	328.0	400.0
Total Capital Funds	68.0	74.3

INCOME STATEMENT (in Php Bn)

Net Revenues	21.1	20.6
Operating Expenses	9.2	10.6
Net Income	10.3	8.3

PER SHARE DATA (in Php)

Earnings Per Share	9.69	7.83
Book Value Per Share	64.3	70.2

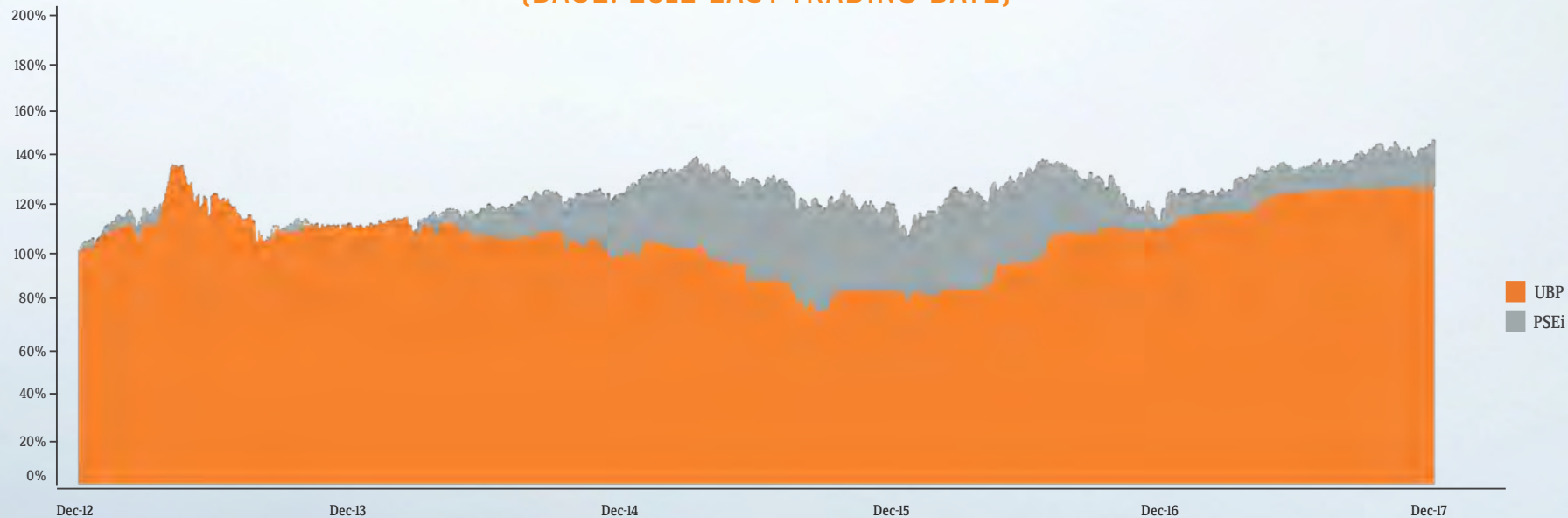
CAPITAL RATIOS

Total Capital Adequacy Ratio	15.9%	13.5%
Tier 1 Ratio	12.7%	10.9%

PROFITABILITY & COST-EFFICIENCY

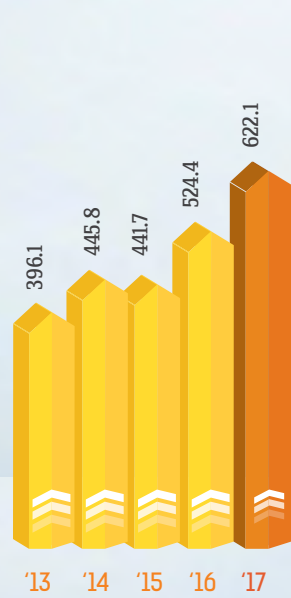
Return on Equity	16.6%	11.9%
Return on Assets	2.7%	1.7%
Cost-to-Income Ratio	43.6%	51.5%

UNIONBANK AND PSEi REBASED STOCK PERFORMANCE (BASE: 2012 LAST TRADING DATE)

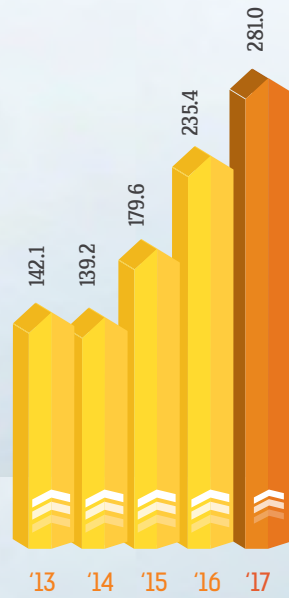


(In Billion of Philippine Pesos)

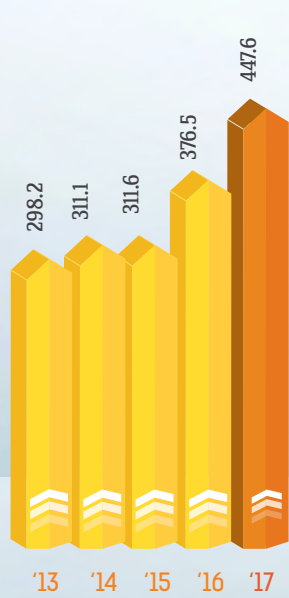
TOTAL RESOURCES



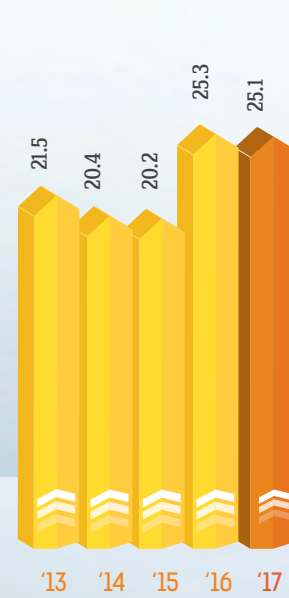
TOTAL LOANS



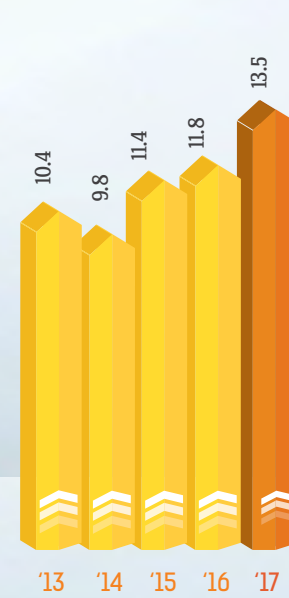
TOTAL DEPOSIT



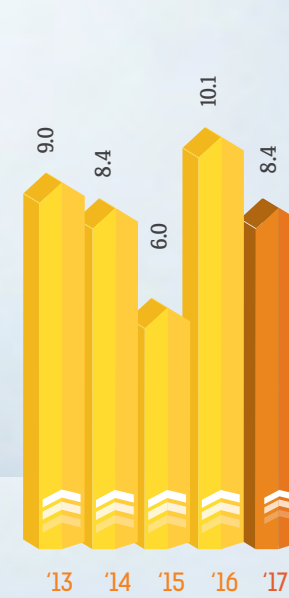
NET REVENUES



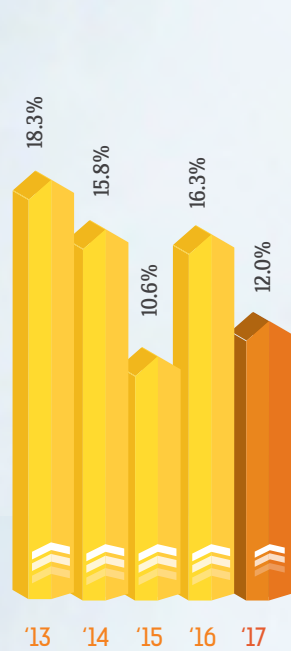
OPERATING EXPENSES



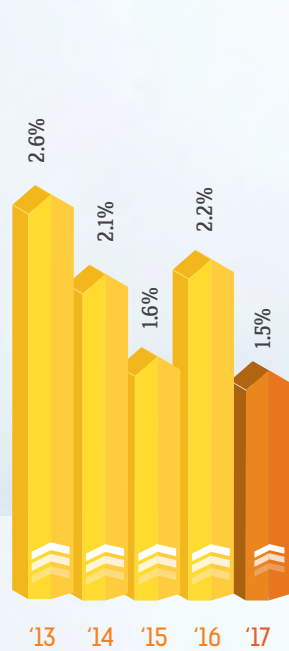
NET INCOME



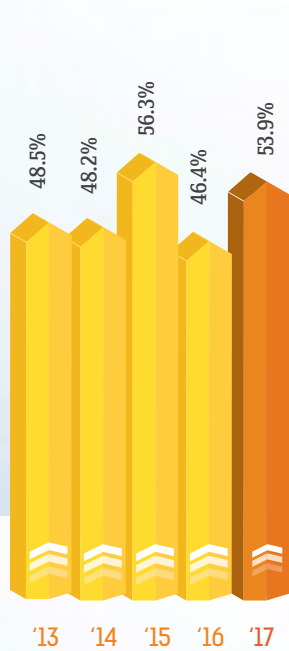
RETURN ON EQUITY



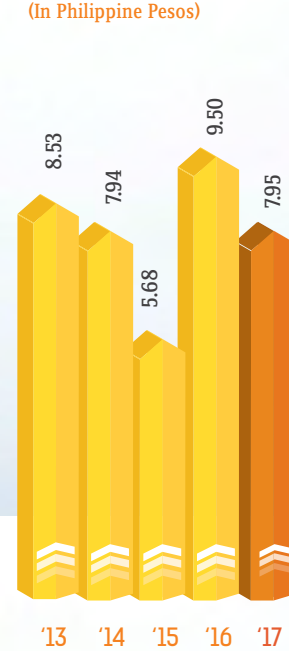
RETURN ON ASSETS



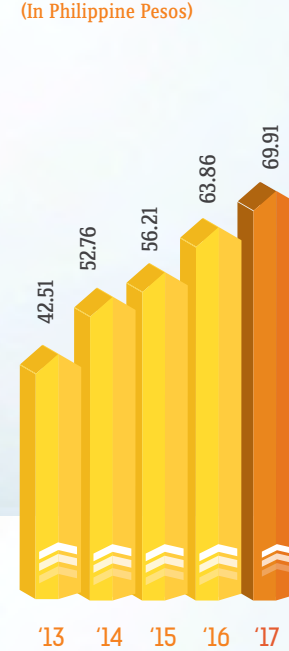
COST-TO-INCOME RATIO



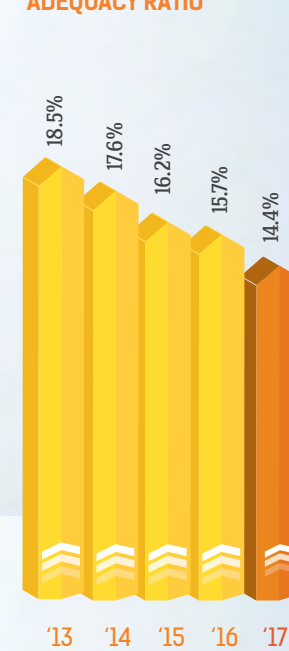
EARNINGS PER SHARE
(In Philippine Pesos)



BOOK VALUE PER SHARE
(In Philippine Pesos)



TOTAL CAPITAL ADEQUACY RATIO





➤ “We believe the future does not come from the present, rather the present comes from the future. We embrace emerging technologies to stay relevant to our customers and stakeholders.”

–JUSTO A. ORTIZ
Chairman of the Board

➤ “As an organization, we are united in this transformation journey. When asked why we are undergoing this transformation, UnionBankers’ overwhelming reply is because: We want. We can. We will.”

–EDWIN R. BAUTISTA
President & CEO





OUR
PRESENT
IS IN THE
FUTURE

Ten years after the Great Recession started, 2017 has been a good year for financial markets and the global economy. Global economic growth has accelerated and stock markets all over the world reached record highs. There has been a notable pick up in investment, trade, industrial production, and confidence. All the major 2017 fears - Trump presidency, Brexit saga, war in the Middle East, and North Korea nuclear threats - have failed to dampen the synchronized world economic recovery. Several risks and uncertainties remain - the US Federal Reserve tightening cycle raising interest rates three times in 2017 to 1.5% from 0.75%, oil output cuts, Iran sanctions, and leveraged balance sheets.

Nonetheless, the Philippines remains as one of the best-performing countries in the region with increasing domestic consumption and investments, government fiscal stimulus, and new growth sectors in services. Moreover, the Philippine Stock Exchange Index gained a total of 25.1% to 8,558.42 points in 2017 from the end-2016 level of 6,840.64 due to a generally favorable global environment, much-awaited tax reform program, and the highly anticipated 'golden age of infrastructure'. Although the Philippine peso depreciated by 5.8% in 2017 year-on-year, full-year average inflation was at 3.2%, well-within the government's target range.

Amid all these developments, the Bangko Sentral ng Pilipinas (BSP) remained adaptive to domestic and global dynamics to sustain the country's growth momentum. To reinforce domestic resilience and develop liquid markets, BSP implemented its Philippine local currency debt market development roadmap starting with the launch of the Government

Securities Repo Program, and then followed by the cut in reserve requirement on deposit liabilities. Amendments further liberalizing foreign exchange rules were also issued to promote efficiency and ease of doing business abroad. BSP continues to be a pro-active agent of macroprudential measures given recent improvements of guidelines on risk management as well as compliance and corporate governance.

In its 2017 Annual Report, BSP Governor Nestor Espenilla Jr. highlighted the opportunities provided by digital innovation to push efficiency of payments, and more especially, promote financial inclusion. In the payments space, BSP has established an industry-driven payment system management body called Philippine Payments Management, Inc., which launched "PESONet" and enabled seamless account to account electronic fund transfers and payments among market participants. Also launched in 2018 was "InstaPay", a 24/7, real-time, and low-value version to further increase e-commerce activities in the country. In the area of financial inclusion, BSP introduced agency banking, the branch-lite concept, as well as the framework for basic deposit accounts, all of which were aimed towards providing the financially unserved and underserved with sufficient access points, and lower barriers to onboarding and servicing.

UnionBank supports BSP's endeavors in transforming the Philippines to a cash-lite economy and empowering the financially-challenged Filipinos through digital innovation and access expansion. We believe that the prompt kick-off of our digital transformation strategy has given us a first-mover advantage. We have already laid out the foundation of our digital infrastructure. More so, our growing

expertise in financial technologies, culture of agility, and focus on customer experience allow us to respond quickly to challenges that will emerge in the industry.

Much has been accomplished in the past year, but more has to be done. As we navigate through the future of banking, we remain focused on our purpose of "Making Da Diff" in the lives of individuals and communities we serve through Smart Banking in the spirit of Ubuntu. We shall empower, connect, and enable the ecosystems by delivering innovative, customer-oriented, and omni-channel solutions. This we do as we champion our culture of expertise, relevance, and challenging conventions.

FINANCIAL VALUE

UnionBank recorded a net income of Php8.4 billion in 2017, 16.4% lower compared to the Php10.1 billion recorded in 2016. The Bank's earnings, nonetheless, highlights the Bank's successful shift to a business model anchored on customers. Excluding last year's one-time gains from securities trading, core income was up by a robust 30.4% to Php8.2 billion from Php6.3 billion a year ago. Recurring income also grew by 13.0% to Php22.0 billion.

With total resources breaching the Php600-billion mark and growing by 18.6% to Php622.1 billion as of end-December 2017, UnionBank is now convincingly ranked top 7 among peer listed banks. This was driven by the increase in loans and other receivables to Php281.0 billion, as well as the 39.5% increase in our securities portfolio to Php169.7 billion. Supporting this growth is the 18.9% expansion of deposits to Php447.6 billion. Further, to diversify our funding base, we issued a total of USD500 million in Senior Notes

last November 2017 under a Euro Medium Term Note Programme. As a result, the Bank's notes payable grew to Php32.2 billion from Php7.2 billion. The Bank also obtained an issuer rating of Baa2 from Moody's Investor Services, same as that of the Philippines' sovereign rating. Total capital adequacy ratio was at 14.4% on a consolidated basis, well-above the regulatory minimum of 10%.

The Bank's stock price improved by 16.2% to Php86.65 from Php74.60 in 2016. A cash dividend of Php1.90 per share was declared, resulting to an annual dividend yield of 2.5%. This brought the Bank's total shareholder return to 18.7% for 2017. As of December 31, 2017, earnings per share, price-to-book, and price-to-earnings were at Php7.95, 1.3x, and 10.9x, respectively.

OPERATIONAL EXCELLENCE

The successful conclusion of our Enterprise Architecture (EA) exercise last year provided us with a strong blueprint and foundation that we can build on. We ensured, first and foremost, that our EA roadmap adopted the Banking Industry Architecture Network (BIAN) standards. The BIAN model is a framework which enables global banking interoperability.

Our endeavor to deliver fast, seamless, and customer-oriented products and services applying agile methodology were all anchored on our Enterprise Architecture. We introduced Business Process Automation (BPA) and Application Programming Interface (API) platforms.

Our Line Engineers and Architects has re-engineered 756 AS-IS processes into 87 projects to enable and enhance our business capabilities. We have onboarded more than

CHAIRMAN to THE BOARD MESSAGE

170 processes to our BPA platform. This brought about significant productivity improvements in various parts of our operations as well as improved customer experience.

Our API platform was key in establishing quick connections and collaboration within our own ecosystem, as well as with customers and partner ecosystems. The Bank has developed more than 400 API end-points, while the number of internal API calls has grown by more than 83 times since the platform was launched. The increased activity in our API sandbox, as well as the heightened interest of developer communities, encourages us to further expand on the use cases of APIs to achieve better customer engagement.

Banking will not only evolve in terms of efficiency of transactions but also the customer experience.

UnionBank launched “The Ark” located at the Insular Life building along Ayala Avenue, that is a completely digital and paperless branch which features the transformation of space, people, and processes. It allows straight-through processing of transactions and houses branch ambassadors, complemented by various technological tools to support product discovery and advisory services. “The Ark” is also a community space for holding events and meetings of our customers and partners.

We introduced “Talk to Rafa,” the first banking chatbot in the country. Rafa is a 24/7 customer assistant accessible via Facebook Messenger capable of answering customer queries on nearest branch and ATM location, forex rates, credit card balances and transactions. Recently it has grown smarter, from being a menu-based chatbot, now equipped with Natural Language Processing allowing Rafa to engage with friendly interactions

with customers. With the increased use of self-service channels such as Rafa, our Customer Service can now focus on resolving more complicated client concerns.

We also upgraded MAX, our relationship managers’ digital assistant app, to a version which gives the next best offer to clients with the help of artificial intelligence. The app also allows them to easily access customer information, client inquiry forms, build proposals, as well as manage performance via the goal-setting and team performance management features. This tool is expected to significantly increase the productivity of our relationship managers and make them more pro-active in discerning customer needs.

Amid these developments on the digital front, we continued to build our defenses against threats on cyber security, data privacy, and business continuity. We set up an Integrated Operations Center which actively monitors and responds to issues related to the Bank’s operations network and security on a 24/7 basis. Additionally, the Bank successfully created a triangulated network of its data and disaster recovery functions via the establishment of a third resiliency location. This way, operations are expected to be maintained despite interruptions from one of our production sites.

We were also certified for PCI-DSS version 3.2 in 2017, making UnionBank the first universal bank in the Philippines to be certified with the latest cards data security standard. This ensures an even more robust protection of cardholder data against identity theft, fraudulent purchases, and other security attacks targeting customer payment information. Moreover, we are on-track

in equipping customers with their EMV chip cards.

With our constant desire to deliver world-class quality services, we extended the scope of our ISO 9001:2015 Certification to the Treasury Operations Group. The Bank also completed the 2nd Surveillance Audit of the ISO 9001:2015 Quality Management Standards (QMS) and achieved a nil non-conformance rating for our QMS-certified Central Processing Services, Customer Engagement Group, Loans and Trade Finance Operations Group, and select UnionBank mega branches.

For this year, we will extend the ISO coverage to two major areas. First, Information Security under ISO 27001:2013, a globally-recognized standard for an Information Security Management System that will help the organization further enhance the security of assets such as financial information, intellectual property, and client and employee data and, second for Business Resiliency under ISO 22301 that covers the Business Continuity Management Systems that provides the framework that covers how we plan, establish, implement, operate, monitor, review, maintain and continually improve and validate the organization’s resilience and readiness.

CUSTOMER FRANCHISE

The digital era today considers data as its most valuable resource, driving business operations and decision making. More than ever, we are driven to create efficient platforms, tap new segments, and expand presence to capture information which will be essential in further enriching customer experiences. We have built data science capabilities to make this real and relevant.

EON has been co-creating with its digitally-savvy customers and rapidly growing base of online freelancers since its launch. EON strives to expand its customer base by using its platform to power communities, an example of which is the PERAHUB VISA Prepaid Card to be given to PETNET’s more than 4 million customers.

We introduced UnionBank GlobalLinker, a premier online platform that connects business owners and start-ups with potential partners, suppliers, service providers, and customers. This free-to-use digital space allows MSMEs to create their own e-commerce store; avail of exclusive discounts and offers; be updated with various industry trends through forums and news articles; and utilize business management tools. By accumulating more and more MSMEs in the platform and providing them with a wide range of solutions for their business needs, the Bank aspires to play a critical role in enabling MSMEs, the little engines of the country’s economy.

After the launch of the Cebu Pacific GetGo debit and credit cards last year, we recently launched GetGo Peso+ Prepaid Card along with the GetGo Peso+ app, lowering the barriers of onboarding customers compared to a regular debit and credit card. It is the first and only multi-currency prepaid card that earns points from everyday purchases and users can experience the convenience of converting peso credits into nine currencies via the app for use abroad.

Following our partnership with Lombard Odier for wealth management, we successfully launched the Capital Accumulation Global Fund of Funds to add to our current set of investment instruments. This service gives UnionBank customers the opportunity to make

globally diversified financial asset investments, and potentially benefit from superior medium to long-term returns.

Consistent with BSP's cause of achieving inclusive prosperity, we recognize that tapping the mass market segment is our new frontier. Formally leading us in this challenge is Eugene S. Acevedo, our Chief Mass Market and Financial Inclusion Executive. Subsequent to our foray into the microfinance segment via the acquisition of First Agro-Industrial Rural Bank in 2016, we accelerated our expansion efforts and are in the process of acquiring a savings bank and PETNET. The former shall increase CitySavings' branch network to more than 200 and extend offerings to motorcycle and agri-machinery loans, while the latter shall boost CitySaving's existing loans-marketing partnership with Perahub, as well as provide widespread access through more than 2800 locations, furthering our financial inclusion goals.

UNIONBANK EXPERIENCE

At the core of UnionBank's DNA is our fierce commitment to building a culture of excellence within the organization. Testament to this was the prestigious recognition of being the gold awardee for Employer of the Year in Banking at the 2017 Stevie Awards for Great Employers. Amid such accomplishments, we are further driven to engage our customers, drive change in the communities we serve, and tech-up the Philippines!

To better lead the organization along this path of transformation, the Bank's management executives get to learn about new technologies, trends, and issues surrounding digitization and the future of banking from international thought leaders in their quarterly

Leaders' Learning Circle. For instance, the Bank flew in the top executives of Amazon Web Services Nick Walton, Scott Bales, and Craig Stires who shared insights on startup culture, lean enterprise, artificial intelligence, and agility in the organization. We also invited futurists like Jeremy Rifkin, Brett King, and Thomas Frey during strategic planning sessions to orient and onboard our Board of Directors on scenario planning.

UnionBankers have started to embrace this culture of unlearning, new learning, and continuous learning with increased participation in new programs deemed beneficial for a technology organization. These include design thinking courses, coding, information technology infrastructure library certification, introduction to agile, IT governance, and many others. We also take pride in being the first to build a Blockchain Center of Excellence, in partnership with a software technology company, with 30 certified solidity developers.

Building a future-ready organization also requires attracting the best talents who will contribute to the Bank's success. In business today where competition can get rough, we upped our game and pioneered an online job ad campaign for our growing retail banking group. The "It's Possible" campaign leveraged on our philosophy in practice - providing employees with the best resources to grow their career, at the same time live their personal lives. This initiative was awarded as "Best Social Networking Recruitment Effort" at the 7th Asia's Best Employer Brand Awards.

As we continuously cultivate a culture of innovation, we hosted hackathons - U-HAC. From its first run in 2016, 450 teams have participated in our hackathons

and a total of 280 digital projects have been pitched. Given the impressive talents that the Bank has witnessed over its hackathon series, UnionBank has progressed from being an organizer to a customer, now collaborating with the winner teams to bring to life innovative ideas.

We also introduced an upgraded version of the Bank's middle-out strategy program, REaCH 2.0. This guided employees through a digital learning plan before pitching their projects in startup "Pecha Kucha" style. Then, the Bank's key executives commit to mentor all the proponents and bring the group's idea into fruition.

The launch of our digital human capital management platform, HCM System, was recognized as the "Best HR System Project" at the Asian Banker Philippine Country Awards. Not resting on our laurels, we continued to transform other aspects of the employee experience. We launched the IUHub mobile app to make the manner of accessing medical and financial benefits quicker, more convenient, and straight-through.

We continued to listen to UnionBankers' inspirational stories of how our DNA core values of Integrity, Magis, and Ubuntu were embodied in their day-to-day lives beyond compliance. This practice has won us the "Best Organizational Development Program" at Asia's Training and Development Excellence Awards during the 2017 World HRD Congress. With the help of the storytelling program launched in 2015, the Bank has gathered more than 5,500 DNA stories, where UnionBankers of all ranks made values-based, purpose-led decisions beyond compliance.

SUPERIOR INNOVATION

Beyond offering products with innovative and customized features, our accomplishments in the past year were very much characterized by accounts of co-creation and collaboration. The concept of shared purpose fuels our passion to create banking solutions that satisfy clients' needs, and most importantly render a personalized customer experience.

When a leading insurance company wanted to improve on their current check disbursement facility, we responded with a web-based checkwriting software connected to the cloud which eliminates the tedious process of installation. The solution promoted enhanced security and mobility as the corporate client was not anymore burdened by old legacy systems.

We were also able to address the recurring difficulty on check collections faced by one of the country's largest telecommunications company. By developing an electronic check collection system, we eliminated the manual work involved in managing the itinerary of check pickups. With the help of a complementary app, the corporate client immediately receives the details of the check collected, critical to their reconciliation process.

Our EA played a crucial role in being one of the first banks to launch the Electronic Collections System supporting Social Security System's objective for corporations and individuals to file their SSS contributions online. This enabled real-time posting of contribution payments and faster processing of claims, which ultimately allowed beneficiaries to receive their benefits and loan proceeds on time.

CHAIRMAN to THE BOARD MESSAGE

SUSTAINABILITY

People, Planet, and Purpose. These are the three focus areas of our Sustainability Framework. All three, considered mindfully and strategically, will allow us to transcend transactional banking lines, and enable UnionBank's digital and sustainable transformation.

People: We focus on our employees and invest in their growth. We go the extra mile to ensure that our people are safe, productive, and happy. We invest in their personal and professional success by pursuing the best possible human resource programs.

Planet: We manage our physical resources wisely and cushion our impact on the planet. We are one with the global network of responsible businesses working to protect our environment through responsible business actions. We develop scalable and replicable programs related to Energy, Waste, and Resources that yield proven and substantial results.

Purpose: We engage our communities with genuine care and empathy. We will never regard our customers as a faceless statistic confined to transactional lines. We view people as family members, as colleagues, as integral members of our community. We care for their well-being and place their financial health and welfare as our top priority.

I invite you to learn more about our sustainability programs by referring to a special Sustainability Report section in this annual report or visit <https://www.unionbankph.com/aboutus/corporate-citizenship/sustainability>. Please also send us your feedback and suggestions on how we can improve our programs by sending an email at sustainability@unionbankph.com.

The groundbreaking launch of EON as a fully digital bank, the realization of a disruptive "Bank-in-Bank" strategy, has garnered for the Bank the notable recognition of being the "Best Digital Bank in the Philippines" at the Asiamoney Banking Awards 2017 in Beijing, China.

Following this are more international accolades which include: "Best Mobile Banking Project" at the 2017 The Asian Banker Philippine Country Awards, "Best New Digital Product Launch 2017" at the VISA annual client event, which awarded banks for their leadership in growth and innovation, "Excellence in Mobile Banking" and "Best App for Customer Experience" at the 9th Retail Banker International Asia Trailblazer Awards, and "Asia's Leader in Omnichannel Engagement" at the International Data Corporation Financial Insights Innovation Awards.

Aside from the EON Cyber account, a bank account especially designed for e-commerce, EON has expanded its portfolio to include EON Starter, EON Lite, EON Plus, and EON Pro electronic money accounts geared towards financial inclusion. Furthermore, EON now offers digital credit cards, EON Duo, and digital multipurpose loans, EON Zero. EON harmonized security and customer experience by introducing Selfie Banking - the first in Asia - that uses facial recognition to access the EON app.

The EON app further evolved and pioneered Open Banking in the country, allowing customers to enroll other bank cards and use them to avail of EON's services, such as purchase of Meralco KLoad, Smart and Globe airtime load, Steam credits, Cignal prepaid load, and EasyTrip and Autosweep RFID load.

Driven by our dedication to deliver unique customer experiences, we upgraded to our new UnionBank Online app and web versions to exhibit a homogeneous omnichannel feel, replacing our old UMobile and E-Banking systems. It features a straight-through experience as customers can sign up, view their account information, and transact without the need of visiting our branches and ATMs. All the customers' deposit, credit card, and loan products can now be enrolled and be visible on this platform. What differentiates the UnionBank Online app is its suite of superior features borne out of our constant dialogue with customers to directly address their most pressing pain points. These include: fund transfer to other banks via PESONet and InstaPay, split bills and request for payment using one-time QR code, scheduling of payments, and pre-ordering of transactions at "The Ark". Since the launch of the app nine months ago, we have iterated up to 30 times, working on enhancements and new features, to continually upgrade the customer experience.

Our accomplishments on the digital front spoke much about our capacity to embrace innovations, adapt to new technologies, and constantly challenge conventions. Taking notice of this was the Monetary Authority of Singapore who invited UnionBank to be one of the Philippine partner banks in the ASEAN Fintech Innovation Network and serve as the gateway for ASEAN fintechs to connect to the Philippine banking ecosystem.

The rising popularity and potential of blockchain further encouraged us to study and experiment on its applications in the banking industry. Early on, we engaged with blockchain experts to learn the technology.

UnionBank also joined the Enterprise Ethereum Alliance to get access to best-in-class blockchain use cases. In due course, we were able to be the first bank in the world to pilot cross-border payments under VISA's Business-to-Business Connect platform on the blockchain. Realizing that blockchain is a powerful solution to bring efficiency in the industry and intensify financial inclusion in the country, today, we are collaborating with Consensys and Microsoft to develop a clearing system for rural banks via blockchain.

CORPORATE PHILANTHROPY AND SOCIAL RESPONSIBILITY

We also strive to be an organization that does well by doing good. We continue to pursue partnerships and advocacies aligned with our purpose to elevate lives and fulfill dreams.

Apart from equipping MSMEs with e-commerce competencies, we leveraged on the potentials of our Filipino youth and provided them with the technical skills to support the country's MSMEs via the UREKA E-Cadets Program. After staging workshops in Manila, Baguio, Iloilo, and Cebu in the past two years, more than 1,500 MSMEs and 1,500 E-Cadets have been activated. UREKA also held small training sessions on the basics of setting-up online businesses and online marketing via social media.

We fortified our relationship with academic institutions anchored on our pursuit for innovation in the areas of education and culture preservation. After sponsoring the main plaza of Arete's state-of-the-art structure,

we hope to reinforce Ateneo de Manila University's curriculum by providing subject matter experts and hosting lecture series and town-hall sessions and in so doing, help address complex social issues through creative thinking and multi-disciplinary collaboration. Our continued partnership with University of Santo Tomas' Miguel de Benavides Library and Archives under the Lumina Pandit II Program also helped us preserve the culture of intellectual transfer by conserving rich works of history. To date, we have restored 138 books and digitized more than 1,900,000 pages of historical documents. In 2017, we added two more volumes of annotated catalogues of the university's archives and enhanced their digital library, with the vision of opening the university's rare historical collections to readers and researchers worldwide.

I am also pleased to note that the Bank has reached its goal of 2:1 (2 outreach activities per employee) for our employee-driven volunteer program, GoBeyond Communities (GBC). Since its launch in 2014, GBC has served close to 1.5 million beneficiaries in 440 nominated communities because of the dedication of volunteers equivalent to 11,100 full-time employees who spent more than 51,300 hours. Our commitment to this advocacy of doing good on a pro-active and sustained basis at a local community level was recognized with a Gold Recognition Award in the 52nd Anvil Awards. GoBeyond Communities is now our central CSR intervention, democratized and decentralized.

CONCLUSION

The playing field is evolving - from niche clients to network to ecosystems. Along with our digital transformation initiatives, we are geared towards building platforms, connecting ecosystems, and harnessing the potential of data analytics to extend our reach, especially to the unbanked and underbanked communities. It is our vision to tech up the Philippines.

We believe the future does not come from the present, rather the present comes from the future. As such, we also recognize that new technologies are emerging around the financial landscape - cloud services, API platforms, robotics, artificial intelligence, blockchain, quantum computing. All these we embrace to stay relevant to our customers and stakeholders.


We would like to extend our gratitude to our retired esteemed directors Dean Amado D. Valdez, Mona Lisa B. de la Cruz, and Juan Antonio E. Bernad for their invaluable time and service to the organization over the past year. As we commence another year, we would like to welcome our new Board of Directors, namely: Manuel R. Lozano, Aboitiz Equity Ventures' Chief Finance Officer and Corporate Information Officer; Atty. Francisco Ed. Lim, Senior Partner at the Angara Abello Concepcion Regala & Cruz Law Offices; and Michael G. Regino, Commissioner at Social Security Commission.

It is also with pleasure that I announce my own retirement as Chief Executive Officer of UnionBank effective December 31, 2017. Edwin R. Bautista shall succeed me in this

position as President and CEO, while I continue as Chairman with active oversight together with your Board of Directors.

While we journey firmly into the future, embracing technologies that will revolutionize how we live and do businesses, success is ultimately not about technology, it is about people - our mindset, our values, our purpose, our culture. Culture is a strategy that will lead us to reinvent a better version of ourselves.

The prospect is bright for UnionBank because of UnionBankers committed to build a bank of enduring greatness. We have a real opportunity to create the future and drive change for a better world by elevating lives, fulfilling dreams, and advancing business and communities we serve. All are engaged in achieving our shared purpose. Despite revolutionary changes that confront us, I have much confidence in UNIONBANK. YOUR BANK. YOUR FUTURE.


JUSTO A. ORTIZ
CHAIRMAN OF THE BOARD





**STRENGTHEN
TODAY.
CREATE
TOMORROW.**

Best Banking CEO
The European - Global Banking and Finance Awards

CUSTOMER BUSINESS DRIVING FINANCIAL PERFORMANCE

The Philippine economy ended 2017 on a positive note. A strong gross domestic product full-year growth of 6.7% kept the country as one of the fastest-growing economies in Asia.

Over the years, we have gradually built our customer loan portfolio in support of our FOCUS 2020 goal of becoming a Great Retail Bank. We now have one of the most diversified loan portfolio with retail loans accounting for more than one-third of total loans, which is twice that of the industry. As a result, more than 50% of the Bank's revenues are coming from the retail segment.

After breaching the half-trillion mark in 2016, we ended 2017 at Php622.1 billion, growing by 18.6% year-on-year. This was driven by the growth in customer loans and deposits, which grew by 19.4% to Php281.0 billion and 18.9% to Php447.6 billion, respectively.

We have now reached a balance sheet level that contributes Php25.1 billion in revenues. More importantly, close to 90% of our net revenues in 2017 came from recurring income (or net interest income and fee-based income) as compared to 77% in 2016. Net income showed a decline in 2017 to Php8.4 billion as against Php10.1 billion in 2016. However, if you exclude the one-off gain on sale of securities in 2016, our core net income surged

by a robust 30% year-on-year to Php8.2 billion in 2017 from Php6.3 billion a year ago.

Overall, UnionBank continues to be among the most profitable banks in the Philippine banking industry. The Bank posted a return on average equity (ROE) and return on average assets (ROA) of 12.0% and 1.5%, besting the Philippine banking industry's 10.2% and 1.2%, respectively. Revenue-to-expense ratio was also superior at 1.9x vis-à-vis the industry's 1.6x. UnionBank ranked 3rd in terms of ROE, 2nd in ROA and revenue-to-expense, and 5th in absolute income, among the publicly listed universal banks.

TRANSFORMATION JOURNEY

When we started with our Digital Transformation Strategy three years ago, we assumed that the banking industry was ripe for disruption, unless it remained relevant to customers whose lifestyles have forever been changed by technology - particularly the mobile phone, the internet, and by the internet of things.

Amid such threat of disruption, our response was to maintain focus on the customer and bring about superior customer experience. To do this, we identified four basic capabilities: having 24/7 availability, 6sigma reliability, T+0 or straight-through processing, and secured transactions.

The delivery of these capabilities was made possible by the establishment of an Enterprise Architecture (EA) roadmap, which is composed of 68 projects that aim to transform business capabilities and promote interoperability. The creation of our EA, complemented by an agile way of working, employing design thinking principles, iterative processes, and conducting sprints allowed us to be more responsive to changes in customer behavior.

Much has been accomplished in laying the foundational infrastructure, people, and processes of our digital transformation strategy. We are now in a position to scale-up business operations.

STRENGTHENING TODAY

The first part of our transformation is about strengthening our capabilities today - by repositioning our core bank into a digital bank and using our newly acquired skills to move into adjacent markets. Out of the Bank's achievements in 2017, the following would be the key milestones that would highlight our journey towards becoming the best digital bank.

We launched the first banking application programming interface (API) platform. This API platform brought the Bank benefits in terms of faster time-to-market of implementation, enhanced user experience, and interconnectivity with third party partners. We developed more than

400 API endpoints. Fifty of these are now available for public consumption through our UnionBank Developer Portal.

We introduced "The Ark", the first fully-digital and paperless branch in the country. It is the Bank's proof-of-concept designed to transform based on customers' adoption to trends in branch banking. It employs self-service functionalities and digital backroom services for straight-through processing of transactions. Branch ambassadors man "The Ark" in providing product discovery and advisory services to our customers. The next phase is to replicate the same concept but in varying levels of transformation to selected branches depending on customer needs.

We launched "Talk to Rafa", the country's first banking chatbot in April 2017. Our chatbot provides another convenient digital channel to inquire the nearest ATM or Branch, exchange rates of 10 major foreign currencies, credit card balances and more recently, credit card and GSIS debit card activation. With Rafa, it will enable our Customer Service to handle more complex customer solutions and drive cross and upsell strategies at point of contact.

Furthermore, we upgraded our UMobile app and E-Banking system to the new UnionBank Online. It offers an omni-channel proposition wherein the same look and feel applies to different touchpoints (website and

SUSTAINABILITY

Sustainability is not a buzzword at UnionBank. We define sustainability in straightforward and practical terms. More importantly, our sustainability goals are specific and measurable, so we can clearly track our progress and outcomes year on year.

All our programs, moreover, are aligned with our three-pillar framework of People, Planet, and Purpose. We work toward these goals through Smart Banking or using the latest cutting-edge technology. Our ultimate goal is to become a highly sustainable enterprise that operates with a purpose greater than profit—a bank of enduring greatness that our clients value and trust.

But why do we support sustainable development? Why is this important for our Bank?

UnionBank's values and corporate culture drive us to do more, do better, and do greater. Our sense of purpose also pushes us to always practice fairness, own up to our actions, and develop heartfelt relationships with our publics based on mutual trust.

In addition, sustainability practices enable us to become a better business. Through a sustainable mindset, we are able to strengthen community relations, attract and retain employees, contribute to a better environment for our business and value chain, and become more efficient and competitive.

These are just some of the many possible value-creating channels of sustainability at UnionBank.

The protection of environmental and social ideals are drivers for value creation in business today, and we are here to become a leading advocate of sustainability in the banking sector.

I am therefore delighted to invite our readers to refer to our Sustainability Report section in this annual report or visit <https://www.unionbankph.com/aboutus/corporate-citizenship/sustainability>. This is our very first online sustainability report, which presents in vivid images and vignettes, the story of our progress toward sustainability.

We are also releasing a sustainability toolkit which will be distributed to key publics. This compact and innovative publication will contain our sustainability story and will detail our most innovative programs to date.

We invite you all to go through these creative and informative materials to learn more about sustainability at UnionBank and where we are headed to in the next years.

mobile app), operating systems (Android or IOS) and device types. Enrollment and transactions are purely done online, without the need to visit a branch or ATM. It also features a set of unique capabilities such as fund transfer to other banks, split bills, scheduled payments, scan to pay via QR code, and pre-ordered transactions at The Ark.

Following the launch of EON in 2017 as UnionBank's neo banking platform, it redefined a banking experience enriched by technology. Fueled by co-creation, EON introduced industry-disrupting products like the EON electronic money account, EON Duo, a digital credit card, and EON Zero, a digital loan offering. EON challenged the norm by launching Open Banking, which allows customers of any bank to transact through the EON app.

While we launch new channels that enhance customer interface at the front-end, we are also working on areas where productivity can be improved and significant cost reductions can be made. We aimed to eliminate manual repetitive tasks through robotics process automation (RPA). Our pilot test showed that total processing time in generating cash management reports for the same number of billers can be reduced to 1 hour from 8 hours, without any personal

intervention. We are evaluating the application of RPA to different manual processes so our people can focus on higher-value functions.

The Bank is also exploring various applications of artificial intelligence (AI) to enhance productivity and efficiency. Soon, a certain degree of AI will be embedded on our chatbot "Rafa" by allowing it to perform instructions, respond to customer queries in natural language, and search across different applications. Our sales workforce will also be benefitted with their upgraded Mobile Assistant Xpress (MAX) 3.0 app. MAX 3.0 shall have predictive capabilities to put out next best offers given data on customers' relationship with the Bank.

Our thrift bank arm, City Savings Bank (CitySavings), continues to be at the forefront in fulfilling our goal of inclusive prosperity. It will be our avenue to extend to adjacent markets, particularly the unbanked and underserved communities. The strategy is to build or acquire expertise to service the mass market segment and tech-up business operations to obtain scale. CitySavings acquired Philippine Resources Savings Bank in 2017 signifying entry into motorcycle and agri-machinery financing. Together with another UnionBank subsidiary Union Properties, Inc., CitySavings also acquired a majority stake in PETNET to

expand its reach by leveraging on PETNET's more than 2,800 retail outlets.

CREATING TOMORROW

We recognize that the first part of our transformation may not be enough as new technologies emerge. In a world connected by the internet of things, the choice of banking provider may not be a conscious decision point but rather an embedded experience. With this future in mind, we embrace new technologies and participate in their early stages to remain relevant.

Starting with supporting fintechs with our bank outlets, we progressed towards enabling them to connect to our infrastructure via opening our API platform. We also extended banking services, such as credit and payment facilities, to a few of them. These allowed us to gain knowledge in new business models that may shape the future of finance.

More importantly, our exposure in the field of technology start-ups and pioneers allowed us to become a fintech partner of choice. Recently, we have been invited to participate in the ASEAN Financial Innovation Network by the Monetary Authority of Singapore. This initiative will result for us to further expand connectivity on a global scale.

As we search for new business models, various units of the Bank immersed themselves to learn more about blockchain and tokenization. We are close to launching our first internal blockchain application in our operations area, which has been executed purely by our own developers. We joined the Enterprise Ethereum Alliance which gives us best-in-class applications of disruptive technologies. UnionBank is also working with VISA for cross-border payments and with Microsoft and Consensys to set up a clearing system for rural banks, all hinged on the blockchain technology.

We have established the foundational infrastructure and culture to participate in what the future of banking will be. As an organization, we are united in this journey. When UnionBankers are asked why we are undergoing this transformation, our overwhelming reply is because: *We want. We can. We will.*

I would like to take this opportunity to express our appreciation to the outgoing Board of Directors Dean Amado D. Valdez, Mona Lisa B. de la Cruz, and Juan Antonio E. Bernad for their active role in setting the Bank's guiding principles and direction. I also wish to welcome Manuel R. Lozano,

Atty. Francisco Ed. Lim, and Michael G. Regino as new members of the Board.

And to all UnionBankers, thank you for your hard work and commitment to our purpose. Finally, I would like to thank our customers, partners, shareholders, and Board of Directors for their continuous support through all these years. Here is to UNIONBANK: YOUR BANK. YOUR FUTURE.



EDWIN R. BAUTISTA
PRESIDENT & CEO



JOSE VICTOR PATERNO

President and CEO, 7-Eleven Philippines



7-ELEVEN PHILIPPINES: Make everyday lives better

Making the everyday lives of our customers better,” is what inspires Philippine Seven Corporation (PSC) president and CEO Jose Victor Paterno to lead the first and largest convenience store chain in the country today.

Since it commenced operations in 1984, when his late father, former Senator Vicente T. Paterno founded the corporation, which acquired the license to operate from the Southland Corporation (now known as the 7-Eleven, Inc.), 7-Eleven grew rapidly and has 2,300 stores spread all over the country, to date.

The 50-year-old Paterno attributes the store’s dominance to being the “first-mover in the game for the first 15 years”. 7-Eleven became the undisputed leader in convenience retailing and opened over a hundred stores in its first 15 years.

The entry of serious competition in 2000 challenged the company to get its act together and break away from being “insular” for quite some time, Paterno said.

“Competition and the entry of the Taiwanese made us more open to new people and new ideas. But we still built on that legacy of culture that we have. The culture of team work and trust.”

The company takes pride in how its employees imbibe this culture of trust. “Any store manager can run away with a year’s salary (like on a long weekend), but they don’t. So it’s really important for us to build on this culture and put a system on top of it to make it scalable.”

Being socially relevant is paramount to the company, which is why they have built a lot of services to bring modern conveniences to more Filipinos through continuous innovation.

“We have a chance to build a platform to do a lot of other things. We think of ourselves as a physical gateway to the virtual world, which is important in a market that is largely unbanked—where people don’t have addresses per se.”

The convenience store chain has been handling financial transactions since early 2000 including bills payment and reloading of prepaid phone and data accounts with an average of 100,000 transactions daily.

According to Paterno, the company is building the digital business and has established a digital ecosystem. The first part is loyalty. Loyalty is what he sees as their digital connection to their customer. When the customer presents a loyalty card (CLiQQ formerly Every Day! Rewards), in which they earn points by presenting the loyalty barcode for every purchase, the store immediately knows what he/she bought. Through this data, the store may be able to give customers offers for other products they might like.

The second part of the company’s digital ecosystem is the goal to convert the 5 million loyalty card holders to CLiQQ Pay users. The e-wallet is inside the CLiQQ app that can be used to pay for goods in 7-Eleven stores. “This allows us to iterate very quickly, and people don’t have to KYC when they register. This is used quite often for transfers because it’s easy and hassle-free.”

A major part of 7-Eleven Philippines’ digital business is their e-commerce initiatives. They maximize their over 2,300 stores to take e-commerce to the country’s mass market to push financial inclusion to even more Filipino consumers.

A customer comes into any 7-Eleven store presenting a bar code from a smartphone of something they saw online, then he/she can pick it up the next day by scanning the bar code to claim it. “We offer a very frictionless mode of e-commerce,” explained Paterno.

“We also have the kiosks, which is where we accept bill payments, especially for people without smartphones. It generates a bar code that you bring to the counter and pay your bills or whatever other transaction you may need,” Paterno added.

Paterno believes that they can be the physical branches of the bank, where they can enable transactions. As they push more into the digital space and as they strive to go to the unbanked, he sees the expansion of their partnership with UnionBank to a lot of synergy with their branches.

“We have built a good business and we will continue to grow. In the next 8 years, we’ll hit 10,000 stores. We’re growing 20-25% a year—which we have been doing for the last 10 years,” he said.

“Even as the physical stores continue to grow, we see the digital platform as another leg of growth for the company,” said Paterno.

7-Eleven Philippines has definitely come a long way in adapting to the needs of its customers, with the desire to make their everyday lives better, one Filipino at a time.



CECILE CRUZABRA
Treasurer, Ayala Corporation



AYALA CORPORATION: Moving into the future

Ayala Corporation has long been synonymous with quality and perfection. Established in 1834, Ayala has been the country's long standing partner in nation building. With a wide range of businesses touching the basic needs of Filipinos, the Ayala holding company has under its wing the most reputable companies such as Ayala Land, Inc., Globe Telecoms, Bank of the Philippine Islands (BPI), Manila Water, Integrated Micro-Electronics, Inc. (IMI); among other businesses. In 2017, Ayala Corporation posted a P30.3 billion net income.

At the helm are perhaps the most prominent brothers, businessmen Jaime Augusto Zobel de Ayala as Chairman and Fernando Zobel de Ayala as President, with their father, Don Jaime Zobel de Ayala as Chairman Emeritus.

Over the years, the mega corporation with investments in real estate, banking, telecom, water, power, industrial technologies, infrastructure, healthcare and education has continuously evolved and built a solid reputation marked by unparalleled excellence.

To the company, however, the key elements in their longevity can be summed up in just three words: innovation, good governance, and commitment to nation-building.

According to Ayala Corporation Treasurer Cecile Cruzabra, the drive to pioneer businesses can be traced back throughout their history, and, to this day, the company continues to diversify its products and services, and reinvent its business models and strategies in order to better serve the markets in which it operates.

"We build traditional strengths in our core businesses, which lay the foundation

for sustained growth and at the same time, allows us to invest in the future, including in entering new industries," Cruzabra said.

She cited as an example what they are doing in AC Industrials to establish a foothold into the rapidly-changing global industrial technologies sector particularly in the automotive industry.

Formed last year, AC Industrials is anchored on two of Ayala group's long-held businesses: the electronics manufacturing unit IMI and the automotive retail unit. IMI, which started as a homegrown manufacturing company more than three decades ago, has over time carved out a niche in global electronics manufacturing.

"In the past few years, AC Industrials made strategic acquisitions that are complementary with IMI's existing capabilities and gave us access to disruptive technologies, industry knowledge and innovations to capture opportunities in global industrial technologies," Cruzabra said.

To make sure that everything is aligned toward the achievement of their 2020 goals, Ayala Corp. adheres to a strong financial discipline by monitoring quantitative results and metrics against clear and well-defined business objectives.

Apart from that, the company also has a strong corporate governance framework, another pillar of its strength.

"We practice honest, fair, and transparent dealings with all our stakeholders, as well as a corporate culture that ensures an alignment of values," Cruzabra said. "Ayala has always sought to differentiate 'the business of business' from the 'business of family,' which has helped to maintain the professionally-run nature of the company."

Meantime, new strengths gained from entering new industries and market segments are not only designed to enhance Ayala Corporation's operations in the Philippines, but more importantly, are aimed at helping develop the various sectors in the country and thereby stimulating economic development and job generation for Filipinos.

To illustrate, financial inclusion is a priority in the business plans of Ayala Corporation's banking and telecom businesses, given that 50 percent of the adult Philippine population remains unbanked. Both businesses created ancillary services to cater to the unbanked Filipinos, primarily by leveraging high mobile penetration in the country.

"Other examples are our businesses in social infrastructure. AC Education has also continued to scale its operations to bring its specialized curriculum and programs to more Filipino students, boosting their employment. AC Health, on the other hand, has persisted to expand its retail pharmaceutical and primary care clinic network to give more Filipino families access to quality, affordable healthcare services," Cruzabra shared.

"A commitment to nation building has long been one of the pillars of the Ayala Group. As we have a presence in diverse industries, and have access to unique resources and knowledge, we know that our businesses have the potential to positively impact a wide segment of Filipino society. Ayala has always been an advocate of shared value, which means that the achievements of our businesses should help build the nation and uplift the lives of more Filipinos," Cruzabra stressed.

With a goal not just to succeed, but to reinvent the way things work to change people's lives for the better, Ayala Corporation is well on its way into the future.



Kelvinator

CONDURA

TOSHIBA



MA. VICTORIA BETITA

Chief Finance and Information Officer,
Concepcion Industrial Corporation



CONCEPCION INDUSTRIAL CORPORATION: Solutions, Comfort, Convenience

It has been ranked as among the Top 10 fast-growing companies in the Asia-Pacific region by UK-based news agency Financial Times, and Concepcion Industrial Corporation (CIC) - one of the Philippines' most established and leading providers of airconditioning solutions and refrigerators - shows no sign of stopping.

Posting a 15 percent growth in sales for the last quarter of 2017 alone, CIC grew its net profit last year by eight percent to P980 million.

CIC chairman, president and CEO Raul Concepcion says the company is currently living in exciting times as consumer needs are changing and evolving.

He underscored the need to stay relevant through constant innovation and creation of solutions leveraging on technology. This as the company aims to grow faster than the market, maintain business fundamentals and fast-track investment in growth areas this 2018.

Echoing the words of their chairman, Ma. Victoria Betita, CIC chief finance and information officer, says their company invests in constantly developing their products and bringing these to the customers through multiple channels, offering aligned services and solutions that improve client experience, and pursuing opportunities with great speed and agility.

Betita says they revisit their growth strategy from time to time, and this strategy is rooted in a deep understanding of their customers and the markets that they play in.

CIC considers its nature as a predominantly Filipino company operating for 55 years now as a major advantage since they

know the needs of their customers as they themselves are consumers of their brands and products.

Another major strength of the company is its focused and disciplined workforce that pays close attention to quality and detail.

"We develop our solutions as we would want them for ourselves. Attention to detail is key and we make it a point to walk through our customers' experience of our products and services," Betita says.

CIC employees practice a sense of ownership, engagement and integrity - a legacy of the Concepcion family culture - plus an entrepreneurial spirit. They are encouraged to challenge their products and not be afraid to go against conventions.

Operating in a strong ecosystem, CIC also maintains strong business and strategic partnerships as it recognizes that these are giant steps in the ladder to success.

The company operates principally through its two subsidiaries, Concepcion -Carrier Airconditioning Company (CCAC) and Concepcion Durables, Inc. (CDI).

"Sustainable profitability is as important to us as growth. We invest with great prudence ensuring the cost effectiveness of all our investments and optimizing cross-business synergies," Betita says.

CIC has strategic business alliances with Carrier, Toshiba and Kelvinator, and most recently, with Midea as it continues to expand toward the wider spectrum of consumer appliances, and Otis as CIC focuses on harnessing its ability to provide a full range of building and industrial solutions.

The company cites its strong foundation as a prime reason why it is flexible to adapt to a changing market and competitive landscape.

"We have a winning culture that encourages us to strive to be a leader in everything that we do. We are proud of our brands and the fact that they are market leaders, and we want to protect that," Betita says.

CICs operations span beyond manufacturing. With over 50 years of operating history, it has been able to develop the largest nationwide sales, distribution and aftermarket infrastructure for both airconditioning and refrigeration spanning across Luzon, Visayas and Mindanao.

CIC products are available in over 90 percent of all appliance outlets in the Philippines. Its business is supported by over 170 accredited installer companies, over 130 accredited service centers, over 2,000 technicians, rapid sales facilitation and service turnaround from over 1,000 merchandisers deployed at the point of sale, and eight dedicated parts stores.

Meanwhile, logistics network is supported by strategically located regional warehouses supported by over 1,000 delivery trucks and corresponding delivery personnel.

Numbers, they say, certainly do not lie.

Its performance more than reflects its continued strong demand brought about by consistently strong fundamentals and rising income levels backed by the strong private sector confidence in the economy.

Without a doubt, CIC is making its presence felt both in the country and overseas - not only by doing things best, but also by doing things differently.





PAMELA THERESA DIMAYUGA

Financial Controller, Gardenia Bakeries Philippines



GARDENIA BAKERIES PHILIPPINES: With every success, go for more

Patience is man's greatest virtue - so the saying goes. For Gardenia Bakeries, this adage really hits home.

A multinational large scale bakery with market leadership in Malaysia and Singapore, Gardenia entered the Philippine market in 1998. However, it took a while before its sales picked up, even if from the onset it already had the best tasting bread and the most advanced bread production facility, technology and processes.

Financial losses from its initial years of operation prompted Gardenia to change gears by 2000 and prepare a long-term strategic business plan that focused on achieving rapid sustainable growth, implementing revolutionary change and creating breakthroughs.

This strategy eventually paid off, with Gardenia's sales reaching P5.7 billion in 2017, and having over 60 percent market share in the packaged bread category.

The game plan centered on propagating a culture of excellence. The company aimed to be a market leader in every segment it participated in. All products had to be the best in quality which necessitated continued innovation, comparative tests with competition, consumer trials and surveys to test their notion of the products.

A marching order was issued: excellence must be achieved in all fields, including manufacturing, marketing, and distribution. Barometers of this targeted excellence were consumers' perception of the brand, sales and market share growth, profitability, and employee pride.

Like in any endeavor, the key to a flawless execution of objectives was a highly competent team. Gardenia hired and trained the right people, making them committed to the company's objectives.

In their quest to deliver highest quality bakery products, they learned the most important features that consumers look for: freshness, taste, aroma, softness and nutrition.

Being the market leader that it is, Gardenia addressed all these important elements.

Gardenia Bakeries financial controller Pamela "Pam" Theresa Dimayuga said that Gardenia revolutionized the way freshness is presented with the colored neck closures called G-locks where consumers can easily see the expiry dates. There are seven colored G-locks representing the days of the week when the bread was baked. In addition to this, Gardenia's freshness policy requires the pull-out of unsold bread every day of delivery.

It became known for its tasty bread without any filling, following the brand's international claim, "so good you can eat it on its own". Gardenia also conveyed an aroma of freshly baked bread with every pack. Pam notes, "For Filipinos, food must smell good to taste good. We observed that consumers smelled the product before taking a bite."

The company perfected soft yet sturdy bread. Pinoys prefer soft bread in contrast with the Europeans liking of hard bread. In the country, hard bread is associated with old bread. Most of all, Gardenia made sure that their bread contained nutritious ingredients, especially now that consumers are becoming more health conscious.

Furthermore, Gardenia pioneered an innovative, colorful packaging design displayed in an upright position - an idea that was initially resisted but gradually became the norm.

The leading bakery recognizes the need to constantly restudy the market; understand changing consumer habits, beliefs and expectations; identify gaps in consumer satisfaction and address these areas.

In 2015, Gardenia launched its second 6,000 loaves per hour plant that features additional robotics and the latest available technology in modern bread making came from the best baking suppliers from all over the world.

The company also expanded its operations through Big Smile Bread Station, a neighbourhood community bakery chain and Bakers Maison, an artisanal specialty bakery. Pam adds that soon, Gardenia's new state-of-the-art bread manufacturing facilities in Mindanao and Luzon will be operational to meet the ever-growing bread demand of Filipinos.

Gardenia vows to continue raising the bar for the bakery industry while at the same time encouraging its people to give their best in everything they do - because success never comes easy. Almost always, it comes to those who work hard for their dreams, have patience to deal with setbacks and prove superior to the rest.







VIVO MOBILE: Continuously creating the surprising

Barely a decade since its establishment in 2009, Vivo - a Chinese smartphone brand - is making an indelible mark in the mobile phone industry. It has become the Top 5 smartphone brand in the world and the Top 3 in the Philippines in so short a time.

Dedicated to producing perfect sound quality and ultimate photography with cutting-edge technology, Vivo has become a fast-growing company with over 200 million users worldwide and 1.5 million users in the Philippines, most of them millennials.

Vivo started its international expansion in 2014 when it entered the Thai market and is now present in over 20 countries worldwide. Asked about their skyrocketing success, Vivo shared their tried and tested formula: non-stop innovation.

“We were the first smartphone brand that introduced a 24-megapixel (MP) front camera on our products, as we realized how users become more meticulous with the selfie camera. We were also the first to use Hi-Fi music in our smartphones, which excited audiophiles worldwide, and the first to integrate in-display fingerprint scanners in our smartphones for commercial release,” Vivo said.

Other breakthroughs were introduction of a 20 MP dual front camera smartphone with V5Plus, and the 2K screen resolution and a DTS surround theater system in Xplay3S.

According to Vivo, the continuous development of its pioneering products is a clear manifestation of the global mobile

phone company’s foremost objective of giving its clients the best smartphone experience. Customer satisfaction is of paramount concern. Vivo vows to always work hard to satisfy its patrons with products that are worth their every cent.

“We are proud to say that we have produced revolutionary innovations in this cut-throat mobile phone industry,” says Vivo.

Vivo’s stature as a leader in innovation in the smart phone industry is made possible by over 2,000 dedicated research and development personnel in six R & D centers worldwide, including in San Diego in the United States and in Shenzhen, Dongguan, Nanjing, Hangzhou and Chongqing in China.

The company aims to continue staying ahead of the pack by vigorously improving AI capabilities, 5G connectivity and other technologies. It has a partnership with Qualcomm, a trusted leader in mobile technologies. Vivo’s latest flagship smartphone, the Vivo V9, runs using the Qualcomm Snapdragon 626 to ensure its smooth performance.

Along with pioneering product features, Vivo is equally attentive to the needs of its customers and opened several service centers in various locations in the country. An additional 21 service centers are also in the pipeline.

As it develops innovative and stylish products for young people, the company tries to get the pulse of the public, and has likewise mounted more than 60 mall tours and 20 school tours nationwide. Vivo believes

in the importance of encouraging young people to embrace self-expression and an energetic lifestyle.

No wonder that it has chosen basketball superstar Stephen Curry to be its brand ambassador. In the Philippines, Vivo also has at least 31 endorsers led by famous teen stars Kathryn Bernardo and Daniel Padilla, to give a glimpse of its aggressive marketing strategy. It is also an official sponsor of the FIFA World Cup 2018 and 2022.

As it moves on with its exciting journey, Vivo has forged partnerships with various sectors and institutions in the country, including the University Athletic Association of the Philippines (UAAP) and National Collegiate Athletic Association (NCAA), as well as with broadcasting network ABS-CBN, shopping centers SM Supermalls and Ayala Malls, and the YouTube FanFest - a live show of YouTube’s biggest stars from around the world.

“We focus on partnerships in sports and entertainment since our customers are mostly young and gravitate towards those fields,” Vivo said.

The company believes secure and enduring partnerships are vital in gathering valuable inputs and support that will ultimately contribute to the development of top-of-the-line products that true and loyal clients, who made it possible for Vivo to reach the top, really deserve.

**BOARD
OF DIRECTORS**

**DR. JUSTO
A. ORTIZ**

Chairman of the Board



**EDWIN
R. BAUTISTA**
President & CEO





**JON RAMON
M. ABOITIZ**
Vice Chairman



**ERRAMON
I. ABOITIZ**
Director



**LUIS MIGUEL
O. ABOITIZ**
Director

**SABIN
M. ABOITIZ**
Director





**MANUEL
R. LOZANO**
Director



**STEPHEN
G. PARADIES**
Director

**BOARD
OF DIRECTORS**

**NINA
D. AGUAS**
Director



**ATTY. FRANCISCO
ED. LIM**
Director





**ATTY. EMMANUEL
F. DOOC**
Director



**MICHAEL
G. REGINO**
Director



**CHIEF JUSTICE
REYNATO
S. PUNO (RET.)**
Independent Director

**CARLOS
B. RAYMOND, JR.**
Independent Director





**DR. FRANCISCO
S. A. SANDEJAS**
Independent Director

BOARD OF DIRECTORS PROFILE

Dr. Justo A. Ortiz Chairman of the Board of Directors

Member:

Executive Committee
Risk Management Committee
Market Risk Committee
Nominations Committee
Compensation & Remuneration Committee
Corporate Governance Committee

Age: 60 years old

Academic Qualification:

AB Economics, Honors Program
Ateneo De Manila University

Date of First Appointment: July 23, 1993

Jon Ramon M. Aboitiz Vice Chairman

Chairman:

Executive Committee
Risk Management Committee
Nominations Committee

Vice Chairman:

Compensation & Remuneration Committee
Corporate Governance Committee

Age: 69 years old

Academic Qualification:

Bachelor of Science in Commerce Major in Management
Santa Clara University, California, USA

Date of First Appointment: October 11, 1988

*Chairman of the Board of Directors
Aboitiz Equity Ventures, Inc.
Aboitiz & Co., Inc.*

*Vice Chairman
Aboitiz Power Corporation*

Edwin R. Bautista Director, President & CEO

Member:

Trust Committee
Market Risk Committee

Alternate Member:

Executive Committee
Risk Management Committee

Age: 57 years old

Academic Qualification:

Bachelor of Science in Mechanical Engineering
De La Salle University

Masters in Business Administration
De La Salle University

Advanced Management Program
Harvard Business School, Boston, USA

Date of First Appointment: January 1, 2016

Erramon Isidro M. Aboitiz Director

Chairman:

Market Risk Committee

Member:

Executive Committee
Risk Management Committee
Nominations Committee
Compensation & Remuneration Committee
Corporate Governance Committee

Age: 61 years old

Academic Qualification:

Bachelor of Science Major in Accounting
and Finance

Gonzaga University, Washington, USA
Date of First Appointment: October 11, 1988

*President & Chief Executive Officer
Aboitiz Equity Ventures, Inc.
Aboitiz & Co., Inc.*

*Chief Executive Officer
Aboitiz Power Corporation*

*Chairman
Aboitiz InfraCapital, Inc.*

Luis Miguel O. Aboitiz Director

Chairman:

Operations Risk Management Committee

Alternate Member:

Executive Committee
Risk Management Committee

Non-Executive Director:

Technology Steering Committee

Age: 53 years old

Academic Qualification:

Bachelor of Science in Computer Engineering
Santa Clara University, California, USA

Masters in Business Administration
University of California, Berkeley, USA
Date of First Appointment: May 23, 2014

*Executive Vice President & COO -
Corporate Business Group
Aboitiz Power Corporation*

*Senior Vice President
Aboitiz Equity Ventures, Inc.*

Sabin M. Aboitiz Director

Alternate Member:

Executive Committee
Risk Management Committee
Audit Committee
Operations Risk Management Committee
Corporate Governance Committee

Age: 53 years old

Academic Qualification:

Bachelor of Science in Business Administration
Major in Finance

Gonzaga University, Washington, USA
Date of First Appointment: May 24, 2012

*President & CEO
Pilmico Foods Corporation*

*EVP & COO
Aboitiz Equity Ventures, Inc.*

*President & CEO
Aboitiz InfraCapital, Inc.*

Manuel R. Lozano Director

Chairman:

Trust Committee

Member:

Market Risk Committee

Age: 47 years old

Academic Qualification:

Bachelor of Science in Business Management
University of the Philippines

Masters of Business Administration
The Wharton School,
University of Pennsylvania, USA

Date of First Appointment: May 26, 2017

*SVP/CFO/CIO
Aboitiz Equity Ventures, Inc.*

*SVP-Finance
Aboitiz & Co., Inc.*

Stephen George A. Paradies Director

Vice Chairman

Audit Committee

Member

Executive Committee
Risk Management Committee

Alternate Member

Market Risk Management Committee

Age: 64 years old

Academic Qualification:

Bachelor of Science in Business Management
Santa Clara University, California, USA

Date of First Appointment: October 11, 1988

*Senior Vice President-Finance/Board Adviser
Aboitiz & Co., Inc.*

*President & CEO
AEV Properties, Inc.*

Nina Perpetua D. Aguas

Director

Vice Chairman:

Executive Committee

Member:

Audit Committee
Nominations Committee
Compensation & Remuneration Committee

Alternate Member:

Corporate Governance Committee
Risk Management Committee
Market Risk Committee
Operations Risk Management Committee

Age: 65 years old

Academic Qualification:

Bachelor of Science in Commerce

Major in Accounting

University of Santo Tomas

Date of First Appointment: January 4, 2016

*Executive Chairman of the Board
The Insular Life Assurance Co. Ltd.*

Atty. Francisco Ed. Lim

Director

Vice Chairman:

Risk Management Committee

Member:

Trust Committee
Corporate Governance Committee

Alternate Member:

Executive Committee
Nominations Committee
Compensation & Remuneration Committee

Age: 62 years old

Academic Qualification:

Master of Laws (LL.M.)

University of Pennsylvania, USA

Bachelor of Laws

Ateneo de Manila University

Bachelor of Philosophy (Ph.B.)

Bachelor of Arts (A.B.)

University of Santo Tomas

Date of First Appointment: May 26, 2017

*Board of Trustee
The Insular Life Assurance Co. Ltd.*

Atty. Emmanuel F. Dooc

Director

Vice Chairman:

Trust Committee

Member:

Risk Management Committee
Market Risk Committee
Compensation and Remuneration Committee
Corporate Governance Committee

Alternate Member:

Executive Committee
Operations Risk Management Committee
Nominations Committee

Age: 68 years old

Academic Qualification:

Bachelor of Science in Elementary Education

Mabini Colleges

Bachelor of Laws

San Beda College of Law

Date of First Appointment: December 16, 2016

*President & CEO
Social Security System*

Michael G. Regino

Director

Member:

Executive Committee
Audit Committee
Operations Risk Management Committee
Nominations Committee

Alternate Member:

Risk Management Committee
Market Risk Committee
Corporate Governance Committee

Age: 56 years old

Academic Qualification:

Bachelor of Science Major in Economics,

Cum Laude and Salutatorian

Ateneo de Zamboanga University

Masters in Business Administration

Ateneo de Manila University

Date of First Appointment: March 7, 2018

*Commissioner
Social Security Commission*

Chief Justice Reynato S. Puno

(Ret.)

Independent Director

Chairman:

Corporate Governance Committee
Related Party Transaction Committee
Compensation & Remuneration Committee

Member:

Audit Committee
Market Risk Committee
Nominations Committee

Alternate Member:

Operations Risk Management Committee

Age: 77 years old

Academic Qualification:

Bachelor of Laws

University of the Philippines

Master of Comparative Laws

Southern Methodist University, Dallas, USA

Master of Laws

University of California, Berkeley, USA

Date of First Appointment: January 1, 2013

Carlos Bell T. Raymond, Jr.

Independent Director

Chairman:

Audit Committee

Vice Chairman:

Operations Risk Management Committee

Member:

Risk Management Committee
Corporate Governance Committee
Compensation & Remuneration Committee
Related Party Transaction Committee

Age: 77 years old

Academic Qualification:

Bachelor of Science in Business Administration

Major in Marketing

University of the Philippines

Date of First Appointment: May 25, 2012

Dr. Francisco S. A. Sandejas

Independent Director

Chairman:

Technology Steering Committee

Member:

Executive Committee
Related Party Transaction Committee

Age: 49 years old

Academic Qualification:

Bachelor of Science in Applied Physics

University of the Philippines

Masters in Electrical Engineering

Stanford University, USA

PhD, Electrical Engineering

Stanford University, USA

Date of First Appointment: May 23, 2014

President

Narra Venture Capital

MANAGEMENT COMMITTEE

As of March 2018

**EDWIN
R. BAUTISTA**

President and Chief Executive Officer

**EUGENE
S. ACEVEDO**

Senior Executive Vice President
Mass Market and Financial Inclusion



**HENRY RHOEL
R. AGUDA**

Senior Executive Vice President
Chief Technology and Operations Officer
Chief Transformation Officer



**JOSE EMMANUEL
U. HILADO**

Senior Executive Vice President
Treasurer and Chief Financial Officer



**FREDERICK
E. CLAUDIO**

Executive Vice President
Corporate Banking



MANAGEMENT COMMITTEE

As of March 2018

MARY JOYCE
S. GONZALEZ

Executive Vice President
Retail Banking

ANGELO DENNIS
L. MATUTINA

Executive Vice President
Channel Management

MANUEL
G. SANTIAGO, JR.

Executive Vice President
Consumer Finance



ROBERTO
F. ABASTILLAS

Senior Vice President
Commercial Banking



FRANCIS
B. ALBALATE

Senior Vice President
Controller



PAOLO EUGENIO
J. BALTAO

Senior Vice President
EON Banking



MANAGEMENT COMMITTEE

As of March 2018

MARITA
E. BUENO

Senior Vice President
Data Science and Analytics

RAMON
G. DUARTE

Senior Vice President
Platform Development

DENNIS
D. OMILA

Senior Vice President
Chief Information Officer



JOHN CARY
L. ONG

Senior Vice President
Transaction Banking



RONALDO FRANCISCO
B. PERALTA

Senior Vice President
Chief Risk Officer



MICHAELA SOPHIA
E. RUBIO

Senior Vice President
Human Resources



MANAGEMENT COMMITTEE

As of March 2018

**ANA MARIA
A. DELGADO**

First Vice President
Chief User Experience Officer

**RAMON VICENTE
V. DE VERA, II**

First Vice President
Fintech Group



**SENIOR
VICE PRESIDENTS**



**ARLENE JOAN
T. AGUSTIN**

**FELICIANO
A. ANGUE**

**JOSELITO
V. BANAAG**

FUTURE-PROOFING THE UNIONBANKERS



The lifeblood of any organization is always its people. A top priority in UnionBank is to develop innovative programs that will help mold UnionBankers to become the best version of themselves, which has resulted in an overwhelming sense of belongingness across the organization.

To date, more than 3,700 UnionBankers are working together in co-creating innovative services and solutions for the customers. Guided by the UnionBank DNA: Purpose, Values, Vision and Brand, this dynamic team of bold experts have delivered some of the best products, services and programs for all its stakeholders.

It's small wonder that UnionBank received the **Gold Stevie for Banking Employer of the Year at the 2017 Stevie Awards for Great Employers**. The Stevie Awards, also known as 'The Oscars' of the business world, recognized UnionBank's solid and comprehensive HR initiatives that positively impacted the employee experience and overall engagement.

An Engaged Workforce

UnionBank believes that Employee Engagement is a major factor in a successful organization. In the last Gallup Survey, UnionBank scored 4.19, just a few points away from the global best business practice of 4.40. As the Bank continuously strives to hit the ideal score, several relevant programs are implemented to inspire UnionBankers to be fully engaged with the Bank.

Recognition is something that the bank takes seriously. Some of the noteworthy recognition programs are *Heroes & Champions*, a program that recognizes teams and individuals who deliver exceptional results; and *Celebrating DNA Stories with JAO*, where employees who have lived the Bank's core values are recognized by Chairman Justo A. Ortiz (JAO)

through a personal visit and intimate awarding ceremony. This ensures that employees are always inspired to do more, do greater and do better.

Creating an environment that cares about the employees' passion and wellbeing is also something that the bank is proud of. Having a UCare program creates an environment that supports every UnionBanker's health and well-being. Under UCare, the holistic growth and development of the UnionBankers' bodies (Healthy U), minds (Smart U), hearts (Secure U), and spirits (Happy U) are promoted through various activities.

In an effort to take this sense of engagement beyond the walls of the Bank, the program of GoBeyond Communities (GBC) provides employees with the opportunity to spend time and resources to help those in need especially in their respective communities. These company-sponsored CSR volunteer community projects center on education, environment, livelihood and inclusion.

Complementing the GBC is the GoBeyond program where UnionBankers donate or offer monetary support to fellow UnionBankers and their families who have a pressing financial need.

The Bank truly supports igniting the passion of employees as this spurs UnionBankers to be more actively engaged, amp up their creativity & find solutions to the Bank's challenges. In certain CSR activities, the Bank even provides the funding to assist the employees in delivering their projects to the communities in need.

REaCh x PechaKucha

REaCh is a mnemonic for the 3 core brand attributes: **Relevant, Expert, and Challenging** Convention.

In 2017, the program was re-designed as REaCh Start Up. The members of each REaCh Squad come from at least three different functions across the Bank.

From the typical panel presentation, pitching of ideas were delivered using PechaKucha style. Senior executives, on their end, made a bid and competed for a project they wanted to sponsor. This re-designed program introduced to the Bank 11 fresh innovation ideas that address some of the Bank's service concerns.





Agile and Designed to be Digital

UnionBank has embarked on a dual transformation journey from a traditional bank to a technology company with banking utilities. While UnionBankers are internally transformed through its unique DNA & culture, the Bank recognizes the need to provide tools and resources to fully transform from being digital on the fringe to becoming digital to the core.

UnionBankers are given access to cutting edge learning and development resources as well as quality coaching and mentoring. Beyond the traditional learning and development programs, 72 digital learning programs were offered through the UnionBank University. Many UnionBankers were also trained on Data Analytics & Data Storytelling, Six Sigma and BlockChain to name a few.

The Bank also formed 12 agile teams, and middle out teams from the REaCh & LEAD programs who have started working on a series of innovation projects, all aligned to the Bank's higher purpose of elevating lives and fulfilling dreams.

UnionBank's Human Resource Group fuels the Bank's digitization strategy by driving HR services through digital means. HR believes that providing the best digital employee experience will make UnionBankers more enthusiastic and motivated, engaged in their work that redounds to creating a high impact and positive customer experience.

UnionBank Human Capital Management System

The most recognized digital program of HR is the UnionBank Human Capital Management System or popularly known to employees as HCM. For more than a year now, many of HR's critical services such as performance and goals management, talent recruitment and onboarding, learning and development, succession planning and updating of employee data information are already incorporated and operational online via UnionBank HCM.

HCM's cloud-based platform provides all UnionBankers accessibility to information anytime and anywhere. Both employees and business leaders are able to optimize the HCM system in navigating their career development in the Bank.

The implementation of HCM has paid off well for the Bank as it was awarded the Best HR System Project for 2017 during The Asian Banker's Technology Innovation Awards Philippines.

1UnionBanker Hub

To ensure that employees are also able to access their HR needs easily and quickly, HR developed a unified digital system called 1UnionBanker Hub. This new portal, accessible via desktop and mobile, provide

employees the means to use and access their benefits (such as various loans, medical reimbursements, financial assistance, bank uniforms, etc.) wherever and whenever they are. The system also removes the tedious steps in processing their benefits as employees can easily do the procedure online.

UHAC

HR has also developed an innovative way in attracting digital talents to work with UnionBank. Through the UnionBank hackathons or UHAC, hundreds of students and digital enthusiasts joined and developed innovative and digital solutions. The Bank was able to increase its talent databank by means of direct hiring or partnering with



the participants to produce digital solutions beneficial to the Bank. It is also worth noting that UnionBank is the only Bank who is able to organize hackathons at this very large scale.

Onboarding Innovation

In terms of onboarding new hires, HR implemented a process where the tools used for the orientation is done in a digitized manner. Most of the information that are discussed during the New Employee Orientation Program are now embedded on tablets instead of printed materials, which the new employees use.

Most of the tools and equipment needed by a new employee in their work are now made available on Day 1 such as email addresses, laptops, and other digital credentials. This omitted the previous set-up where these items took days or weeks to be made available.

Digital Learning Sessions

And to ensure that no one gets left behind as UnionBank fully integrates the digital transformation in all of its systems, HR's Learning and Development group has incorporated many digital learning sessions from top management to the rank-and-file. These give opportunities for everyone to become digital-savvy employees.

As a center of learning excellence, all training sessions can now be accessed at the UnionBank University portal via HCM. Employees are able to enroll into instructor-led or self-paced online training, take online course assessments and program evaluations, and review their completed learning.

Digital learning has also become the norm for UnionBankers for quite some time now. A number of learning sessions and forums conducted by UnionBank are focused on informing, improving and providing updates on the recent technological advancement in the field of digital revolution.

Guest speakers that are invited in the quarterly Leaders Learning Circle (LLC) attended by UnionBank executives are renowned trailblazers in the digital spectrum. Here, bank leaders learned more on cryptocurrencies, virtual reality, artificial intelligence, robotics, platform thinking, user experience to name a few, and how the Bank can apply or use it in its operations.

Employees meanwhile are encouraged to join digital learning sessions such as coding and design thinking to widen their knowledge on digital advancements.

HR also capitalizes on using social media and Microsoft Office 365 in delivering learning bursts, promote learning programs, provide live-streaming of the Bank's events and assist and provide feedback on the needs of employees. Through these mediums, collaboration and engagement become more pronounced.

Paperless Process

Even the process of leaving the job in the Bank is already done digitally. The use of papers and man hours spent for doing clearance are vastly reduced as these are all done online.

HR in the long run wants to ensure that all of its critical processes will be paperless to ensure faster response and turnaround time are achieved.

These are just some of the groundbreaking initiatives that HR is doing digitally to Make Da Diff and ensure that the Bank's thrust of digital transformation is fully implemented and embraced by all employees to deliver a Smart Banking customer experience at every touchpoint.



CHAIRMAN'S AWARDEES

The **CHAIRMAN'S AWARD** is presented to teams whose extraordinary work and innovation are also industry-pioneering, leading to significant business impact on the Bank's bottom line and organizational excellence.

CONVERGENT BANKING

This team created a new online and mobile platform designed with an Omni-user experience, allowing customers to access and manage their UnionBank accounts with just one online profile across any touchpoint or device. This innovation made us the first bank to connect via API integration with PESONet. Highly reliable and 24/7 accessible, Convergent Banking is one of the Bank's highlights for 2017.

Gerb Inajada
Valyne Calma
AJ Atienza
Ferdinand Domingo, Jr.
Cris Tismo
Don Saunar

EON

The team created a multi-platform digital experience, particularly made novel by one of its many innovative features: snapping a selfie to do online banking! With EON, the first "Selfie Banking" in Asia, UnionBank reaped awards after awards. We are Best Digital Bank in 2017 Asia Money Banking Awards; it won Best Mobile Banking Project in the 2017 Asian Banker Philippine Country Awards, and Best New Digital Product Launch in 2017 by Visa.

Ren Dytuco
Melody Lim
Chay Batac
Charwin Chua
Maximo Ilagan
Mourese Soriano
Maria Angela Miranda Hizon
Khae Relota
Norwin Aquino

THE ARK

This flagship project represents full transformation of space, people, and process. As the country's first and fully digital branch, The Ark uses cloud-based platform, transforming branch banking experience to satisfy the diverse and changing needs of customers. Shifting from transactional to interactive space, The Ark gives us a sneak peek of the future of banking.

Ron Batisan
Julian Aboitiz
Bari Capili
Mona Barros
Ida Dagcuta
Marc Angeles
JR Aquino
Jerem Frejas
Rhiza Talavera
Christine Castillo
Gigi De Leon

Tim Cruz
Medda Fortades
Mark Legaspi
Neri Longog
Mark Belleca
Ferdinand Domingo, Jr.
Valyne Calma
Joyce Ancheta
Billy Ong
Anna Tiongson
Rachel Arante

Nemia Francia
Anna Katrina Huerto
Cristina Marqueda
Mary Jane Mendiola
Madelynn Mendoza
Ralph Benedict Miral
Yurilyn Mongaya
Catherine Reyes
Karel Veloso
Maria Angelica Magango
Alex Ang
Faye Bancaya



PRESIDENT'S AWARDEES

The **PRESIDENT'S AWARD** is given to teams whose projects and innovations are industry or market-leading and are significant efforts towards process improvement and strategic cost management.

PROJECT EXODUS

This team faced the daunting task of transferring the bank's disaster recovery site to a new, more resilient, secure, and geographically-safe location, which includes transfer and activation of 20 enterprise network devices, 220 virtual servers, and 1,000 interface ports all in only 48 hours.

Alvin Ramos
Kenneth Cañete
Michael Alcantara
Jonel Divina
Benedict Subejano
Benbol del Pilar
Ronald Ordonia
Paul Manese
Jew Riano
Marlon Arguelles
Tony Navarette
Joanna Bancoro
Emily Villegas

PROJECT COLUMBUS

Team effort was key in the success of this project which established a US\$ Euro Medium Term Note Program and raised Foreign Currency Deposit Unit funding in the international market. The bonds are rated Baa2 by Moody's, the highest possible rating for any Philippine entry at present. From this Program, UnionBank raised US\$500M in November 2017. The transaction represents the largest orderbook garnered by a Philippine bank.

Maria Paz Urmatam
Carlo Eñanosa
Atty. Menchie Tormon
Lalaine Ann Batac
Atty. Leila Aguba
Gabrielle de Juras
Maria Rizza Belle Dela Fuente
Ofelia Tababa
Francis Benedict Leyran
Clarence Kane Ong
Rafael Abat
Ellen Grace Guiam

ANDOK'S LITSON CORPORATION PARTNER

This team co-created with the client, Andok's Litson Corporation, in coming up with a customized PartnerPay solution to resolve payment collection issues. Customization brought in 836% CASA ADB growth and over 7,000 transaction counts as of October 2017.

Ma. Helena Patayon
Christo Santillan
Catherine de Guzman
Edna Sanchez
Addie Manabat
Wine Salvador
Bernie Acaylar
Henry Bercasio
Guia Bausa

LEED TO LEAD

This team upheld the Bank's efforts to achieve sustainable banking through the Leadership in Energy and Environmental Design, or LEED to Lead, which assesses branches to meet the standards of sustainable sites, water efficiency, indoor environmental quality, innovation and design. Through this, UnionBank was the first bank to merit the gold and platinum certifications under LEED standards. Today, we have 8 certified branches, reduced water consumption by 20%, reduced energy consumption by 25-30%, and minimized waste generation by 95%.

Abigail Bonita
Bari Capili
Lester Bebita





MYRNA E. AMAHAN



MARIA CECILIA TERESA S. BERNAD



CATHERINE ANNE B. CASAS



CATHERINE M. CHEUNG



GERARD R. DARVIN



JOEBART T. DATOR



MONTANO D.M. DIMAPILIS



EDUARDO V. ENRIQUEZ, III





MA. CHRISTINA A. ESCOLAR

ANTONINO AGUSTIN S. FAJARDO

JULIE C. GO

ENRIQUE M. GREGORIO



CONCEPCION P. LONTOC



ANGELBERT G. MACATANGAY



MICHAEL P. MAGBANUA



LETICIA A. MORENO



FIRST
VICE PRESIDENTS



RAQUEL P. PALANG



QUINTIN C. SAN DIEGO, JR.



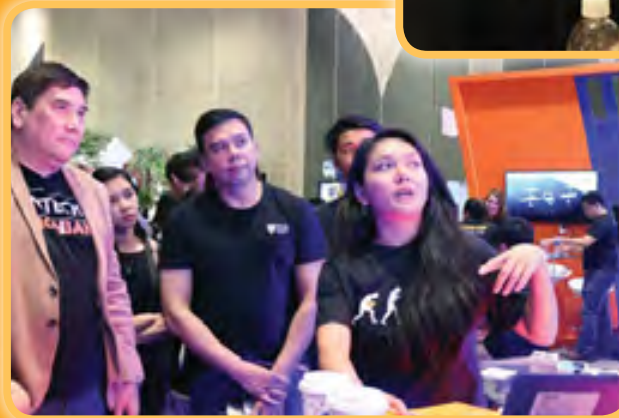
CHRISTINE V. SIAPNO



JEANNETTE YVONNE M. ZAGALA

UNIONBANK TECH UP

Embracing technology
to empower businesses
and communities.





In its first Tech Up Expo, UnionBank showcased its milestones after embarking on a digital transformation journey since 2016 - with the end goal of achieving greater financial inclusion for all Filipinos.

The bank is set on going digital to the core as it continues to embrace and harness technology amid an ongoing drive for inclusive prosperity.

EON Selfie-Banking

In 2017, UnionBank launched its new, fully digital banking platform EON, an improved version of its original platform that was first launched in 2000.

Through this platform, a new prepaid account was introduced which can be obtained at local 7-Eleven convenience stores and Ministop outlets nationwide, making it more accessible to the unbanked and underbanked.

Living up to its mantra “Co-create Banking for the Digital Me,” EON by UnionBank is a trailblazer-pioneering neo banking and the market’s many firsts to redefine, enrich, and innovate the digital banking experience in the Philippines.

Key features of the product include the selfie-banking - the first in Asia - that lets clients log into their accounts by doing the famous selfie pose in front of their smartphones. It eliminates the use of passwords while offering more security with the facial recognition feature.

EON has continually adapted and evolved into an award-winning neo banking platform focused on providing secure, convenient, and innovative banking solutions to its users, partner communities, and merchants, too.

With its latest enhancement, EON accepts other banks’ cardholders to transact using the EON mobile application. It is also ready to serve merchants with the loyalty program, “ubycash”, and the digital card acceptance system “POW!” Likewise, EON is now ready to compete with its innovative lending programs “Zero” and “Zoom” for gadgets and cars, respectively.

Each EON feature is a product of collaboration to ensure that it responds to the needs of consumers. EON enables secure and convenient payment solutions for various services given by companies across different industries resulting in EON becoming the platform of choice, with the number of users doubling month-on-month since its re-launch in 2017.

Talk to Rafa!

Aiming to deliver instant customer service to clients 24 hours a day, seven days a week, UnionBank introduced in April 2017 the first banking chatbot which takes customer inquiries and handles general information requests such as location of nearest automated teller machines or foreign currency exchange rates.

Rafa is dubbed as the next generation chatbot, because if before, chatbots only answer pre-set queries, this one answers clients on a personal level.

Currently, even voice recognition and face recognition is being tested to allow a more personal touch.

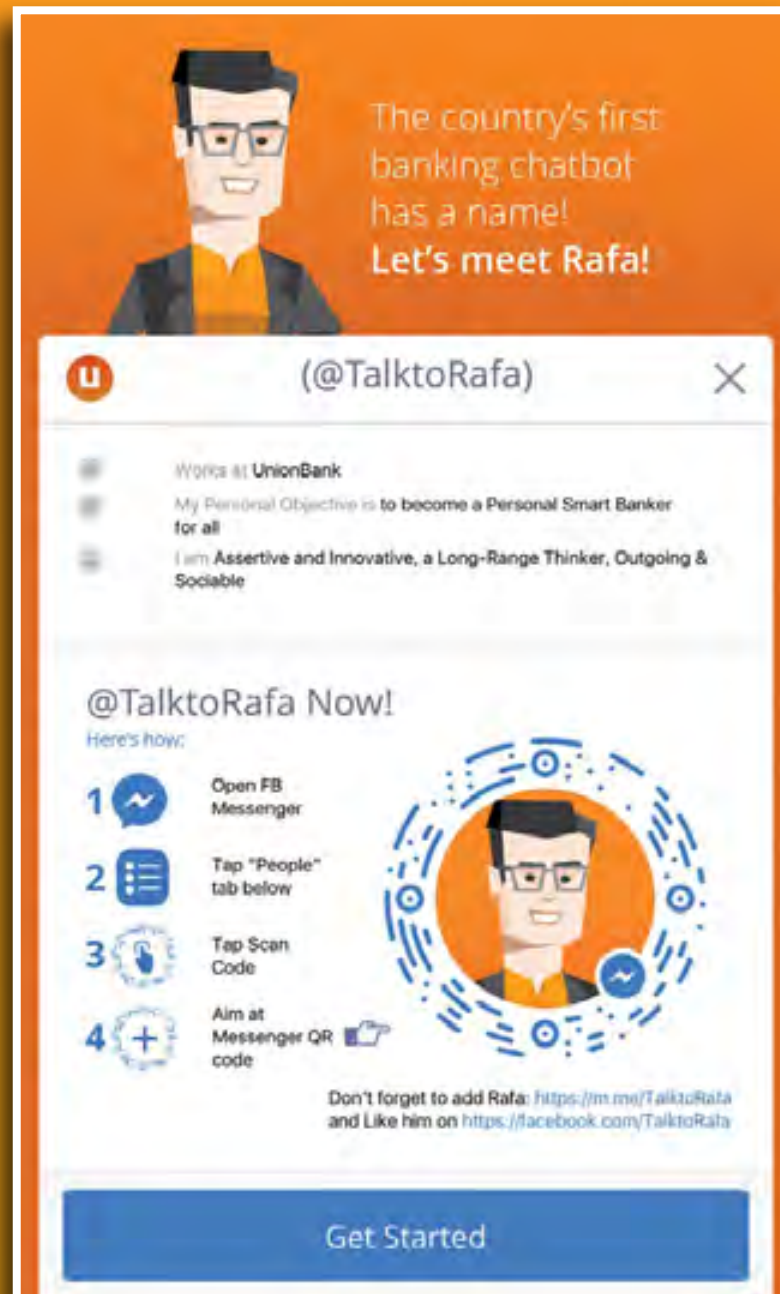
UnionBank Online

Towards the end of 2017, UnionBank also launched the new UnionBank Online which allows clients to bank from the comforts of their home or office.

Through this app, signing up no longer takes days but only minutes, and clients can use any of their UnionBank accounts to sign up, without the need to visit a branch or ATM to activate their account.

Customers can likewise access and manage their accounts in one place - from their deposits and credit cards to their loans and investments.

They can also transfer funds, pay bills, schedule transactions in advance and purchase airtime load.



UnionBank GlobalLinker

Recognizing that micro, small and medium enterprises have big business dreams, UnionBank, in partnership with DigiVation, officially launched UnionBank GlobalLinker, an innovative and free-to-use platform that aims to help MSMEs in growing their business by equipping them with tools and resources to scale up, go global, and contribute to nationwide growth.

The platform can be accessed by visiting www.unionbank.globallinker.com or by downloading the UnionBank GlobalLinker mobile app, available on both App Store and Google Play.

Signing up in the platform is free. Anyone with a business can sign-up in the platform - even without a UnionBank account. Users have testified that they are more productive when using the platform versus other social media sites that are not focused on MSME needs. Currently, the platform has around 156,000 MSMEs in the global network. 6,400 users come from the Philippine market which may be converted as leads for UnionBank products and services. The Bank's sales force uses the platform as a foot-in-the-door service and an added benefit for prospective and existing clients. UnionBank GlobalLinker allows business owners to expand their business network, share and gain expertise, establish their online presence, get access to financial services, exclusive cost-cutting deals and business solutions and collaborate with colleagues and partners.

**UNIONBANK
GLOBALLINKER**
AN SME PLATFORM WHERE YOU CAN:

- CONNECT WITH POTENTIAL SUPPLIERS
- CREATE A FREE ONLINE STORE
- AVAIL OF EXCLUSIVE DISCOUNTS
- LEARN ABOUT INDUSTRIES

Sign up now for **FREE** at
unionbank.globallinker.com

Changing the world through blockchain

Apart from using it in its internal processes, UnionBank is also working with rural banks using blockchain as a platform.

UnionBank believes helping rural banks, which are in the best position to spur rural development being part of the communities in which they operate, will make them more efficient and be able to handle more transactions.

Statistics show that from 1400 in 1988, the number of rural banks has gone down to 400 this year. Problem areas include the fact that

most rural banks are not members of the Philippine Clearing House Corporation (PCHC) and the SWIFT network, they lack IT systems so processes are very manual and paper-based, and requirements to be part of BancNet, PCHC and SWIFT are too complex.

This unfortunate development has prompted UnionBank, a firm believer on the power of technology, to push blockchain to help some rural banks scale up their operations.

Blockchain is a distributed data ledger involving a large network of entities where data is stored in “blocks” that are

continuously updated and are secured using cryptography. Blockchain makes data management and data-driven processes decentralized, tamper-proof and more transparent than ever.

“The world is moving forward and we’re already seeing solutions that make the whole ecosystem more efficient,” said UnionBank President & CEO Edwin R. Bautista.

He underscored the importance of being an early adopter.

“The early adopters have a very important role in nation-building. They are the fast ones to show the others if something works or not. If they succeed, then the others will surely follow,” he said.

Integrated Operations Center

UnionBank is investing several millions over the next few years to future-proof the business. In 2017, the Bank launched its 24/7 security operations center (IOC) - a collaborative facility for teamwork and communication among the Bank’s cybersecurity pillars to develop effective security measures and thereby counter constantly evolving cybersecurity threats.

A situation or war room is stationed in between the Security Operations Center and the IT Operations Center, which ensures faster collaboration for meetings, conducting conference calls and tackling issues, downtimes and incidents that arise. The IOC is also responsible for monitoring the performance of systems, servers and applications, as well as monitoring of uptime of leased lines.

Right technology = global competitiveness

Bautista believes that harnessing various technologies ensures that Filipino owners of small and medium-sized businesses are able to stand on their own and hold their ground against competitors not just in the Philippines but from different parts of the world.

He clarified that inclusive prosperity does not mean dole-outs that trickle down to the bottom of society.

“When we talk about inclusive prosperity, it’s about Filipinos being empowered through technology to be globally competitive,” the President said.

He cited the country’s strong economic growth, adding that by utilizing the right technologies, there is a potential for this growth to become stronger and more wide reaching.

No One Gets Left Behind

From the onset of their digital transformation, Bautista has made a promise to all UnionBankers that no one will be left behind in the bank’s transformation journey.

This is a promise he intends to keep by making sure that UnionBank employees are equipped with the necessary skills so that they can move seamlessly from jobs that are disappearing into new jobs that are emerging.

Bautista considers the employees as the bank’s greatest asset because banking is a “people business” and that an engaged employee, an engaged workforce delivering great services will, at the end of the day, translate into an engaged and loyal customer group.

THE > ARK



As a testament to being at the forefront of technology-based banking in the country, UnionBank launched the first fully digital bank branch in the Philippines called The ARK.

Using digital technology to augment an actual banking experience, The ARK by UnionBank delivers on its promise of a new digital platform experience in banking.

The ARK was established to address the common pain points in banking. Falling in line, getting a number before being attended to, spending a lot of time in the bank, which could have been used in, otherwise, more productive endeavors. It is also meant to

satisfy the diverse and changing needs of our customers. The ARK provides an interactional experience rather than a transactional space.

It could also be used as a third space for different communities to get together. According to Bank Chairman Justo A. Ortiz, it should not come as a surprise for UnionBank to come up with The ARK, which is seen as the bank of the future.

“UnionBank trailblazed digital banking in the Philippines and we continue with our efforts to use technology and enhancing digital banking capabilities in order to provide the best customer experience for our clients,” he stated.



Welcome to

THE



UNIONBANK



“As UnionBank makes headway on its digital transformation journey, a big question being raised is, ‘what is and will be the role of the branch in the future?’ The ARK is the answer to this question, reaffirming that the bank branch is not going away, but its role and purpose will shift from a space to simply process transactions to a venue for advisory conversations, digital channel onboarding, self-service banking and interactive experiences,” Ortiz added.

The Bank has spearheaded branch transformation in the Philippines with customer experience as the focal point. The ARK has eliminated the need to fill-out physical forms and confirms transactions through digital receipts sent to our customers preferred method of SMS or email.

This experience is enabled with the use of Appian Business Process Management (BPM) and Digital Transformation cloud Platform-as-a-Service (PaaS). UnionBank is the first bank in the Philippines to use a cloudbased platform.

As unconventional as it sounds, The ARK hopes to win over select clientele who are very comfortable with digital technology but still prefers the warmth of face-to-face transactions.

As President and CEO Edwin R. Bautista said, “No doubt the next generation is dictating changes upon the banking industry. But we also don’t want to isolate clients who have been loyal to us for the past 35 years. We built The ARK so that nobody would get left behind.”



UNIONBANK





HOW UnionBank

is Pioneering
the Blockchain
Revolution
in PH Banking

By Lorenzo Kyle Subido | May 9, 2018

Entrepreneur
PHILIPPINES

It is using the technology to update manuals faster and to power a settlement system for rural banks.

Ever since blockchain was introduced to the public in 2009 as the underlying technology behind Bitcoin, many have highlighted its disruptive effects to the financial sector. Blockchain's ability to enable transactions without the need for a centralized authority such as a bank, money transfer agent or any financial institution has allowed businesses who use the technology to offer financial services at lower costs and deliver them in quicker time frames.

For their part, several central monetary regulators around the world have been wary of its development, with some issuing warnings against the use of Bitcoin and other cryptocurrencies due to its risks and association with illicit activities. Even the Bangko Sentral ng Pilipinas (BSP) took a cautionary approach to the technology at first, releasing a warning advisory in 2014 before taking a more constructive and regulatory approach in recent years.

But despite the overall uncertainty of the industry regarding the technology, especially when it comes to cryptocurrencies, one of the country's largest universal banks is already positioning itself as the Philippines' first blockchain-enabled bank.

"I can confidently say we're the first," said Henry Aguda, the chief technology & operations officer and chief transformation officer of Union Bank of the Philippines, in a media roundtable last April 26.

Edwin Bautista, UnionBank president and CEO, clarified that while many banks may have clients who deal with blockchain

technology, he is certain that UnionBank is the first bank in the Philippines to implement blockchain into its internal processes. He revealed that among UnionBank's 761 internal processes, the company sees potential to "blockchain-ize" several of them.

Its first process to be "blockchain-ized" is its internal distribution of operating manuals that detail these processes. Likening it to the manuals of aircraft spare parts, Bautista said that taking this process to the blockchain will allow for an easier way to disseminate information across the entire UnionBank system as well as for a more streamlined way to update any manual or circular should the BSP release a new set of rules and regulations.

"When we looked at our own internal processes... almost every process in the bank has an operating manual. So we started it and we decided, this is a perfect application of the blockchain," shared Bautista. "For the last 20 years, we've been trying to solve that problem, the proliferation of general circulars. With decentralized ledgers, you can go into those ledgers and do the corrections and give access to the people who need it."

He added that the technology behind these manuals and any other internal processes that will be "blockchain-ized" is being developed by UnionBank's 30 internal blockchain developers, who are all certified by global technology firm ConsenSys. Bautista revealed that after taking its operating manuals to the blockchain, the company will continue to implement the technology internally wherever it's needed.

Aside from its internal processes, UnionBank is also using blockchain

technology in a nationwide project that aims to connect and empower the country's rural banking system.

At the Enderun Fintech & Blockchain Innovation Summit held last March, Arvie De Vera, the head of UnionBank's fintech business group, shared how the company is signing up several rural banks for a blockchain-enabled platform that will allow them to perform their internal processes more easily and to offer more services at lower costs.

"If we could onboard the rural banks into a blockchain-based platform, where UnionBank will provide the technology and the settlement, we could now have Rural Bank A real-time transfer to Rural Bank B using blockchain," described De Vera in the conference, comparing it to the current inter-bank fund transfer process that takes several days.

In the media roundtable, De Vera added that the company felt strongly about addressing this pain point through blockchain. He clarified that while UnionBank is not the first to tackle the country's rural bank situation, it will be the first to do so using blockchain technology, which gives a number of notable benefits that allow the nationwide project to be more feasible.

"The idea to connect the rural banks is not new, but we feel like the technology has arrived that will allow the connectivity without one central point of trust," explained De Vera. "The rural banks are really the first mile to the Filipino people, and they're so disconnected from the payment system. So to connect them in this kind of manner will really benefit not just the rural banks but the communities they serve."

Aguda added that connecting the rural banks to a blockchain-based platform is also more cost-efficient not only for UnionBank but also for the rural banks themselves.

"We could solve the problem using legacy technology, but it would be too expensive to deploy," said Aguda. "So we went outside and scanned the market for technology that would be more appropriate, and we found that blockchain is the new technology."

Highlighting both UnionBank's internal and external projects, Bautista emphasized that the company's approach to blockchain technology is markedly different from their industry peers. He revealed that when other large players in the banking industry were asked about their position on blockchain technology, most of their answers were along the lines of only considering it when the use case is clear.

"Ours is totally different," said Bautista on UnionBank's position on the disruptive technology. "To us, it's already here. In fact, *ginagamit na namin sa* (we're already using it in) internal applications."

www.entrepreneur.com.ph



A FINTECH- FRIENDLY BANK

The Bank's partnerships with Fintechs not only brought about a stronger engagement with them, it also allowed UnionBank to engage itself, becoming more well-versed in the Fintech space by forging alliances with Fintech-focused organizations.

UnionBank President and CEO Edwin R. Bautista has said that among the Bank's strategies to digitize its operations was to partner with Fintechs, instead of treating them as competitors.

Recognizing the changing landscape in the banking sector with the emergence of Fintechs, UnionBank also launched its Application Programming Interface (API) Developer Portal (developer.unionbankph.com). This portal enables Fintechs and all entrepreneurs who are reasonably tech-savvy to connect their app to UnionBank's backroom services, especially when they get bigger and scale up. The Bank has invited Fintech companies and startups in the country to make use of the bank's wide range of API options to develop solutions to problems hounding the finance and banking sector today.

Bank Chairman Justo A. Ortiz noted, "through collaboration, we can create solutions that are not only innovative, but also sustainable. We believe that together, we can make the difference in the communities that we serve, and that we can achieve a lot more in terms of empowering these communities."

For his part, UnionBank Fintech Business Group Head Arvie de Vera said, "The Fintech Business Group was created precisely to cater to the specific and customized needs of Fintechs. We want to enable all Fintechs by giving them a platform, a launch pad to succeed. Whether they need our APIs or a

customer segment or base to pilot test - we are here to help them."

Operating under this mandate, the Group is tasked to explore the different opportunities with Fintechs in order to create impactful partnerships that bring about innovative and customer-centric solutions that aid the Bank in creating new business models, reaching new markets, and targeting new customer segments. Fintech engagements vary in degree: we may bank them, enable them and, with a more strategic fit, maybe invest in them.

This strategy is already bearing fruit. 2017 has proven to be a valuable year for UnionBank in the Fintech space. Through its various initiatives, the Bank has established itself as the Fintech "Bank of Choice".

Most of the top Fintechs in the Philippines have partnered with UnionBank for their basic banking needs. Total Relationship Balances (TRB) and throughput volumes have risen more than eightfold and fortyfold year-on-year respectively in 2017, while 2018 performance continues to show strong growth.

Our Partners

Cash Credit is a leading microfinancing institution in the Philippines. Its country CEO, Diana Krumova, says, "We find in UnionBank an ideal banking partner since we are sharing the same vision of financial access to every Filipino through mobilizing digital technologies. The Bank has been critical in enabling our expansion in the Philippines and we are proud to be one of their preferred Fintech partners." Another Fintech partner, **Satoshi Citadel Industries (SCI)** echoed a similar sentiment toward UnionBank. John Bailon, its co-Founder and CEO, notes, "UnionBank has been by far the most open

bank we've seen. It can be the foundation to what we are building. It provides us access to the domestic and global banking system, gives us the firepower to be able to serve our customers so we can grow together." SCI is an active player in the Blockchain ecosystem in the Philippines.

But more than simply banking them, enabling them has also been UnionBank's key partnership facet. The Bank's U-HAC: Fintech Hackathon event, for instance, paved the way to gather both fledgling and mature Fintechs to engage them in a celebration of innovative ideas to come up with solutions utilizing and connecting to the Bank's APIs.

Some of the early Fintechs who have started integrating with the Bank's APIs **Acudeen** and **Coins.ph** said, "Our integration with UnionBank's various API's will help Acudeen's services become more streamlined and seamless in terms of user experience for our clients. Our partnership means that our consumers have more options and access to receivable financing," says Acudeen CEO Magellan Fetalino. For Coins.ph CEO Ron Hose, "UnionBank's open APIs and innovation-driven team supports our vision and helps us connect our customers to the Bank's

solutions. Developing new products together and extending the reach of formal banking is an important contribution to our mission of financial inclusion."

Aside from API integration, Fintechs are also leveraging UnionBank's core banking solutions for its products and services. **First Circle**, a Fintech specializing in SME lending, is bundling the Bank's business solutions with its product for its customers. "Aside from providing access to finance, UnionBank's business solutions will also be available to our customers. This will provide end to end business solutions that will lead to the common goal of helping grow our customer's businesses," shares Patrick Lynch, First Circle CEO.

UnionBank understands that in order to innovate, one must explore. As such, a lot of experiments are being put in place with Fintechs in order to learn and build new business models. There are ongoing experiments with First Circle and Acudeen to build and grow the SME market, and also with several alternative credit scoring Fintechs that may possibly enable UnionBank to tap markets not reached before.

While connecting with Fintechs deeply in the Philippines, UnionBank has also engaged

itself globally by forging alliances with Fintech-focused organizations. In November 2017, UnionBank announced that it was the first Philippine partner bank of the **ASEAN Financial Innovation Network (AFIN)**. An initiative of the International Finance Corporation, World Bank and the Monetary Authority of Singapore, membership in AFIN will allow UnionBank to bring Philippine Fintechs to the ASEAN region and to the rest of the world. Likewise, AFIN membership will give UnionBank access to global Fintechs.

Yosha Gupta, AFIN's Head of Product and User Engagement, says, "UnionBank can be a leader in the sector, showing the way for other banks and inciting Fintechs to strive to build the new banking ecosystem and use innovation to promote financial inclusion and sector development." Ms. Gupta participated in the recent UnionBank TechUp event which helped to reinforce links with the Fintech community and better understand the context in which the Bank is trying to leverage financial services innovations.

UnionBank is also a pioneer Philippine member of Enterprise Ethereum Alliance, that provides access to best-in-class blockchain use cases in the world; and **Visa B2B Connect**,

a private network within Visa's new platform, which simplifies bank to bank cross-border payments built under the blockchain technology.

Stuart Tomlinson, Visa Country Manager for the Philippines and Guam, mentions, "UnionBank is one of the leading banks in the Philippines on the innovation front. Recently, we announced our partnership with the Bank as one of the pilot partners in Asia Pacific for Visa B2B Connect platform. Visa B2B Connect takes on an innovative approach and eliminates friction for cross border transactions by using distributed ledger technology to enhance the speed, security and reliability of these transactions. Typically, traditional cross border transactions are archaic, time-consuming and expensive. We believe that together, Visa and UnionBank can help small and medium businesses, and corporates simplify cross-border payments in the Philippines."

UnionBank aims to embed banking into everyday experiences. This is by being present in the applications, products and services of Fintechs and other entrepreneurs, which in turn get delivered to the rest of the Filipinos.



AWARDS

THE ASSET TRIPLE A DIGITAL AWARDS

- > Digital Bank of the Year, Philippines

ASIAMONEY AWARDS

- > Best Digital Bank in the Philippines for EON

CFI.CO

- > Best Universal Bank in the Philippines

THE EUROPEAN GLOBAL BANKING & FINANCE AWARDS

- > Most Innovative Bank of the Year
- > Edwin R. Bautista, Best Banking CEO

7TH CORPORATE GOVERNANCE ASIA

- > Best Investor Relations Company
- > Asia's Best CEO (Investor Relations) for Justo A. Ortiz, Ph.D
- > Best Investor Relations Professional for EVP Genaro V. Lapez, Center for Strategic Partnerships Head

ASIAN BANKING AND FINANCE AWARDS

- > Domestic Retail Bank of the Year
- > Debit Card Initiative of the Year in the Philippines for GetGo

ASIAN BANKER PHILIPPINE COUNTRY AWARDS

- > Strongest Bank by Balance Sheet in the Philippines
- > Best Mobile Banking Project for the EON app
- > Best HR System Project for HCM
- > Credit Card Product of the Year for GetGo

STEVIE AWARDS FOR GREAT EMPLOYERS

- > Gold Stevie for Employer of the Year in Banking

WORLD HRD CONGRESS

- > Best Social Networking Recruitment Effort
- > Award for Innovation and Recruitment
- > Training Company of the Year
- > Best Organizational Development Program

EUROPEAN SOCIETY FOR QUALITY RESEARCH

- > International Diamond Prize for Excellence in Quality

VISA

- > Best New Digital Product Launch for EON

9TH RETAIL BANKER INTERNATIONAL ASIA TRAILBLAZER AWARDS

- > Best App for Customer Experience
- > Excellence in Mobile Banking

FINANCIAL INSIGHTS INNOVATION AWARDS (FIIA) BY THE INTERNATIONAL DATA CORPORATION (IDC)

- > Asia's Leader in Omnichannel Engagement

PRSP ANVIL AWARDS

- > Silver Anvil, UnionBank Annual Report
- > Silver Anvil, EON 1st Selfie-Banking in Asia

RISK MANAGEMENT REPORT

RISK MANAGEMENT CULTURE AND PHILOSOPHY

Given that banks and financial institutions are in the business of taking risks, UnionBank operates according to its established risk philosophy, where the Board is responsible for approving, reviewing, supervising, and overseeing the Bank's risk strategy, risk policies, risk appetite and risk limits. Following the Board's instruction, the Bank's Senior Management and various risk management committees set up independent risk management functions to ensure that risks are properly understood, controlled, and managed, in addition to the risk processes which must be clearly aligned with the Bank's business strategies.

RISK APPETITE AND STRATEGY

UnionBank's risk appetite is the level of risk that it is prepared to accept in pursuit of its business objectives and strategies. It is consistent with UnionBank's risk-taking capacity.

UnionBank's risk appetite is set by the Board of Directors. The risk appetite cannot be defined by a single number. It has many dimensions and is a combination of regulatory requirements and internal policy limits. UnionBank's appetite for risk is influenced by a range of factors, including whether a risk is consistent with its core strategy and whether an appropriate return can be achieved from taking that risk. UnionBank has a lower appetite for risks that are not part of its core strategy.

A risk appetite framework has been established, which includes the Board-approved risk appetite statements and the related risk policies, and limits.

The risk appetite statements establish the philosophy and high-level boundaries for risk-taking activities across UnionBank. The risk policies and limits give more specific guidance for particular risks, providing clarity for management in making day-to-day decisions.

The specific appetite for each risk type is implemented and enforced by an extensive set of specific limits, controls, and governance processes.

BANK-WIDE GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

The Bank's risks are managed enterprise-wide by all units of the Bank as it adopted the Three Lines of Defense Model in Enterprise Risk Management (ERM). The process, systems, compliance risks and controls are identified by the Business Units (1st Line). The controls to mitigate the risks are assessed as to design and effectiveness by ERM, Information Security, and Compliance (2nd Line). The assessments are validated by Internal Audit (3rd Line). Tying all this up is an active oversight function by the Board of Directors. The Bank maintains transparent dealings with both external auditors and regulators in relation to the business, vision, plans and strategies.

The Board of Directors (BOD) exercises oversight of the Bank's risk management process as a whole and through its various risk committees. For the purpose of day-to-day management of risks, the Bank has established independent Risk Management Units (RMUs) that objectively review and ensure compliance to the risk parameters set by the BOD. They are responsible for the monitoring and reporting of risks to senior management and the various committees of the Bank.

On the other hand, the risk management processes of its subsidiaries are handled separately by their respective BODs. The Parent Bank's BOD is primarily responsible for setting the risk appetite, approving risk parameters, credit policies, and investment guidelines, as well as establishing the overall risk-taking capacity of the Parent Bank. To fulfil its responsibilities in risk management, the BOD has established the following committees, whose functions are described below.

- a. The Executive Committee (EXCOM), composed of seven members of the BOD, exercises certain functions as delegated by the BOD including, among others, the approval of credit proposals, asset recovery and real and other properties acquired (ROPA) sales within its delegated limits.
- b. The Risk Management Committee (RMC), composed of seven members of the BOD, is responsible for the development and oversight of the Bank's risk management program. It assists the BOD in the management of identified risks and reviewing risk policies, strategies and procedures. It receives and reviews management reports on risk exposures and provides guidance when needed.

- c. The MRC, composed of six members of the BOD, is responsible for setting policies and standards for market risk identification and analysis measurement, monitoring and control. A monthly meeting is convened by the Market Risk management to discuss the results of the Bank's risk limits and monitoring process as well as other issues that affect its exposure to market risk. The MRC also reviews and endorses Treasury risk limits for Board approval; approves models and systems used to calculate market risk; ensures that Business Units provide for ongoing review and validation of the adequacy and soundness of market risk policies, assumptions and practices; and monitors the sensitivity of the Bank's financial condition to the effects of market volatility and adverse price changes of the Bank's portfolio of financial instruments.
- d. The ORMC, composed of at least three members of the BOD and two members from Senior Management, is responsible for reviewing the risk management policies and practices relating to operational risk, including those that affect branches, internet banking, central processing services and treasury operations. The ORMC also assesses the adequacy of the Bank's policies, procedures and resources for preventing or limiting the damage from unexpected losses due to deficiencies in information systems; business, operational and management processes; employee skills and supervision; equipment and internal controls
- e. The Audit Committee is a committee of the BOD that is composed of five members, most of whom are with accounting, auditing, or related financial management expertise or experience. The skills, qualifications, and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD. Two of these five members are independent directors, including the Chairman. The Audit Committee serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders. It also oversees the Bank's financial reporting process on behalf of the BOD. It assists the BOD in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices and the sufficiency of auditing relative thereto, and regulatory compliance.

ANTI-MONEY LAUNDERING GOVERNANCE AND CULTURE

The Bank's basic principles and practices to espouse a vigilant anti-money laundering culture are anchored on (1) compliance with the laws and regulations; (2) strict adherence to the KYC process; (3) cooperation with law enforcement; (4) information dissemination and continuing education and (5) implementation of its AML risk management system.

The members of the Board and Senior Management of the Bank are cognizant of and strictly observes the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Revised Implementing Rules and Regulations and its own Money Laundering and Terrorist Financing Prevention Program (MLPP).

To ensure that the tone from the top is cascaded to all of its employees, the Bank creates and promotes awareness by disseminating the MLPP Manual and related AML issuances. The AMLA Training program consists of: (1) Introductory course for new employees; (2) Certification program for critical branch personnel; (3) annual refresher course to all branch employees and (4) annual online learning course for all bank employees. The Anti-Money Laundering Act Committee (AMLACOM) was created to provide management oversight regarding the implementation of existing AML risk management policies and procedures of the Bank. The AMLACOM reports directly to the Corporate Governance Committee (CGC) which in turn assists the board in fulfilling its responsibilities in money laundering and terrorist financing prevention.



RISK MANAGEMENT REPORT

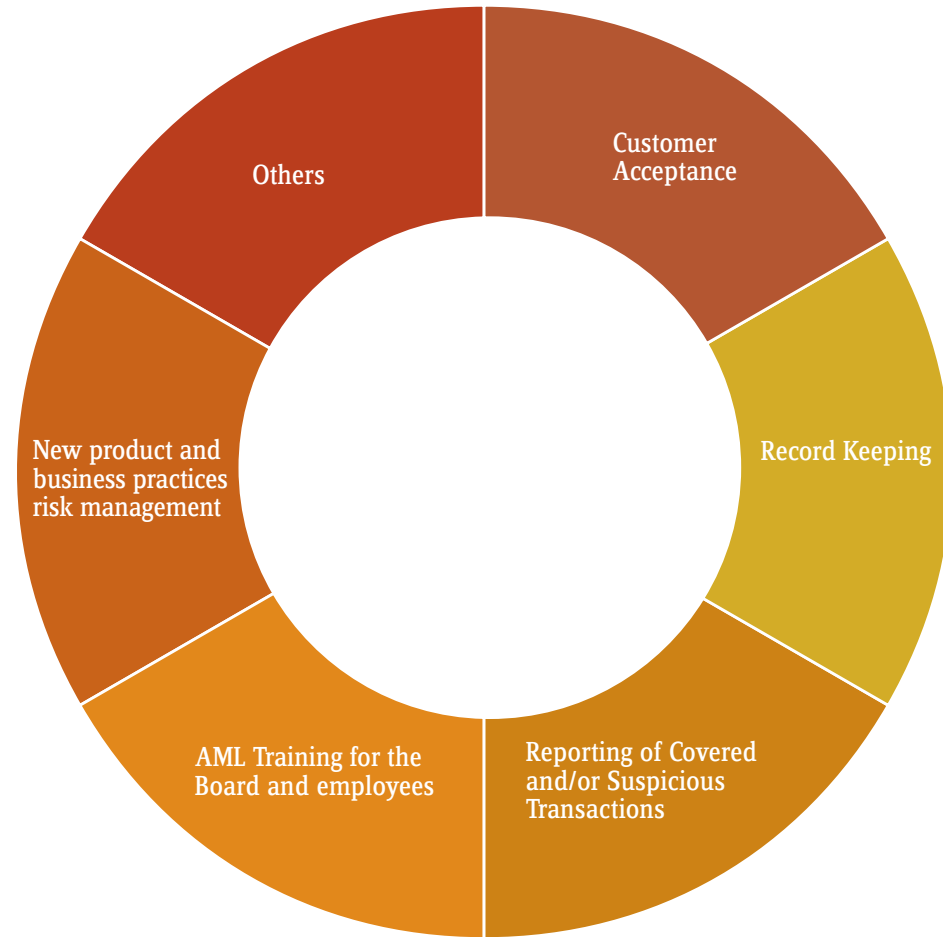
Customer Acceptance

The Bank maintains a system of verifying the true identity of its clients by establishing a clearly written and graduated customer acceptance policy and procedure, including a set of money laundering risk criteria for clients categorized depending on the risk it may pose to the Bank's operations. In case of corporate and juridical entities, the legal existence and organizational structure as well as the authority and identification of all persons purporting to act on their behalf are verified. The Bank's risk assessment considers all relevant risk factors, documented and updated periodically or as may be necessary. From the resulting risk assessment, the appropriate level of due diligence is applied.

The provisions of the Bank's MLPP is implemented in a manner that is non-discriminatory to all customer types, ensuring that political exposure, religion, race or ethnic origin are not used as the only basis to deny access to the Bank's services.

Record Keeping

Banking units and groups responsible for safekeeping of records and documents required to be retained under AMLA and its regulations are accountable and are obligated to ensure that the aforementioned are made readily available during examinations and/or audits conducted by its regulators. As a general policy, all customer identification records, such as signature cards, identification documents (IDs), and documentary requirements submitted by clients, shall be maintained and safely stored as long as the account exists. Meanwhile, all transaction records, including all unusual or suspicious patterns of account activity whether or not a Suspicious Transaction Report (STR) was filed with the AMLC are maintained and safely stored for five (5) years from date of transaction as required by law. The same period applies in case an account is closed. When the account is involved in a money laundering case, its account opening and transaction documents are retained until the case is decided with finality.



**Policies On The MLPP
Risk Management Framework**

Reporting of Covered and/or Suspicious Transactions

The Compliance and Corporate Governance Office (CCGO), through its AML Section, identifies all Covered Transactions (CTs) and Suspicious Transactions (STs) in coordination with the various units or groups within the Bank. The Bank ensures that its identification, monitoring and reporting mechanism is in place and working efficiently to ascertain that reports to its regulatory agencies are submitted within the prescribed period.

Anti-Money Laundering Training for the Board and Employees

Formulation and conduct of AML training and dissemination of updates regarding AML best practices for the members of the Board, Senior Management, Officers and Staff of the Bank and third parties are done by the Compliance and Corporate Governance Office (CCGO). CCGO ensures that all training materials are updated and prepared for the targeted recipients. The following are included in the training program:

Anti-Money Laundering (AML) Training forms part of the New Employees Orientation Program (NEOP) and is required to be taken by newly-hired employees within sixty (60) calendar days from his/her date of joining the Bank. Refresher courses are likewise provided to employees to ensure that they are updated in AML regulations and best practices. Online or DigiLearn module for AML is required to be taken by all employees of the Bank on an annual basis.

ANTI-MONEY LAUNDERING TRAINING PROGRAM

- ✓ Definition of key terms under the AMLA
- ✓ Know Your Customer (KYC) and Customer Diligence
- ✓ Covered and Suspicious Transaction Reporting
- ✓ Record-keeping and Retention Requirements
- ✓ Penalties, Fines and Administrative Sanctions for violation of the AMLA, its Revised Implementing Rules and Regulations





CORPORATE GOVERNANCE REPORT



CORPORATE GOVERNANCE REPORT

The corporate governance philosophy of Union Bank of the Philippines is anchored on compliance to the statutory and regulatory mandates which help build a strategically sustainable business aligned with the highest standards of good corporate governance principles and internationally recognized practices

By revising its Manual on Good Corporate Governance in May 2017, UnionBank aligned its governance principles to the new Code of Corporate Governance issued by the Securities and Exchange Commission. At the same time, in a self-assessment based on the ASEAN Corporate Governance Scorecard completed in June 2017, the Bank has been found to be substantially compliant with the internationally-recognized Organization for Economic Cooperation and Development (OECD) principles. Lastly, with the issuance by the Bangko Sentral ng Pilipinas of Circular No. 969 or the Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions, the Bank is poised to fully comply with the provisions of the aforementioned regulation.

Founded on a culture of fairness, transparency and accountability; and demonstrated by consistent ethical business conduct.

THE BOARD

The Board of Directors' composition ensures that its members are diverse yet efficient, rendering a healthy balance of mutually complementary traits along with independence of character. The Board's primary duty is to provide the Bank's overall leadership, strategic oversight and control environment to achieve its ultimate goal of maximizing long term value for shareholders while considering sustainability for its stakeholders and adhering to the principles of good governance and accountability.

As of December 2017, the Board is composed of fifteen (15) members, including three (3) independent directors (ID), ten (10) non-executive directors (NED), and two (2) executive directors (ED). Profiles of the members of the Board are provided in the Bank's Annual Report (SEC Form 17-A) and Definitive Information Statement (SEC Form 20- IS).

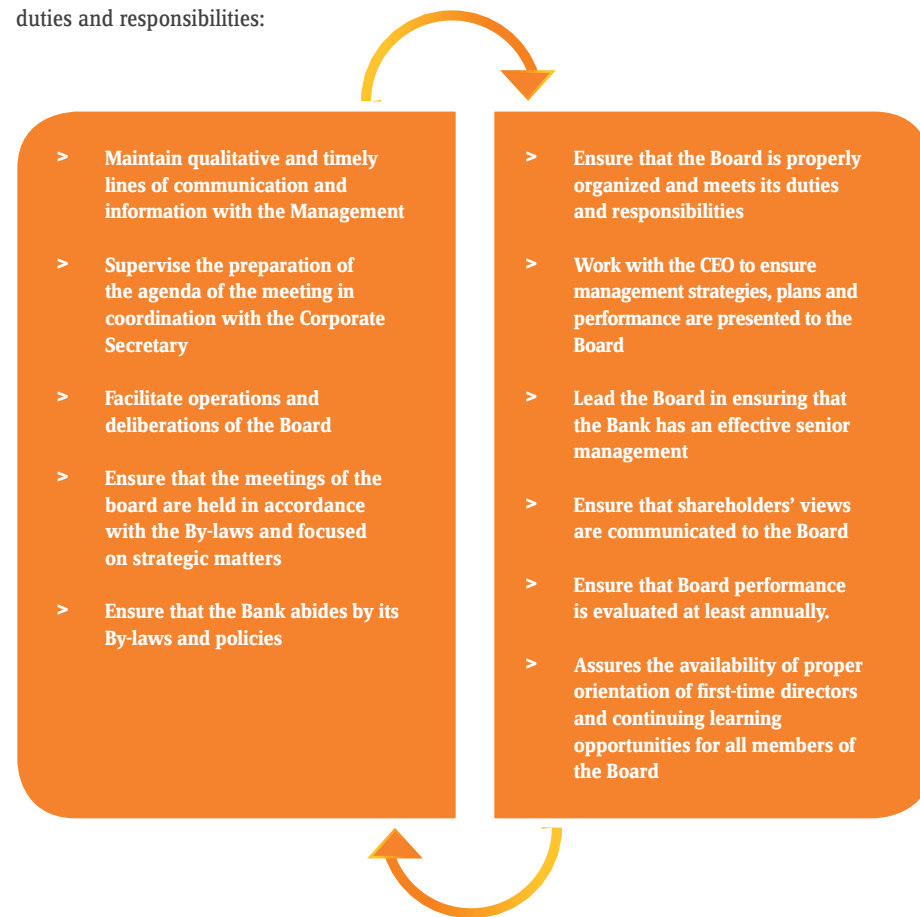
Board succession is ensured through the Nominations Committee which is tasked to conduct pre-screening through assessment against policies and regulatory requirements. Upon the conclusion of the vetting process, a final list is prepared wherein nominee details required by law are made available to the appropriate government agency-in-charge.

The Bank's Manual on Good Corporate Governance enumerates the duties and functions of the Board as a whole. It determines the company's purpose, vision, mission and strategies while ensuring that the Bank complies with relevant laws, regulations and codes of business best practices. Further, the Board ensures that a system of checks and balances is in place to ensure that risks are identified, prevented or mitigated. The Board is also expected to set the tone from the top in terms of shaping the company culture.

THE CHAIRMAN

The Chairman of the Board of Directors' primary duty is to provide leadership and steer the Board towards the fulfilment of the duties and responsibilities of its members while ensuring that the Bank's management are working towards the attainment of set goals and efficient execution of its agreed strategies.

As stated in the Manual on Good Corporate Governance, the Chairman carries the following duties and responsibilities:



Mr. Justo A. Ortiz, the Chairman, has been with UnionBank for the past twenty-five years. He has previously served, concurrently, as the Chairman of the Board and the Chief Executive Officer. In 2018, the Bank's President succeeded him as the Chief Executive Officer. Mr. Ortiz, however, retains chairmanship of the Board.

MEMBERS OF THE BOARD

A combination of core competencies makes up the membership of the Bank's board. As a body, the board is expected to demonstrate integrity and adherence to principles of good governance and accountability. Individually, the members' skills, expertise and career experiences are complementary of one another.

Justo A. Ortiz (Chairman, Non-Executive Director), 60, Filipino and a nominee of Aboitiz Equity Ventures, serves as Chairman of the Bank from July 23, 1993 to present. He is currently the Chairman of City Savings Bank, Inc., Union Properties, Inc. and Philippine Payments Management, Inc.; Director of Aboitiz Equity Ventures, Inc.*; and member of the Management Association of the Philippines, Rotary Club of Manila, Philippine Trade Foundation, Inc. and World Presidents Organization. He was the Chief Executive Officer of UnionBank from 1993 to 2017. Prior to his stint in UnionBank, he was Managing Partner for Global Finance and Country Executive for Investment Banking at Citibank N.A. He graduated Magna Cum Laude with a degree in Economics from Ateneo de Manila University. As of 31 December 2017, Mr. Ortiz holds 5,892,968 direct shares and 9,156 which makes up 0.56 % of the total outstanding shares of the Bank.

Jon Ramon M. Aboitiz (Non-Executive Director), 69, Filipino and a nominee of Aboitiz Equity Ventures, serves as the Vice-Chairman of the Board of the Bank. He has been a member of the board since May 24, 1996. He is currently Chairman of Aboitiz & Co., Inc. and Aboitiz Equity Ventures, Inc.*, a Cebu-based investment and management enterprise engaged in numerous and diverse business concerns ranging from power generation and distribution, banking and financial services, real estate development, construction, food, ship building and cement. Mr. Aboitiz began his career with the Aboitiz Group in 1970 after graduating from Santa Clara University, California, with a B.S. Commerce Degree majoring in Management. He became President of Aboitiz & Company in 1991 until 2008. He was President and CEO of Aboitiz Equity Ventures, Inc.* from 1993-2008. Presently, he holds various positions in the Aboitiz Group including Vice Chairman of Aboitiz Power Corporation*, Vice Chairman of UnionBank of the Philippines* and Chairman of the Bank's Committees namely: Executive Committee, Risk Management Committee and Nominations Committee; Vice Chairman, Compensation and Remuneration Committee, and Corporate Governance Committee. Mr. Aboitiz is a director of ICTSI* and is a member of its Audit Committee. He is also a Director of Bloomberry Resorts Corporation* and is a member of its Audit Committee. He is the Chairman and CEO of the Ramon Aboitiz Foundation, a trustee and a member of the Executive Committee of The Philippine Business for Social Progress, a member of the Board of Advisors of the Coca-Cola Export Corporation (Philippines) and Pilipinas KAO Corporation. As of 31 December 2017, Mr. Aboitiz holds 319 direct shares and 8,235,844 indirect shares which makes up 0.78 % of the total outstanding shares of the Bank.

 **Compliance with the principles of good corporate governance shall start with the Board of Directors.**

Erramon Isidro M. Aboitiz (Non-Executive Director), 61, Filipino and a nominee of Aboitiz Equity Ventures, serves as Director of the Bank since July 23, 1993. He is also the Vice Chairman of City Savings Bank, Inc. He is currently the President and Chief Executive Officer of Aboitiz Equity Ventures, Inc.* and he holds the same position at Aboitiz & Company, Inc. He is the Chief Executive Officer of Aboitiz Power Corporation*. He is currently the Chairman and Chief Executive Officer of Aboitiz Land, Inc. He is also the Chairman of Aboitiz InfraCapital, Inc. Aboitiz Renewables, Inc., Therma Power, Inc., SN Aboitiz Power, San Fernando Electric Light and Power Co., and Aboitiz Foundation, Inc. He also sits as Director of Pilmico Foods Corp., Davao Light and Power Co., Cotabato Light & Power Co. and Philippine Disaster Recovery Foundation. As of December 31, 2017, Mr. Aboitiz holds 319 direct shares and 9,777,330 indirect shares which makes up 0.92% of the total outstanding shares of the Bank.

Stephen George A. Paradies (Non-Executive Director), 64, Filipino and a nominee of Aboitiz Equity Ventures serves the Bank as a Non-Executive Director since October 11, 1988 to April 23, 1993 and from June 27, 2014 to present. He is also a member of the Executive Committee and the Risk Management Committee of the Bank. Mr. Paradies also serves as Director of Union Properties, Inc., International Container Terminal Services, Inc.*, NapaGapa Beverages, Inc., and Sociedad Puerto Industrial Aguadulce S.A. He serves as Director and President of Karian Holdings, Inc. and Parraz Development Corporation. Mr. Paradies is also a Trustee of Bloomberry Cultural Foundation and a Senior Vice President of Finance/Board Adviser in Aboitiz & Company, Incorporated. Mr. Paradies graduated from Santa Clara University, California, USA with a degree of Bachelor of Science in Business Management. As of December 31, 2017, Mr. Paradies holds 6,712 direct shares and 693,000 indirect shares comprising 0.07% of the outstanding shares of the Bank.

Carlos Bell T. Raymond, Jr. (Independent Director), 77, Filipino, serves as Independent Director of the Bank since May 25, 2012. He is also the Chairman of the Audit Committee of the Bank and member of the Bank's committees namely: Operations Risk Management Committee, Corporate Governance Committee, Risk Management Committee, Compensation and Remuneration Committee, and Related Party Transaction Committee. He is also a Director/Corporate Secretary of Manuel Teves, Inc., a Negros-based sugarcane plantation, and Chairman of Pacific Healthcare Philippines, Inc. He is a member of the Board of Trustees of Payatas Orione Foundation Inc. and Dualtech Training Center Foundation, Inc. He retired from Eli Lilly and Company in 2003. He graduated from the University of the Philippines with a degree of B.S. Business Administration. As of December 31, 2017, Mr. Raymond holds 1 direct share.

Legend: *Publicly-listed Company

CORPORATE GOVERNANCE REPORT

Sabin M. Aboitiz (Non-Executive Director), 53, Filipino and a nominee of Aboitiz Equity Ventures, serves as Director of the Bank. He has been a member of the Board since May 24, 2013. He is the President and Chief Executive Officer of Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, and FilAgri Holdings, Inc. He is also the President of Aboitiz InfraCapital, Inc., AEV Aviation, Inc., and AEV-CRH Holdings, Inc., wholly-owned subsidiaries of Aboitiz Equity Ventures (AEV)*. He is also the Executive Vice President and Chief Operating Officer of Aboitiz Equity Ventures, Inc.*. Concurrently, he is the President of Philippine Flour Millers Association, Inc. (PAFMIL). He sits as Director of Aboitiz Land, Inc., Republic Cement & Building Materials, Inc., Republic Cement Services, Inc., CRH Aboitiz Holdings, Inc., AP Renewables, Inc., Apo Agua Infraestructura, Inc., Manila Oslo Renewable Enterprises, Inc., Neptune Hydro, Inc., Petnet Inc., Filagri Inc, Filagri Holdings, Inc., Pilmico Bioenergy, Inc., Pilmico International Pte Ltd, Pilmico Foods Corporation, Pilmico VHF Joint Stock Company, Aboitiz InfraCapital, Inc., AEV Aviation, Inc., and AEV-CRH Holdings, Inc., and Weather Philippines Foundation Inc. as Chairman of the Board of Trustees. He spent much of his professional life with Aboitiz Transport, Inc. and his last position was as President and Chief Executive Officer of one of its subsidiaries, Aboitiz One, Inc. (owner of the 2GO brand) which is now called 2GO Group, Inc.* He graduated from Gonzaga University in the USA with a B.S. Business Administration Degree majoring in Finance. As of December 31, 2017, Mr. Aboitiz holds 200,507 direct shares and 126,130 indirect shares which makes up 0.03% of the total outstanding shares of the Bank.

Chief Justice Reynato S. Puno (Ret.) (Independent Director), 77, Filipino serves as Independent Director of the Bank since January 1, 2013. He was Chief Justice of the Supreme Court of the Philippines from 2007 to 2010. He also serves as an Independent Director of San Miguel Corporation* and San Miguel Brewery Hongkong, Ltd.; Commissioner, PT Delta Djakarta Tbk.; and Board Member of Manila Standard Today. He also held various positions in the government, including Assistant Solicitor General in the Office of the Solicitor General from 1971 to 1982; Associate Justice in the Intermediate Appellate Court from 1983 to 1984; Deputy Minister in the Ministry of Justice from 1984 to 1986; Associate Justice of the Court of Appeals from 1986 to 1993; and Associate Justice of the Supreme Court from 1993 to 2007. As of December 31, 2017, Chief Justice Puno holds 1 direct share.

Dr. Francisco S.A. Sandejas (Independent Director), 49, Filipino, serves as Independent Director of the Bank since May 23, 2014. He is the Chairman of the Technology Steering Committee of the Bank. He is Managing Founder at Narra Ventures, a boutique early-stage investment group that has invested in over 35 high-technology companies, with some notable companies being Inphi (NYSE: IPHI), SiRF (NASDAQ: QCOM), Amulaire, Quintic (NASDAQ: NXPI), Calypto (NASDAQ: MENT) and Sandbridge. He is also the Founder and CEO of Xepto Digital Education, a system developer and integrator of the most innovative platform for the delivery of Digital Education content and tools for schools of the developing world. He co-founded and chairs Stratpoint Technologies, Inc. one of SouthEast Asia's leading software consulting firms for Digital Transformation. He also serves as Independent Director of Sun Life of Canada (Philippines), Inc. and Sun Life Financial Plans, Inc.

At Stanford where he completed his Ph.D. and M.S. in Electrical Engineering, he co-invented the Grating Light Valve (GLV), one of Stanford's top IP money-makers. He was the first summa cum laude of University of the Philippines-Diliman's Applied Physics program and was awarded Ten Outstanding Students of the Philippines. Dr. Sandejas holds 5 international patents in nanotechnology and optoelectronics. An active trustee of the Philippine Development Foundation and co-founder of the Brain Gain Network (www.BGN.org), he advises various agencies of the Philippine Government, De La Salle University and the University of the Philippines. He has worked at H&Q Asia Pacific, Applied Materials and Siliscape. As of December 31, 2017, Mr. Sandejas has 16 direct shares.

Luis Miguel O. Aboitiz (Non-Executive Director), 53, Filipino and a nominee of Aboitiz Equity Ventures, serves as Director of the Bank. He has been a member of the board since May 23, 2014. He is currently EVP and COO for the Corporate Business group of Aboitiz Power Corporation*. He also held various positions for several Aboitiz subsidiaries including Pilmico Animal Nutrition Corporation, Aboitiz Foundation Inc., Aseagas, Aboitiz Power Renewables, Inc., HEDCOR, Inc., SN Aboitiz Power Magat, Inc., SN Aboitiz Power Benguet, Inc., Manila-Oslo Renewable Enterprise, Inc., and STEAG State Power Inc. He is also a Director of Semiconductor and Electronics Industries in the Philippines Foundation, Inc. Mr. Aboitiz earned a BS Computer Engineering degree from Santa Clara University, California, USA and obtained his Master's Degree in Business Administration from University of California at Berkeley, California, USA. As of December 31, 2017, Mr. Aboitiz holds 1,544,777 direct shares and 1,028,280 indirect shares which makes up 0.24% of the total outstanding shares of the Bank.

Nina Perpetua D. Aguas (Non-Executive Director), 65, Filipino, serves as Director of the Bank since January 4, 2016. She also sits as Director of City Savings Bank, Inc. She is currently the Executive Chairman of the Board of Trustees of The Insular Life Assurance Co., Ltd. She was the President and Chief Executive Officer of Philippine Bank of Communications* from August 2012 to March 2015. Prior to this, she was the Managing Director for Private Banking, Asia-Pacific at ANZ Banking Group Ltd., Singapore. She also held various positions with Citigroup Inc. - Managing Director for Corporate Center Compliance, New York; Country Business Manager, Global Consumer Group, Philippines; Head of Sales & Distribution, Global Consumer Group, Philippines; and Regional Audit Director, Citigroup, Asia-Pacific. She is currently the Chairman of the Board of the following Insular Life Subsidiaries- Insular Health Care, Inc.; Insular Investment Corporation, Home Credit Mutual Building & Loan Association, Inc.; Insular Foundation, Inc.; Chairman of the Board of Directors & CEO of Insular Life Management and Development Corporation (ILMADECO); Chairman of the Board of Directors & President of Insular Life Property Holding, Inc. Director of the following Companies: Pilipinas Shell Petroleum Corporation*; and Shell Company of the Philippines, Ltd. As of December 31, 2017, Ms. Aguas holds 1 direct share.

Legend: *Publicly-listed Company

Edwin R. Bautista (Executive Director), 57, Filipino and a nominee of Aboitiz Equity Ventures, serves as President and Chief Executive Officer of the Bank. He is also a Director of UnionBank*, City Savings Bank, Inc., Union Properties, Inc., First Union Plans, Inc. and First Union Direct Corp. He has been a member of the Board since January 1, 2016. He was the Chief Operating Officer of the Bank from January 1, 2016 to December 31, 2017. He also served as Senior Executive Vice President of the Bank from 2011 to 2015. He acted as President of the International Exchange Bank in 2006 until its merger with UnionBank. He was Senior Vice-President of UnionBank from 1997 to 2001 and Executive Vice President from 2001 to 2011. He previously worked as Senior Brand Manager at Procter and Gamble, Marketing and Sales Director of the Philippines and Guam at American Express International and Vice President/Group Head of Transaction Banking at Citibank. As of December 31, 2017, Mr. Bautista holds 270,000 direct shares which makes up 0.03% of the total outstanding shares of the Bank.

Emmanuel F. Dooc (Non-Executive Director), 68, Filipino and a nominee of the Social Security System, serves as Director of the Bank since December 16, 2016. He is the President and CEO of SSS from his appointment on November 17, 2016 to present. He was the former Commissioner of the Insurance Commission and member of the Anti-Money Laundering Council from January 2011 to November 2016. He is also an Honorary Insurance Commissioner of the State of Louisiana, USA. He is an international fellow of the National Association of Insurance Commissioners and Centre for Policy and Research, a Master Fellow in Life Office Management Institute (US), an Associate in Claims of the International Claims Association, and a Fellow of the Institute of Corporate Directors. He also completed the following: A Professional Certificate Course in Anti-Corruption under the International Centre for Parliamentary Studies in London, United Kingdom; the Strategic Management Program in the College of Insurance, New York; and the Executive Management Program for Senior Government Officials in John F. Kennedy School of Government in Harvard University, Massachusetts, USA. Mr. Dooc had served as the Senior Vice President, General Counsel, and Chief Compliance and Governance Officer of the Philam Group of Companies, Vice President for Claims of the American International Assurance in Hong Kong and South East Asia, a Tax Lawyer of SGV and was a practicing lawyer. He graduated from Mabini Colleges, earning a Bachelor of Science degree in Elementary Education and later obtained a Certificate of Teaching the Visually Impaired from Philippine Normal College. He received his Bachelor of Laws degree from San Beda College of Law. As of December 31, 2017, Mr. Dooc holds 1 direct share.

Manuel R. Lozano (Non-Executive Director), 47, Filipino and a nominee of Aboitiz Equity Ventures, serves as Director of the Bank since May 26, 2017. He is currently the Senior Vice President and Chief Financial Officer of Aboitiz Equity Ventures, Inc.*. He was the Chief Financial Officer of Aboitiz Power Corporation* from January 2014 to May 2015. He was also the Chief Financial Officer of the Aboitiz Power Generation Group and AP Renewables, Inc. from December 2008 to December 2013. Prior to joining the Aboitiz Group, Mr. Lozano was the Chief Financial Officer and Director of PAXYS, Inc. and held various positions in financial institutions including Jardine Fleming & CLSA. Mr. Lozano graduated with a Bachelor of Science degree in Business Administration from the University of the Philippines (Diliman) and holds an MBA degree from The Wharton School of the University of Pennsylvania. As of December 31, 2017, Mr. Lozano holds 1,000 direct shares.

➤ *The Board is committed to have diversity in membership, ensuring that skills, experiences and characteristics are complementary.*

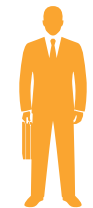
Atty. Francisco Ed. Lim, (Non-Executive Director), 62, Filipino and a nominee of Insular Life, Inc., serves as a Non-Executive Director since May 26, 2017. He is also a member of the Corporate Governance Committee, Risk Management Committee and Trust Committee. Atty. Lim serves as a Senior Partner at the Angara Abello Concepcion Regala & Cruz Law Offices (ACCRALAW) since 2010 and a Professor at the College of Law in the Ateneo de Manila University and at the Graduate School of Law of San Beda College. He is a President (of the Board of Trustees) of the Shareholders' Association of the Philippines (SHAREPHIL), Vice Chair and Professional Lecturer II at the Department of Commercial Law (Philippine Judicial Reform Academy, Supreme Court), an Independent Director at the Energy Development Corporation* and Producer's Savings Bank (PSBC). He is a Trustee of the Insular Life Assurance Co., Ltd. and Judicial Reform Initiative Inc., and is also a consultant on the National Competition Policy of the Asian Development Bank and the Philippine Competition Commission and a member of the Financial Executives of the Philippines (FINEX), Management Association of the Philippines and a Fellow of the Institute of Corporate Directors. Atty. Lim also writes a column in the Philippine Daily Inquirer (Point of Law). As of December 31, 2017, Atty. Lim holds one 1 direct share and 4,290 indirect shares.

Amado D. Valdez (Non-Executive Director), 71, Filipino and a nominee of the Social Security System, served the Bank as a Non-Executive Director since November 25, 2016 to February 23, 2018. Mr. Michael G. Regino has replaced him effective March 2018. He was also a member of the Executive Committee, Nominations Committee and the Operations Risk Management Committee. Mr. Valdez was appointed as Chairman of the Social Security System in October 10, 2016 and also serves as an Independent Director of Radiowealth Finance Corporation since October 2012 and as a Director of the Philippine Long-Distance Telephone Company (PLDT)* since November 2016. He served in various positions in the academe-Chairman and Chairman Emeritus of the Philippine Association of Law Schools, Dean of U.E. College of Law, Chairman of the Board of Regents of the Pamantasan ng Lungsod ng Maynila. He is also a member of the Philippine Judicial Academy and a Trustee of Laguna State Polytechnic University and the Universidad de Manila. He also occupied various posts in government institutions- Chairman of Ospital ng Maynila, Vice President for Academic Affairs at PHILCONSA, Member of John Hay Management Corporation, Executive Director of the Presidential Commission on the Visiting Forces, Chief Government Counsel of the Office of the Government Counsel (OGCC), Trustee of Metropolitan Waterworks and Sewerage System, General Attorney of the US Naval Base, Director of the Ministry of Agrarian Reform and a member of TECH Group of Cooperative Development Authority. He was also a Legal Aid Director of the Integrated Bar of the Philippines. He was formerly an Independent Director of Philex Mining Corporation. As of December 31, 2017, Mr. Valdez holds one direct share.

*Legend: *Publicly-listed Company*

BOARD DEMOGRAPHICS

TYPE OF DIRECTORSHIP



Executive
13%



Non-Executive
67%



Independent
20%

GENDER



Male
93%



Female
7%

AGE



40-55 years old
27%

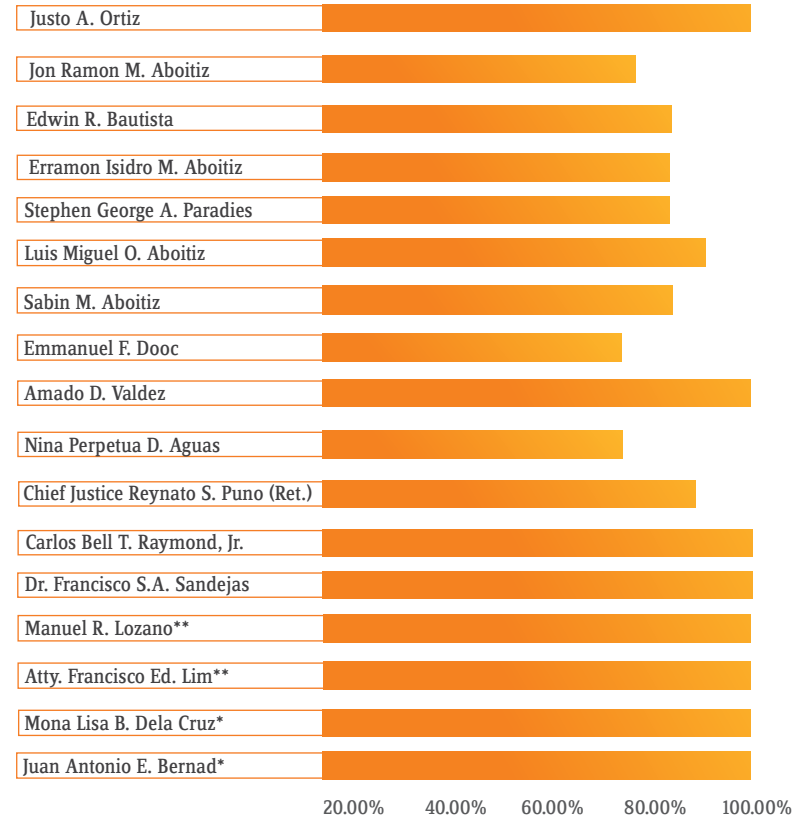


56-70 years old
53%



71 years old and above
20%

BOARD MEETINGS FOR 2017
Percentage of Attendance



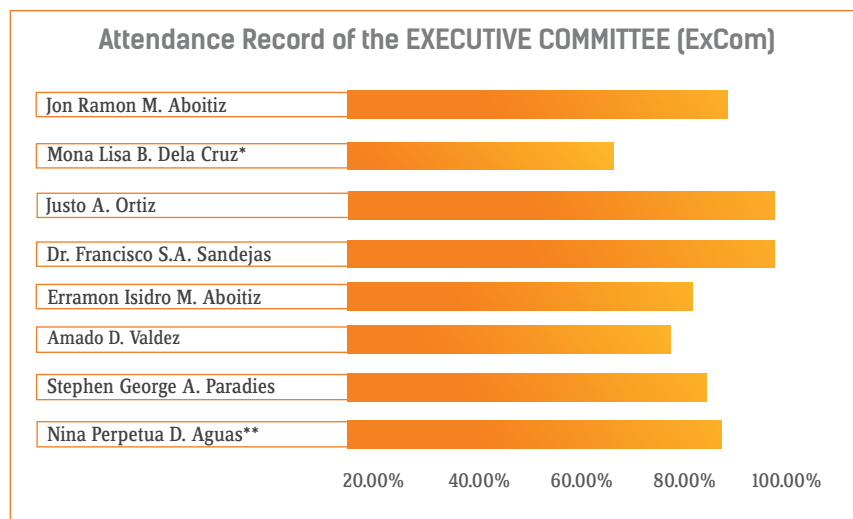
*Member until May 26, 2017

**Elected on May 26, 2017

Number of meetings held in 2017: 16

EXECUTIVE COMMITTEE (ExCom)

The Executive Committee is composed of seven (7) members of the Board. It acts and exercises such functions and powers which are reserved for the Board during intervals between Board meetings, except the power to initiate reversals of, or departure from fundamental policies, procedures and guidelines prescribed by the Board itself, and subject to such restrictions as the Board may determine. All matters passed and acted upon by the ExCom are reported to the Board of Directors and subject to revision and alterations by the Board provided that no rights or third persons are affected thereby. In 2017, the Executive Committee held 27 meetings.

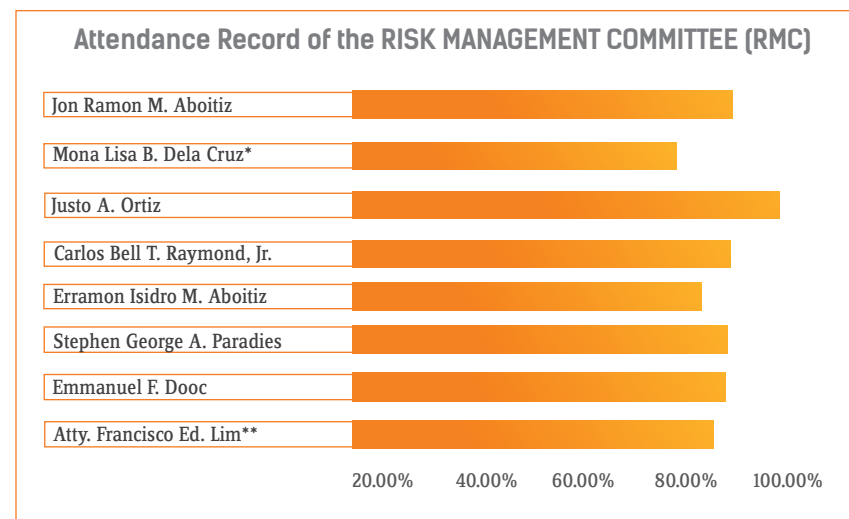


*Member until May 26, 2017

**Elected on May 26, 2017

RISK MANAGEMENT COMMITTEE (RMC)

The Risk Management Committee (RMC) consists of seven (7) members of the Board of Directors who possess a varied range of knowledge and expertise concerning the Bank's risk exposures. The Committee develops appropriate strategies for preventing the occurrence of risk events and minimizing losses when these do happen. It oversees the Bank's risk management system to ensure that it remains effective, authority limits are observed, and immediate corrective actions are taken whenever limits are breached or risk events occur. The RMC also develops and implements appropriate risk management strategies and defines the measures for managing and controlling its major risks. In 2017, the Risk Management Committee held 12 meetings.



*Member until May 26, 2017

**Elected on May 26, 2017

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE (AuditCom)

The Audit Committee is composed of five (5) members of the Board who are knowledgeable in accounting, auditing, or related financial management matters. The committee is composed of non-executive directors and two (2) independent directors including the Chairman.

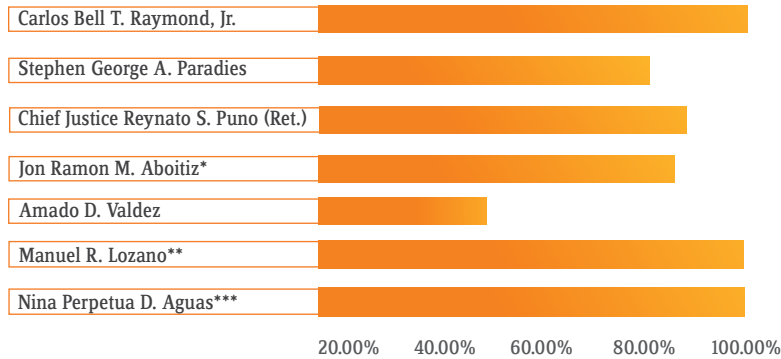
In behalf of the Board of Directors, the Audit Committee provides oversight of the Bank's financial reporting and internal control, as well as internal and external audit function. It is also responsible for setting up the Internal Audit Division (IAD) and the appointment of the internal auditor and the independent external auditor who both report to the Audit Committee. In 2017, the Audit Committee held 16 meetings.

TRUST COMMITTEE (TrustCom)

The Trust Committee is composed of five (5) members: three (3) of whom are members of the Board, the President, and the Trust Officer. No member of the Audit Committee sits concurrently as a member of the Trust Committee in compliance with Sec. X 406.1 of the Manual of Regulations for Banks (MORB).

The Trust Committee acts within the sphere of authority as may provided in the Bank's By-Laws, and/or as may be delegated by the Board such as, but not limited to: the acceptance and closing of trust and other fiduciary accounts; the initial review of assets placed under the trustee's fiduciary custody; the investment, reinvestment, and disposition of funds or properties; and the review of trust and other fiduciary accounts at least once every twelve (12) months to determine the advisability of retaining or disposing of the trust or fiduciary assets and/or whether the account is being managed in accordance with the instrument creating the trust or other fiduciary relationship. In 2017, the Trust Committee held 12 meetings.

Attendance Record of the AUDIT COMMITTEE (AuditCom)

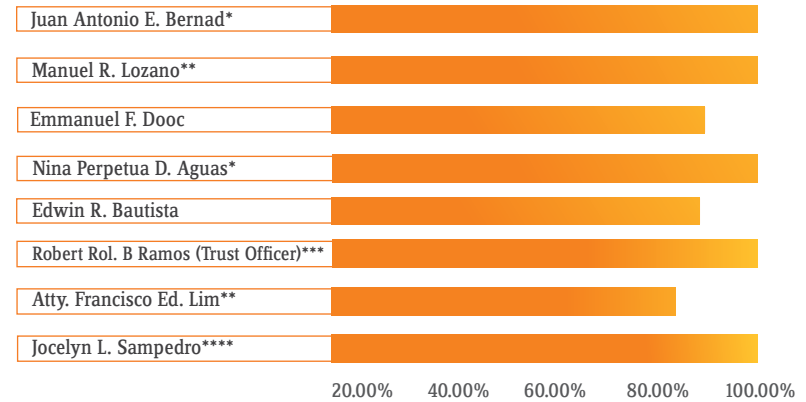


*Member until May 26, 2017

**Member until July 3, 2017

***Elected on July 3, 2017

Attendance Record of the TRUST COMMITTEE (TrustCom)



*Member until May 26, 2017
**Elected on May 26, 2017

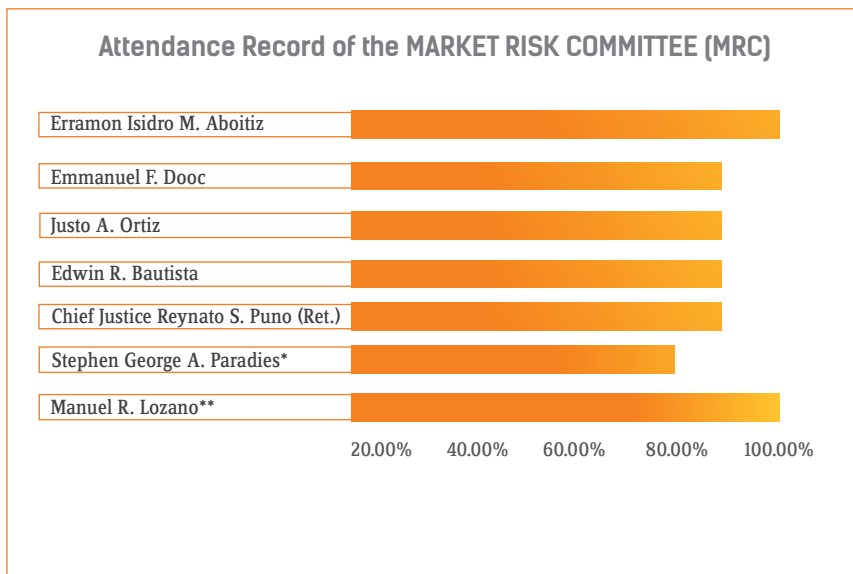
***Member until September 21, 2017
****Member starting September 29, 2017

MARKET RISK COMMITTEE (MRC)

The Market Risk Committee is composed of six (6) members that includes the Chairman of the Board of Directors, the President and four (4) other members of the Board. The Committee sets policies and standards for market risk, interest rate risk and liquidity risk in terms of identification, measurement, monitoring and control. The Committee’s specific duties include, among others, management and reporting of market risk, interest rate risk in the banking book and liquidity risk; ensuring that the risk management processes for these risks satisfy corporate policy; review of the Treasury Portfolio (including contingent accounts); review and endorsement of Treasury Risk Limits for Board approval; endorsement of Treasury-Related Product Programs and Manuals for approval of the Board of Directors; approval of models and systems used to calculate market, interest rate and liquidity risks, and; promotion of continuous development of risk programs and infrastructure. In 2017, the Market Risk Committee held 12 meetings.

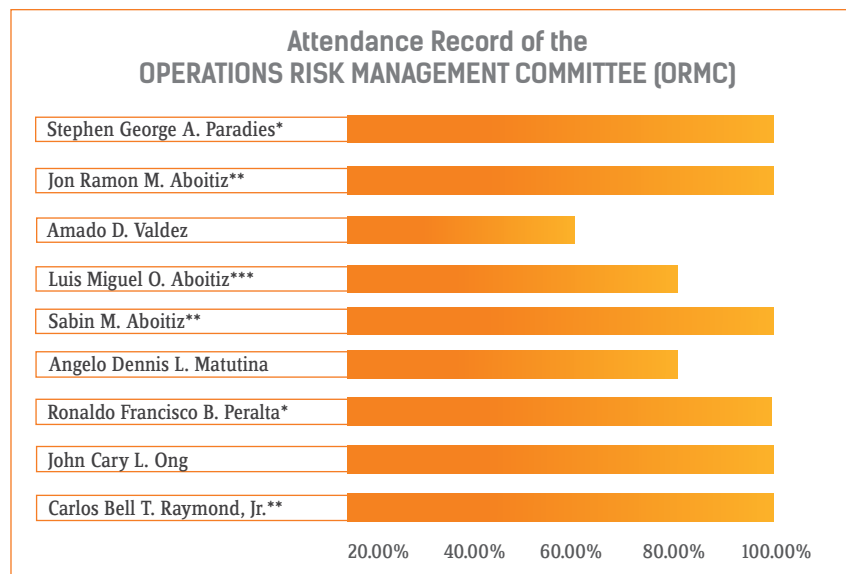
OPERATIONS RISK MANAGEMENT COMMITTEE (ORMC)

The Operations Risk Management Committee is composed of five (5) members of the Board and three (3) members from Senior Management. The Committee covers, among others, (1) the adequacy of the Bank’s policies, procedures, organization and resources for preventing, or limiting unexpected loss due to deficiencies in information systems; business, operational and management processes; employees skills and supervision, equipment and internal controls; (2) periodic or special risk assessments conducted in various businesses and operating units of the Bank to proactively uncover operational risks that can result to actual loss or damage; (3) results of internal audits, BSP examinations and investigation of administrative cases that highlight trends indicative of present or emerging exposures to specific operational risks; (4) risk assessment of major information systems to be implemented in the Bank; (5) regulatory compliance issues, whether currently existing or anticipated to arise as a result of new regulations; and (6) business continuity strategies, plans and procedures. In 2017, the Operations Risk Management Committee held 5 meetings.



*Member until May 26, 2017

**Elected on May 26, 2017



*Member until May 26, 2017

**Elected on May 26, 2017

***Member until May 26, 2017 and alternate member from May 26, 2017

CORPORATE GOVERNANCE REPORT

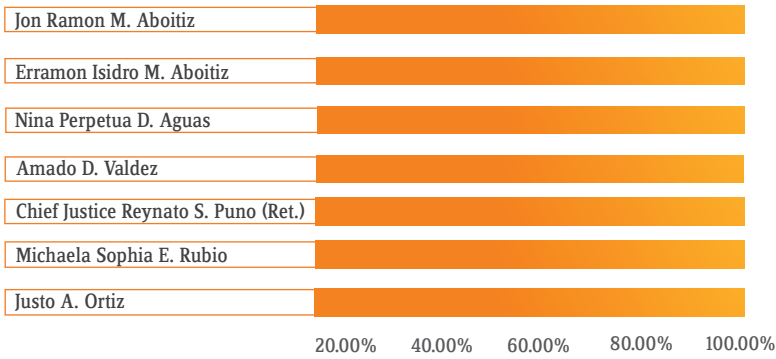
NOMINATIONS COMMITTEE (NomCom)

The Nominations Committee is comprised of seven (7) members of the Board, one of whom is an Independent Director, and one (1) non-voting member in the person of the Human Resources Director. The Committee is responsible for reviewing the qualifications of and screening candidates for the Board and key officers of the Bank. It oversees the implementation of programs for identifying, retaining and developing critical executives or officers and the succession plan for various units in the organization. In 2017, the Nominations Committee held 1 meeting.

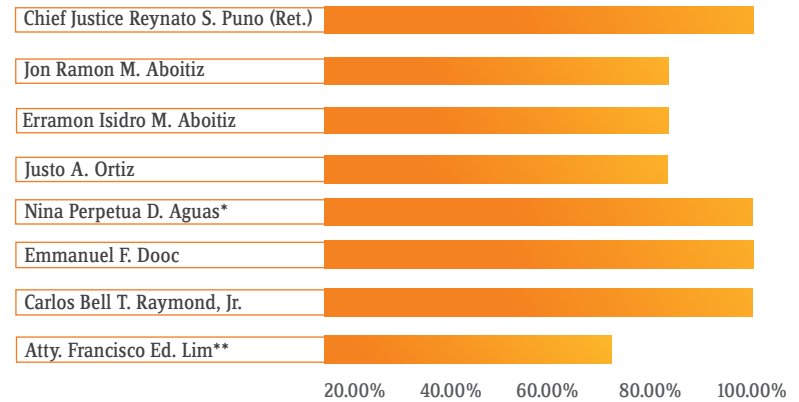
CORPORATE GOVERNANCE COMMITTEE (CGC)

The Board is primarily assisted by the Corporate Governance Committee in fulfilling its corporate governance responsibilities. The Committee recommends governance policies to the Board based on the regulations of the BSP, the SEC, the Philippine Stock Exchange (PSE), as well as those which are internationally recognized as industry best practices. It serves as the primary resource for the Board to study and evaluate itself, as a body, and its Committees' structure, policies and practices with the objective of raising the bar for the Bank's corporate governance. In 2017, the Corporate Governance Committee held 6 meetings.

Attendance Record of the NOMINATIONS COMMITTEE (NOMCOM)



Attendance Record of the CORPORATE GOVERNANCE COMMITTEE (CGC)



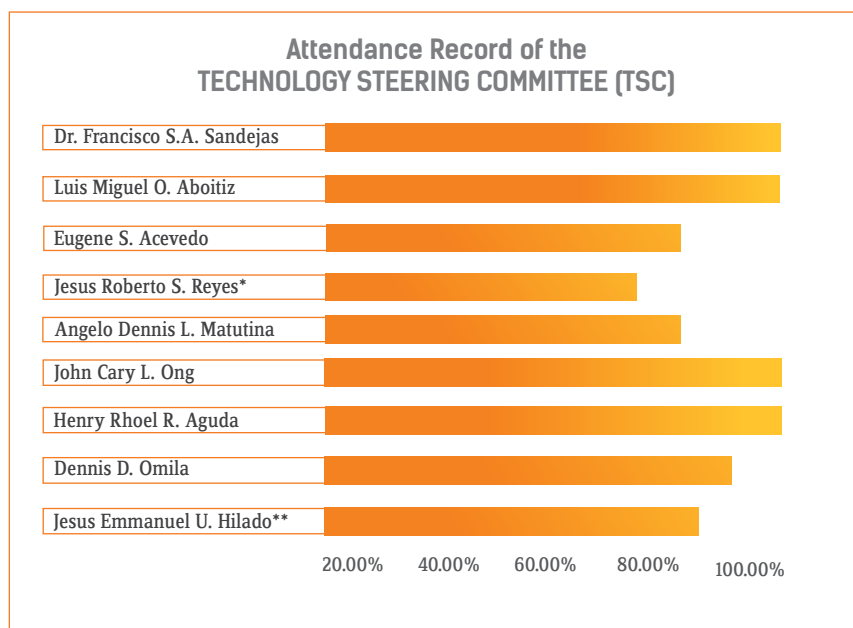
*Member until May 26, 2017

**Elected on May 26, 2017

The Board provides:
leadership, strategic oversight and sets the appropriate control environment.

TECHNOLOGY STEERING COMMITTEE (TSC)

The Technology Steering Committee is composed of seven (7) members, including two (2) members of the Board. It is responsible in overseeing the overall information technology (IT) strategy of the Bank and to ensure its alignment with the Bank's business strategies and objectives. In addition, the Committee monitors IT performance, status of major projects and other IT-related issues. In 2017, the Technology Steering Committee held 13 meetings.

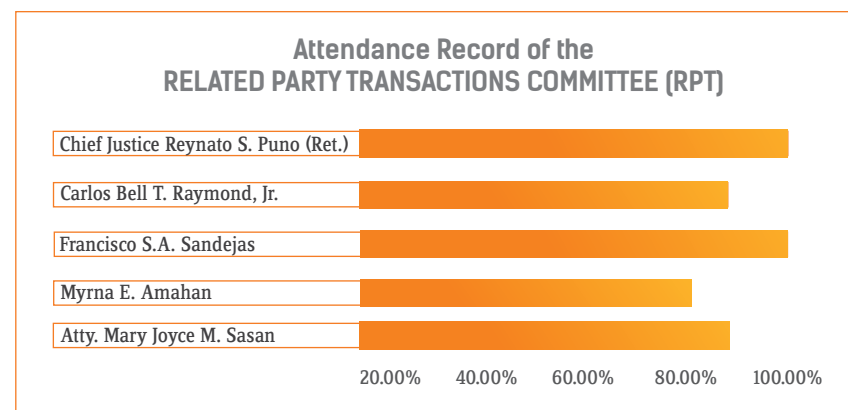


*Member until April 30, 2017

**Replaced Mr. Jesus Roberto Reyes

RELATED-PARTY TRANSACTIONS COMMITTEE (RPT)

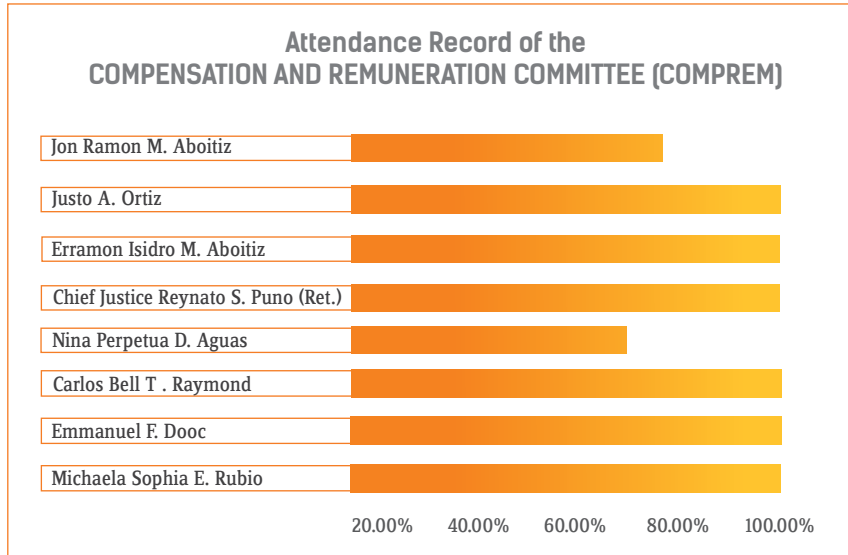
The Related Party Transaction (RPT) Committee is composed of five (5) members of which three (3) are Independent Directors, including the Chairman, with the Head of Internal Audit and Chief Compliance Officer as non-voting members from Senior Management. The Committee is responsible for assisting the Board in fulfilling its corporate governance responsibilities on related party transactions (RPTs), reviewing and endorsing all significant RPTs for the approval or confirmation of the Board and formulating, implementing and updating of the Bank's RPT policy in accordance with existing regulations. The Committee was constituted on 22 May 2015. In 2017, the Related-Party Transactions Committee held 11 meetings.



CORPORATE GOVERNANCE REPORT

COMPENSATION AND REMUNERATION COMMITTEE (ComPrem)

The Committee is composed of seven (7) members of the Board of which two (2) are independent directors. The Committee also includes the Human Resource Director as a non-voting member. The Committee is tasked to provide recommendations and oversee the implementation of a program of salaries and benefits for Directors and Senior Management that allows the Bank to attract the best talents by periodically benchmarking with practices/offers of other leading financial institutions. Likewise, the Committee shall monitor adequacy, effectiveness in upholding and consistency of the compensation program vis-à-vis corporate philosophy and strategy. In 2017, the Compensation and Remuneration Committee held 4 meetings.



UnionBank remains steadfast in upholding good corporate governance first by ensuring that its Board is well-structured, efficient and capable of propelling the bank toward its goal of maximizing long term value for shareholders while taking into account the interest of its stakeholders-truly a bank of enduring greatness.

EXECUTIVE OFFICERS

Edwin R. Bautista, 57, Filipino, serves as President and Chief Executive Officer of the Bank. He is also a Director of UnionBank, City Savings Bank, Inc., Union Properties, Inc., First Union Plans, Inc. and First Union Direct Corp. He was the Chief Operating Officer of the Bank from January 1, 2016 to December 31, 2017. He also served as Senior Executive Vice President of the Bank from 2011 to 2015. He acted as President of the International Exchange Bank in 2006 until its merger with UnionBank. He was Senior Vice-President of UnionBank from 1997 to 2001 and Executive Vice President from 2001 to 2011. He previously worked as Senior Brand Manager at Procter and Gamble, Marketing and Sales Director of the Philippines and Guam at American Express International and Vice President/Group Head of Transaction Banking at Citibank.

Eugene S. Acevedo, 54, Filipino, holds the position of Senior Executive Vice President and Chief Mass Market and Financial Inclusion Executive. He also serves as Chairman of City Savings Bank, Inc. He was previously President, Vice Chairman and Chief Executive Officer of Philippine National Bank from May 2010 to July 2011. Before that he was with Citibank for 23 years and his last posts with the firm were as Managing Director and Country Treasurer for Hong Kong, and Global Markets Head for Hongkong-Taiwan Cluster. From 1984 to 1985, he was a Physics lecturer at the University of the Philippines.

Henry Rhoel R. Aguda, 49, Filipino, holds the position of Senior Executive Vice President, Chief Technology and Operations Officer and Chief Transformation Officer of the Bank. He was formerly the Chief Information Officer of Globe Telecom, Inc*. He served as the Chief Technology Officer and Senior Vice President for the IT Group of the Government System Insurance Services (GSIS) and the Group Chief Information Technology Officer of Digitel Telecommunications Philippines. He was also the Chief Operations Officer and Chief Financial Officer of Nextel Communications Philippines. In addition to this, he has also worked with Fujitsu Philippines, Bayantel, and Computer Information Systems Inc. He was awarded ASEAN CIO of the Year in 2010 in the Government Sector by the International Data Group. Mr. Aguda obtained his degrees in Bachelor of Science in Mathematics and Juris Doctor in Law, both from the University of the Philippines. He is the author of the book, Data Privacy & Cybercrime Prevention in the Philippine Digital Age.

Jose Emmanuel U. Hilado, 54, Filipino, holds the position of Senior Executive Vice President, Chief Financial Officer and Treasurer of the Bank. He has more than 30 years of banking experience behind him and has held various positions in Treasury, Trading, Investments, Correspondent Banking, Bank Operations, Human Resources, and Purchasing. Prior to joining UnionBank, he was the Senior Executive Vice President and Chief Operating Officer of East West Bank Corporation*. He was also the Treasurer of Rizal Commercial Banking Corporation (“RCBC”)* for 6 years and Chief Trader at Banco De Oro Unibank* (“BDO”) for 4 years. While at BDO, he was also the Treasurer of BDO Private Bank for 3 years. He is currently a member of various industry-related associations such as the Bankers Association of the Philippines’ Open Market Committee, Financial Executive Institute of the Philippines (FINEX), Money Market Association and ACI Philippines and the Philippine Interpretations Committee (PIC) representing industry. He was President of ACI Philippines from 2002 to 2006 and was its Director in 2004. He obtained his Bachelor of Science degree in Business Economics at the University of the Philippines, and his MBA degree at Kellogg-Hong Kong University of Science and Technology. He is also a Certified Treasury Professional from the BAP- Ateneo Graduate School.

Frederick E. Claudio, 53, Filipino, holds the position of Executive Vice President and Center Head of the Corporate Banking of the Bank. He started his career in UnionBank as Relationship Manager from August 1995 to March 2001. From April 2001, he has expanded his career by taking on various roles including: Group Head for Corporate Banking and Commercial Banking, and Business Head for Cash Management Services and Corporate Banking Center until July 31, 2015.

Mary Joyce S. Gonzalez, 59, Filipino, holds the position of Executive Vice President and Center Head of Retail Banking of the Bank. She is also the Chairman of First Union Insurance and Financial Agencies, Inc. She started her career in UnionBank as Branch Manager of the Main Office Branch in 1994. After a few months, she was given an expanded role as Sales Director of the Makati 1 Region. Her stint as Sales Director over the years saw major growth in the deposit and fund generation business, and the development of a very capable sales management team. In recognition of her contribution to the business, she was promoted to Senior Vice President and was given an additional task to develop and lead Customer Segment Management and bring greater customer centricity in UnionBank’s pursuit in delighting its customers, given her seasoned abilities, and exposure in the business of Retail Banking.

Angelo Dennis L. Matutina, 54, Filipino, holds the position of Executive Vice President and Center Head of Channel Management of the Bank. As Channel Management Head, he led several projects in six sigma and certification to the International Organization for Standards relating to quality management and is responsible to the operations of all business processes including branches, treasury & trust, loans & trade, cash management & card operations, call center, shared services and business process transformation. Prior to this assignment, he was head of Branch Operations Management from 2011-2014, responsible for operations of all UnionBank branches; head of Business Network Management from 2002-2011, responsible for various head office operating units handling cash management, electronic banking, central processing services, admin & general services, accounting, reconciliation & financial services, among others. He was hired in UnionBank on March 2002 as First Vice President; previously he was Assistant Vice President in Citibank.

Manuel G. Santiago, Jr., 58, Filipino, holds the position of Executive Vice President and Center Head of Consumer Finance of the Bank. He previously worked as Director for Operations in American Express Bank in Indonesia and, prior to that, as Director for Operations in American Express International, Manila. He also held various positions in Citibank N.A., Manila.

Roberto F. Abastillas, 57, Filipino, holds the position of Senior Vice President and Center Head of Commercial Banking of the Bank. He was previously Head of the Account Management Center I at International Exchange Bank. From 1987 to 1995, he was Vice President and Head of the Account Management Group for United Coconut Planters Bank.

Atty. Arlene Joan R. Tanjuaquio-Agustin, 49, Filipino, holds the position of position of Senior Vice President and Trust Officer of the Bank. Atty. Agustin brought with her more than two decades of experience and expertise in Treasury and Trust. She started her career in banking in 1990 as an Assistant Manager in China Banking Corp*. In 1997, she transferred to Jade Progressive Savings and Mortgage Bank where she became the Senior Assistant Vice President. After her two-year stint, she went to join Robinsons Savings Bank Corp. and became its Head of Treasury. From 2007 to 2009, she worked for GE Money Bank where she was appointed as First Vice President and Treasurer. When GE Money Bank was acquired by BDO Unibank, Inc.* , she was appointed as the Customer Solutions Desk Head of the Treasury Capital Markets and Derivatives Division and the same time served as the First Vice President and Treasurer of BDO Elite Savings Bank until 2011. In the same year, she joined Maybank Philippines, Inc. where she became the Senior Vice President, Treasurer and Head of the Global Markets. Atty. Agustin completed her bachelor’s degree in Economics and Political Science from the University of the Philippines, Diliman. She earned her Juris Doctor degree at the Ateneo De Manila University and later took her Master’s Degree in Business Administration at De La Salle University.



CORPORATE GOVERNANCE REPORT

Francis B. Albalate, 47, Filipino, holds the position of Senior Vice President and Financial Controller of the Bank. He is a Certified Public Accountant. Prior to joining the Bank, he was an Audit Partner at Punongbayan & Araullo from 2003 to 2011. He was a former Financial Services Industry Audit Leader at Deloitte Philippines from 2011 to 2016. He worked as Head of the Transaction Advisory Services from 2007 to 2009 and Audit Senior Manager from 1999 to 2003. He earned a Master's degree in Business Management from the Asian Institute of Management. He graduated with a degree in Bachelor of Science in Commerce, majoring in Accounting, from San Beda College. He attended the Pacific Rim Bankers Program at the University of Washington in 2006.

Admiral Feliciano A. Angue, AFP(Ret.), 62, Filipino holds the position of Senior Vice President and the Head of Business Services Group and concurrent Chief Security Officer of the Bank. He has over 37 years of dedicated, professional and distinguished military service in the Armed Forces of the Philippines (AFP). Earned the reputation of being an effective leader and efficient manager in various positions of major responsibility, ultimately rising to a three-star General (Vice Admiral) Command Position in the AFP. He has since successfully transitioned into the private sector, particularly the banking business for nearly seven years. From his entry point as Chief Security Officer, he was given additional duties and responsibilities which involved handling six different groups in the main structure of the Bank now known as the Business Services Group.

Paolo Eugenio J. Baltao, 46, Filipino, holds the position of Senior Vice President and Head of EON Banking Group of the Bank. Prior to joining the Bank, he was the Head of M-Commerce/President of GXchange, Inc. (GXI), a wholly owned subsidiary of Globe Telecom*, handling the mobile commerce business. He was also the Category Manager of RCBC.* Electronic Products Officer of Equitable PCI Bank from November 1996 to May 2000; and Associate Brand Manager of United Laboratories from May 1992 to October 1994.

Atty. Joselito V. Banaag, 47, Filipino, holds the position of Senior Vice President, Corporate Secretary, and Head of Legal Division of the Bank. He was the former Head of the Legal and Compliance Division and Corporate Governance of GT Capital Holdings, Inc.* from 2012 to 2015. He also previously worked at the Philippine Stock Exchange* (PSE) as the General Counsel and concurrently, as Chief Legal Counsel of the Securities Clearing Corp. of the Philippines (SCCP). He was also Officer-in-Charge of the Exchange's Issuer Regulation Division. Prior to that, he held various positions in SGV & Co., Cayetano Sebastian Ata Dado & Cruz Law Offices, PNOG Exploration Corp., and Padilla Jimenez Kintanar & Asuncion Law Offices. He earned his Bachelor of Arts in Political Science minor in Japanese Studies from the Ateneo de Manila University and his Bachelor of Laws from the University of the Philippines.

Marita E. Bueno, 49, Filipino, holds the position of Senior Vice President and Head of Business Analytics of the Bank. She previously worked at Citibank for 17 years and JP Morgan Chase for 3 years in various roles and locations. She joined Citibank in New York in April 1994 and her experience includes Director for Regional Decision Management from August 2010 to July 2015 in Singapore; Chief of Staff for Regional Risk Management from September 2007 to August 2010 in Hong Kong; Vice President for Regional Decision Management from July 2005 to August 2007 in Singapore; Vice President for Risk Management from May 2004 to June 2005 in New York. At JP Morgan Chase in New York, she was the Vice President in Credit Risk Management from April 2002 to April 2004 and Small Business Financial Services Risk Management in November 2000 to April 2002.

Ramon G. Duarte, Ramon G. Duarte, 53, Filipino, holds the position of Senior Vice President and Head of Platform Development Group. He was previously Chief Technology Officer of Dotenable, Inc. from 2000-2001; Head of Electronic Banking Transaction Services at ABN AMRO Philippines from 1999 to 2000; and Assistant Vice President of Product Management under Global Transaction Services at Citibank from 1996 to 1999.

Dennis D. Omila, 45, Filipino, holds the position of Senior Vice President and Chief Information Officer of the Bank. He was the former Senior Vice President of the Infrastructure Engineering and Service Operations cluster of Globe Telecom, Inc.* from 2014 to 2016. He was also the President and COO of NetX Technology Solutions, Inc. from 2002 to 2007. His certifications include Certified Information Systems Security Professionals (CISSP), Certified Check Point Security Instruction (CCSI), Certified Check Point Security Engineer (CCSE), Certified Check Point Security Administrator (CCSA), Vulnerability Assessment Specialist, Threat Assessment Specialist, Certified Core and Edge ATM Network Specialist (Fore Systems), Certified Networks Administrator (Nortel Networks), Certified SINIX, IRIX, Solaris and BSD UNIX Administrator and Business Continuity Certified Planner (BCCP). Mr. Omila is a graduate of De La Salle University with a degree in Bachelor of Science major in Computer Science with specialization in Computer Technology (BSCS-CT).

John Carry L. Ong, 44, Filipino, holds the position of Senior Vice President and Center Head of Transaction Banking of the Bank. He is also currently the Chairman of the Steering Committee of PESONet, the first Automated Clearing House established under the National Retail Payments System framework of the Bangko Sentral ng Pilipinas. He has over 20 years of experience in banking and banking-related institutions such as Citibank, Deutsche Bank and Misys International Banking Systems where he held various positions in different areas - transaction banking, cash management, trade finance, trust, asset management, fixed-income brokerage, treasury operations and treasury systems. He was also an Assistant Instructor at Ateneo de Manila University teaching Managerial Accounting, Business Statistics and Operations Management from 1995-1999.


Ronaldo Francisco B. Peralta, 54, Filipino, holds the position of Senior Vice President and Chief Risk Officer of the Bank. He started his banking career with Citibank, N.A. (Manila, Philippines) in 1985, holding various positions in Correspondent Banking, Operations, Financial Control, Credit Risk and Relationship Management, with his last role being the Chief of Staff of the Citi Country Head in 2007. In November 2007, he joined the Australia and New Zealand Banking Group Limited, taking on different Risk roles such as Head of Wholesale Credit Decisioning (Manila Hub), Head of Wholesale Portfolio Management (Manila Hub/ Hong Kong), Senior Manager-Lending Services Asia (Hong Kong), Head of Early Alerts Team (Melbourne, Australia) and Risk Executive-Asia Pacific Risk (Melbourne, Australia). He also worked as Vice President/Team Head in the Corporate Banking Group of the Bank of the Philippine Islands, from June to October 2014.

Michaela Sophia E. Rubio, 53, Filipino, holds the position of Senior Vice President, HR and Corporate Social Responsibility Director of the Bank. She joined the Bank in 2004 as Vice President and handled the Human Resource Services, Training and Organization Development divisions. Subsequently, she became the Deputy HR Director. Prior to joining the Bank, she was the Vice President and Country Human Resource, Quality and Corporate Communications Head in the Philippines of the global electrical and power company, Asea Brown Boveri (ABB) from 1999 - 2001. She worked from 2001 - 2003 as a Senior Consultant in OTi Consulting Singapore working with government owned and private organizations on Singapore Quality Class/Award, People Developer, Industry Capability Upgrading (ICAP) and Work Life and Work Redesign of which she was certified by SPRING Singapore. Before a career in Human Resource, she worked for ten years in the semiconductor and electronics manufacturing industry handling engineering and managerial functions in Statistical Process Control and Quality.

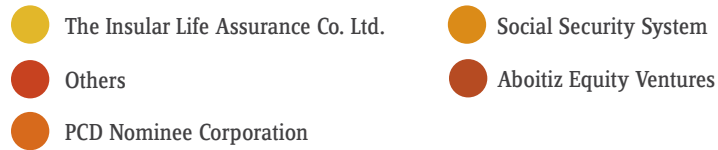
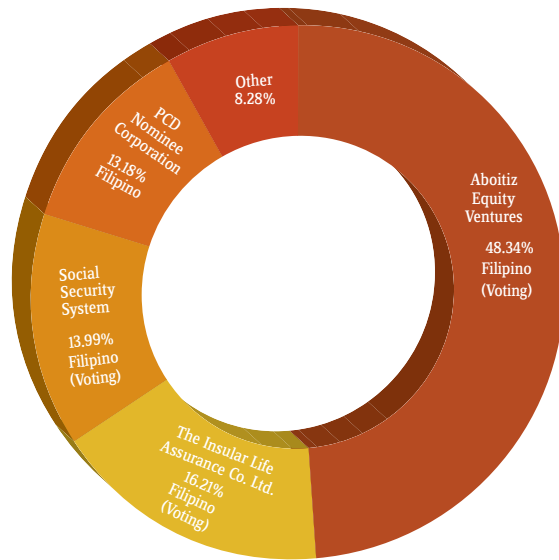
Myrna E. Amahan, 57, Filipino, holds the position of First Vice President and Internal Auditor of the Bank. She is a Certified Public Accountant (CPA), Certified Internal Auditor (CIA), Certified Information Systems Auditor (CISA) and has the designation of Certification in the Governance of Enterprise Information Technology (CGEIT). On top of these certifications in the field of internal audit and information technology, Mrs. Amahan is a qualified internal audit external validator, having undertaken the necessary training as well as passing the required exams. As qualified external validator, Mrs. Amahan is certified to conduct quality assessment of internal audit units as required under the International Standards for the Professional Practice of Internal Auditing. She previously worked as supervising IS auditor at Equitable-PCI Bank from 1996 to 2000 and was Head of the System Consultancy Services of the Commission on Audit from 1993 to 1996. Also, while with the Commission on Audit, Mrs. Amahan was among the government auditors sent to various United Nations agencies to conduct information systems audit. Mrs. Amahan graduated Magna Cum laude with the degree of Bachelor of Science in Commerce Major in Accounting from the University of San Carlos. She obtained a Master's Degree in Public Management from the Development Academy of the Philippines in 1994.

Ana Maria A. Delgado, 37, Filipino, holds the position of First Vice President, Deputy Center Head of Consumer Finance and Chief User Experience Officer of the Bank. She is also a Director of City Savings Bank, Inc., a subsidiary of the Bank. She is the Treasurer of the Weather Philippines Foundation from 2016 to present. She started her career with the Bank as a Product Manager under the Retail Banking Center. Prior to joining the Bank, she was an Assistant Vice President for Product Management at Citibank, N.A. from 2006 to 2008. She graduated with a Bachelor of Arts in Art History/Painting from Boston College and obtained her Master's Degree in Business Administration from New York University Stern School of Business in 2010.

Atty. Mary Joyce M. Sasan, 42, Filipino, holds the position of Chief Compliance and Corporate Governance Officer of the Bank with a rank of Vice President. She joined the Bank as its AML-Compliance Officer on 6 November 2013 and was appointed to her current position by the Board of Directors on 20 December 2013. Prior to joining the Bank, she held various positions in TONGYANG Savings Bank, Inc., such as Chief Compliance Officer, General Counsel, Corporate Secretary, Head of Credit, Collections and HR/Admin Departments from 2006 to 2013. She started her career in banking as a Litigation Lawyer and later, as Head of Collections Department of Citibank Savings, Inc. (formerly Insular Savings Bank) from 2002 to 2006. Prior to her career in the banking industry, she was a litigation lawyer in Astorga and Repol Law Offices, specializing in marine insurance recovery. Atty. Sasan has been a member of the Board of Directors of the Association of Bank Compliance Officers of the Philippines (ABCOMP) since 2015. She has also been the Chairperson of the Legal and Regulatory Committee of the Bankers Institute of the Philippines (BAIPHIL) since 2016. Atty. Sasan obtained her Bachelor of Arts major in Political Science from De La Salle University and her Bachelor of Laws from San Beda College of Law.

 *The Bank's future as a business and as an institution is greatly dependent on the knowledge, skills, integrity, innovativeness and loyalty of its people.*

Ownership Structure



UnionBank's Major Shareholders

AEV Aboitiz Equity Ventures

- Public holding company of the Aboitiz Group with investments in power, banking and financial services, food, infrastructure and land.
- 511,581,606 common shares as of 31 December 2017

IL Insular Life Assurance Co. Ltd.

- First and largest, Filipino life insurance company and the mutual company in the Philippines
- 171,597,613 common shares as of 31 December 2017

SSS Social Security System

- State-run social insurance program
- 148,053,755 common shares as of 31 December 2017

PERFORMANCE ASSESSMENT PROGRAM

BOARD

The Board Assessment process is undertaken annually to measure board efficiency through a balanced and objective platform against the goals that the Board has set at the beginning of the year, roles and responsibilities as mandated by the various regulatory agencies as well as the Bank's own Manual on Good Corporate Governance. Further, the assessment provides the Board and its committees valuable information that can be used as a guiding tool in succession planning, objective setting as well as analysis of whether they have accomplished the purpose for which they were established and to act to address any concern emanating therefrom.

The Assessment was enhanced in 2017 to include components designed to gather an all-inclusive view of the Board's performance. The Assessment now consists of three (3) components, namely, (1) Self-Assessment as collegial body (2) Individual Self-Assessment and (3) Independent Assessment. Each component is considered vital to ensure that the evaluation is comprehensive and objective by allowing peer review of the board as a collegial body, individual self-review and an executive review by the Corporate Secretary, Chief Risk Officer and the Chief Compliance and Corporate Governance Officer. This unique take on the evaluation showcases the Bank's dedication to a transparent governance regime.

SENIOR MANAGEMENT

The Bank maintains its own Performance Management and Career Development System called My Performance and MyCareer. This is a year-round exercise where all employees including senior management are required to discuss performance and development feedback. My Performance and My Career focuses on employee development which contributes to improved performance, employee engagement and positive business results.



UnionBank University



Growing Leaders. Building Expertise.
Innovating Business.



TRAINING AND ORIENTATION

The Corporate Governance Committee is responsible for making recommendations to the Board regarding required trainings and the Board's continuing education. All members of the Board have attended a one-and-a-half-day corporate governance orientation seminar for bank directors conducted by BSP-accredited institutions in compliance with the requirements of the MORB. These include extensive discussion on topics involving audit, risk and governance, financial stewardship and accountability. They also undergo orientation on the Bank's businesses as soon as they assume their positions. Representatives from key segments of the Bank present their respective business to newly elected directors. Continuing education is also provided which include training by the Bank and by outside service providers.

In December 11 and 13, in compliance with SEC Memorandum Circular No. 20 Series of 2013, Unionbank held a four-hour corporate governance seminar course by SGV & Co. with members of its Board and key executive officers in attendance.

RETIREMENT AND SUCCESSION

The Bank believes that building a bank of enduring greatness entails building a strong base of leaders who can steer the Bank towards digital transformation. In this regard, the Bank, through the conduct of talent review identifies successors to critical positions to ensure leadership continuity. The succession management policy, called Building Organizational Muscle (BOM 2.0) promotes line manager accountability in understanding talent gaps and growing high-potential talents for the future while ensuring businesses are aligned thus making future-proof succession plans.

The normal retirement age for the Bank's officers and employees is set at sixty (60) years old.

REMUNERATION POLICY

EXECUTIVE AND NON-EXECUTIVE DIRECTORS

The Compensation and Remuneration Committee oversees the implementation of the programs for the salaries and benefits of the Bank's Senior Management and Directors, as may be applicable.

Executive Directors of the Bank receive compensation from the Bank in the form of guaranteed salaries, per diem for attendance to meetings, and variable pay or profit sharing, as prescribed by the Bank's By-Laws.

The non-executive directors receive per diems of P120,000.00 for each attendance in meeting of the Board except for the Chairman of the Board who receive P150,000.00, while the executive director who is the President and Chief Executive Officer receive per diem of P1,500.00 for each attendance in Board meetings and P3,000.00 for each committee meetings.

The Chairman of each committee is paid a per diem of P85,000.00 per meeting actually attended and a committee member attending a committee meeting receives per diem of P60,000.00.

Per diem and bonuses of some directors who represent institutional shareholders are received for and on behalf of their institution.

SENIOR MANAGEMENT

The compensation policies and procedures for Senior Management follow a market-based compensation structure, anchored on the principles of meritocracy or pay-for-performance.

RELATED PARTY TRANSACTION

It is the policy of the Bank to ensure that related party transactions are all entered into at arm's length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. Hence, they likewise go through the same process applicable to ordinary or unrelated party transactions as set forth in the Bank's internal guidelines or policies. The Bank has in place a Related Party Transaction Policy approved by the Board of Directors and strictly implemented across all covered transactions in the Bank.

Members of the Board, stockholders and management are obliged to disclose any financial interest in any transaction or matter affecting the Bank. Material facts pertaining to the transaction including whether the terms and conditions of the proposed related party transaction and deviations, if any. Likewise, Bank officers or employees who are related to the transacting party are required to abstain from the discussion, approval and management of the transaction.

The Related Party Transactions Committee or RPT Committee is responsible for assisting the Board in fulfilling its governance responsibilities on related party transactions (RPTs), as specified in the Related Party Transaction Policy, by (1) Evaluating existing relations between and among businesses and counterparties for proper identification and monitoring of relationships; (2) Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms; (3) Ensure appropriate disclosure; (4) Periodic reporting to the Board; (5) Ensure that transactions with related parties are subject to periodic audit process and (6) Overseeing the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including periodic review of RPT policies and procedures.

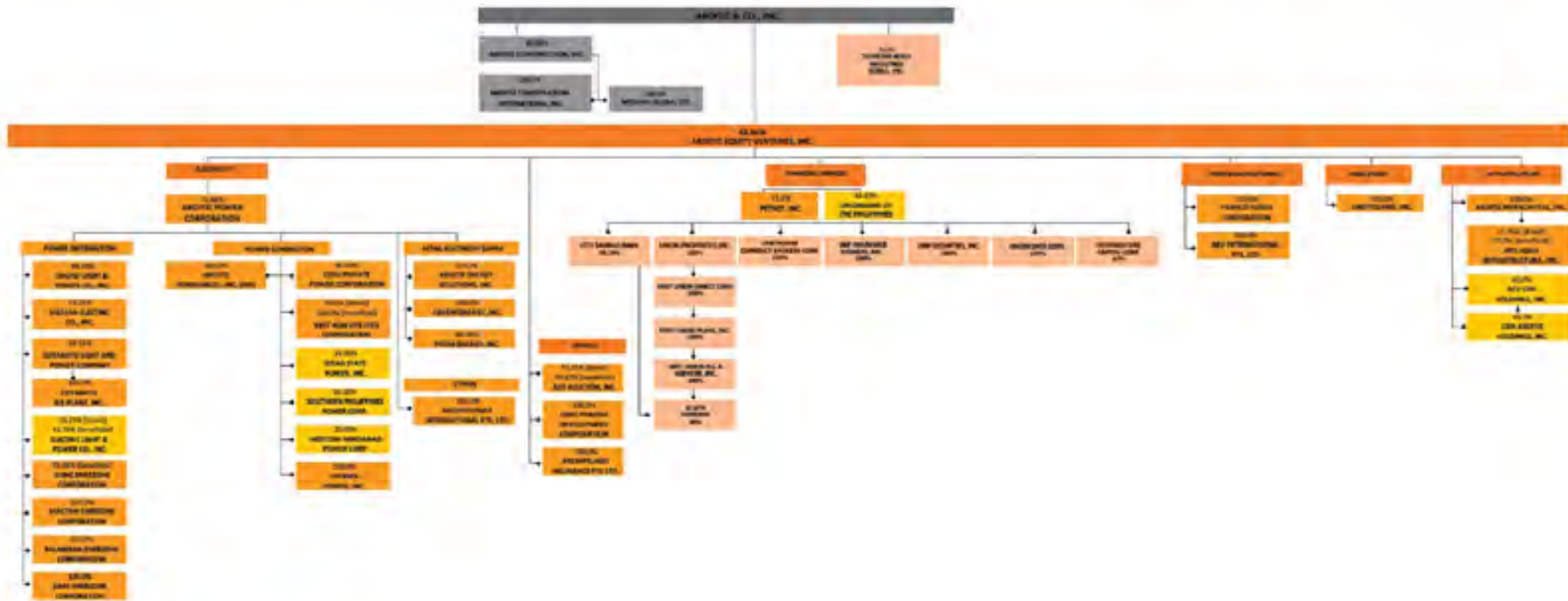
RELATED PARTY TRANSACTIONS AS OF 31 December 2017

Related Counterparty	Relationship Between the Parties	Type of Transaction	Approved Line	Amount/ Contract Price	Terms
City Savings Bank, Inc. (CSB)	Subsidiary	Accounts Receivable	Php25.24M	Php25.24M	Short Term
		Bills Purchased	Php1134.71M	Php1134.71M	Short Term
First Union Direct	Subsidiary	Marketing Support	Php24.83M	Php24.83M	Short Term
Insular Health Care, Inc. (I-CARE)	Subsidiary of Insular Life Assurance Co. Ltd., a stockholder of the Bank	Medical Health Insurance	Php61M	Php61M	1 year
Philex Mining Corporation	Related due to common stockholder, Social Security System (SSS), between the Borrower and the Bank.	Renewal of existing credit facilities	Php697.06M	Not availed	N/A
Social Security Systems	Stockholder of the Bank	Renewal of credit facilities	Php1B	Not availed	N/A
Redondo Peninsula Energy, Inc. ("RP Energy")	Aboitiz Equity Ventures (AEV) effectively owns 19.22% of RP Energy. AEV is a major stockholder of the Bank.	Syndicated Term Loan	Php10B	Not availed	N/A
Unilox Industrial Corp.	The owner of Unilox is the brother of one of the Directors of the Bank.	Short Term Loans	Php60M	Php34.7M	180 days
Unilox Far East Resources, Inc.	The major owner of Unilox Far East and Tierra Agri is the brother of one of the Directors of the Bank.	Trust Receipts	Php60M	Php13.73M	180 days
Tierra Agri Technologies, Inc.		Short Term Loans	Php40M	Php16M	180 days
Davao Light and Power Co., Inc.	Affiliate - Effectively owned by Aboitiz Power Corp.	Bills Purchased	Php64.79M	Php64.79M	Short Term
Various Accounts under the Fringe Benefits Program	Various UnionBank Officers	Fringe Benefits	Php478.36M	Php478.36M	Long Term
Radiowealth Finance Co., Inc. (RFC)	Considered as related interest due to common Directors, Mr. Amado D. Valdez, between RFC and the Bank.	PN Line/ DBPL/ DL/ Corporate Card	Php400M	Php257.92M	360 days
Pilipinas Shell Petroleum Corporation (PSPC)	Related due to common stockholder, Insular Life Assurance Co., Ltd., between the Borrower and the Bank.	Renewal of Trust Line	Php500M	Php55.03M	Same terms and conditions with Directional and Discretionary Trust Accounts used in equity investments.
PXP Energy Corporation	Related due to common stockholder, Social Security System (SSS), between the Borrower and the Bank.	Establishment of Issuer Risk Line	10 MM	Not Availed	N/A



CORPORATE GOVERNANCE REPORT

ABOITIZ EQUITY VENTURES, INC. AND SUBSIDIARIES CONGLOMERATE MAPPING As of December 31, 2017



- Parent Company
- Reporting Company
- Co-Subsidiary
- Subsidiary
- Associate or Joint Venture
- Other Related Parties

INTERNAL AUDIT

Internal Audit Division (IAD) is designated to meet the functions set forth in the Internal Audit Charter that includes transaction testing and assessment of specific internal control procedures; and the examination and evaluation of the following:

- ✓ Adequacy and effectiveness of the internal control systems, procedures of safeguarding assets, system of assessing capital in relation to the estimate organizational risk;
- ✓ Application and effectiveness of risk management procedures and risk assessment methodologies;
- ✓ Adequacy and effectiveness of the internal control systems, procedures of safeguarding assets, system of assessing capital in relation to the estimate organizational risk;
- ✓ Adequacy and effectiveness of the internal control systems, procedures of safeguarding assets, system of assessing capital in relation to the estimate organizational risk;
- ✓ Adequacy and effectiveness of the internal control systems, procedures of safeguarding assets, system of assessing capital in relation to the estimate organizational risk;

IAD's mission is to ensure that the Bank's operations are conducted according to the highest standards by providing an independent, objective assurance function and by advising on best practice. Through a systematic and disciplined approach, Internal Audit helps the Bank accomplish its objectives by evaluating and improving effectiveness of risk management, control and governance processes.

The Internal Audit activity **GENERALLY CONFORMS** with the International Standards for the Professional Practice of Internal Auditing (ISPPPIA) as it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics and Standards; and the internal audit activity's charter, plans, policies, procedures, practices and applicable legislative and regulatory requirements.

IAD functionally reports to the Audit Committee of the Bank and administratively reports to the President. Its work is conducted and managed in accordance with the Institute of Internal Auditor (IIA) and International Standards for the Professional Practice of Internal Auditing (ISPPPIA). IAD also follows the Information Systems Audit and Control Association's (ISACA) COBIT standards when conducting information technology audits.

The Bank's risk management and governance frameworks are adequately documented. Responsibilities of the Board, board level committees, senior management and other units of the Bank in relation to managing the different risks are clearly delineated. The Board and senior management receive timely reports from different business and risks units to properly manage the risks the Bank is exposed to.

In behalf of the Board of Directors, the Audit Committee provides oversight of the Bank's financial reporting and control, as well as internal and external audit functions. It is also responsible for ensuring the independence of the external and internal audit functions and for the appointment of the internal auditor and the independent external auditor who both report to the Audit Committee.

The Audit Committee supervises Internal Audit Department's assurance, consulting/advisory, special projects and case investigation activities/reports as well as activities of the external auditors and regularly tracks management actions taken on open audit items. To ensure that the IAD Manual and Audit Charter are in accordance with ISPPPIA standards, the Audit Committee also approves amendments to the IAD Audit Manual.

COMPLIANCE FUNCTION

The compliance function is independent from the business activities of the Bank. The Compliance Office ensures that the Bank, its branches and subsidiaries comply with all Philippine banking and corporate laws, regulations, external and internal policies, corporate governance, ethical standards and other best practices in the implementation of its business operations. Its functions include the following:

- ✓ Identification of relevant laws and regulations, codes of conduct, ethical standards, and best practices in the Philippines and the analysis and assessment of risks of non-compliance;
- ✓ Increasing awareness of existing as well as new banking and corporate laws and regulations among bank employees and subsidiaries through orientation, comprehensive training program, meetings and dissemination of regulatory issuances and guidelines;
- ✓ Practice open communication within the Bank in order to address compliance matters;
- ✓ Reporting of compliance issues, risks and other related matters to the Board of Directors, to the appropriate Board committee and/or senior management;
- ✓ Validation of Compliance Testing Certification resulting from the Self-Testing Exercise based on appropriate frequency and reporting of compliance findings to the appropriate level of management

CORPORATE GOVERNANCE REPORT

- ✓ Promoting a constructive, working relationship with regulatory agencies, especially with the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, Philippine Stock Exchange, Philippine Dealing Systems, Philippine Deposit Insurance Corporation and the Anti-Money Laundering Council, to name a few.
- ✓ Conduct orientation and similar programs to and for all employees designed to foster a strong and ethical compliance culture;
- ✓ Review and update, at least annually, the Compliance Program to assess its efficiency and ensure its continued relevance;
- ✓ Ensure the Bank's adherence to laws, regulations, industry-accepted standards, BSP and SEC regulations and requirements; and compliance with policies and standards issued or promoted by organizations such as the Banker's Association of the Philippines (BAP), Philippine Clearing House Corporation (PCHC), Card associations such as Visa and Megalink and other similar organizations.
- ✓ Monitor transactions which may qualify as suspicious activities or which may relate to money laundering, and their reporting to the Anti-Money Laundering Commission (AMLC)

The Compliance and Corporate Governance Office (CCGO) reports directly to the Board of Directors through the Corporate Governance Committee (CGC) which oversees the implementation of the compliance program as well as its related policies and guidelines. The Committee shall ensure that compliance issues are expeditiously resolved. The Head of the Compliance and Corporate Governance Office, the Chief Compliance and Corporate Governance Officer ("CCO"), shall inform Senior Management and the Board of Directors of the ongoing implementation and assessment of the effectiveness and appropriateness of the compliance program and any matters or issues relating thereto or emanating therefrom.

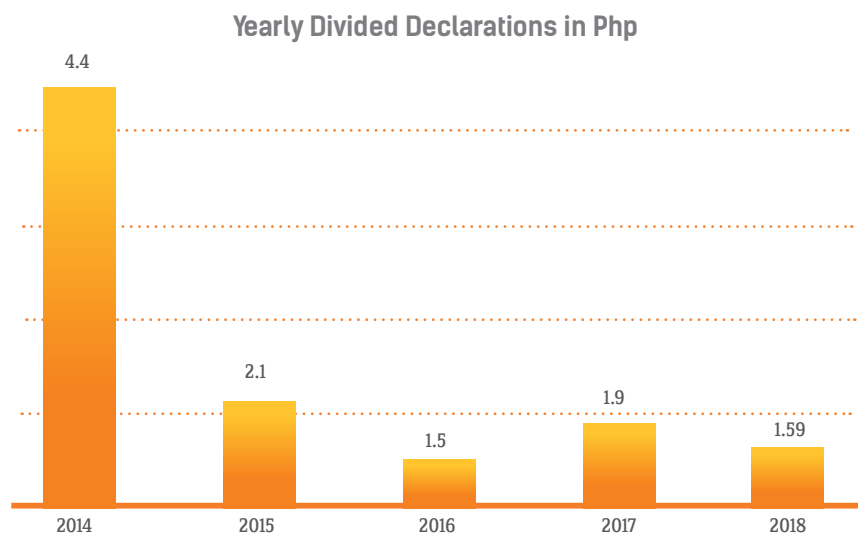
Control Functions



DIVIDEND POLICY

The Board of Directors shall declare dividend each year amounting to approximately twenty-five percent (25%) of the prior year's net income after tax, payable out of the Bank's unrestricted retained earnings, subject to prior approval by the relevant regulatory authorities as may be required.

Below are the historical dividend declarations made by the Bank in the last five (5) years.



CONSUMER PROTECTION

The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs. The Board shall be primarily responsible for approving and overseeing the implementation and compliance with the BSP-prescribed Consumer Protection Framework as well as that of the Bank's own framework. While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the Board monitors the managing of day-to-day consumer protection activities of the Bank via reports to board-level committees.

Risk assessment strategies are included as part of the Consumer Assistance Policy and Procedure (CAPP) to analyze the data of complaints/requests, its causes, effects to other products/services, and corrective actions including its costs as well as resources. All monitored complaints, regardless of nature or type, shall be centralized to the Consumer Affairs Group (CAG). The Consumer Affairs Group does the following:

- Analyze complaints data, root causes and trends.
- Monitor resolution and effectiveness of actions taken
- Identify weaknesses in its internal controls
- Recommend action plans to mitigate identified operational or reputational risks
- Include analysis and recommended action plans in the Complaints Report to Senior Management and/or Board Committee.

CAG is the unit responsible with the compliance of BSP Circular No. 857 on Financial Consumer Protection. CAG monitors customer experience and liaises with BSP-Financial Consumer Protection Department (FCPD). They are responsible for ensuring that the consumer assistance management process is necessary, updated and conforming to the internal control framework of the Bank and complied with by all implementing units. They are responsible for monitoring and overseeing the Bank's consumer assistance. The group keeps track, identifies and analyzes trends about the nature of the complaints, and, when needed, recommends solutions to avoid recurrence or improve processes to deliver standout customer experience. CAG reports and escalates issues and concerns to Senior Management or to the Risk Management Committee and/or other Board-level committees on a periodic basis

A Consumer Assistance Officer (CAO) receives and acknowledges customer complaint/request /inquiry through any of the following channels: web-portal, walk-in or personal branch visit, letter, e-mail and telephone/facsimile. The CAO performs initial investigation to identify concerned unit/s in charge of resolving the matter and logs the same into the Bank's central repository system. The client will receive notifications via SMS/email as acknowledgment of concern as well as when concern is resolved. The Quality Assurance Officer (QAO) monitors progress of investigation to ensure compliance with prescribed turnaround time and conducts follow-up when necessary. The Resolving Consumer Assistance Officer assesses and investigates the request/complaint then completes the investigation within the required turnaround time based on the type of complaint and communicates the resolution to the customer in a simple and clear language. Corporate accounts handling of concerns are not yet lodged into the Bank's central repository system and is presently being handled by the Corporate Call Center (Union3C). CAG ensures that monitoring and oversight on consumer concerns encompasses the entire Bank and not only those coursed through or lodged into the central repository system.

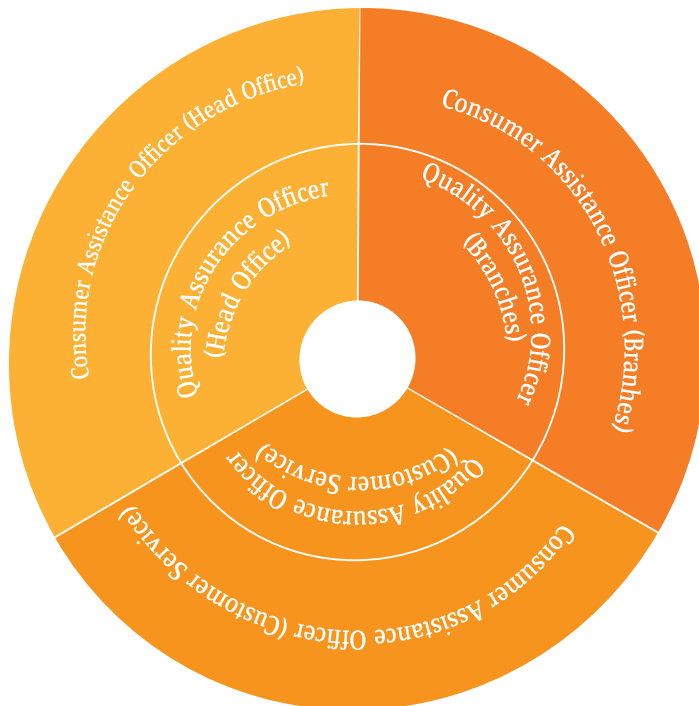
CORPORATE GOVERNANCE REPORT

In 2017, the Bank did not receive complaints regarding breaches of customer privacy and/or losses of customer data. Nonetheless, the Bank strictly observes Republic Act No. 10173 or the Data Privacy Act of 2012.

For FY2017, we have received a total of 38,812 complaints in the Bank's central repository. 27,532 or 71% were related to CASA. 10,948 or 28% were related to Credit Cards and 332 or 1% were GSIS-related, loans and promotions, and general complaints.

➤ *A dedicated Consumer Affairs Group was created to oversee the fast, reliable and expert response to consumer concerns and feedback.*

Consumer Affairs Group



THE MANUAL ON GOOD CORPORATE GOVERNANCE

UnionBank's Manual on Good Corporate Governance embodies leading principles and practices promoted by the Bank to ensure that it espouses a system of integrity and transparency aimed at upholding the rights of its stakeholders. The Manual is designed to comply with the regulatory standards of good governance and align itself with industry best practices and global paradigm.

With the issuance by the SEC of the Code of Corporate Governance for publicly-listed companies in November 16, 2016 thru SEC Memorandum Circular No. 19 Series of 2016, the Bank's Manual underwent a revision to ensure its alignment with the same. Periodic review is undertaken to ensure that the Manual remains relevant with respect to current regulations. A copy of the latest board-approved manual is available in the Bank's website.

GOVERNANCE POLICIES

The Bank created a set of governance policies and mechanisms designed to provide concrete standard of corporate philosophy to guide its Board, management and employees in fulfilling its responsibilities to its shareholders and various stakeholders. The policies are subjected to periodic review to ensure that they remain consistent with applicable regulations.

POLICY ON CONFLICT OF INTEREST

The policy provides that a conflict of interest exists when the personal, business or other related interest of a director, officer or employee adversely interferes in any way, or could reasonably be perceived to interfere with that of the Bank. It also provides the duties and responsibilities of directors, officers and employees to immediately disclose any involvement in material conflict of interest and to refrain from participation in the decision-making process relating to the transaction. To prevent potential conflicts, the Bank has relevant policies in place that prohibit certain transactions between the Bank and its employees. .

TRADING GUIDELINES AND BLACKOUT POLICY

The policy mandates the compliance of all "covered persons" to the obligations stated in the Securities Regulation Code ("SRC"), other trade-related regulations as well as rules involving dealing of the Bank's shares. Covered persons are defined as directors, principal officers and all other employees of the Bank, including their immediate families living in the same household, who are made aware of undisclosed, material, non-public information pertaining to the Bank. Further, the policy provides trading prohibition for covered persons who possess material, non-public information within two (2) full trading days after such information has been made public. A blackout shall likewise be imposed beginning ten (10) trading days before and two (2) trading days after the release of the Bank's quarterly earnings.

WHISTLE BLOWING POLICY

The policy mandates all employees to report actual or possible violation of a law, regulation, the Code of Conduct, or any of the Bank's policies. Duty is also imposed upon those who are aware of any condition that creates undue material risk to the Bank to promptly report the same to his or her supervisor or avail of the reporting mechanisms set forth in the policy. The policy affords anonymity and confidentiality of the whistleblower's identity to the rest of the Bank. All communications with the whistleblower are likewise treated with confidentiality. The Bank ensures that there will be no discriminatory or retaliatory action against any whistleblower who reports a concern in good faith based on his/her personal knowledge as provided for in the policy.

ALTERNATIVE DISPUTE RESOLUTION SYSTEM

UnionBank's commitment to the protection of the rights of its shareholders is manifested by ensuring that there exists effective methods to obtain redress for grievances at a reasonable cost and without excessive delay. As stated in its Revised Manual on Good Corporate Governance, the Bank promotes early settlement of conflicts with its stockholders and other stakeholders.

ETHICAL STANDARDS

UnionBank's corporate culture is set by guidelines found in the Bank's Code of Conduct which outlines standards of behavior and ethical conduct. These standards are expected of everyone in the Bank in performing one's function especially when dealing with co-employees, customers, suppliers, the government and community.

Disciplinary action provides for the offenses when the set ethical standards are breached in relation to their administrative penalties. The administrative due process sets the procedures to be followed to address and resolve the breaches. These three components enable the Bank to consistently grow its business while providing safeguards to its various stakeholders

 *Ethical Standards, Disciplinary Action and Procedure for Administrative Due Process*

COMPLIANCE WITH OECD PRINCIPLES

Rights of Shareholders

The Bank is committed to the protection of shareholders' rights as identified in its Corporate Governance Manual. It encourages not only attendance to, but also, active participation of its shareholders in the annual stockholders' meeting. This is carried out by ensuring distribution of the Bank's information and financial statements at least thirty (30) days prior the date of the meeting. Minority shareholders are granted the right to propose the holding of a meeting, and recommend items for inclusion in the agenda, provided these are for legitimate business purposes. Shareholders have the right to remove and replace directors and vote on certain corporate acts, inspect corporate books and records and be furnished with annual reports and financial statements. They may dissent from corporate acts and demand payment of the fair value of their shares in the manner provided for under the Corporation Code. Shareholders have the right to dividends, which shall be declared and paid out of the Bank's unrestricted retained earnings as often and at such times as the Board may determine after making provision for necessary reserves in accordance with the law and the regulations of the Bangko Sentral ng Pilipinas.

The Bank understands that information is key to making critical business decisions. As such, the Bank empowers its shareholders by providing accessible channels to communicate material information.

The Bank's official website at www.unionbankph.com is used to provide real-time updates on focal corporate points that shape decisions. Key disclosures and announcements are periodically published in the "UnionBanker" newsletter as well as uploaded in a timely manner to safeguard the materiality of the information in relation to the business decisions it affects

Investors

The Bank's Investor Relations Office (IRO) carries the responsibility to strengthen relations with investors through the development and implementation of various programs. The IRO conducts face-meetings with investors, financial analysts, investment banks rating agencies, the investing public and other interested parties on a per need or per request basis to provide deeper appreciation and understanding of the Bank's unique culture and competitive advantages. The office also occasionally requests other bank executives to be subject matter experts as the need arises. The IRO ensures to exhaust its various communication channels to ensure transparency and disclosure to its investing public.

Depositors and Other Customers

The Bank is conscious that the nature of its business relies heavily on public trust and perception which is why it subjects itself to a standard of governance that puts weight on disclosure and transparency. The Bank recognizes its obligation to be truthful and objective in dealing with its customers. While it is entitled to employ all fair and honest means to promote its products and services, it does not knowingly make false representations to customers. All bank employees, in line with the provisions of the Code of Conduct, are expected to conduct themselves in a manner that creates value for its customers through appropriate and sound banking practices.

Suppliers

The Bank upholds the principles of truthfulness, fairness and respect in its dealings with suppliers. It continues to build and maintain good relations by honoring agreements which are entered in conformity with the law and public policy.

The Bank has a standard policy governing the assessment, selection and accreditation of suppliers delivering products and services to the Bank. It fairly and strictly implements its Supplier Accreditation Policy to all suppliers of products and services. The policy mandates the submission of comprehensive information sheet and applicable documentary requirements. The suppliers are then subjected to an assessment based on applicable criteria including but not limited to: the company's status in its respective industry; (2) liquidity based on business viability and; (3) freedom from any lawsuit or government action, among others. The policy aims to ensure that all suppliers who wish to do business with the Bank are capable of providing quality products, materials or services, and have technical, commercial and financial ability, adequate equipment and facilities, good service performance, or any other measure that will ensure quality and reliability.

UnionBank's good procurement practices contribute to smooth banking operations thus ensuring that its customers likewise enjoy quality service while gaining opportunities that benefit internal operations, e.g. value-added service. In managing procurement, the Bank manages costs and acquire materials that meet industry standards. Within the scope of supplier management are recognition of inherent limitations like location of branches for deliveries and review of sub-contractors. The Bank recognizes these challenges and the related, potential impact that they may bring.

UnionBank is committed to timeliness and accuracy of execution of critical processes. The Bank sets out to fulfill full compliance to banking regulations including those that govern outsourcing. Key to this is efficient management of resources and strict compliance to processes.

All purchases of equipment, supplies and services for the Bank are made based on quality, utility and price offered by the vendors. While the Bank may actively negotiate for favorable terms with its suppliers, it does not knowingly mislead them with respect to competitors' price and terms, its plans for future purchases, or other particulars of their transactions. The Bank does not use its vantage position as customer to impose unfair conditions that could not have been obtained by negotiations in good faith or commit acts or omissions that unjustly breach contractual obligations.

The Bank does not tolerate bribery. As explicitly stated in the Bank's Code of Conduct, employees are prohibited from accepting gifts regardless of value, type, nature, etc. from customers or suppliers. In the same way, no employee shall offer or make payments, other inducements or provide lavish entertainment to government officials or customers in order to sell the products and services of the Bank. An exception to this general rule applies to promotional gifts provided to targeted, large classes of customers, e.g. credit card and consumer account opening promotions. To ensure compliance, periodic risk assessment is conducted across all business units of the Bank. Detailed guidelines are released and enhanced internal controls, implemented.

The Bank values all of its stakeholders which includes its suppliers who are seen as partners in growth. It is the Bank's thrust to maintain good relations with its suppliers by conducting itself in line with its core values and recognizing that it is mutually beneficial to work with those who influence the quality of goods and services delivered and rendered

97.36%

Above target rate on:

TIMELINESS

ACCURACY

SERVICE DELIVERY

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Bank's digital transformation is most certainly mindful of our humanity and communities. As it climbs the ladder in becoming a leader in digital banking, it also strives to bring along its key stakeholders—our employees, customers, partners—and truly bring about inclusive prosperity.

The Bank's Corporate Social Responsibility (CSR) pursues partnerships that promote our sustainability pillars of People, Planet and Purpose. Since adapting CSR 2.0 few years back, the programs have been aligned to complement the Bank's strategy and business goals and continue to commit to its brand promise of elevating lives and fulfilling dreams through Smart Banking, in the spirit of Magis and Ubuntu.

Human capital remains to be the Bank's most valuable asset. CSR has maintained interactive relationships with higher learning institutions to engage with potential talents and future leaders.

The Arete-Ateneo de Manila University's pioneering learning program integrates students from different disciplines to address social issues through collaboration and innovation. Contributing in this trailblazing curriculum, UnionBank would provide subject matter experts whenever necessary, host lecture series and town-hall sessions, or help co-create solutions for the greater good.

The Lumina Pandit II Program with the Miguel de Benavides Library and Archives of the University of Sto. Tomas as gained much since it started in 2011. Working together to attain this partnership's goal of preserving and promoting our rich history and heritage, the Bank has restored numerous rare and precious books and documents, digitized them and published online for accessibility.

In 2017, under the program, a two-volume catalogue of the University Archives which complements the six-volume heritage library collection catalogues of the library was launched. It showcased the assortment of what the great library and archives can offer. Moreover, the enhanced digital library will eventually have a transaction portal with payment facility powered by UnionBank. This will enable researchers around the globe to gain access to the rare and antique collection of the University.

UREKA—the Bank's flagship CSR program that empowers micro, small and medium enterprises (MSMEs) with e-Commerce competencies, has also evolved. UREKA e-Cadets is a spinoff of the UREKA Forum wherein college students are equipped with the same skills as MSMEs, plus a technical knowhow so they can also provide support to the growing MSMEs being on-boarded. For 2017, UREKA e-Cadets has had workshops in Baguio, Iloilo and Cebu, training over 1,200 students.

UREKA also had a special event for the members of Ahon sa Hiras, Inc. (ASHI) - a micro-finance group catering to women entrepreneurs last March 2017 as part of the Women's Month celebration. In this small-group session, 30 nanays (mothers) were taught the basics on setting up their businesses online and marketing their products through social media.

UnionBank also participates in the advocacies of its various membership groups. Through the American Chamber of Commerce (AmCham) Foundation, the Bank donated shelter repair kits for the families affected by typhoon Nina which struck the Bicol region in December 2016. It also supported the education of tertiary students by sponsoring the annual AmCham ScholaRun.

Following the Bank's practice of contributing in kind to the nation's largest and most influential business-led social development foundation, it donated two (2) utility vehicles to the Philippine Business School for Progress (PBSP). This will help PBSP in delivering its various community development services nationwide. Moreover, UnionBank has been part of the SOLB: Sustainability Solutions Fair of PBSP.

At the annual League of Corporate Foundations (LCF) CSR Expo, UnionBank shared its best practices in conducting CSR programs such as UREKA and GoBeyond Communities. GoBeyond Communities is the Bank's employee engagement program where UnionBankers are encouraged to implement volunteer activities for different communities. These activities may support different causes such as education, environment, health and nutrition, livelihood and enterprise development among others.

UnionBank continues to give to long-time and valued associates. As an esteemed-partner in youth development, the Bank gave to the special fund established by the Ramon Aboitiz Foundation, Inc. (RAFI) for pediatric, liver patients in honor of late RAFI President, Roberto "Bobby" Aboitiz. The Bank also contributed to the endowment fund established by Caritas Manila to sustain Youth Servant Leadership and Education Program (YSLEP) - a scholarship program supporting the education of urban poor youth.

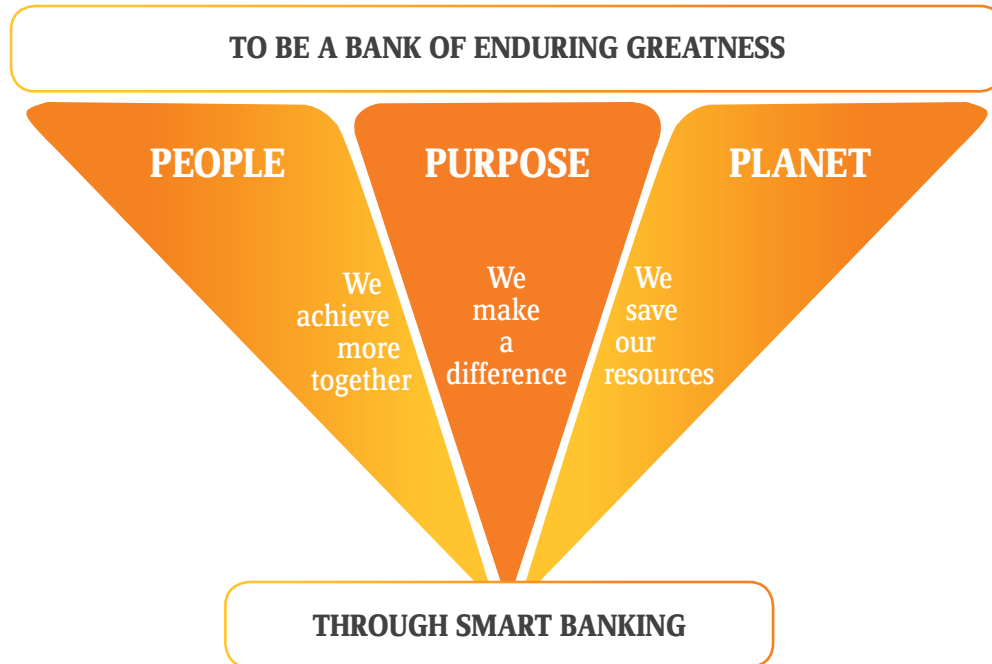
Remaining relevant to the communities it serves is the Bank's way of ensuring that no one is left behind in this digital revolution.



SUSTAINABILITY REPORT

WHAT DOES SUSTAINABILITY MEAN FOR UNIONBANK?

At UnionBank, sustainability is all about elevating the lives of our stakeholders, driven by genuine concern for communities where we serve and Smart Banking practices that minimize impact to the environment.
We adopt a three-pillar approach of People, Planet and Purpose:



People

Our employees are the very lifeblood of our bank. They provide the animating spirit behind our success, so we invest all we can in their own success. This in turn inspires them to take parallel action to change their respective communities for the better.

Purpose

UnionBank's continued relevance rely on a purpose beyond private gains. We have lived beyond 35 years because we conduct business based on deeply held values and engage our clients with genuine empathy.

Planet

We manage the bank's environmental impacts strategically. Within the bounds of our business, we commit to doing all we can to minimize our carbon footprint while discouraging unsustainable lifestyles.



We need purpose to build a bank of enduring greatness. The reason we get to live beyond 35 years is because we innovate, reinvent ourselves, and work for a purpose greater than profit.”

- Justo A. Ortiz, Chairman

PEOPLE



UnionBank Job Ad launch.

Employee Engagement

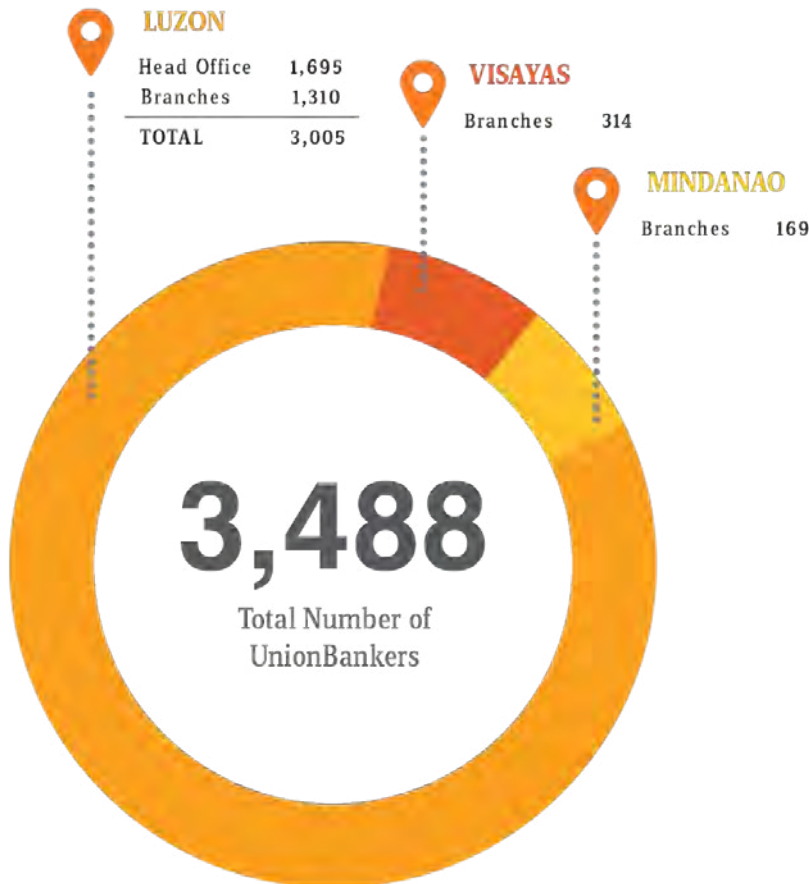
An inspired and energetic workforce is our top priority. We seek tangible ways to measure engagement and quantify its impact on our overall business performance. We also carefully design employee engagement programs that enrich our policies and sharpen our strategies.

Beyond metrics, we give our managers ample room to flex their creative muscles. Our employees, meanwhile, are given the right tools to succeed and follow their dreams.






For 2017, a total of 107 departments at UnionBank exceeded the Gallup Global Best Practice Score of 4.41 based on our Aboitiz Culture and Engagement Survey held last May.

This means our top units belong to the 75th percentile of the Gallup Global Database as among the most engaged business teams in the world.

Employee Profile



Employment Contract

	Head Office	Branches	Total
 Probationary	144	204	348
 Permanent	1,551	1,589	3,140
	Head Office	Branches	Total
 Workforce Distribution	1,793	1,695	
 Gender Distribution	728	586	1,314
 Gender Distribution	967	1,207	2,174

Age Distribution

Below 30 Years Old



30-50 Years Old



Over 50 Years Old



● Head Office ● Branches

Employment Category

	Head Office	Branches	Total
 Senior Management	147	26	173
 Middle Management	620	653	1,273
 First Line Managers	734	494	1,228
 Staff	194	620	814

Career Development

Building a technology company with banking facilities opens a wide range of opportunities for UnionBankers to define their own career journeys beyond traditional banking structures. UnionBank is firm in its commitment to future-proof talent through constant functional and digital enablement, up-skilling, and retooling initiatives that are informed by the following principles:

- Learning addresses the current needs of a digital workforce and organization
- Learning prepares employees' for future roles and bigger responsibilities across the organization
- Learning is accessible in formats and methodologies that support on-demand and effortless learning that drives employee growth and innovation

In the area of leadership, the Bank's programs apply to all UnionBankers and not only those in managerial roles.

Democratizing learning to reach every bend of the organization, UnionBank University, the official training arm of the bank, utilizes cloud-based systems to manage and deliver the enablement requirements of the Bank by making learning available on-demand. This means that the employee's learning experience is not confined in the classroom, a set time, or location. UnionBankers are able to expand their knowledge and expertise in diverse areas at their leisure and through any device.

UnionBank University also offers varying learning solutions such instructor-led, virtual-classroom, self-paced, and e-Learning through its nine (9) Academies: 1) Leadership and Management Academy; 2) Self-Mastery; 3) Digital and Innovation Academy; 4) Lean Enterprise and Six Sigma Academy; 5) Sales Academy; 6) Marketing Academy; 7) Finance Academy, 8) Operations Academy; and 9) Operations Academy.

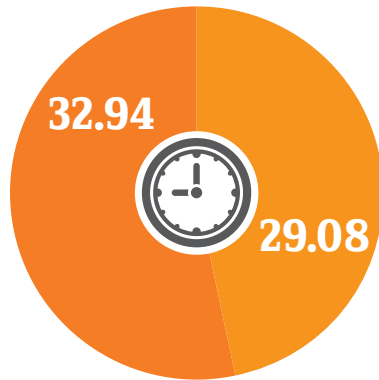
In addition to this, UnionBank University hosts a quarterly Leaders Learning Circle masterclass that brings global experts and thought leaders together. In 2017, the University invited Masterclass Leader and TEDx Presenter Annicken Day; award-winning CEO Hamish Taylor; and international best-selling author from Harvard and MIT Sangeet Paul Choudary.



SUSTAINABILITY REPORT

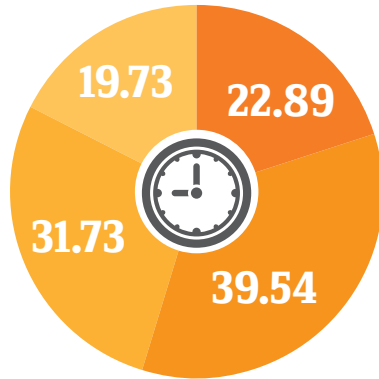
For 2017, 100% of UnionBankers attended at least one training program and spent an average of 31.47 hours learning, embodying the Bank's commitment to growing leaders, building expertise, and innovating businesses.

2017 Average Training Hours per employee



By Gender

- Male
- Female



By Employee Category

- Senior Management
- Middle Management
- Supervisor
- Rank and File

Overall: 31.47

LEAD

UnionBank develops future leaders who will lead the Bank to enduring greatness.

The Leader - Executive Accelerated Development Training Program or LEAD MT Program is designed to prepare the Bank's pool of management trainees for the next major step-up in the organization.

The program follows a robust learning program as well as on-the-job exposure with business units, supplemented by a support network through coaching and mentoring.

Altogether these enable the LEAD MT to do more, do better, and do greater in terms of performance and individual development. UnionBank recruits the best talents and develops them from within to eventually enable the LEAD MTs to hold a key position and boost the Bank's leadership pipeline.

Work-Life Balance

Is work-life balance really an elusive corporate myth, often talked about but rarely seen?

While admittedly difficult to achieve in today's highly competitive business landscape, we still believe that employers should do whatever they can to give employees a balanced life.

At UnionBank, we believe that our ability to express genuine care and empathy towards our clients start from within.

We therefore support the personal and family responsibilities of our employees, as this will result in our ability to attract and retain the best talents.

UCare is our banner program to achieve this harmonious balance between our people's work and personal lives.

UCare is a comprehensive program that seeks to address all aspects of well-being. It covers the following themes: Physical Fitness & Well-being (Healthy U), Intellectual Growth & Satisfaction (Smart U); Financial Security & Peace of Mind (Secure U); and Emotional & Spiritual Health (Happy U).

Outside UCare, UnionBank designs a host of fun athletic activities that energize our employees and strengthens teamwork across the company. In 2017, we mounted various sports activities, such as badminton, bowling, chess and volleyball tournaments. We also treated employees to special events, such as our Valentine's Day and Halloween Spooktakular fests.

Employee Volunteerism



In tapping the talent and enthusiasm of our employees beyond the workplace, we create service opportunities that benefit both our external communities and our business.

Service or volunteer programs add value to the Bank not only for our sustainability drives. They also enhance our people's leadership and community development skills. They inspire innovation and creative thinking. And they contribute to employee satisfaction and retention.

Our GoBeyond Communities and GoBeyond Appeals for Help are two of our biggest service programs that seek to ignite the spirit of giving among our ranks.

We launched GoBeyond Communities in May 2014 as a keystone of UnionBank's CSR efforts. It is a community-centered volunteer program that our employees themselves propose, design, and implement. It focuses on four key areas: environment, education, employment and livelihood, and inclusion.

In 2017, GBC implemented and responded to:

440



Total no. of communities served

51,334



Total no. of volunteers

1,487,495



Total no. of beneficiaries

11,141



Total no. of volunteer-hours committed

GoBeyond Appeals for Help, meanwhile, strengthen our sense of camaraderie by enabling fellow UnionBankers to offer monetary support to colleagues who are going through tough times.

Employee Recognition Awards



Integral to our employee engagement process is the recognition of outstanding work. Aside from our well-established Service Awards, which honor longstanding employees, we have also established other award bodies for various aspects of performance.

Our Heroes and Champions Award, for instance, are given to select UnionBankers who have brought groundbreaking solutions for our clients. Our Sales Overachievers, meanwhile, regularly honor branches and employees that strengthen our bottom line through innovative sales strategies and programs.

UnionBank makes Stevie history as first bank to win Gold Employer prize

NEW YORK, USA, September 22, 2017 - UnionBank made history today at the Marriott Marquis for becoming the first bank to win the coveted Stevie Gold Award for Employer of the Year.

The Stevie Awards for Great Employers is one of the seven top Stevie categories that recognize the world's best companies, HR teams, leaders, programs, and suppliers that create and drive great workplaces globally.

A 10-person panel of experts from the USA, Europe, Asia and the Middle East—led by Ms. Ivonne Roca, EVP for HR of The Word & Brown Companies, California, USA—bestowed the coveted prize on UnionBank.

Regarded as the “Oscars” of international business, the Stevie Awards has been honoring outstanding achievements in various professional spheres since 2002.

With this award, UnionBank joins the ranks of global corporate giants such as McAfee, Cisco, Samsung Electronics, Deutsche Telekom, and Hormel Foods USA, among other luminaries.

Sustainability Learning Sessions

Sustainable development is one of the loftiest goals of our time, and yet many people still do not have a concrete idea of what it means.

Is it all about climate change and energy efficiency? Is it synonymous with Corporate Social Responsibility? How can sustainability be good for both the bottom line and our external communities?

To shed light on the myriad issues affecting sustainability today, UnionBank established a program called Sustainability Learning Sessions. Here, all of our employees are given the chance to attend lectures from leading sustainability experts to learn how sustainability can be clearly and strategically practiced in their daily work and lives.

In 2017, WELL-accredited professional of The Purpose Business Faye Hugo, civil society expert Chris Morris of the Asian Development Bank and Nestle Vice President Jesus Reyes delivered practical and concise lectures on workplace wellness, social development and responsible procurement for our employees.

These forums enriched our understanding of sustainability and inspired us to fine-tune our daily work towards concrete sustainability targets.

▶ PLANET



LEED UnionBank Olongapo branch

'LEEDing' the way to greener banking

LEED or Leadership in Energy and Environmental Design is a global certification program for buildings. The U.S. Green Building Council administers and awards this certification, which has become a global benchmark in green design and construction.

LEED works as a merit system: the more points a building earns, the higher its rating. Acquiring the maximum LEED points surely requires additional work and spending, but its benefits far outweigh the efforts and costs in the long run.

UnionBank is able to save on expenditures and enhance its stature through the following LEED parameters:

Energy and atmosphere

UnionBank conserves energy by using:

- Energy-efficient, light-emitting diode (LED) fixtures
- Energy star appliances
- Solar panels



Our air-conditioning and refrigerant systems do not use chlorofluorocarbons further lowering our CO2 emissions.

Water efficiency

The water consumption in our branches has been reduced by at least 20 percent to date. This was achieved through the use of:

- Dual-flush toilets
- Waterless urinals
- Low-flow rate faucets



Indoor environmental quality

We provide a healthy and comfortable banking experience in our branches through:

- Low-volatile organic compound sealants and adhesives
- Green paints
- Individual air-conditioning controls



Materials and resources

We are mindful of our use of materials and consume resources prudently. Today, we:

- Minimize waste during construction
- Reuse materials to save on raw resources
- Support local economies by using regional materials








Location and transportation

As a general rule, UnionBank today strategically builds branches that:

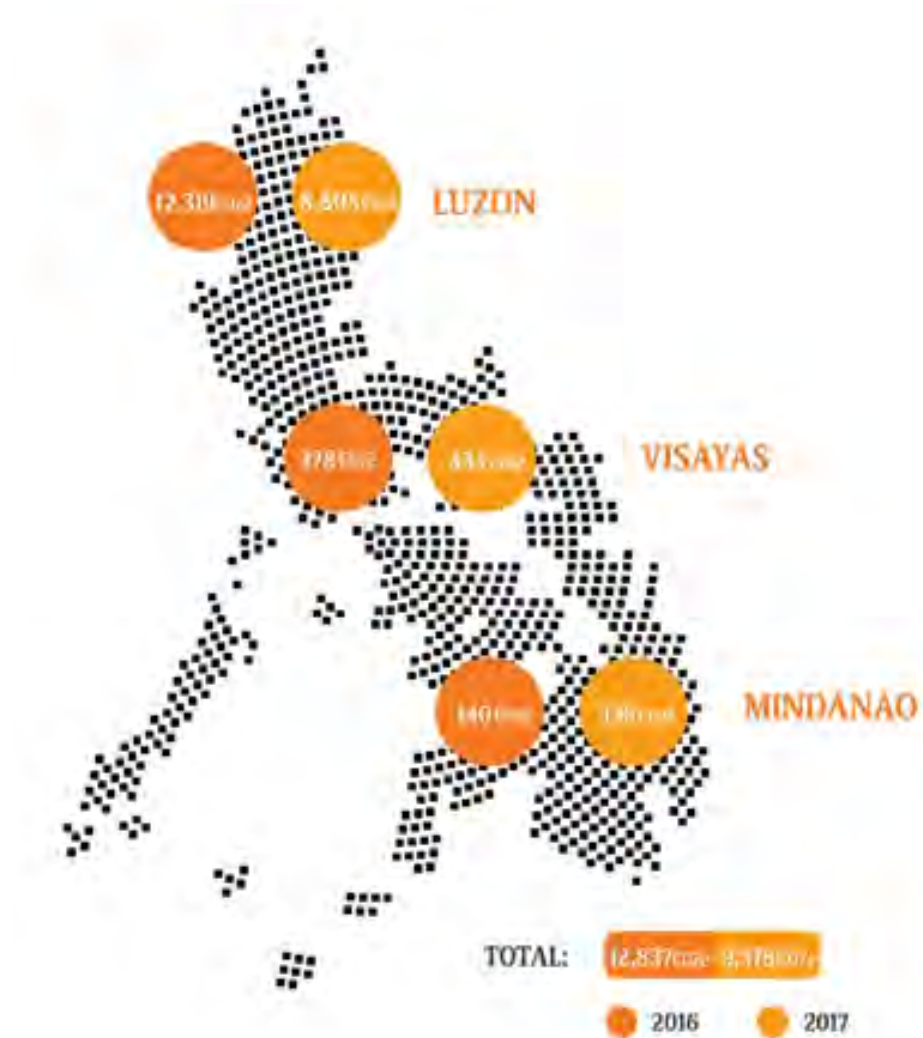
- Are easily accessible to transportation hubs
- Promote biking and walking
- Encourage carpooling and the use of innovative apps that promote vehicle sharing



Energy Consumption

AREA	2016	2017
HEAD OFFICE		
	11,139 kwh	9,195 kwh
BRANCHES		
	9,284 kwh	6,606 kwh
 LUZON	8,186 kwh	5,403 kwh
 VISAYAS	626 kwh	719 kwh
 MINDANAO	490 kwh	484 kwh
TOTAL	20,423 kwh	15,801 kwh

GHG Emissions



Olangapo and Tacloban branches set the bar for LEED in Philippine banking

In January 2017, UnionBank became the first Filipino bank to earn Platinum and Gold certifications from LEED.

On February 2017, our Olangapo branch achieved the Platinum mark, the highest LEED rating.

Our Tacloban branch, meanwhile, became the first UnionBank branch to earn Gold certification on January 2017.

Not long after, our branches in Angeles, Pampanga; BGC 3rd Avenue; BGC 26th Street; Cebu Time Square; and Cebu Mactan Newtown also acquired Gold certifications.

What does this mean in terms of our bottom line? We are now able to systematically reduce energy and water costs. We also provide a healthier and relaxing branch experience compared to other banks.

Moreover, the sense of pride and confidence we generate among our customers and employees boost our viability and relevance in the long term.

Cleanergy

Our head office building in Ortigas Center—all 50 floors of it—now operates on clean energy. In partnership with AboitizPower’s Cleanergy brand, we have become the first high-rise financial center in the Philippines to operate fully on a renewable energy source.

On April 2017, all of UnionBank Plaza’s energy started coming from the 420-MW MakBan geothermal power plant in Laguna and Batangas.

This plant is part of AboitizPower’s Cleanergy renewable energy portfolio, which generates more than 1,200 MW of energy from its geothermal, hydro and solar facilities across the country.

The extensive use of renewable energy in the Philippines still face major obstacles, as most of the country’s energy still come from coal. Renewable plants are cheap to operate, but can be very expensive to build.

This welcome shift to geothermal energy by HQ is a testament to Unionbank’s support to enlarging clean-energy use in the Philippines.

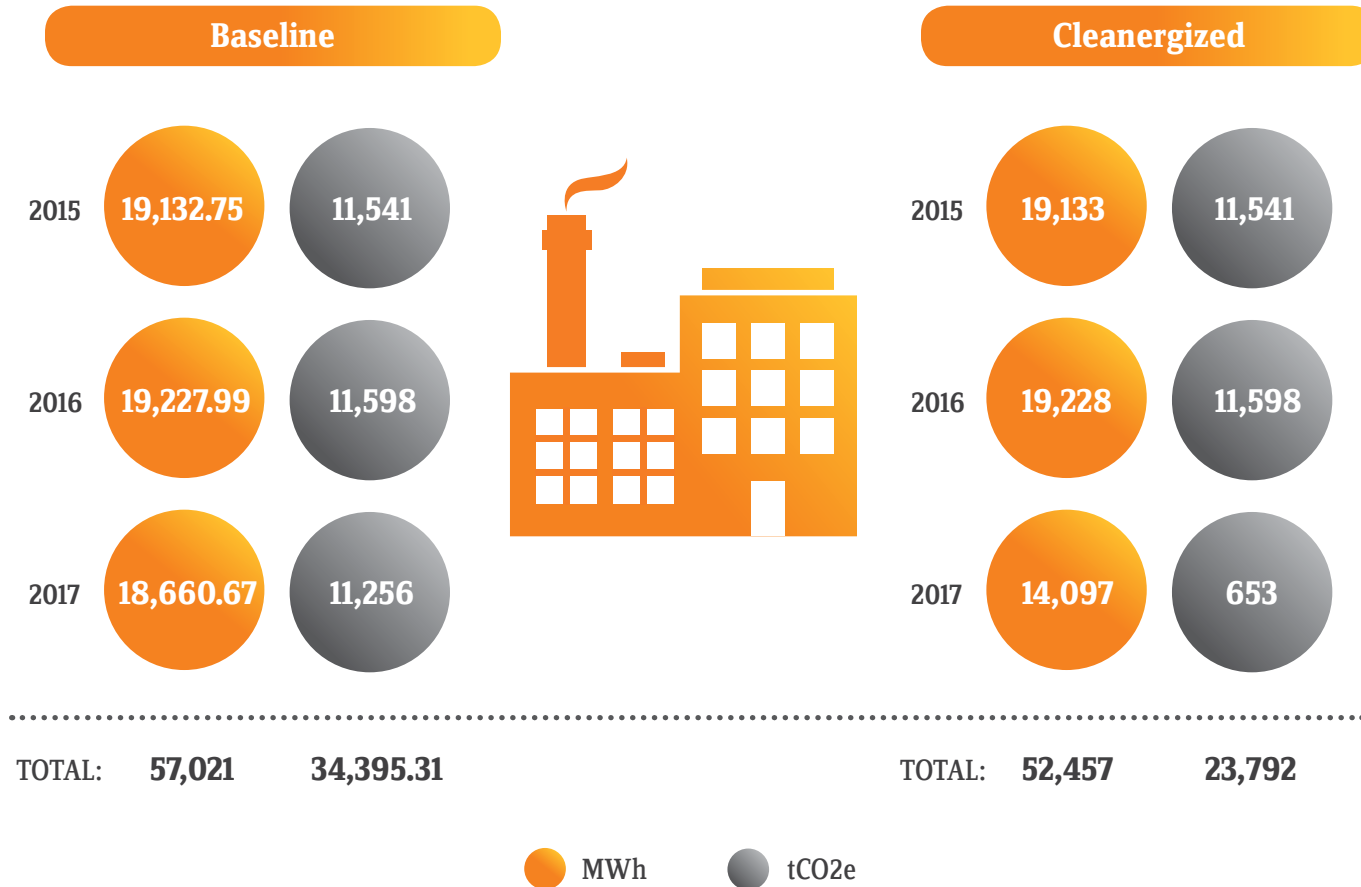
Alongside our Platinum and Gold LEED certifications for several branches in Luzon and the Visayas, the shift also significantly reduces our GHG emissions and total carbon footprint. All these help global efforts to curb the harsh weather impacts brought by climate change.



Cleanergy Project: UnionBank Plaza

Total GHG avoided as of end December 2017: 10,603.44 tCO₂e

GHG emission levels were computed using the grid emission factors for the region from the Department of Energy.



Why worry about E-Waste?

Project 1 Phone shows us why

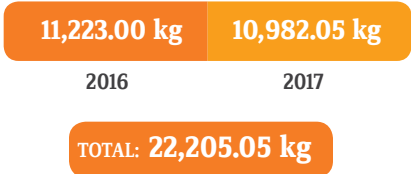
Your old smartphone gathering dust at home may seem harmless. But when discarded into landfills alongside millions of other electronic waste, they begin to pose serious hazards to entire communities and even our personal health.

The Philippines is consuming more and more electronic products than ever. This is expected to result into alarming levels of e-waste—toxic chemicals and heavy metals that are not easy to dispose or recycle safely.

We thus partnered with Globe in 2016 to promote wiser e-waste reuse and disposal through Globe’s successful “Project 1 Phone”, UnionBank is the largest donor.

The project disassembles e-waste down to its basic components. Useful parts and precious metals are resold or reused, and the harmful parts are discarded safely.

Total weight of e-wastes donated and recycled (in kgs)



Small Lifestyle Changes for the Planet

Every small thing we do, from the food we eat, our choice to drive a car, our habits related to waste—all these seemingly mundane daily life choices have an impact on our environment.

Realizing the potentially huge impact of transforming the daily habits of our employees, one small doable change at a time, UnionBank took on the Aboitiz Group's No Impact Challenge.

This inventive program, adapted from the global No Impact movement, finds strength in numbers by encouraging all our employees to make better lifestyle choices in a race or contest set-up.

Our employees have formed teams of 10 or more to pursue four weeks of carbon-cleansing activities.

While these are as simple as going for a 20-minute walk, having a vegan meal, or avoiding carbonated drinks, they result in significant carbon reductions when rolled out across the entire Aboitiz Group.

As of the end of 2017, Aboitiz employees have come together for a combined 206 metric tons of CO₂e emissions reduced in just 2 weeks.



For its part, UnionBankers contribute for the reduction of 66 metric tons of CO₂ emissions. Imagine what we can accomplish if we fully imbibe a healthier and more sustainable life?

This is not only good for the planet, it is also good for our own wellbeing and personal health.

One Million Trees in 2025 program

The spirit of camaraderie and volunteerism is well and alive at UnionBank as seen in the recent strong showing of our employees in the Aboitiz Group's flagship green drive.

Aside from the participation of UnionBank to the Aboitiz Group Simultaneous Tree Planting Activity, the Bank's Branch Channel Management, headed by Job Dator initiated to restoring 1 Million Trees in 2025 in which supported by its Channel Management Center led by EVP Dennis Matutina.

This was made in support to the bank's sustainability initiative and also coursed through our GoBeyond Communities employee-volunteerism program.



Wiser About Resources Paperless monitoring and recycling or repurposing

To advance UnionBank's sustainability agenda in our day-to-day operations, most of our cash centers and branches today are now practicing paperless security monitoring and reporting.

This ensures that we cut down on the use of paper, while strengthening our security reporting procedures through tighter digital means.

Aside from this new resource efficiency drive, our head office led by our Facilities Management Group is advocating the repurposing and recycling of furniture and various equipment whenever feasible. This further cuts down the Bank's waste streams, including e-waste, and champions the sustainable use of materials and a renewed appreciation for sustainable design.



Sustainability Roadshows

The Sustainability Roadshow is a key stakeholder engagement and education campaign by the UnionBank Sustainability Team. It aims to enlighten, involve, and empower UnionBankers on the topic of sustainability by demonstrating how relevant it is to their personal and professional experiences.

The roadshow also serves as the venue for the team to educate employees on the sustainability initiatives of the Bank, with the LEED Green Building Initiative as its flagship project.

Through the roadshow, UnionBankers assigned in Bank branches are informed of the process and benefits of LEED and energy efficiency, enabling them to deepen their understanding and commitment to sustainability.



➤ PURPOSE



BEYOND PROFIT: UnionBank celebrates its 35th founding anniversary with a sharper and deeper sense of purpose.

Highlights at 35

UnionBank turns 35 by breaking more records, introducing more products, winning more awards, reaching out to more communities, and ushering a new age of digital transformation in Philippine banking.

Total Resources

622.1B

Total Deposit

447.6B



Net Revenues

25.1B

Net Income

8.4B

Bridging the Arts and Sciences

UnionBank supports Ateneo's Arete

Imagine a creatively designed building at the Ateneo de Manila University campus in Katipunan—one that serves as a home for innovation—for cutting-edge thinking in both sciences and the arts.

Imagine one wing filled with the latest scientific equipment for advanced scientific study and exploration. Imagine the other wing with painting classrooms, sandboxes, theaters, and even the latest equipment for the best in the culinary arts.

Now imagine the Main Plaza linking the science wing to the creative humanities wing. This link between the Sciences and the Arts—literally and metaphorically—is UnionBank's latest contribution to advancing innovative, critical, and creative thinking among the country's brightest young minds.

The new building is called Arete—a Greek word which roughly translates to excellence and virtue in English.

It is envisioned to become an iconic hub that would bring the best and brightest students together in a multi-disciplinary setting. This hub is also expected to inspire fresh partnerships and perspectives and prompt the exchange of ideas to bring creative solutions to complex Philippine issues.

To build the innovative link or bridge between the two structures, UnionBank committed P20M to the Ateneo. Beyond the financial contribution, this partnership between Ateneo and UnionBank is a testament to the drive of both institutions to remain relevant, develop experts, and constantly challenge conventions. It also provides the Bank with the opportunity to interact, engage, and inspire future leaders.



UREKA!

Entrepreneurship onto the next level

What exactly is UnionBank's UREKA?

UREKA is now one of the most popular forums and hubs for small or upcoming businesses that are pushing the boundaries of entrepreneurship in the Philippines.

It supports UnionBank's sustainability agenda by maximizing digital platforms to create a new network of Philippine businesses that are futureproof and ready for tomorrow's challenges.

Are you a young entrepreneur aching to take your business to the next level? Are you an industry expert looking for a new consortium where you can discuss and test your new ideas with peers?

Look no further. The UREKA Forum is here for the new breed of Pinoy entrepreneurs.

Please visit the UREKA website to learn more about the program and how to take part in its upcoming activities.



Lumina Pandit

Preserving archival heritage to spark innovative thinking

We often think of libraries and archives as rooms filled with stoic artifacts—beautiful to look at as antiquarian relics, but never as living documents, actual windows to our souls, or a source of creative and innovating thinking.

But for UnionBank, our future as a country not only hinges on our understanding of the past—it is more so a function of how much we seek to know our past, how we value our collective identity, and how we inform our critical thinking with the rich lessons of history.

To put these lofty but abstract ideals into practical action, UnionBank embarked on a multi-million program called Lumina Pandit in partnership with Asia's oldest university, the University of Santo Tomas in Manila.

The partnership began in 2011, when our Bank supported UST's 400th founding anniversary by funding the continued preservation of UST's massive collection of history books, rare literary works, and invaluable reference materials.

The UST has become a repository of an incredible amount of such archival materials. Much of the collection that Lumina Pandit seeks to preserve belong to periods between 1492 to 1900—all of which survived numerous natural and man-made ravages and calamities.

All of these materials are obviously national treasures—and this is what UnionBank seeks to highlight through this generous CSR program.

To learn more about Lumina Pandit, please visit our website: <http://digilib.ust.edu.ph>.



Reaching 35 Years and Beyond

The art of corporate endurance is becoming increasingly rare, says the Harvard Business Review. “Over the last 50 years, the average life span of companies has shrunk from around 60 years to closer to 18 years.”

A Yale study reveals the same trend. From lasting an average of 67 years in the 1920s, companies exist for only 15 years on average today.

Staying agile. Sustaining competitive advantage. Keeping a brand relevant. These are just some of the buzzwords that managers grapple with as they work to keep their companies afloat.

At UnionBank, however, we believe that operating with a purpose greater than profit is the most critical factor affecting longevity.

Our bank’s sense of purpose to engage communities with genuine care and empathy has been our enduring touchstone over the last 35 years.

It has enabled us to outlast older banks, and even outpace the competition with sustained vigor.

It has also empowered us to grow more inclusively, work with greater accuracy, and engage communities with deeper urgency.

New and Innovative Products and Services

UnionBank’s collective push to inspire a new era in banking has driven our people to partner with global leaders to launch a new line of products and services for our Filipino clients.

For 2017, our Bank launched the UnionBank Capital Accumulation Global Fund of Funds UITF. We also partnered with Swiss group Lombard Odier for wealth management, and with leading local insurer, Insular Life, for bancassurance.



Changing the Game in Bancassurance

In partnership with Insular Life, UnionBank is once again changing the rules of the game, as we create a new insurance-selling platform that allows us to allocate resources more wisely and effectively.

Through this innovative deal, Insular Life gains access to UnionBank's six million customers and 300 branches, while our Bank gains a superior line of insurance products that widens our ability to care for the needs of our clients.

Beyond the mere selling of insurance policies, this partnership will offer real financial advisory services, similar to how private financial advisers perform needs analysis for wealthy clients, but this time to a more inclusive market base.

Instead of pushing specific products, the partnership will also offer variable unit-linked products or VULs that are designed based on a client's particular need at a particular stage in life.

Both companies arrived at these new bancassurance solutions without resorting to the creation of a new joint venture company—an old model used by all bancassurance partnerships in the Philippines.

By changing the rules of the game through innovative thinking, the funds that would have otherwise gone to the creation of a new corporate entity now goes to hiring top talents and investing in their training. This will ensure that UnionBank's new insurance line offers the best possible solutions to the evolving needs of today's clients.

Wealth Management with Lombard Odier

In partnership with one of the largest private banks in Europe, Swiss banking icon Lombard Odier, UnionBank has brought Family and Wealth Planning Services to the Philippine market.

UnionBank recognizes the unique obstacles behind passing on wealth and shared values from one generation to the next, as well as the lack of proven solutions to such challenges.

Together with Lombard Odier, UnionBank now provides solutions that integrate all the values of a trusted, resilient local bank with the expertise of a global private bank that has flourished for over 200 years.

Launched on March 28, 2017, this partnership is built on a shared customer-centric approach to financial services and the management of family legacies.

To know more about this new product, please visit www.unionbankph.com/corporate-sme/trust/products.

UnionBank Capital Accumulation Global Fund of Funds UITF

Launched in 2017, the UnionBank Capital Accumulation Global Fund of Funds Portfolio is a US Dollar fund that is invested in various mutual funds and Exchange Traded Funds (ETFs) in the Global Markets.

It allows investors to benefit from a wide diversification of investment outlets around the world, and potentially superior medium to long-term returns. It also uses a Risk-Based Investment Process, which allocates fund assets based on their current risk. This is contrary to the traditional asset-based allocation, which mandates limits for each asset class.

With Lombard Odier as Investment Consultant, the UnionBank Capital Accumulation Global Fund of Funds UITF pioneers the Risk-Based Investment Process in the country.

To learn more about this fund and how you can invest, please visit www.unionbankph.com/corporate-sme/trust/products.

UDX: Getting Older by Thinking Younger

We do not believe that getting older also means thinking older. This leads us to explore trendsetting technologies that belie our years.



Our sense of purpose and onward march to innovation were embodied by our 35th anniversary celebrations.

Dubbed as UDX or The UnionBank Digital Experience, your Bank turned 35 with a keen eye on the future.

Beyond the spectacular display of fireworks over UnionBank Plaza HQ, the Bank's leaders staged a digitally powered show to usher in a new era of digital transformation.

UnionBank's Digital Transformation

UnionBank welcomes change with open arms as it begins its transformation into a fully digital bank. The company is the pioneer and strongest champion of banking's digital future in the country.

But why the radical change? According to UnionBank President and CEO Edwin Bautista: "We're going 'all in' as far as digital transformation is concerned."

"The whole world is changing," he said. "Everything is on a smartphone. People expect a different experience. People are used to downloading apps or e-commerce and streaming movies. That's the lifestyle of today, and in the future, everyone will be doing that."

Complete digital overhaul

The process involved in UnionBank's digital change is a lot more complex than most people think.

UnionBank's new technology will require an end-to-end retooling of systems and straight-through processing. This will enable the seamless compression of various complex processes into a matter of seconds.

"We need to stitch a complete digital flow from your device to the bank—to the clearing house—then back to different banks—then bank to your phone. All in that one click," said President & CEO Bautista.

The ARK

UnionBank's progress toward complete digital transformation is best embodied today by its fully digital branch in Makati called The ARK.

There are no lines of people in this branch, no slips of paper, and no tellers. So how does it work?

All regular bank transactions can be done in this branch, but in place of written records and bank tellers are fully digitized standalone terminals, tablets, touchscreen TVs, and virtual reality goggles.

Of course there are still people to talk to at The ARK, but instead of playing designated roles, such as bank manager, teller, and investment specialist, the employees at this branch assume the role of ambassadors—well-equipped and ready to hand out financial advice and guidance on any possible banking concern.

While The ARK is the first fully digitized bank branch in the country, it also represents UnionBank's customer-first mindset. By introducing Filipinos to the platforms of banking's future, today, our customers are more empowered and more prepared to face tomorrow's challenges.



Rafa: The Country's First Banking Chatbot

Beyond the tech-savvy experience of The ARK, UnionBank's digital transformation is also embodied by another pioneering creation, named Rafa, the first-ever Philippine banking chatbot.

Launched in April 2017, Rafa is able to deliver instant customer service to all clients, 24/7.

Rafa can take all types of customer queries, handles general information requests, helps people locate the ATM or branch nearest them, and even knows updated foreign exchange rates of up to 10 major currencies.

Beyond technical functions, Rafa is imbued with traits and characteristics that makes him an ideal Smart Banker for UnionBank clients.

He is assertive and innovative, with a drive for leadership demonstrated by his ability to absorb a large amount of information and make quick and decisive judgements.

He is also outgoing and sociable, energized and stimulated externally by lively and challenging conversations.

Sustainable Banking Solutions through Digital Innovation

In line with UnionBank's digital transformation, we are inviting fintech companies and startups in the country to make use of the bank's wide range of application programming interface (API) options to develop solutions to the challenges faced by the finance and banking sector today.

Aside from establishing innovative partnerships, this initiative aims to enable sustainable banking solutions by fostering innovation and collaboration between the bank and its partners.

"We want fintechs and startups to use our APIs so they are more empowered to create solutions that can impact the lives of stakeholders, not just in the banking and finance sector, but also in sectors that rely on it," said Henry Aguda, UnionBank's senior executive vice president and chief technology and operations officer and chief transformation officer.

Inviting potential partners to use the APIs, UnionBank Chairman Justo Ortiz said "through collaboration, we can create solutions that are not only innovative, but also sustainable."

"We believe that together, we can make the difference in the communities that we serve, and that we can achieve a lot more in terms of empowering these communities," Ortiz said.

For his part, UnionBank's Fintech Business Group Head Arvie de Vera said, "The Fintech Business Group was created precisely to cater to the specific and customized needs of fintechs. We want to enable all fintechs by giving them a platform, a launch pad to succeed. Whether they need our APIs or a customer segment or base to pilot test - we are here to help them."

All of the bank's API offers can be found on the UnionBank developer platform uhac.unionbankph.com. Interested startups and fintechs can visit the site or reach out to UnionBank's fintech banking group at fbg@unionbankph.com.

Cybersecurity at UnionBank

UnionBank leads the way in cybersecurity in the Philippines, especially today when cyber threats are on the rise and customer behavior is changing.

Of the total P3 billion earmarked for UnionBank's digital transformation, a significant portion will go to investments in information technology and cybersecurity.

Integrated Operations Center



Our new 24/7 Integrated Operations Center alone represents millions in investments over the next few years to future-proof our business.

Focusing on people, process, and technology, UnionBank has invested in and partnered with reputable security experts to implement a defense-in-depth layer of security.

This tech-savvy security operations center raises the bar for the Bank's cybersecurity. The Integrated Operations Center (IOC) is a collaborative facility for teamwork and communication among the Bank's cybersecurity pillars to develop effective security measures and effectively counter constantly evolving cybersecurity threats.

A situation or war room is stationed in between the Security Operations Center and the IT operations center. The IOC is responsible for monitoring the performance of systems, servers, and applications, as well as monitor uptime of leased lines.

These security tools are supported by straight-through and streamlined processes to deliver swift execution. The Bank, moreover, ensures that it provides its people with relevant and sufficient security awareness trainings and regular reminders on proper cyber hygiene.

All in all, these recent developments will help lead UnionBank toward optimized security for clients and improved incident detection and response, 24 hours a day, 7 days a week.

UnionBank pioneers Payment Card Data Security Standard achieves certification for PCI DSS v. 3.2

In its commitment to provide a safer and more secure digital banking experience to its customers, our Bank recently received the certification for the Payment Card Industry Data Security Standard (PCI DSS) version 3.2.

This means we are the first Universal Bank in the country to be certified with the latest cards data security standard. More importantly, this translates to the stronger protection of financial information of our clients against identity theft, fraudulent purchases, and other security threats.

To earn the certification, we had to comply with more stringent requirements to effectively reduce the risk of data breaches and other card issues.

"This recent accomplishment as the first Universal Bank to receive the PCI DSS certification of the latest banking standards is a testament that we are well on our way to achieving our mission to be among the top digital banks in the industry," said Henry R. Aguda, Chief Technology & Operations Officer and Chief Transformation Officer.

"In this digital age, a universal truth in business is that data is the most critical asset. At the forefront of UnionBank's initiatives toward digital transformation is our commitment to ensure the safest and most secure online banking for the utmost protection of our customers' data assets," said Dennis D. Omila, Chief Information Officer.

CitySavings: From the Margins to the Mainstream

City Savings Bank, Inc.

Founded over five decades ago, City Savings Bank (CitySavings) was established to serve Filipinos of moderate means. Acquired by UnionBank in 2012, it soon embarked on rapid nationwide expansion – quickly becoming the market leader in teacher's salary loans. By 2017, the CitySavings' assets had grown to over Php70 billion and its branch network had expanded to 106 offices across the archipelago. With its head office at the City Savings Financial Plaza in Cebu City, the bank operates across the country with its 85 branches and 38 ATM machines in key locations nationwide.

CitySavings has given over 300,000 clients access to financial services, affecting countless Filipino lives by enabling its customers to purchase family needs, start small businesses, build their homes, and fund their children's education.

In its 2017 Strategic Planning exercise, CitySavings articulated its Strategic Objective: to be the Leading Mass Market Bank in the Philippines. Continuing its legacy, the bank committed to serve communities by being the preferred institution in the markets it serves and ensuring quality service to its vast clientele.

To deliver this, the bank had to significantly expand its reach, conduct extensive market studies and focus group discussions, harness the credit scoring capabilities offered by big data analytics, and diversify its product offering to respond to the financial needs of the mass market.

In order to provide faster and a more convenient service to its wide-reaching client base, the bank developed new channels: offsite and non-branch loan booking with Loan Rangers – CitySavings' Branch Marketing associates outfitted with ATM cards and tablets which can be used to disburse loans even in remote areas.

CitySavings also entered into a fruitful partnership with PeraHub, the largest network of Western Union locations in the Philippines, augmenting the bank's nationwide reach by the transaction network's over 400 company-owned outlets.



The bank forayed outside the DepEd market in 2015, entering the 2-million strong pensioner market with its GSIS Pensionado Loan product, available exclusively at PeraHub outlets. New products catering to different mass market segments were released in succeeding years, such as the SSS Pensionado, OFW beneficiary, and seaman loans.

Underscoring this expansion are multiple mergers and acquisition (M&A) projects, the first of which was the acquisition of First-Agro Industrial Rural Bank (FAIRBank) in 2015. Serving over 15,000 microfinance clients, FAIRBank is currently undergoing an operational transformation. The iViews project enabled Microfinance officers to geotag and record client visits, using connected tablets.

2018 promises to be an exciting year for the mass market initiative, with the signing of the Share Purchase Agreement (SPA) between ROPALI and CitySavings for the acquisition of Isabela-based Philippine Resources (PR) Savings Bank. The endeavor will allow the Bank to tap the country's growing motorcycle and agri-machinery financing markets, in addition to consolidating its status as the provider of choice for teacher's salary loans.

2017 Key Accomplishments:

- Signed Share Purchase Agreement (SPA) with ROPALI group for acquisition of Isabela-based PR Savings Bank
- Acquired First Agro-Industrial Rural Bank, Inc. (FAIRBank)
- Received Presidential Award from the Coalition for Better Education, recognizing CSB's role in the establishment of the Center for Teacher Excellence and the Project TeACH program
- Awarded Most Valuable Development Partner by Small Business Corporation

UnionBank 2017 Sustainability Report				
UNIVERSAL STANDARDS				
GRI 100 Series				
Series Number	GRI Standard Title	Disclosure Number	Disclosure Title	Page/Location
GRI 101	Foundation		GRI STANDARDS: Tests to the Reporting Principles	
GRI 102	General Disclosures			
	1. Organizational Profile	102-1	Name of the organization	1
		102-2	Activities, brands, products, and services	134-141, 124-125
		102-3	Location of headquarters	149
		102-4	Location of operations	142-145
		102-5	Ownership and legal form	94
		102-6	Markets served	134-141
		102-7	Scale of the organization	6-7,110, 122
		102-8	Information on employees and other workers	110-111
		102-9	Supply chain	104
		102-11	Precautionary Principle or approach	74-77
	2. Strategy	102-14	Statement from senior decision-maker	10-15
		102-15	Key impacts, risks, and opportunities	16-19
	3. Ethics and Integrity	102-16	Values, principles, standards, and norms of behavior	2-3
		102-17	Mechanisms for advice and concerns about ethics	99-104
	4. Governance	102-18	Governance structure	80-83
		102-51	Date of most recent report	2016
		102-52	Reporting cycle	Annual
		102-53	Contact point for questions regarding the report	149
		102-55	GRI content index	130-131

TOPIC-SPECIFIC STANDARDS				
GRI 200 Series (Economic Category)				
Series Number	GRI Standard Title	Disclosure Number	Disclosure Title	
GRI 201	Economic Performance	201-1	Direct economic value generated and distributed	6-7, 122, 2-3 (Financial Highlights)
		201-3	Defined benefit plan obligations and other retirement plans	96
GRI 203	Indirect Economic Impacts	203-1	Infrastructure investments and services supported	105, 122-123
GRI 205	Anti-corruption	205-2	Communication and training about anti-corruption policies and procedures	77
GRI 300 Series (Environmental Category)				
Series Number	GRI Standard Title	Disclosure Number	Disclosure Title	
GRI 302	Energy	302-1	Energy consumption within the organization	117
GRI 305	Emissions	305-2	Energy indirect (Scope 2) GHG emissions	117
		305-5	Reduction of GHG emissions	119
GRI 306	Effluents and Waste	306-4	Transport of hazardous waste	119
GRI 400 Series (Social Category)				
Series Number	GRI Standard Title	Disclosure Number	Disclosure Title	
GRI 404	Training and Education	404-1	Average hours of training per year per employee	112
		404-2	Programs for upgrading employee skills and transition assistance programs	110-111
GRI 405	Diversity and Equal Opportunity	405-1	Diversity of governance bodies and employees	84,111
GRI 413	Local Communities	413-1	Operations with local community engagement, impact assessments, and development programs	105, 113





**PRODUCTS
AND SERVICES**

**BRICK
AND MORTAR**

CASH MANAGEMENT SERVICES

Payroll Solutions

- * **UnionBank Payroll Alert** - A service to notify payroll clients for every payroll credit through SMS.
- * **UnionBank Executive Payroll Platinum Card** - A business class payroll account for corporate executives.
- * **UnionBank Dollar Payroll Card** - A dollar payroll account especially designed for international transactions and savings on foreign exchange fees.

Corporate Payouts

- * **UnionBank Corporate Utility Payments (Auto Debit Arrangement)** - A payment service where our corporate customers' accounts are automatically debited on the their bills' due date with notifications from billing to debiting of account to BIR Form 2307 generation.
- * **UnionBank Corporate Utility Payments (Batch Bills Payment)** - A service for processing multiple payments as a batched transaction through UnionBank's Hub portal and can be approved anywhere and at any time.
- * **Business Check** - A program to streamline and simplify our corporate customers' check disbursement process from the comfort of their office.

- * **Business Check Online** - A web-based system designed to provide our corporate customers streamlined and simplified check disbursement anywhere.
- * **Checkwriter** - A check service where checks are printed and are delivered/released based on our corporate customers' instructions.
- * **Corporate Credit Card** - A cashless corporate payment solution with travel perks and rewards.
- * **Corporate eBanking** - A single platform to do day-to-day banking transactions - electronically.
- * **UnionBank eCrediting** - An online crediting facility wherein corporate clients can facilitate single and bulk funds transfers to their payees.
- * **Electronic Fund Transfer** - A single online channel for various types of funds transfer transactions.
- * **UnionBank ePayCard** - A one-stop shop for our corporate customers' payroll needs: customizable card design, VISA-enabled Debit Card, automated electronic crediting with SMS alerts and convergent banking.
- * **UnionBank ePayonline** - An online batch account opening facility built to streamline the collection and consolidation of individual information necessary to open payroll accounts.
- * **UnionBank ePayroll** - A dedicated facility for fast and accurate processing and computation of our corporate clients' payroll that comes with a human resource information system and relevant payroll and government reports.

- * **GSIS Unified Multi-Purpose/eCard** - A unified card that provides social security and financial benefits to government employees and their qualified dependents in a fast and easy manner.
- * **eGobierno (OneHub)** - A hub where our corporate customers can process all mandatory government payments and have timely remitted payments.
- * **SSS Unified Multi-Purpose/Quick Card** - A valid government ID and a Debit card in one.
- * **Voucher Payouts** - An online platform that allows quick and hassle-free disbursement of dollar payouts through the use of vouchers.
- * **EIPP (Electronic Invoice Presentment and Payment)** - A fully automated system that lets our corporate customers present invoices and collect payments via an electronic channel.
- * **PSE Trade/Securities Clearing Corporation of the Philippines (SCCP)** - A fully automated system for the settlement of trade payables to SCCP monitored daily by a dedicated team
- * **UPASS (UnionBank Premiere Automated Settlement System)** - An auto-debit facility that enables our corporate customers to initiate collections from other UnionBank account holders.

Corporate Collections

- * **UnionBank Bills Payment** - A payment collection service that is secure and streamlined from payor initiation to the reporting of transactions.



- * **UnionBank Auto-Debit Arrangement** - An automatic debit arrangement (ADA) service complete with customer notifications for billing, debit advice, and certificate of withholding tax generation.
- * **UnionBank Batch Bills Payment** - A service for collecting and reconciling multiple payments faster and easier for our corporate customers and their payors.
- * **UnionBank Partner Pay** - An expanded over-the-counter collection facility made possible to reach rural and unbanked areas through third party branch networks.
- * **Business Partner Advantage** - A cashless, efficient, and secured way of settling payables of our corporate client's customers through a closed-loop debit card facility powered by point-of-sale terminals.
- * **UnionBank RoadRunner** - A secured and efficient check collections facility that enables corporate customers to reduce costs and receive timely and comprehensive collection reports.
- * **UnionBank Checkhouse** - A post-dated checks safekeeping service designed for our corporate customers to timely deposit their post-dated checks with comprehensive reports.
- * **UnionBank Cash Mobilization** - A convenient cash collection and delivery service translating to more efficient cash flows for our corporate customers.

Liquidity Management

- * **UnionBank Sweeping** - A facility that allows our corporate customers to transfer funds automatically between their UnionBank accounts at the beginning and/or end of the day based on their specified conditions.

- * **UnionBank Pooling** - A facility that allows our corporate customers to pool or group the account balances of their various UnionBank accounts for disbursement purposes and allows them to withdraw more than the account's individual balance as long as other accounts in the pool have sufficient balances to cover for the disbursement.

Online Information Management

- * **UnionBank eCollections Report** - A downloadable completely detailed and consistently updated eCollections report made by our corporate customers to their billers.

Community Solutions/ Special Project

- * **ICTSI Community Card** - A closed-loop debit card facility for a more efficient settlement of fees in the ICTSI community.

LOAN PRODUCTS

Auto Loan - A financing facility offered to clients for the purchase of vehicles for their personal use or for business under an Auto Fleet Line. This is available for brand new or second-hand vehicles and is secured by the vehicle being financed.

Home Loan - A financing facility available to clients for the purchase of residential properties where the security offered is the property being financed.

Salary Loan - A credit facility that is unsecured and available for general consumption purpose. These are granted to individuals on the basis of their regular salary, pension or other fixed compensation.

Domestic Bills Purchase - A facility that provides immediate or outright credit to the client for local checks deposited to its account for regular clearing.

Foreign Bills Purchase - A facility that provides immediate or outright credit to client for its foreign-denominated checks that are deposited to its account for regular clearing.

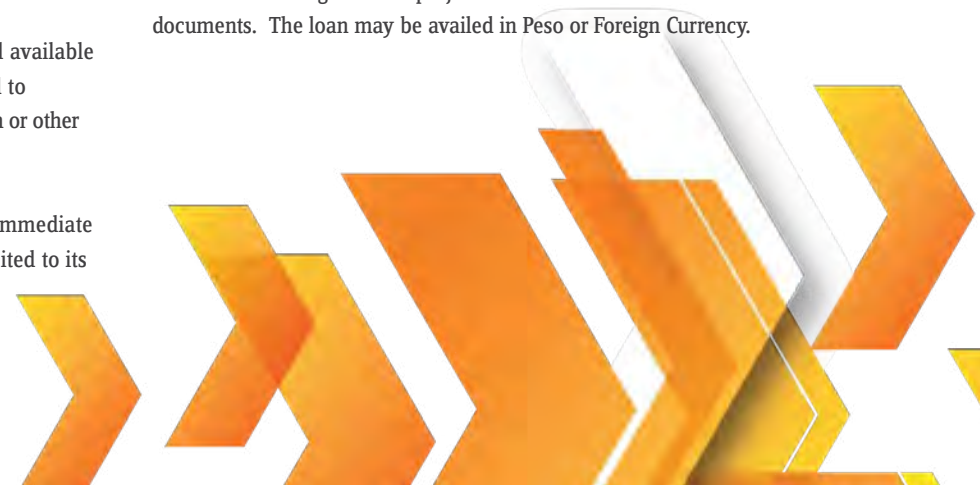
Trade Check Discounting - A facility offered to clients to finance working capital requirements through the purchase of accounts receivable via Post Dated Checks.

Foreign Exchange Line - A credit facility granted for covering the settlement risk or pre-settlement risk in the purchase or sale of Foreign Exchange.

Working Capital Line - A short-term credit facility to finance a company's receivables or inventory requirements. The line may be availed in Peso or Foreign Currency.

Term Loan - A credit facility whose purpose is to finance the long-term financial requirements of a client for business expansion, such as construction of a building or warehouse, acquisition of a property, purchase of equipment or equity financing. The loan may be availed in Peso or Foreign Currency.

Project Finance Loan - A financing facility granted to a special purpose entity which is created to operate physical assets and where the principal source of repayment is the income generated by the assets being financed. The loan is typically secured by a pledge on the borrower's shares, assignment of the borrower's assets and/ or assignment of project revenues / accounts / or documents. The loan may be availed in Peso or Foreign Currency.



Special Funded Loan - A credit facility that refers to the wholesale lending activities of government banks or loan programs funded by multi-lateral agencies, international or local banks that are granted to participating financial institutions for relending to end-users.

TRADE FINANCE PRODUCTS AND SERVICES

- **Import Financing**
- **Export Financing**

Documentary Letter of Credit (LC) - A product offered to clients to guaranty payment to a supplier upon the delivery of goods and upon presentation of complying documents.

Stand-by Letter of Credit - A product offered to clients to guaranty payment of an obligation in case of failure of the other party to comply with the terms and conditions as stipulated in a contract.

Bank Guaranty/Performance Bond - A product offered to clients to guaranty the fulfillment of a contract to a Third Party.

Non-LC Transactions (Open Account, Documents against Payment, Document against Acceptance, Direct Remittance) - A product that facilitates the payment and documentation of an importation other than through a Letter of Credit.

Export Packing Credit Line - An export financing facility where loan advances are made available to clients for the production of export goods to fill in a Purchase Order, Sales Contractor Export Letter of Credit.

Export Bills Purchase Line - An export financing facility where the bank purchases outright sight/ usance drafts/or bills presented by the client.

Customs Duties Collection - A product offered to importers and exporters to facilitate the online payment of their customs duties and taxes thru one-hub, debit to their account or via Manager's Check.

CREDIT CARDS

UnionBank Branded Cards

- * UnionBank Classic
- * UnionBank Gold
- * UnionBank Platinum
- * UnionBank Corporate Card

Co-Brand Cards

- * Burgoo Visa
- * Cebu Pacific GetGo Credit Card by UnionBank
- * Cebu Pacific GetGo Platinum Credit Card by UnionBank
- * Cebu Parklane Visa
- * First Life Visa
- * Home Depot Visa
- * Insular Life Visa

- * Mapfre Insular Visa
- * Medicaid Visa
- * Racks Visa
- * Riviera Golf Visa
- * Suy Sing Visa
- * The North Face Visa

Affinity Cards

- * Adamson University Visa
- * Alpha Phi Omega Visa
- * Assumption Alumnae Association Visa
- * Ateneo Alumni Association Visa
- * Ateneo de Manila High School '87 Visa
- * Ateneo de Manila Law Alumni Association Visa
- * Ateneo Graduate School of Business Alumni Association Visa
- * Cebu Kian Kee Alumni Association Visa
- * CEU Alumni Association Visa
- * Colegio de San Juan de Letran Visa
- * Couples for Christ Visa
- * De La Salle Alumni Association Visa
- * De La Salle College of Saint Benilde Visa
- * De La Salle Dasmariñas Alumni Association Visa
- * De La Salle Lipa Alumni Association Visa
- * Don Bosco Alumni Visa
- * Enderun Colleges Visa
- * Free Masons of the Philippines Visa
- * Haribon Foundation Visa
- * La Salle Green Hills Alumni Association Visa
- * Lourdes School Alumni Association Visa
- * People Management of the Philippines Visa
- * Philippine Academy of Ophthalmology Visa
- * Philippine Dental Association Visa

- * Philippine Medical Association Visa
- * Philippine Merchant Marine Academy Alumni Association Visa
- * Philippine Red Cross Visa
- * Sacred Heart School-Ateneo de Cebu Alumni Association Visa
- * San Beda College Alumni Association
- * Silliman University Visa
- * SOS Children's Villages Visa
- * South Western University Alumni Foundation Visa
- * St. Paul's College Pasig Visa
- * St. Theresa's Alumnae Association Visa
- * Supreme Council Order of DeMolay Visa
- * Team Energy Visa
- * University of Sto. Tomas Visa
- * University of the East Alumni Association Visa
- * University of the Philippines Alumni Association Visa
- * UP Medical Alumni Society Visa
- * World Wild Fund for Nature (WWF) Visa

Cash Back

- * UnionBank CashBack Mastercard

Specialty Cards

- * UnionBank Shop&Talk
- * UnionBank Miles + Platinum
- * UnionBank Miles +

EON Branded Cards

- * EON Duo Visa Credit Card

VISA DEBIT CARDS

- EON Cyber Card
- E-Wallet Card
- Cebu Pacific GetGo Debit Card
- Suy Sing Super Grocer Card
- USD Debit Card
- Platinum Debit Card
- ePaycard

VISA PRE-PAID CARDS

- Semicon Loyalty Card
- DI BA Agents Card
- Club Balai Isabel
- EON Card
- Pera Hub Pre-paid Card

DEPOSIT PRODUCTS

Regular Checking Account - With initial deposit and minimum ADB requirement of Php 100,000.00, the account allows day-to-day payments handling and free phone and internet transactions. This deposit is covered up to Php 500,000.00 per depositor and not subject to withholding tax.

Power Checking Account - With initial deposit and minimum ADB requirement of Php 100,000.00 to earn tiered interest up to 0.25% p.a., this account allows maximization of interest on extra funds and the flexibility to issue check payments with a maximum Php 500,000.00 deposit insurance coverage per depositor with a 20 % final withholding tax.

Premium Deposit Account - With initial deposit and minimum ADB requirement of Php 500,000.00 and a minimum ADB of Php 1,000,000.00 to earn tiered interest up to 1.75 % p.a., the account has a checkbook, monthly statement, ATM access and online banking facility. A maximum of Php 500,000.00 deposit insurance per depositor comes with the account with a 20% final withholding tax.

Business Check - A check writing software which allows streamlining and simplification of the check disbursement process that comes with an initial and minimum ADB of Php 100,000.00 and a deposit insurance of up to Php 500,000.00 per depositor subject to 20% final withholding tax. A Php 500,000.00 ADB is required in order to earn interest of up to 0.10 % p.a.

CMS Corporate Checking Account - Corporate cash management solution with a minimum of Php 50,000.00 initial deposit and ADB requirement that allows 0.10 % p.a. interest for at least Php 100,000.00 ADB. This account comes with a maximum of Php 500,000.00 deposit insurance per depositor and is subject to 20 % final withholding tax.

Corporate Payroll Checking Account - This account is for clients availing of the Cash Management Solutions Payroll Suite which is used for crediting salary with the flexibility to issue checks. A Php 50,000.00 initial deposit and minimum ADB requirement with a 0.10% p.a. interest for deposits with at least Php 100,00.00 ADB subject to 20 % final withholding tax.



Corporate Executive Payroll Checking Account - This account is for clients availing of the Cash Management Solutions Payroll Suite which is used for crediting salary with the flexibility to issue checks. A Php 50,000.00 initial deposit and minimum ADB requirement with a tiered interest rate of 0.10% p.a. to 0.25 % p.a interest for deposits with at least Php 100,00.00 ADB subject to 20 % final withholding tax.

Regular Savings Account - With an initial deposit and minimum ADB of Php 100,000.00 to earn 0.10 % interest p.a., this account comes with a maximum of Php 500,000.00 insurance per depositor subject to 20 % withholding tax.

EON Cyber (Formerly, EON) - A deposit savings account primarily used for sending and receiving money and online and point-of-sales (POS) purchases with any VISA-accredited shop. It has no maintaining balance requirement and comes with an Annual Fee of Php 350 and is insured up to maximum deposit of Php 500,000 per depositor but is subject to a 20% final withholding tax and fees for on-us and off-us withdrawals.

ePaycard - Payroll savings account opened for employees tagged under the umbrella account of a Corporate customer, this account is used for disbursement of employee's salary credits. Insured up to maximum deposit of Php 500,000 per depositor and is subject to a 20% final withholding tax and may include fees for ATM and OTC withdrawals, Php 100,000.00 ADB is required in order to earn 0.10 % interest p.a.

ICTSI - Closed loop card-based savings account for broker corporate clients used for the payment of their dues to International Container Terminal Services Inc. (ICTSI) that provides access to OTC servicing, ATM payment and Point-of-sale deployed in ICTSI office that comes with a maximum deposit insurance of Php 500,000 per depositor with no initial deposit required. The account offers a 0.10% interest for deposits with ADB of Php 100,000.00

GSIS-Member Account - This account allows crediting of GSIS benefits to their members and access to ATM, POS, Internet Banking & OTC with a maximum deposit insurance of Php 500,000 per depositor, Subject to a 20% final withholding tax. With no initial deposit required, an account may earn 0.10% interest p.a. for a minimum ADB of Php 100,000.00.

SSS-Member Account - This account allows crediting of SSS benefits to their members and access to ATM, POS, Internet Banking & OTC with a maximum deposit insurance of Php 500,000 per depositor, Subject to a 20% final withholding tax. With no initial deposit required, an account may earn 0.10% interest p.a. for a minimum ADB of Php 100,000.00.

Fleet Card - Closed loop card-based savings account for corporate clients used for the disbursement of their gas allowance which has access to ATM balance inquiry and POS transactions in selected gas stations and is insured up to a maximum deposit of Php 500,000 per depositor with no initial deposit required.

Get Go - Internet-based deposit account that comes with a debit card and earns points for every peso spent which may be used for Cebu Pacific flights. This account may be opened without an initial deposit but will required Php 10,000.00 ADB to earn 0.10 % interest p.a. and a deposit insurance coverage of up to Php 500,000.00 per depositor, subject to 20 % final withholding tax.

Corporate Executive Payroll Savings Account - Savings account for Cash Management Solutions Payroll Suite clients used for salary crediting with no initial deposit requirement and comes with a 0.10% interest p.a. for an ADB of at least Php 100,000.00, subject to 20% final withholding tax.

SSS Pensioner Account - account designed to accept pension credits for SSS pensioners with no initial deposit and a Php 100.00 minimum ADB requirement. To earn 0.10% interest, an ADB of Php 100,000.00 is required.

eWallet Savings Account - An account which may be opened only at The Ark by UnionBank with no initial and maintaining balance but comes with a Php 350.00 annual fee and a Visa debit card that earns 0.10 % interest when ADB is at least Php 10,000.00. Insured up to a maximum deposit of Php 500,000.00 per depositor and subject to 20 % final withholding tax.

Peso Time Deposit - Minimum placement of Php 50,000.00 for 30-360 days with interest payout at the end of term with principal deposit at a pre-termination rate determined by the regular savings rate and a maximum deposit insurance of Php 500,000.00 per depositor and subject to 20% final withholding tax and Php 1.00 per evert Php 200.00 and a fraction thereof multiplied by number of days documentary stamp tax.



Peso Optimizer - Minimum placement of Php 50,000.00 at 2,3,4, or 5 years plus 1 day with interest credited monthly to a UnionBank account net of withholding tax. Applicable fees include 20% withholding tax and documentary stamp tax computed based on existing pre-determined rates.

Hi-Five - Minimum of Php 50,000.00 long-term (5 years plus 1 day) placement with interest compounded annually wherein payment of interest is made at the end of term with principal deposit, tax-exempt (for individuals only) if maintained until maturity. Applicable fees include withholding tax and documentary stamp tax based on pre-determined rates.

LTNCD (Long-Term Negotiable Certificate of Time Deposit) - Minimum investment of Php 250,000.00 in increments of Php 50,000.00 thereafter with original maturity of 5 years and six months with interest payments made every quarter. Original rate of 3.5% yield of secondary purchase is subject to prevailing market rates. Applicable fees include withholding and documentary stamp tax based on pre-determined rates.

Power Savings - Minimum placement of Php 1,000,000.00 at 7-13, 14-20 and 21-29 days with payments at the end of term with principal deposit. Applicable fees include withholding and documentary stamp tax.

Foreign Currency Deposit (FCD) Account (formerly dollar savings account) - Interest-earning (0.10 % for USD, AUD, EUR and GBP, no interest for CAD, CNY, HKD, JPY, NZD and SGD) regular dollar savings account with varying initial deposit and minimum balance requirements depending on the currency with maximum deposit insurance of Php 500,000.00 per depositor and subject to 7.5% final withholding tax.

Dollar Access Account - With initial deposit and minimum deposit requirement of \$ 10,000.00 and required ADB of \$ 25,000.00 to earn 0.10 % interest, this account provides online banking access with Peso ATM account and a maximum deposit insurance of Php 500,000.00 per depositor and subject to 7.5% withholding tax.

Corporate Executive Payroll Dollar Savings Account - Savings account for Cash Management Solutions Payroll Suite clients used for dollar-denominated salary crediting with no initial deposit requirement and comes with a 0.10% interest p.a. for an ADB of at least \$ 2,000.00, subject to 7.5 % final withholding tax.

USD Time Deposit - Dollar-denominated 30-360-day term with minimum of \$ 1,000.00 placement and \$ 500,000.00 placement for less than 30 days term. This account comes with a maximum deposit of Php 500,000.00 per depositor and subject to 7.5% withholding tax.

Foreign Currency Deposit (FCD) Plus Time Deposit - AUD, EUR, GBP or JPY-denominated 30 to 60 -day placement with varying placement amount depending on the currency and applicable final withholding tax rate of 7.5% and a maximum deposit insurance of Php 500,000.00 per depositor.

USD Optimizer - 2 to 5 year, fixed rate US Dollar time deposit with interest earnings credited monthly to a designated account and subject to 7.5 % final withholding tax.

GLOBAL FILIPINO

**Western Union ABMT (Account-Based Money Transfer)
Visa Direct**

INVESTMENT PRODUCTS

Peso Treasury Bills/Notes/Treasury Bonds - Peso denominated fixed income securities issued by and which represent unconditional obligation of the Philippine National Government with tenors ranging from 3 months to 25 years.

Peso Tier 2 Notes - Peso denominated unsecured subordinated debt issued by banks.

Peso Corporate Notes - Peso denominated fixed income debt issued by large Philippine corporations.

Peso LTNCD - Long Term Negotiable Certificates of Time Deposit ("LTNCDs") are certificates of deposit which may be offered to investors looking for a relatively safe long-term investment with a higher interest rate compared to a regular savings or time deposit.

US Dollar ROP Bonds - US Dollar denominated fixed income securities issued by and which represent unconditional obligation of the Philippine National Government

US Dollar Local Corporate Bonds/Notes - US Dollar denominated fixed income debt issued by large Philippine corporations.

Foreign Exchange - Spots and Forwards - Converting one currency for another on either a spot (immediate) or forward (future date) basis.



TRUST SERVICES

Personal, Corporate & Institutional Investment Management - UnionBank Trust acts as the Investment Manager authorized to manage an individual, corporate or institutional client's funds according to their investment objectives and risk parameters. UnionBank Trust creates a structured or bespoke portfolio for the client by choosing from a wide array of investment outlets (i.e. Government Securities, Corporate Bonds, Stocks, Preferred Shares, TDs, UITF, etc.)

Unit Investment Trust Funds - Unit Invested Trust Funds (UITFs) are open-ended pooled trust funds, which are operated and administered by UnionBank Trust. UITFs are made available by participation and allows clients to invest or redeem their investments at any time from the fund itself. These funds are managed by UnionBank Trust's highly skilled and professional fund managers and are invested in a diversified set of financial instruments such as stocks, bonds and other money market securities. The following UITFs are available, namely UnionBank Tax Exempt Portfolio, UnionBank Philippine Peso Fixed Income Portfolio, UnionBank Intermediate Term and Fixed Income Portfolio, UnionBank long Term Fixed Income Portfolio, UnionBank Short Term Fixed Income Portfolio, UnionBank Dollar Bond Portfolio, UnionBank Peso Balanced Portfolio, UnionBank Philippine Equity Index Fund Portfolio and UnionBank Capital Accumulation Global Fund of Funds Portfolio.

Retirement Fund Management - UnionBank Trust helps institutional clients set up and manage retirement funds for the benefit of both the company and their retiring employees. UnionBank Trust designs and recommends an investment program for the company, with the objective of maximizing the earnings of the retirement fund while taking into consideration the company's risk objectives. Retirement Funds administered by a Trust entity enjoy tax incentives.

Personal Management Trust - UnionBank Trust manages a portion of a client/ Trustor's wealth for the benefit of a designated beneficiary(ies). The Personal Management Trust gives clients a convenient access to a wide array of investment products. This Trust account is highly customizable and allows the Trustor to distribute the proceeds, interests and/or principal to their beneficiary(ies) according to specific conditions and provisions.

Escrow Agency - UnionBank Trust acts as an independent third party escrow agent to protect the interests of the contracting parties while the terms and conditions of the principal contract are being fulfilled. An escrow arrangement ensures the protection of the parties' interests while ensuring compliance with specified contractual obligations.

INVESTMENT BANKING SERVICES

Corporate Finance

- * Debt Underwriting
- * Private Placements

Syndicated Lending and Project Finance

- * Loan Arrangements
- * Loan Syndications

Advisory Services

- * Corporate Restructuring

ELECTRONIC BANKING SERVICES

UnionBank Online App and Web

www.unionbankph.com

Business Online

eobankph.com

EON Convergent Banking

PRIORITY BANKING

Business Class - A banking program for UnionBank's high-net worth clients that offers personalized service, exclusive privileges, relationship banking and smart solutions to eligible individuals.

Business Class Corporate - A variant of the Business Class program where eligible corporate clients are given specialized service, relationship banking and preferential pricing.

Business Class for Doctors - A variant of the Business Class program where doctors, via their HMO or hospital affiliation, are entitled to receive their professional fee credits through a UnionBank account.

PRE-NEED FIRST UNION PLANS

Income Fund Products

- * Cash Contributor
- * Asset Accumulator
- * Future Funder
- * Prime Provider

REAL PROPERTY MANAGEMENT UNION PROPERTIES, INC.

The Kingswood Arcade

(Vito Cruz Extension corner Pasong Tamo, Makati City)

Kingswood Makati Project-Sales and Marketing

(Vito Cruz Extension corner Pasong Tamo, Makati City)

UnionBank Centre-Manila

(Dasmariñas corner Q. Paredes Street, Binondo, Manila)

OTHER SERVICES

Foreign/ Domestic Collections and Remittances

- * Fund Transfers
- * Manager's Checks
- * Peso/ Dollar Demand Draft
- * Peso/ Dollar Telegraphic Transfer
- * PDDTS (Philippine Domestic Dollar Transfer System)

Purchase and Sale of Foreign Exchange

Fund Raising Services for Non-Profit Organizations (NPO)

- * Mobile Donations
- * Online Donations

Payment Gateway

- * Internet
- * Mobile



**METRO MANILA /
GREATER MANILA AREA**
MAKATI CITY

ANTEL RESIDENCES
G/F Antel Spa Suites
7829 Makati Avenue
Poblacion, Makati City
(02) 846-9061 (FAX)
(02) 846-9190
(02) 623-8190
(0917) 827-6545

AYALA AVENUE
G/F Don Vicente Madrigal Bldg.
6793 Ayala Ave.
Makati City
(02) 891-5852 to 53
(02) 891-5851 (FAX)
(02) 585-1032
(0917) 827-0298

AYALA-RUFINO
Rufino Bldg., Ayala Avenue
corner V. Rufino St.
Makati City
(02) 810-1466 FAX
(02) 811-0510
(02) 585-1031

AYALA-SSS
*(up to November 2018 only
due to building renovation)*
SSS (Makati) Building
Ayala Avenue corner
V. Rufino St., Makati City
(02) 848-6805
(02) 848-6806
(02) 813-4620 FAX
(02) 813-5992

CENTURY CITY
G/F Unit 3
The Gramercy Residences
Century City, Salamanca Street
corner Kalayaan Avenue
Brgy. Poblacion, Makati City
(02) 894-3144
(02) 894-4700 TEL/FAX
(0917) 827-8341

GREENBELT
G/F Twin Cities Condominium
110 Legaspi Street
Legaspi Village
Makati City
(02) 812-9601
(02) 818-1822 TEL/FAX
(02) 585-0010
(0917) 827-0376

H.V. DELA COSTA
138 Global Enterprise Bldg.
H.V. Dela Costa St. Salcedo Vill.
Makati City
(02) 813-1286
(02) 585-0977
(02) 813-1363
(02) 813-1337 FAX

INSULAR AYALA-PASEO (The ARK)

G/F Insular Life Building
Ayala Avenue corner
Paseo de Roxas
Makati City
(02) 541-9057
(02) 541-9062
(02) 218-2798
(02) 218-2745
(0917) 841-3351
(0917) 841-3325

J. P. RIZAL
731 J.P. Rizal Street
Makati City
(02) 897-1085
(02) 585-9866
(0917) 827-0353

MAGALLANES
G/F Maga Center Building
Paseo de Magallanes
Makati City
(02) 851-3803
(02) 851-3802 TEL/FAX
(0917) 827-6158

MAKATI AVENUE
7874 Makati Ave. corner
Durban St., Poblacion
Makati City
(02) 895-1774
(02) 899-1542
(02) 899-1544 FAX
(02) 585-1043

MAKATI MEDICAL CENTER
Makati Medical Center
2 Amorsolo Street
Legaspi Village
Makati City
(02) 585-8399
(02) 812-8182
(0917) 827-3172

MULTINATIONAL BANCORP
G/F Multinational Bancorp. Centre
6805 Ayala Avenue
Makati City
(02) 511-1973
(02) 511-7361 TEL/FAX
(02) 966-9047
(0917) 827-3317

PASAY ROAD
912 Gemland Commercial Bldg.
Pasay Road, San Lorenzo Village
Makati City
(02) 752-7121
(02) 813-5430
(02) 843-8298 FAX

PASEO DE ROXAS (soon to open)
G/F III Paseo de Roxas Building
Paseo de Roxas corner
Legaspi St., Legaspi Village
Makati City

PASONG TAMO-JTKC
G/F JTKC Centre Building
2155 Pasong Tamo St.
Makati City
(02) 840-4779 FAX
(02) 840-4782 & 83
(02) 585-1044
(0917) 827-0373

PASONG TAMO EXTENSION

G/F BCS Building
Don Chino Roces Ave.
Pasong Tamo Extension
Makati City
(02) 892-0990
(02) 892-6879
(0917) 827-0365
(02) 892-0001

PEREA
G/F Greenbelt Mansion
Perea St., Legaspi Village
Makati City
(02) 818-6941
(02) 752-0986 FAX
(02) 894-3187

RADA
Prince Building
117 Rada St., Legaspi Village
Makati City
(02) 893-4318
(02) 585-0979
(02) 818-9731 FAX
(0917) 827-0389

SALCEDO
Golden Rock Building
168 Salcedo St., Legaspi Village
Makati City
(02) 818-8075
(02) 818-8078 FAX
(02) 585-1040
(0917) 827-0364

VALERO
Le Grand Condominium
130 Valero St., Salcedo Village
Makati City
(02) 819-5426
(02) 818-3052 TEL/FAX
(02) 585-1033

VALERO-ANTEL PLATINUM
G/F Antel Platinum Tower
154 Valero St., Salcedo Village
Makati City
(02) 752-4435 to 37
(02) 843-7005 FAX
(0917) 827-0463

VITO CRUZ
Kingswood Arcade
Vito Cruz corner
Pasong Tamo Sts.
Makati City
(02) 899-2772
(02) 505-0980
(0917) 827-0391

WORLD CENTRE
G/F The World Centre Building
330 Sen Gil J. Puyat Ave.
Makati City
(02) 867-8560
(02) 867-8377
(02) 585-0981
(0917) 827-0392

CITY OF MANILA
CITYPLACE SQUARE

3/F Lucky
Chinatown-Cityplace Square
Calle Felipe corner
La Chambre Street
Binondo, Manila
(02) 623-8191
(02) 254-9775
(02) 708-8016 TEL/FAX
(0917) 827-6546

DASMARINAS
UnionBank Centre Manila Bldg.
Dasmariñas corner
Q. Paredes Streets
Binondo, Manila
(02) 245-7191
(02) 242-9372 TEL/FAX
(02) 243-8201
(02) 243-8204
(02) 585-9839
(0917) 827-0352

ESCOLTA
G/F Regina Building
Escolta, Manila
(02) 245-8955
(02) 241-8544
(02) 242-4483
(02) 623-9574
(0917) 827-0875

ICTSI
G/F ICTSI Administration Bldg.
Manila International
Container Terminal
MICT South Access Road
Port Area, Manila
(02) 244-1864
(02) 241-8303
(02) 585-1265
(0917) 827-0281

INTRAMUROS
G/F BF Condominium Bldg.
A. Soriano Avenue
Intramuros, Manila
(02) 404-1720 to 21
(02) 521-8873 FAX
(0917) 827-0258

LOURDES HOSPITAL
G/F Main Building
Our Lady of Lourdes Hospital
46 P. Sanchez Street
Sta. Mesa, Manila
(02) 713-8546
(02) 713-7874
(02) 623-9576
(0917) 827-0879

MALATE
G/F Marioco Building
1945 M. Adriatico St.
Malate, Manila
(02) 525-2741
(02) 525-2725 TEL/FAX
(0917) 827-0354

MASANGKAY
911-913 G. Masangkay St.
Binondo, Manila
(02) 241-5364
(02) 243-7676
(02) 241-4047 TEL/FAX

MAYHALIGUE

G/F One Masangkay Place
1420 Masangkay near corner
Mayhaligue St., Sta. Cruz, Manila
(02) 252-5446
(02) 252-5457 TEL/FAX
(02) 623-9578
(0917) 827-0887

PANDACAN

1763 Paz M. Guazon St.
Paco, Manila
(02) 564-0535
(02) 564-0537 TEL/FAX
(02) 585-9845
(0917) 827-0355

STO. CRISTO

LG01 and LG02 Burke Plaza
Sto. Cristo St., Binondo, Manila
(02) 244-4282 & 84
(02) 244-4286
(02) 623-9579
(0917) 827-0890

SOLER

TOPSCO Building
1148 Soler Street
Binondo, Manila
(02) 623-9584
(02) 245-7161
(02) 247-1711
(0917) 827-0892

TAFT AVENUE

2526 G/F Kassel Condominium
Taft Ave. near cor. P. Ocampo St.
Vito Cruz St., Malate, Manila
(02) 404-1533 to 34
(02) 404-1532 FAX
(02) 585-9865
(0917) 827-0358

T. ALONZO

625 T. Alonzo Street
Sta. Cruz, Manila
(02) 736-9858 TEL/FAX
(02) 736-9089

UNITED NATIONS AVENUE

UN Ave. cor. M.H. del Pilar
and M. Guerrero Sts.
Ermita Manila
(02) 525-2692
(02) 525-2698
(02) 525-2705

VERTEX ONE-SAN LAZARO

G/F Space 12 & 13
Vertex One Bldg.
San Lazaro, Manila
(back of SM San Lazaro)
(02) 559-9781
(02) 559-9792
(02) 585-8127

CALOOCAN CITY

EDSA CALOOCAN
512 EDSA corner Urbano Plata St.
Caloocan City
(02) 330-9924
(02) 585-0998
(02) 362-3008
(02) 330-9922 FAX
(0917) 827-0395

CALOOCAN

357 Rizal Ave. Ext.
Grace Park, Caloocan City
(02) 362-3829
(02) 365-9320
(02) 215-2281
(0917) 825-0142

LAS PIÑAS

LAS PIÑAS-PAMPLONA
Alabang-Zapote Road
corner Crispina Avenue
Pamplona, Las Piñas City
(02) 874-3696 & 98
(02) 873-0954
(02) 874-8075 FAX
(02) 585-1037
(0917) 827-0467

MALABON

MALABON
31 Rivera Street corner
Gov. Pascual Ave.
Tinajeros, Malabon City
(02) 288-7392
(02) 288-7423
(02) 288-7382

MANDALUYONG CITY

BONI AVENUE
655 Boni Avenue corner
Ligaya St., Mandaluyong City
(02) 531-8865
(02) 532-8737
(02) 533-1054
(02) 533-1042 FAX
(0917) 827-0987

BSA TOWER-ORTIGAS

G/F BSA Twin Tower, Bank Drive
Ortigas Center, Mandaluyong City
(02) 623-4931
(02) 477-8395 TEL/FAX
(02) 477-9838
(0917) 827-1561

EDSA-PIONEER

Level 1, Robinson's Cybergate Plaza
EDSA corner Pioneer Street
Mandaluyong City
(02) 623-2044
(02) 477-4164 FAX
(02) 477-4163
(0917) 827-1097

GREENFIELD DISTRICT

Level 1 Unit 5, Soho Central
Greenfield District, Shaw Boulevard
Mandaluyong City
(02) 584-7538
(02) 584-7540
(02) 585-1904
(0917) 827-0286

LIBERTAD-MANDALUYONG

Unit A2 Cluster El Dorado
California Garden Square
Libertad St., Mandaluyong City
(02) 470-2743
(02) 623-9561
(0917) 827-0765

SHAW MANDALUYONG
PICPA Bldg., 700 Shaw Blvd.
Mandaluyong City
(02) 726-9469
(02) 726-9466 FAX
(02) 724-2561
(02) 623-2038
(0917) 827-0994

ST. FRANCIS SHANGRI-LA PLACE
Tower 1 G/F, Retail Internal Road
corner St. Francis Street
Brgy. Wack-Wack, Mandaluyong City
(02) 584-3634
(02) 584-3633 FAX
(02) 585-8126
(0917) 827-0156

WACK-WACK
6 Shaw Boulevard corner
Laurel St., Mandaluyong City
(02) 725-2919
(02) 725-1227 TEL/FAX
(02) 623-2043
(0917) 827-1096

MARIKINA CITY

MARIKINA
WRC 2 Building
No. 47 Gil Fernando Ave.
Midtown Subdivision II
Brgy. San Roque
Marikina City
(02) 681-6274 to 75
(02) 681-6184
(02) 681-6227 FAX
(02) 623-2037
(0917) 827-0993

MUNTINLUPA CITY

ALABANG COUNTRY CLUB
G/F Alabang Country Club
Acacia Drive
Ayala Alabang Village
Muntinlupa City
(02) 833-9067
(02) 833-9071 TEL/FAX
(0917) 800-7121

ALABANG TOWN CENTER
Makati Supermart Alabang
Alabang Town Center
Muntinlupa City
(02) 842-0488
(02) 842-0496
(02) 623-2027
(0917) 827-0970

AYALA ALABANG
G/F JD Tower,
Commerce Ave. corner
Acacia Avenues
Madrigal Business Park
Alabang, Muntinlupa City
(02) 809-0689 to 91
(02) 809-0694 to 95
(02) 585-1038
(0917) 827-0361

MUNTINLUPA
12 Jayson's Building
National Road, Putatan
Muntinlupa City
(02) 862-4667
(02) 862-1368 TEL/FAX
(02) 623-2028
(0917) 827-0971

RICHVILLE
UGF Richville Corporate Tower
Madrigal Business Park
Alabang Zapote Road
Alabang, Muntinlupa City
(02) 850-5636 FAX
(02) 850-5164
(02) 850-5280

NAVOTAS

NAVOTAS
807-817 M. Naval St.
Navotas, Metro Manila
(02) 282-7502 to 04
(02) 282-7506 TEL/FAX
(0917) 827-0560

PARAÑAQUE CITY

ASEANA BRADCO AVENUE
G/F Unit G12 Sole Mare Park Suites
Bradco Avenue, Aseana Business Park
Parañaque City
(02) 293-6627
(02) 293-1587
(02) 587-8196
(0917) 827-7583

BF HOMES

55 President's Avenue
BF Homes Subd., Parañaque City
(02) 807-4483 to 85
(02) 585-1036
(0917) 827-0465

BICUTAN

28 Doña Soledad Avenue
Better Living Subd., Parañaque City
(02) 822-1517 to 19
(02) 822-1515
(02) 822-1516 FAX

DR. A. SANTOS

G/F MTF Building
Kabesang Segundo corner
Dr. A. Santos Avenue
Parañaque City
(02) 836-3730
(0917) 827-0899

PARAÑAQUE

Quirino Avenue corner
V. Medina St., La Huerta
Parañaque City
(02) 826-7052
(02) 829-9317
(02) 623-2025
(0917) 827-1449

PASCOR DRIVE

G/F Sky Freight Center
Ninoy Aquino Avenue corner
Pascor Drive, Parañaque City
(02) 855-7747 to 48
(02) 585-1001
(0917) 827-0544

SUCAT-JAKA PLAZA

JAKA Plaza
Dr. A. Santos Avenue
Parañaque City
(02) 829-9315 FAX
(02) 585-1003
(0917) 827-0545
(0917) 827-0363

WEST SERVICE ROAD

Rodeo Building
Km. 18 West Service Road
South Luzon Expressway
Parañaque City
(02) 821-4513
(02) 821-4674
(02) 623-2029
(0917) 827-0974

PASAY CITY

GSIS
GSIS Main Office
Financial Center, Pasay City
(02) 551-4327 TEL/FAX
(02) 551-4554
(02) 833-7284

NEWPORT CITY

G/F Star Cruises Building
Newport City, Andrews Avenue
Pasay City
(02) 556-8955
(02) 556-8956
(02) 623-3845
(0917) 827-1143

PASAY CITY

2528 ERI Building
Taft Avenue, Pasay City
(02) 833-2959
(02) 833-5738
(02) 585-9837
(0917) 827-0349

PASIG CITY

ADB AVENUE
G/F Unit 101
AIC Burgundy Empire Tower
ADB Avenue, Ortigas Center
Pasig City
(02) 633-1097 FAX
(02) 622-1031
(02) 571-8394
(0917) 827-5992

EMERALD AVENUE

G/F Wynsum Corporate Plaza Bldg.
Emerald Avenue, Ortigas Center
Pasig City
(02) 633-7604
(02) 633-7628
(02) 633-7599 FAX

EXCHANGE REGENCY

G/F The Exchange Regency
Exchange Road corner
Meralco Avenue
And Jade Drive, Ortigas Center
Pasig City
(02) 310-5627
(02) 310-5631
(02) 623-9569
(0917) 827-1336

FRONTERA VERDE

G/F Transcom Centre
Las Fiestas Street
Frontera Verde, Pasig City
(02) 451-1590
(02) 451-1001
(02) 502-2476
(0917) 827-6172

JULIA VARGAS

G/F Centerpoint Building
Julia Vargas Avenue
Corner Garnet Road
Ortigas Center, Pasig City
(02) 633-5595
(02) 633-5597
(0917) 827-6165

MEDICAL CITY

BI The Medical Arts Tower Bldg.
The Medical City Hospital
Ortigas Avenue, Pasig City
(02) 633-3863
(02) 633-3862
(02) 506-5061
(0917) 827-5826

ORTIGAS

G/F The Crescent Condominium
29 San Miguel Avenue
Ortigas Center, Pasig City
(02) 633-6443
(02) 633-6445
(02) 635-9028
(02) 585-1013
(0917) 827-0556

RENAISSANCE TOWER

G/F Renaissance 1000
Meralco Avenue
Ortigas Center, Pasig City
(02) 584-8397 TEL/FAX
(02) 584-8396
(02) 217-7210
(0917) 827-0461

SHAW BOULEVARD

131-133 Shaw Boulevard
Pasig City
(02) 632-9813 FAX
(02) 747-8088
(02) 632-9817
(02) 585-1017
(0917) 827-0558

SHAW-PASIG

Chipeco Building
Shaw Boulevard corner
Meralco Ave., Pasig City
(02) 631-3957
(02) 502-2669
(0917) 827-5832

TEKTITE

G/F West Tower
Phil. Stock Exchange Center
Exchange Road
Ortigas Center, Pasig City
(02) 636-3529 to 32
(02) 636-3531 FAX
(02) 638-8746
(02) 623-2039
(0917) 827-0996

UNIONBANK PLAZA

UnionBank Plaza Bldg.
Meralco Ave.
corner Onyx Road
Pasig City
(02) 634-1602
(02) 944-8128 to 29
(02) 944-8043 FAX
(0917) 827-0559

QUEZON CITY

ABS-CBN

West Wing,
G/F ELJ Communications Ctr.
ABS-CBN Broadcast Center
Sgt. Esguerra Avenue corner
Mother Ignacia St.
Quezon City
(02) 929-7264
(02) 929-1825
(0917) 827-0294

ACROPOLIS

171 Bridgeview Bldg.
E. Rodriguez Jr. Ave.
Bagumbayan, Quezon City
(02) 655-5818
(02) 438-9332
(02) 585-1007
(0917) 827-0549

ALI MALL

Level 2 Financial Center
Ali Mall, Araneta Center
Cubao, Quezon City
(02) 294-0100
(02) 911-2677
(0917) 827-1095

ARANETA AVENUE

Del Moral Building
341 G. Araneta Ave., Quezon City
(02) 714-4345 TEL/FAX
(02) 715-3645
(02) 714-4416
(02) 217-0383
(0917) 827-0287

AURORA-BALETE DRIVE

G/F Marsk Bldg., Aurora Blvd.
corner Baleta Drive, Quezon City
(02) 727-4157
(02) 724-4356
(02) 722-6327
(02) 585-8130

AURORA BOULEVARD

677 Aurora Blvd.
(near Broadway Centrum)
New Manila, Quezon City
(02) 412-3484 TEL/FAX
(02) 416-5329
(02) 725-1951
(0917) 827-2506

BAESA

Dra. C. Pascual Bldg.
142 Quirino Highway
Baesa, Quezon City
(02) 907-9450
(02) 361-4459 TEL/FAX

BANAWA

G/F Evergrowth Bldg.
422-424 Quezon Avenue
Corner Banawe St.
Quezon City
(02) 740-0424
(02) 743-4668
(02) 743-4671
(02) 743-4677
(02) 743-4680 FAX
(0917) 827-0446

C-5 QC

184-B E. Rodriguez Jr. Ave.
Bagumbayan, Quezon City
(02) 638-1689
(02) 421-0314
(02) 585-1011
(0917) 827-0553

COMMONWEALTH AVENUE

12-13, Upper G/F
Diliman Commercial Center
Commonwealth Ave.
Diliman, Quezon City
(02) 585-1874
(02) 931-9691
(02) 951-0152 FAX
(0917) 827-0446

COMMONWEALTH-LUZON AVENUE

UGF, Kayumanggi Center Building
Commonwealth cor. Luzon Avenues
Brgy. Matandang Balara, Quezon City
(02) 936-3623
(02) 936-3621

CONGRESSIONAL EXTENSION

Congressional Ave. near corner
Mindanao Ave., Gardenville
Brgy. Bahay Toro, Quezon City
(02) 623-2030
(02) 455-8561
(02) 426-4209 FAX

CUBAO

P. Tuazon St. corner
7th Ave., Cubao, Quezon City
(02) 912-1822
(02) 911-1504
(02) 912-1754 FAX
(0917) 827-0292

DEL MONTE AVENUE

345 Del Monte Avenue cor.
Banawe St., Brgy. Manresa
Quezon City
(02) 330-0227 to 28
(02) 330-0232
(02) 330-0234 FAX
(0917) 827-0457

EASTWOOD CITY

G/F Unit LGRI-6, Le Grand Tower 1
Palm Tree Avenue, Eastwood City
Brgy. Bagumbayan, Quezon City
(02) 584-3638 to 39
(02) 585-8128
(0917) 827-0161

E. RODRIGUEZ

1/F West Katipunan Building
95 E. Rodriguez Sr. Ave.
Quezon City
(02) 712-1331
(02) 711-4030 TEL/FAX

GMA-TIMOG

Unit 101 Cabrera Bldg. 1
103 Timog Avenue
Brgy. Sacred Heart, Quezon City
(02) 294-3281
(02) 294-1738 FAX
(02) 215-7261
(0917) 827-6152

KAMIAS

G/F TDS Building
72 Kamias Road, Quezon City
(02) 217-3784
(02) 929-7667
(02) 929-7909
(02) 929-7807

KATIPUNAN

335 AGCOR Bldg., Katipunan Ave.
Loyola Heights, Quezon City
(02) 426-1258
(02) 926-1768 FAX
(0917) 827-0997

MAYON

G/F ACI Bldg., 178 Mayon Street
Sta. Mesa Heights
Brgy. Maharlika, Quezon City
(02) 742-2787
(02) 742-2788
(02) 742-2793 FAX
(02) 742-7757

MUÑOZ

Muñoz Market, EDSA corner
Roosevelt Ave., Quezon City
(02) 414-4767
(02) 623-2033
(0917) 827-0986

NOVALICHES-GULOD

854 Quirino Highway
Gulod, Novaliches, Quezon City
(02) 935-1819
(02) 935-1820
(02) 1885
(0917) 827-0452

ROOSEVELT

244 Roosevelt Avenue
San Francisco del Monte
Quezon City
(02) 371-2024
(02) 448-6630 to 31
(02) 448-6633
(02) 371-2023
(0917) 827-0460

SOUTH TRIANGLE

Quezon Avenue corner
Scout Albano, Quezon City
(02) 425-1101
(02) 425-1104 FAX
(02) 585-1883
(0917) 827-0497

SSS EAST AVENUE

G/F SSS Main Building
East Avenue, Quezon City
(02) 624-7686
(02) 294-7202
(02) 294-6517 FAX
(0917) 827-6221

ST. LUKE'S MEDICAL CENTER

G/F St. Luke's Medical Center
279 E. Rodriguez Sr. Boulevard
Quezon City
(02) 661-4639
(02) 661-4756
(02) 623-9572
(0917) 827-0872

TIMOG

Cabrera Building II
64 Timog Avenue
Quezon City
(02) 623-9567
(02) 413-6304 FAX
(02) 416-2410
(02) 926-8636

TOMAS MORATO

Tomas Morato near corner
Scout Lozano St., Quezon City
(02) 928-5801
(02) 928-5811 FAX
(02) 585-1889
(0917) 827-0498

WEST AVENUE

27-A West Avenue
Quezon City
(02) 372-7001
(02) 372-7003
(02) 372-7002 FAX
(0917) 827-0762

WEST AVENUE-BALER

No. 91 Barangay Bungad
West Avenue, Quezon City
(02) 372-2581 to 82
(02) 907-9408
(0917) 827-2501

CAINTA, RIZAL

CAINTA
G/F CRV Building
F. Felix Avenue corner
Karangalan Drive
Cainta, Rizal
(02) 646-0295
(0917) 827-0991

SAN JUAN

ANNAPOLIS
G/F Unit 133, Promenade Missouri
Greenhills Shopping Center
Missouri corner Annapolis Sts.
Greenhills, San Juan
(02) 722-0938
(02) 585-1005
(02) 944-6282
(02) 942-6184

CARDINAL SANTOS

GF Cardinal Santos Medical Center
10 Wilson St., Greenhills West
San Juan City
(02) 966-7151
(02) 234-0585
(02) 234-0718 TEL/FAX
(0917) 827-3092

GREENHILLS

Ortigas Avenue near corner
Wilson St., Greenhills, San Juan
(02) 726-1395
(02) 723-3212
(02) 723-3363 FAX
(02) 623-2036

TAGUIG
2ND AVENUE - BGC

G/F Blue Sapphire Building
2nd Avenue corner 30th Street
Bonifacio Global City
(02) 519-0324
(02) 519-9795 FAX
(02) 585-0011
(0917) 827-0378

3RD AVENUE - BGC

G/F Shop B, The Net Square Bldg.
3rd Avenue corner 28th Street
Bonifacio Global City, Taguig
(02) 810-1577
(02) 810-1177
(02) 506-6724
(0917) 818-2493

5TH AVENUE - GLOBAL CITY

Unit 103, G/F One Global Place
5th Avenue corner 25th Street
Bonifacio Global City, Taguig City
(02) 836-4872 TEL/FAX
(02) 836-4873
(02) 907-8963
(0917) 827-2502

7TH AVENUE - BGC

G/F Twenty-Four Seven McKinley Bldg.
corner 7th Avenue, 24th Street
McKinley Parkway, Bonifacio
Global City, Taguig City
(02) 573-7281 TEL/FAX
(02) 573-7282
(02) 975-2279
(0917) 841-8767

26TH STREET - BGC

G/F Unit C-28, South of Market
North Tower, 26th St.
Bonifacio Global City, Taguig City
(02) 551-9815
(02) 511-7654
(02) 506-6913
(0917) 819-3424

32ND STREET - BGC

G/F Trade and Financial Tower
32nd Street corner 7th Avenue
Bonifacio Global City, Taguig City
(02) 623-8576
(02) 478-5876
(02) 478-5878 FAX
(0917) 827-1232

34TH STREET - BGC

G/F Shop 2, Panorama Building
34th St. corner Lane A
Bonifacio Global City
Taguig City
(02) 833-2116
(02) 886-3338
(0917) 827-9070

38TH STREET - BGC

G/F Orion Building
11th Avenue corner 38th St.
Bonifacio Global City, Taguig City
(02) 815-1028
(02) 815-0187
(02) 815-0193
(0917) 838-0421

39TH STREET - BGC

G/F Cocolight Bldg.
39th St. corner 11th Avenue
Bonifacio Global City, Taguig City
(02) 800-3901
(02) 800-3903 TEL/FAX
(02) 216-8608
(0917) 542-8431

BGC MCKINLEY ROAD

G/F Unit 1, Fairways Towers
5th Avenue
Bonifacio Global City
Taguig City
(02) 832-9386
(02) 833-8145
(0917) 827-9072

BGC THE LUXE RESIDENCES

G/F Shop 3, The Luxe Residences
28th Street cor. 4th Ave.
Bonifacio Global City
Taguig City
(02) 865-6869 TEL/FAX
(02) 865-6932
(0917) 309-4779

BGC TRIANGLE DRIVE

Shop 3, Philplans Building
Corporate Center
1012 North Triangle Drive
Bonifacio Global City, Taguig City
(02) 531-7240
(02) 823-1449
(02) 622-1063
(0917) 827-9854

BGC UPTOWN PLACE MALL

Unit B106, Lower G/F
Uptown Place Mall
9th Avenue cor. 36th Street
Bonifacio Global City, Taguig City
(02) 776-2789
(02) 776-2790
(02) 219-1359
(0917) 811-9802

BONIFACIO HIGH STREET

W Global Center
corner 30th and 9th Avenues
Fort Bonifacio, Taguig City
(02) 808-1166
(02) 808-2042
(02) 211-8586
(0917) 827-2918

MCKINLEY HILL

Units 1A & 1B Two World Square
Upper McKinley Road
McKinley Hill Drive
Fort Bonifacio, Taguig City
(02) 403-6522
(02) 403-6519
(0917) 827-0366

MCKINLEY WEST

Lower G/F
Robinsons Cyber Sigma Building
Lawton Avenue
Bonifacio South
Taguig City
(02) 824-8027
(02) 824-8037
(0917) 820-6845

VALENZUELA

MALINTA
G/F Mirjan Building
295 Paso de Blas, Valenzuela City
(02) 277-2921 to 22
(02) 623-9570
(0917) 827-0870

VALENZUELA

Km. 12 MacArthur Highway
corner Fatima Ave.
Marulas, Valenzuela City
(02) 291-8486
(02) 443-7748 to 49
(02) 292-9905

CENTRAL / NORTH LUZON
ANGELES

G/F Building 1, Unit 1 & 2
Central Town Mall
263 Fil-Am Friendship Highway
Brgy. Cutcut, Angeles City, Pampanga
(045) 409-0233
(045) 888-3562
(0917) 827-3254

BAGUIO

Units PF-7 & PF-7A
Plaza Floor, Cedar Bldg.
Gen. Luna cor. Mabini Street
Brgy. Kabayanan, Baguio City
(074) 443-5660
(074) 443-5658 FAX

BALIWAG

G/F Units 3&4
3006 St. Augustine Square
#17 Pinagbarilan St.
Doña Remedios Trinidad Highway
Baliwag, Bulacan
(044) 766-2442
(044) 766-2847 TEL/FAX

CABANATUAN

P. Burgos St.
Cabanatuan City
(044) 463-0489
(044) 463-0490 FAX

CLARK

M. Roxas Highway
Philexcel Business Park
Clark Freeport Zone
Pampanga
(045) 499-5140 to 41

CAUAYAN, ISABELA

G/F ITC Building
National Highway
Cauayan City, Isabela
(078) 652-4401
(078) 652-4398 TEL/FAX

DAGUPAN

G/F Insular Life Building
Arellano St., Barangay Pantala
Dagupan City, Pangasinan
(075) 523-5575
(075) 523-6086

LAOAG - SAN NICOLAS

G/F 365 Plaza Building
National Highway
Brgy. I. San Nicolas
Ilocos Norte
(077) 770-3771
(077) 771-5260

MEYCAUAYAN

G/F Marian Bldg.
MacArthur Highway
Calvario, Meycauayan
Bulacan
(044) 815-2346
(044) 769-6072
(0917) 825-0179

OLONGAPO

87 Magsaysay Drive
Olongapo City
(047) 602-2618
(047) 602-2765

PAMPANGA

G/F Mel-Vi Bldg.
Olongapo Gapan Road
Dolores, San Fernando
Pampanga City
(045) 961-6141
(045) 961-6300 TEL/FAX

REINA MERCEDES

MGPCI Compound
Maharlika Highway
Nappaccu, Pequeño
Reina Mercedes, Isabela
(078) 307-0056
(078) 307-0046
(0917) 827-6013

SAN FERNANDO, LA UNION

G/F Shania Tower, Quezon Ave.
San Fernando, La Union
(072) 607-0613 TEL/FAX
(072) 607-0612
(0917) 827-9722

SAN FERNANDO, PAMPANGA

3M Bldg., McArthur Highway
San Agustin, San Fernando
Pampanga
(045) 455-2518 TEL/FAX
(045) 455-3479

SANTIAGO

Maharlika Highway
Santiago City, Isabela
(078) 305-9956
(078) 305-9940

SUBIC

19B Manila Avenue
corner Canal Street
Subic Bay Freeport Zone
(047) 252-9327 TEL/FAX
(047) 252-9326

TARLAC

Jaral Bldg., McArthur Highway
corner Juan Luna St., Tarlac City
(045) 982-6489 TEL/FAX
(045) 982-6490
(045) 982-6485

TUGUEGARAO

#106 A. Bonifacio Street
Tuguegarao City, Cagayan
(078) 846-9179
(078) 844-3170

VIGAN

AR Lahoz Building
Jose Singson Street
Vigan, Ilocos Sur
(077) 722-2369
(077) 722-2046

SOUTHERN LUZON

BACOR

Addio Bldg., Aguinaldo Highway
Talaba, Bacoor, Cavite
(046) 417-1606
(046) 417-1705

BATANGAS CITY

G/F Insular Life Bldg.
Highway Hills
Hilltop, Batangas City
(043) 723-0182
(043) 722-1417

BIÑAN-CARMONA

National Highway
Barangay Maduya
Carmona, Cavite
(046) 430-3573 TEL/FAX
(046) 430-3564
(02) 667-6388 local 8809

CALAMBA-PARIAN

G/F Anderson Bldg.
Barangay Parian
Calamba, Laguna
(049) 545-7421 to 22
(049) 545-6673
(049) 545-9523

CALAMBA

Marcelita Building
National Highway
Barangay Real
Calamba, Laguna
(049) 545-2162
(049) 545-2614

DASMARIÑAS-CAVITE

Aguinaldo Highway corner
Congressional Avenue
Dasmariñas, Cavite
(046) 432-1719
(046) 432-1718

IMUS-CAVITE

G/F Melta Bldg. cor.
Sampaguita Village
Aguinaldo Highway
Imus, Cavite
(046) 471-7770
(046) 970-6975

LEGASPI

G/F Unit 1, SMC Bldg.
Landco Business Park
Capantawan, Legazpi City
(052) 742-6801

LIMA (soon to open)

The Outlets at Lipa
LIMA Technology Center
Lipa City, Batangas

LIPA

B. Morada Avenue
Lipa City, Batangas
(043) 756-3822 TEL/FAX
(043) 756-4370
(043) 312-2622

LUCENA

One People Square
M.L. Tagarao Street corner
Granja St., Lucena City
(042) 710-6538

NAGA

G/F Prime Days Hotel Building
Panganiban Drive, Naga City
(054) 473-7885 TEL/FAX
(054) 473-7884
(0917) 658-5226

PASEO DE STA. ROSA

G/F The Medical City South Luzon
United Blvd., Brgy. San Jose
Sta. Rosa, Laguna
(049) 502-7177
(049) 502-7170
(0917) 827-3098

PUERTO PRINCESA

J.P. Rizal Avenue
Brgy. Maningning
Puerto Princesa City
Palawan
(048) 434-2007

SAN PEDRO

National Highway
Barangay Landayan
San Pedro, Laguna
(02) 868-8067
(02) 868-8085
(02) 868-8186

STA. ROSA

Rizal Boulevard cor. Zavalla St.
Barangay Malusak
Sta. Rosa, Laguna
(049) 534-2548
(049) 534-1524

TAGAYTAY

G/F Tagaytay Prime Residences
Tagaytay-Calamba Road
Prime Rotunda, Brgy. San Jose
Tagaytay City
(046) 423-1661
(046) 423-1662

METRO CEBU

CEBU A.S. FORTUNA

G/F The Space, A.S. Fortuna
corner P. Remedio St., Banilad
Mandaue City, Cebu
(032) 236-6604
(032) 236-6612
(0917) 809-6001

CEBU-BANILAD

Units 1&2 Gaisano Country Mall
Gov. M. Cuenco Avenue
Banilad, Cebu City
(032) 416-2883
(032) 231-2734 TEL/FAX

CEBU-BORROMEIO

Door 8 Plaza Borromeo
Borromeo St., Cebu City
(032) 253-0446
(032) 412-3401

CEBU BUSINESS PARK

G/F Insular Life
Cebu Business Centre
Mindanao Ave.
corner Biliran Road
Cebu Business Park
Cebu City
(032) 266-1166
(032) 266-1177
(032) 417-1632 TEL/FAX

CEBU BUSINESS PARK SUMILON ROAD

G/F Buildcomm Center
Sumilon Road
Cebu Business Park
Cebu City
(032) 350-8299
(032) 266-1097
(032) 266-1246

CEBU-FUENTE

G/F Rajah Park Place Hotel
Fuente Osmeña Blvd.
Cebu City
(032) 253-3865 TEL/FAX
(032) 412-5133

CEBU-I.T. PARK

G/F 101 TGU Tower
Salinas Drive
Asiatown IT Park
Lahug, Cebu City
(032) 479-9980
(032) 236-7897
(032) 479-9981

CEBU-LAPU-LAPU MEPZ II

Lot 2, Block 1, Phase 1, MEPZ II
SEPP, Pueblo Verde
Lapu-Lapu City, Cebu
(032) 495-9364
(032) 340-0705

CEBU LAPU-LAPU NATIONAL HIGHWAY

M.L. Quezon Street
Lapu-Lapu National Highway
Pusok, Lapu-Lapu City, Cebu
(032) 494-0172
(032) 340-5064

CEBU-LIPATA

G/F Doors 5-7
Pham Central Building,
South National Highway
corner San Roque Road
Lipata, Minglanilla, Cebu
(0917) 817-4497

CEBU MACTAN NEWTOWN

G/F Retail 2&3
Plaza Magellan Tower 1
Mactan Newtown
Lapu-Lapu City
(0917) 816-8672

CEBU-MANDAUE

Kentredder Bldg., A. Cortes St.
Mandaue City, Cebu
(032) 420-6288
(032) 346-2553 TEL/FAX
(032) 345-2703

CEBU-MAXILOM

Gen. Maxilom Ave.
Cebu City
(032) 255-6224 FAX
(032) 255-6225

CEBU-MINGLANILLA

G/F FCT Commercial Building
Poblacion Ward II
Minglanilla, Cebu
(0917) 805-4153

CEBU NORTH DRIVE

G/F North Drive
Ouano Avenue
North Reclamation Area
Mandaue City
(032) 383-6436
(032) 384-1927
(0917) 804-5162

CEBU NORTH ROAD

G/F Khuz'ns Bldg.
North Highway
Estancia, Mandaue City
(032) 420-5802
(032) 343-7500 TEL/FAX

CEBU-PLARIDEL

104 Plaridel Street
Barangay Sto. Niño, Cebu
(032) 255-0084 TEL/FAX
(032) 412-3507

CEBU-SUBANGDAKU

G/F Units 3&4,
A.D. Gothong I.T. Center
Lopez Jaena St.
Brgy. Subangdaku
Mandaue City
(032) 262-4616
(032) 262-4621
(0917) 805-9641

CEBU-TIMES SQUARE

G/F, Time Square 2 Building
Mantawe Avenue
Brgy. Tipolo
North Reclamation Area
Mandaue City, Cebu
(032) 234-9264
(032) 232-0680 TEL/FAX

VISAYAS

BACOLOD

G/F, Philamlife Bldg.
Lacson corner Galo Sts.
Bacolod City
(034) 709-6182
(034) 434-5510
(034) 434-6155

BACOLOD-ARANETA

1st Provincial Finance Corp. Bldg.
Araneta St. corner Rosario St.
Bacolod City
(034) 435-0664
(034) 435-0665
(034) 709-0253 FAX

DUMAGUETE

UnionBank Building
Ramon Pastor Sr. St.
corner San Juan St.
Dumaguete, Negros Oriental
(035) 422-5038
(035) 422-4036 TEL/FAX
(035) 522-0140

ILOILO-GENERAL LUNA

Brgy. Villa Anita Village
Gen. Luna Street
Iloilo City
(033) 336-1630 to 31
(033) 509-0147

ILOILO-IZNART

Villanueva Building
Iznart St., Iloilo City
(033) 500-5024
(033) 335-0464
(033) 335-0639

TACLOBAN

G/F Tacloban Plaza Bldg.
Justice Romualdez Street
Tacloban City
(053) 832-8724
(053) 523-8571
(0917) 827-5962

TAGBILARAN

0041 JS Torralba Street cor.
C. P. Garcia Ave.
Brgy. POB II
Tagbilaran City, Bohol
(038) 501-9909
(038) 412-3775

METRO DAVAO

DAVAO-CABAGUIO

G/F DMIRIE Bldg.
JB Cabaguio Avenue
Brgy. Paciano Bangoy
Davao City
(082) 221-4776
(082) 222-2508

DAVAO-MAGSAYSAY

R. Magsaysay Avenue cor.
E. Jacinto St., Davao City
(082) 221-6426
(082) 221-6726
(082) 222-3928

DAVAO-MONTEVERDE

G/F Mintrade Bldg., Monteverde Ave.
corner Sales St., Davao City
(082) 222-3411 to 13

DAVAO-QUIRINO

Quirino Ave. corner
San Pedro St., Davao City
(082) 225-1701 to 02 TEL/FAX

DAVAO-RIZAL

G/F & 2/F Quibod
Commercial Complex
Rizal Street, Davao City
(082) 221-6489
(082) 225-3004

MINDANAO

BUTUAN

G/F CAP Bldg.
JC Aquino Ave. corner
J. Rosales Ave., Butuan City
(085) 342-8981
(085) 342-8982
(085) 815-6191

CAGAYAN DE ORO-LAPASAN

Lapasan National Highway
Cagayan de Oro City
(088) 856-6847
(088) 856-6106 FAX

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G/F Laiz Bldg., Pioneer Ave.
General Santos City
(083) 553-6026
(083) 301-0033

Iligan

Quezon Avenue, Brgy. Poblacion
9200 Iligan City
(063) 221-5395
(063) 221-3008

PAGADIAN

Sabado Building
Rizal Avenue
Pagadian City
(062) 214-1841
(062) 214-1332 TEL/FAX

ZAMBOANGA CITY

G/F ZAEC Bldg., Mayor Jaldon St.
Cor. Gov. Alvarez Street
Zamboanga City
(062) 991-4499 TEL/FAX
(062) 991-4899
(062) 991-5499
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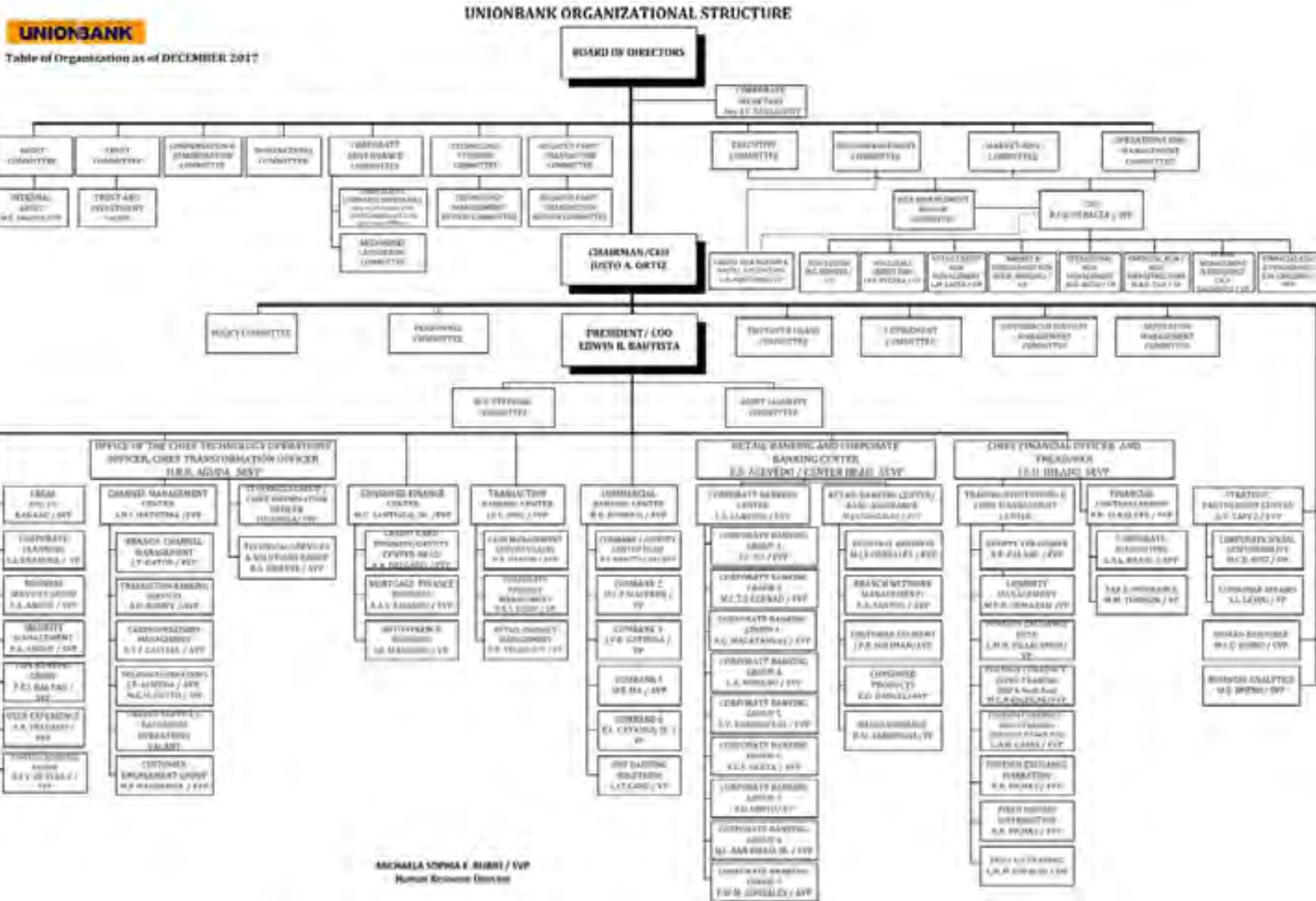
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President and CEO
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DINESH M. SAHIJWANI
President
First Union Insurance
and Financial Agencies, Inc.



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Ortigas Center, Pasig City 1605

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Hector C. De Leon
Vice President, Trust Operations Division
23/F UnionBank Plaza, Meralco Avenue
corner Onyx and Sapphire Roads
Ortigas Center, Pasig City 1605

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Metro Manila Hotline: 841-8600

TOLL FREE NUMBERS

Domestic Calls (PLDT Landline): 1-800-1888-2277
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(Applicable in USA, Netherlands, Spain, Switzerland,
Malaysia, Australia, Singapore, Japan, Korea-Koreatel,
Koreal-Onse, Israel)

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**Photos of CIC executive Ma. Victoria Betita,
Ayala Corporation background and Vivo V9 phone -
courtesy of clients**

On the Cover:

UnionBankers **Shereen Ann Erika (Shae) V. Reducindo**,
Product Manager, Credit Cards and
Justine Timothy (Tim) P. Cruz, Strategic Business Process
Optimization Manager



Your Bank. Your Future.

UNIONBANK

FINANCIAL
STATEMENTS
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FIVE-YEAR FINANCIAL HIGHLIGHTS

in Billions of Philippine Pesos

	2013	2014	2015	2016	2017
Total Resources	396.1	445.8	441.7	524.4	622.1
Total Loans and Other Receivables - net	142.1	139.2	179.6	235.4	281.0
Total Deposit Liabilities	298.2	311.1	311.6	376.5	447.6
Total Capital Funds	45.0	55.8	59.5	67.6	74.0
Market Capitalization	80.8	70.5	60.4	79.0	91.7
Net Revenues	21.5	20.4	20.2	25.3	25.1
Operating Expenses	10.4	9.8	11.4	11.8	13.5
Net Income	9.0	8.4	6.0	10.1	8.4

Per Share Data*

Earnings Per Share	8.53	7.94	5.68	9.50	7.95
Cash Dividend Per Share**	2.12	2.67	2.10	1.50	1.90
Book Value Per Share	42.51	52.76	56.21	63.86	69.91
Price Per Share	76.36	66.65	57.05	74.60	86.65

* Adjusted Per Share values to reflect 65% Stock Dividend Declaration in 2014

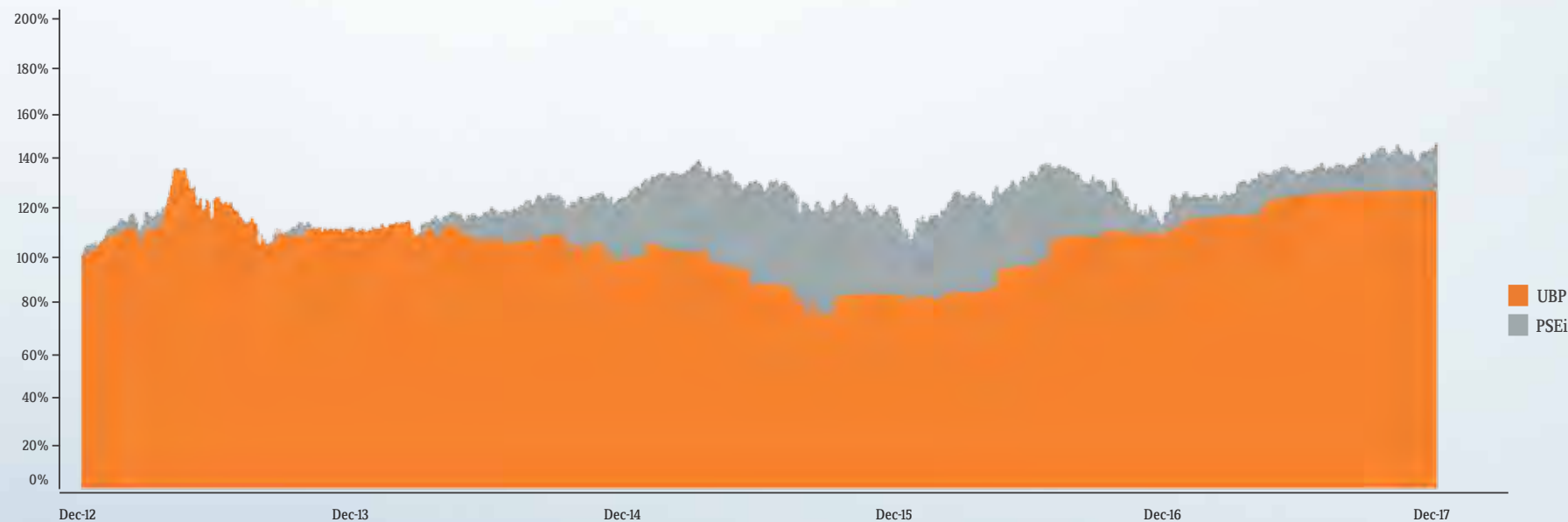
** Earned for the year but declared and paid the following year

Capital Ratios*

Total Capital Adequacy Ratio	18.5%	17.6%	16.2%	15.7%	14.4%
Tier 1 Ratio	16.0%	14.0%	13.1%	13.0%	12.1%

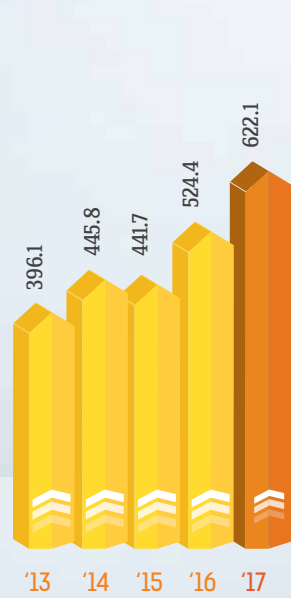
* Implementation of Based III effective January 1, 2014

UNIONBANK AND PSEi REBASED STOCK PERFORMANCE (BASE: 2012 LAST TRADING DATE)

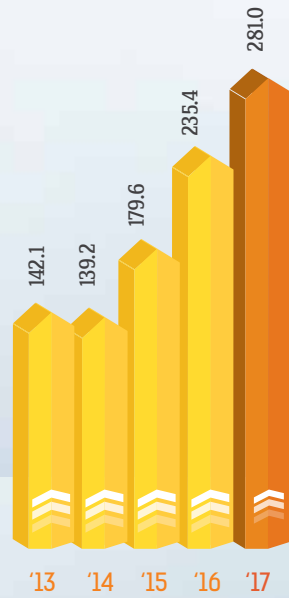


(In Billion of Philippine Pesos)

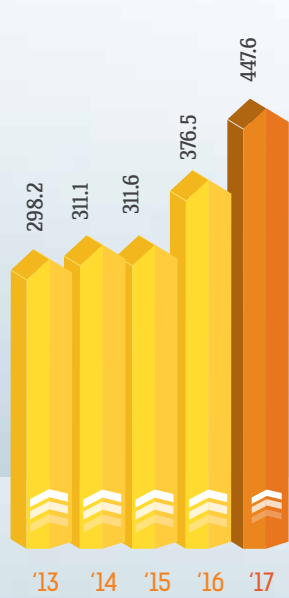
TOTAL RESOURCES



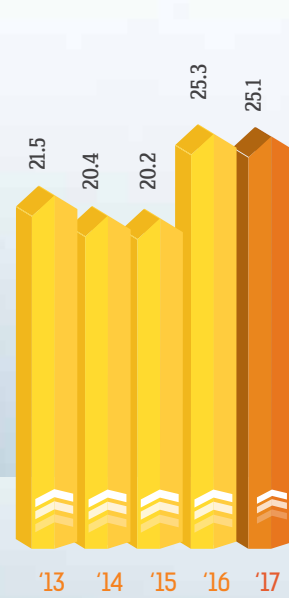
TOTAL LOANS



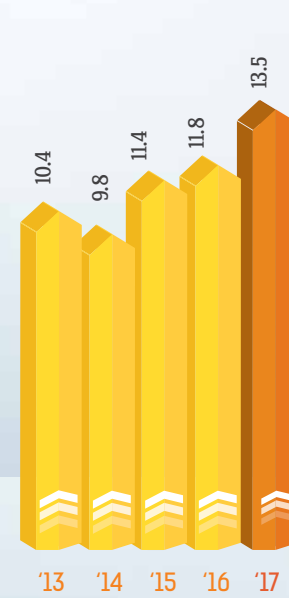
TOTAL DEPOSIT



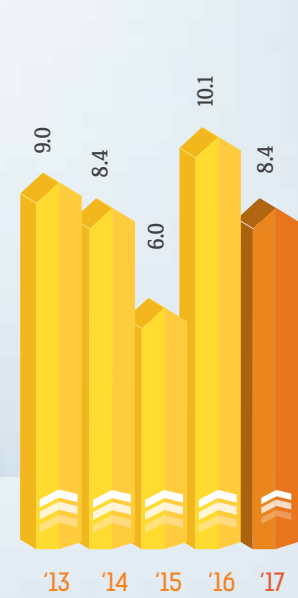
NET REVENUES



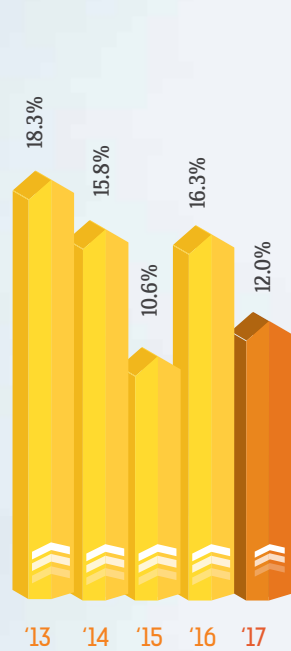
OPERATING EXPENSES



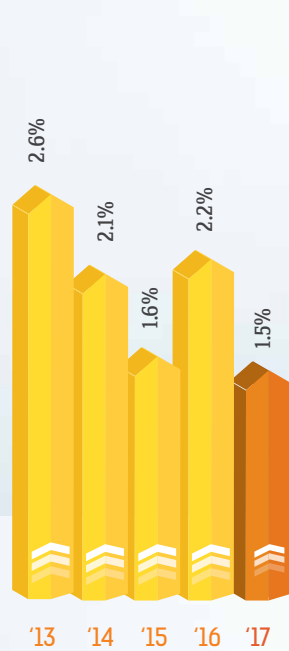
NET INCOME



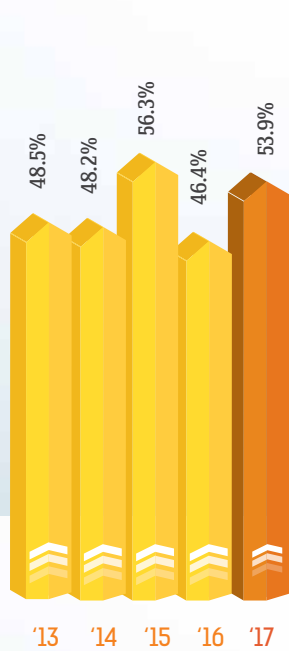
RETURN ON EQUITY



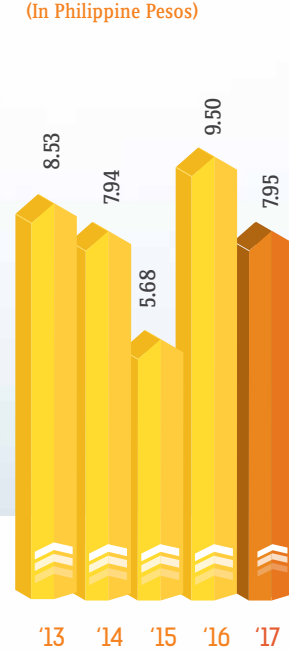
RETURN ON ASSETS



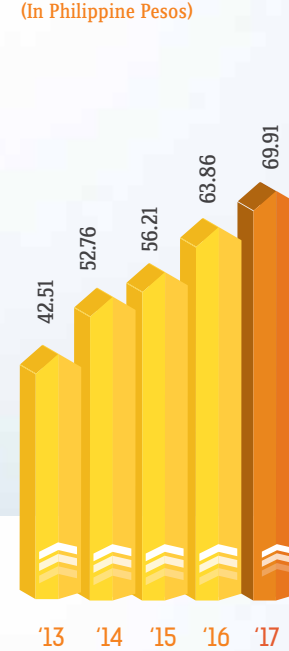
COST-TO-INCOME RATIO



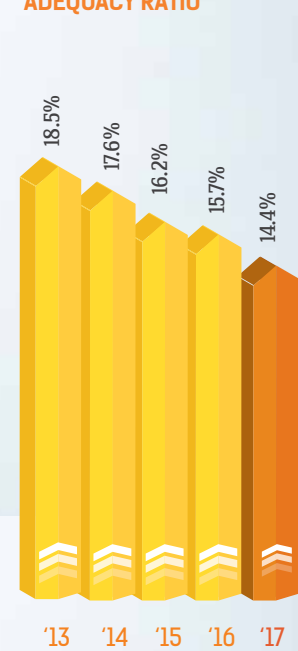
EARNINGS PER SHARE
(In Philippine Pesos)



BOOK VALUE PER SHARE
(In Philippine Pesos)



TOTAL CAPITAL ADEQUACY RATIO



STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Securities and Exchange Commission

SEC Building, EDSA, Greenhills, Mandaluyong City

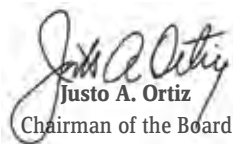
The management of **Union Bank of the Philippines** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2017 and 2016, in accordance with the prescribed financial reporting framework 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 to do so.

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

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

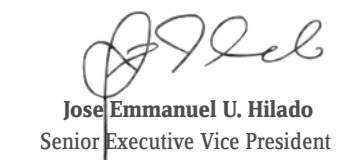
Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing and, in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such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



Justo A. Ortiz
Chairman of the Board



Edwin R. Bautista
President &
Chief Executive Officer



Jose Emmanuel U. Hilado
Senior Executive Vice President
Chief Financial Officer and Treasurer



Francis B. Albalate
Senior Vice President
Financial Controller

CERTIFICATE ON THE COMPILATION SERVICES FOR THE PREPARATION OF THE FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

I hereby certify that I am the Certified Public Accountant who performed the compilation services related to the preparation and presentation of financial information of an entity in accordance with an applicable financial reporting framework and reports as required by accounting and auditing standards for Union Bank of the Philippines for the period ended December 31, 2017.


In discharging this responsibility, I hereby declare that:

I am the Division Head of Corporate Accounting of Union Bank of the Philippines.

_____ I am the _____ of _____ and was contracted to perform this service.

Furthermore, in my compilation services for preparation of the Financial Statements and notes to the Financial Statements, I was not assisted by or did not avail of the services of Punongbayan & Araullo who/which is the external auditor who rendered the audit opinion for the said Financial Statements and notes to the Financial Statements.


I hereby declare, under penalties of perjury and violation of the Revised Accountancy Law, that my statements are true and correct.


LALAINÉ ANN L. BATAC, CPA
TIN No. 215-700-828
PROFESSIONAL IDENTIFICATION CARD NUMBER: 0104970
VALID UNTIL: FEBRUARY 9, 2019

ACCREDITATION NUMBER: 4059
VALID UNTIL: FEBRUARY 9, 2020

SUBSCRIBED AND SWORN to before me this 13th day of April 2018 at Pasig City, affiant exhibiting to me her competent evidence of identity pursuant to 2004 Rules on Notarial Practice.

Doc No. 202
Page No. 41
Book No. IV
Series No. 2018


EUGENIO E. REYES
Notary Public for Pasig, San Juan
And Pateros, Metro Manila
Commission Expires December 31, 2018
IBP No. 1051548/12-20-16
PTR No. 3803181/ 1-3-17/ Quezon City
Roll of Attorneys No. 14436
Appointment No. 57 (2017-2018)
MCLE Compliance No. V-0023536
18/F, UnionBank Plaza Bldg.
Meralco Ave., cor Onyx St., Pasig City



REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders

Union Bank of the Philippines

UnionBank Plaza, Meralco Avenue
Corner Onyx Street and Sapphire Road
Ortigas Center, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Union Bank of the Philippines and subsidiaries (the Group) and of Union Bank of the Philippines (the Parent Bank), which comprise the statements of financial position as of December 31, 2017 and 2016, and the statements of income, statements of comprehensive income, statements of changes in capital funds and statements of cash flows for each of the three years in the period ended December 31, 2017, 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 Group and of the Parent Bank as of December 31, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 in accordance with Philippine Financial Reporting Standards (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 Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

(a) Impairment of Loans and Other Receivables

Description of the Matter

Under Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, an entity shall assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. An entity 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 there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.



The allowance for impairment of loans and other receivables is considered to be a matter of significance as it requires the application of credit judgment. Also, the Group and the Parent Bank had loans and other receivables amounting to P281,035 million and P211,976 million, respectively, as of December 31, 2017, which contributed to 45% and 38% of the Group's and the Parent Bank's total resources, respectively.

The Group's and the Parent Bank's gross loan portfolio comprises of different loan products that may require different approach in the assessment for specific allowances by management. There are significant loans in the Group's and Parent Bank's loan portfolio which require management to monitor each of those borrowers' repayment abilities to determine any allowance for impairment. On the other hand, a great number of customers in the loan portfolios with smaller loan values are not monitored individually but are grouped on the basis of similar credit risk characteristics. Portfolios are monitored through historical loss experience as basis in the impairment assessment and adjusted on the basis of the current observable data.

The Group's and the Parent Bank's disclosures on the valuation of loans and other receivables and, on the allowance for impairment and the related credit risk are in Notes 4, 13 and 20 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to the adequacy of allowance for impairment of loans and other receivables, which was considered to be a significant risk, included:

- obtaining an understanding of the Group's and the Parent Bank's credit policy and loan impairment process;
- testing of controls over the approval, recording and monitoring of loans and other receivables, and determining and recording of the allowance for impairment;
- checking and evaluating the methodologies, inputs and assumptions used by the Group and the Parent Bank in performing both individual and collective impairment assessment in accordance with PAS 39;
- assessing the borrower's repayment abilities by examining payment history for selected loan accounts;
- evaluating the management's forecast of recoverable cash flows, and estimates of recovery from other sources of collection on selected loan accounts;
- for loan accounts assessed individually, recomputing the recoverable amounts determined by the Group and the Parent Bank and comparing them against the carrying values as of December 31, 2017; and,
- for loan accounts assessed collectively, checking the grouping based on shared credit risk characteristics.

(b) Valuation of Investment Properties

Description of the Matter

The valuation of the Group's and the Parent Bank's investment properties was a key area of focus of our audit due to the significance of the judgments and estimates made by management. The fair value of the Group's and the Parent Bank's investment properties are determined on the basis of the appraisals performed by independent appraisal companies accredited by the Bangko Sentral ng Pilipinas (BSP), with appropriate qualifications and relevant experience in the valuation of similar properties. The fair value is determined by reference to market-based evidence, which is the price that would be received to sell an asset in an orderly transaction between market participants as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, etc.), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. As of December 31, 2017, investment properties contributed to 2% of both the Group's and the Parent Bank's total resources.

The Group's and the Parent Bank's disclosures on the measurement of investment properties are in Notes 7 and 16 to the financial statements.



REPORT OF INDEPENDENT AUDITORS

How the Matter was Addressed in the Audit

Our audit procedures, included among others, evaluating the appropriateness of management's valuation policy, as well as evaluating the qualifications of the external appraisers. We also examined the appraisal reports for all investment properties that were appraised in 2017 and we evaluated the appropriateness of the valuation methodologies used by the appraisal companies in determining the fair value of the investment properties. As part of our examination of the appraisal reports, we assessed whether the selection of comparable properties and determination of price adjustments due to size and features are appropriate. We further compared the selling price of selected investment properties that were sold by the Group and the Parent Bank in 2017 to the prior period appraised values to determine the reliability of the fair value measurement of the Group's independent appraisal companies.

(c) Goodwill

Description of the Matter

Under PAS 36, *Impairment of Assets*, the Group and the Parent Bank is required to annually test the amount of impairment for goodwill. This annual impairment test was significant to our audit because it involves accounting estimates that have high estimation uncertainty. The Group and the Parent Bank engaged a third party consultant in performing the test of impairment for goodwill. The impairment testing made use of certain judgments, assumptions and estimates including determining the cash generating units (CGUs) where the goodwill is allocated, forecasted statement of financial position and net profit of those particular CGUs and discount rate used, which are affected by expected future market or economic conditions.

The Group's and the Parent Bank's disclosures about goodwill are included in Notes 3 and 18 to the financial statements.

How the Matter was Addressed in the Audit

Our audit procedures to address the risk of material misstatement relating to impairment of goodwill included, among others, evaluating the assumptions and methodologies used by the Group and the Parent Bank, in particular, those relating to the forecasted statement of financial position and net profit as well as the discount rate used. We also evaluated the qualifications of the external appraiser.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement) and SEC Form 17-A, both of which do not include the financial statements and our auditors' report thereon, and Annual Report for the year ended December 31, 2017. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2017 are expected to be made available to us after the date of this auditors' report.

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

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

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

Management is responsible for the preparation and fair presentation of these 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 Group's and the Parent 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 Group and the Parent Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent 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 Group's and the Parent 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 Group's and the Parent 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 Group and the Parent 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

REPORT OF INDEPENDENT AUDITORS

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

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

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. The supplementary information for the year ended December 31, 2017 required by the Bureau of Internal Revenue as disclosed in Note 36 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with the PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the 2017 audit resulting in this independent auditors' report is Anthony L. Ng.


PUNONGBAYAN & ARAULLO



By: Anthony L. Ng
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 6616016, January 3, 2018, Makati City
SEC Group A Accreditation
Partner - No. 1638-A (until May 29, 2020)
Firm - No. 0002-FR-4 (until Apr. 30, 2018)
BIR AN 08-002511-38-2016 (until Oct. 3, 2019)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2018)

February 23, 2018



STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

(With Corresponding Figures as of January 1, 2016)
(Amounts in Thousands of Philippine Pesos)

	Notes	GROUP		PARENT BANK		
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016 (As Restated - see Note 2)	January 1, 2016 (As Restated - see Note 2)
RESOURCES						
CASH AND OTHER CASH ITEMS	8	P 6,633,237	P 6,021,358	P 6,249,122	P 5,630,560	P 6,190,565
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	66,276,960	56,151,239	60,350,126	52,208,244	60,992,001
DUE FROM OTHER BANKS	9	54,520,482	42,425,310	53,690,233	41,412,122	18,376,441
INTERBANK LOANS RECEIVABLE	10	4,793,280	24,362,800	4,793,280	24,362,800	16,884,953
TRADING AND INVESTMENT SECURITIES						
At fair value through profit or loss	11	3,182,040	3,789,932	3,130,421	3,735,557	4,433,277
At amortized cost	12	166,471,659	117,778,563	166,471,659	117,778,228	105,413,994
At fair value through other comprehensive income		43,783	43,783	43,783	43,783	47,116
LOANS AND OTHER RECEIVABLES - Net	13	281,034,759	235,386,066	211,976,032	171,921,347	126,812,091
INVESTMENTS IN SUBSIDIARIES	14	-	-	18,111,116	14,694,593	12,763,015
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	15	3,765,796	3,523,273	3,456,303	3,119,151	2,851,825
INVESTMENT PROPERTIES	16	14,153,546	13,524,963	13,523,010	13,101,547	12,988,426
ASSETS HELD FOR SALE - Net	17	-	-	-	-	73,943
GOODWILL	18	11,258,251	11,258,251	7,886,898	7,886,898	7,886,898
OTHER RESOURCES - Net	19	9,977,538	10,166,609	5,326,144	4,445,572	3,832,593
TOTAL RESOURCES		P 622,111,331	P 524,432,147	P 555,008,127	P 460,340,402	P 379,547,138



STATEMENTS OF FINANCIAL POSITION

December 31, 2017 and 2016

(With Corresponding Figures as of January 1, 2016)
(Amounts in Thousands of Philippine Pesos)

	Notes	GROUP		PARENT BANK		
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016 (As Restated - see Note 2)	January 1, 2016 (As Restated - see Note 2)
LIABILITIES AND CAPITAL FUNDS						
DEPOSIT LIABILITIES	21					
Demand		P 127,424,349	P 121,166,835	P 128,048,765	P 121,866,838	P 105,652,058
Savings		57,744,858	49,320,538	55,737,917	47,152,780	39,429,326
Time		262,447,006	205,997,759	216,187,518	159,018,973	123,590,039
Total Deposit Liabilities		447,616,213	376,485,132	399,974,200	328,038,591	268,671,423
BILLS PAYABLE	22	43,070,825	48,100,192	29,009,719	39,166,961	30,567,307
NOTES PAYABLE	23	32,165,000	7,200,000	32,165,000	7,200,000	7,200,000
OTHER LIABILITIES	24	25,272,744	25,059,515	19,607,102	17,918,214	13,387,902
Total Liabilities		548,124,782	456,844,839	480,756,021	392,323,766	319,826,632
CAPITAL FUNDS	25					
Capital funds attributable to the Parent Bank's stockholders:						
Common stock		10,583,439	10,583,439	10,583,439	10,583,439	10,583,439
Additional paid-in capital		5,819,861	5,819,861	5,819,861	5,819,861	5,819,861
Surplus free		56,693,737	50,518,506	58,737,942	52,481,030	43,829,931
Surplus reserves		1,959,938	1,734,697	235,173	220,990	206,103
Net unrealized fair value gains on investment securities		25	25	25	25	25
Remeasurements of defined benefit plan		(1,175,320)	(1,139,658)	(1,174,455)	(1,138,830)	(768,974)
Other reserves		50,121	50,121	50,121	50,121	50,121
Total capital funds attributable to the Parent Bank's stockholders		73,931,801	67,566,991	74,252,106	68,016,636	59,720,506
Non-controlling interests		54,748	20,317	-	-	-
Total Capital Funds		73,986,549	67,587,308	74,252,106	68,016,636	59,720,506
TOTAL LIABILITIES AND CAPITAL FUNDS		P 622,111,331	P 524,432,147	P 555,008,127	P 460,340,402	P 379,547,138

Notes to Financial Statements are located in the accompanying flash drive.

STATEMENTS OF INCOME

For The Years Ended December 31, 2017, 2016 and 2015

(Amounts in Thousands of Philippine Pesos, Except Per Share Data)

	Notes	GROUP			PARENT BANK		
		2017	2016	2015	2017	2016	2015
INTEREST INCOME							
Loans and other receivables	13	P 17,415,519	P 14,804,757	P 11,817,850	P 11,652,103	P 9,352,410	P 7,297,226
Trading and investment securities	11, 12	6,710,626	4,778,618	3,756,328	6,710,626	4,778,618	3,756,328
Cash and cash equivalents	8, 9	367,444	527,533	793,623	195,651	359,731	571,825
Interbank loans receivable	10	92,777	80,449	22,988	92,777	80,449	22,988
		24,586,366	20,191,357	16,390,789	18,651,157	14,571,208	11,648,367
INTEREST EXPENSE							
Deposit liabilities	21	5,949,301	4,294,180	3,301,386	4,529,154	3,041,798	2,140,221
Bills payable and other liabilities	22, 23, 28	996,489	980,261	938,329	678,134	554,611	464,215
		6,945,790	5,274,441	4,239,715	5,207,288	3,596,409	2,604,436
NET INTEREST INCOME		17,640,576	14,916,916	12,151,074	13,443,869	10,974,799	9,043,931
IMPAIRMENT LOSSES - Net	20	875,587	1,594,120	659,013	881,744	1,163,393	142,037
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		16,764,989	13,322,796	11,492,061	12,562,125	9,811,406	8,901,894
OTHER INCOME							
Service charges, fees and commissions	26	4,312,471	4,514,555	3,735,579	1,078,127	957,368	825,391
Gain on trading and non-trading financial assets - net	11, 12	266,581	3,815,001	274,226	266,448	3,813,921	267,548
Premium revenues	2	-	8,056	1,828,291	-	-	-
Miscellaneous	27	2,845,711	2,069,821	2,199,191	5,810,727	5,336,225	4,624,227
		7,424,763	10,407,433	8,037,287	7,155,302	10,107,514	5,717,166
<i>Balance carried forward</i>		P 24,189,752	P 23,730,229	P 19,529,348	P 19,717,427	P 19,918,920	P 14,619,060



STATEMENTS OF INCOME

December 31, 2017 and 2016

(Amounts in Thousands of Philippine Pesos)

	Notes	GROUP			PARENT BANK		
		2017	2016	2015	2017	2016	2015
<i>Balance brought forward</i>		P 24,189,752	P 23,730,229	P 19,529,348	P 19,717,427	P 19,918,920	P 14,619,060
OTHER EXPENSES							
Salaries and employee benefits	28	5,285,044	5,072,619	3,872,273	4,386,741	4,333,819	3,196,825
Taxes and licenses	36	2,091,662	1,435,798	1,026,780	1,312,329	866,243	762,402
Occupancy	34	735,144	686,239	643,213	619,527	571,405	544,743
Depreciation and amortization	15, 19	634,902	716,429	618,596	432,074	483,923	415,786
Trust fund due	2	-	7,618	1,728,055	-	-	-
Miscellaneous	27	4,756,905	3,835,581	3,472,876	3,857,609	2,928,074	2,654,286
		13,503,657	11,754,284	11,361,793	10,608,280	9,183,464	7,574,042
PROFIT BEFORE TAX		10,686,095	11,975,945	8,167,555	9,109,147	10,735,456	7,045,018
TAX EXPENSE	29	2,266,080	1,909,587	2,150,575	827,199	481,954	970,766
NET PROFIT		P 8,420,015	P 10,066,358	P 6,016,980	P 8,281,948	P 10,253,502	P 6,074,252
Attributable to:							
Parent Bank's stockholders		P 8,411,325	P 10,058,276	P 6,008,032	P 8,281,948	P 10,253,502	P 6,074,252
Non-controlling interests		8,690	8,082	8,948	-	-	-
		P 8,420,015	P 10,066,358	P 6,016,980	P 8,281,948	P 10,253,502	P 6,074,252
BASIC AND DILUTED EARNINGS PER SHARE (EPS)	32	P 7.95	P 9.50	P 5.68	P 7.83	P 9.69	P 5.74

Notes to Financial Statements are located in the accompanying flash drive.

 **STATEMENTS OF COMPREHENSIVE INCOME**
For The Years Ended December 31, 2017, 2016 and 2015
(Amounts in Thousands of Philippine Pesos)

Notes	GROUP			PARENT BANK		
	2017	2016	2015	2017	2016	2015
NET PROFIT FOR THE PERIOD	P 8,420,015	P 10,066,358	P 6,016,980	P 8,281,948	P 10,253,502	P 6,074,252
OTHER COMPREHENSIVE LOSS						
Items that will not be reclassified subsequently to profit or loss:						
Net unrealized fair value losses on financial assets at fair value through other comprehensive income	-	(276)	(23,724)	-	-	(24,000)
Remeasurements of defined benefit plan	28 (51,182)	(527,789)	(158,683)	(44,351)	(537,419)	(153,721)
Tax income	29 15,355	158,337	47,605	8,726	167,563	43,109
	(35,827)	(369,452)	(111,078)	(35,625)	(369,856)	(110,612)
Other Comprehensive Loss - net of tax	(35,827)	(369,728)	(134,802)	(35,625)	(369,856)	(134,612)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	P 8,384,188	P 9,696,630	P 5,882,178	P 8,246,323	P 9,883,646	P 5,939,640
Comprehensive income attributable to the:						
Parent Bank's stockholders	P 8,375,663	P 9,688,675	P 5,873,420	P 8,246,323	P 9,883,646	P 5,939,640
Non-controlling interests	8,525	7,955	8,758	-	-	-
	P 8,384,188	P 9,696,630	P 5,882,178	P 8,246,323	P 9,883,646	P 5,939,640

Notes to Financial Statements are located in the accompanying flash drive.



STATEMENTS OF CHANGES IN CAPITAL FUNDS

For the Years Ended December 31, 2017, 2016 and 2015

(Amounts in Thousands of Philippine Pesos)

		GROUP										
		Attributable to Parent Bank's Stockholders										
	Notes	Common Stock	Additional Paid-in Capital	Surplus Free	Surplus Reserves	Net Unrealized Fair Value Gains (Losses) on Investment Securities	Remeasurements of Defined Benefit Plan	Other Reserves	Total	Non-controlling Interests	Total Capital Funds	
Balance at January 1, 2017		P 10,583,439	P 5,819,861	P 50,518,506	P 1,734,697	P 25	(P 1,139,658)	P 50,121	P 67,566,991	P 20,317	P 67,587,308	
Total comprehensive income (loss) for the year	28	-	-	8,411,325	-	-	(35,662)	-	8,375,663	8,525	8,384,188	
Cash dividends	25	-	-	(2,010,853)	-	-	-	-	(2,010,853)	-	(2,010,853)	
Appropriations during the year	25, 30	-	-	(225,241)	225,241	-	-	-	-	-	-	
Sale of shares to non-controlling interest during the year	1	-	-	-	-	-	-	-	-	25,906	25,906	
Balance at December 31, 2017		<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 56,693,737</u>	<u>P 1,959,938</u>	<u>P 25</u>	<u>(P 1,175,320)</u>	<u>P 50,121</u>	<u>P 73,931,801</u>	<u>P 54,748</u>	<u>P 73,986,549</u>	
Balance at January 1, 2016		P 10,583,439	P 5,819,861	P 42,322,902	P 1,459,541	P 301	(P 770,333)	P 50,121	P 59,465,832	P 23,793	P 59,489,625	
Total comprehensive income (loss) for the year	28	-	-	10,058,276	-	(276)	(369,325)	-	9,688,675	7,955	9,696,630	
Cash dividends	25	-	-	(1,587,516)	-	-	-	-	(1,587,516)	(3,619)	(1,591,135)	
Appropriations during the year	25, 30	-	-	(275,156)	275,156	-	-	-	-	-	-	
Acquisition of shares of non-controlling interest during the year	1	-	-	-	-	-	-	-	-	(7,812)	(7,812)	
Balance at December 31, 2016		<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 50,518,506</u>	<u>P 1,734,697</u>	<u>P 25</u>	<u>(P 1,139,658)</u>	<u>P 50,121</u>	<u>P 67,566,991</u>	<u>P 20,317</u>	<u>P 67,587,308</u>	
Balance at January 1, 2015		P 10,583,439	P 5,819,861	P 38,822,845	P 1,174,088	P 24,025	(P 659,445)	P 50,121	P 55,814,934	P 21,194	P 55,836,128	
Total comprehensive income (loss) for the year	28	-	-	6,008,032	-	(23,724)	(110,888)	-	5,873,420	8,758	5,882,178	
Cash dividends	25	-	-	(2,222,522)	-	-	-	-	(2,222,522)	-	(2,222,522)	
Appropriations during the year	25, 30	-	-	(285,453)	285,453	-	-	-	-	-	-	
Acquisition of shares of non-controlling interest during the year	1	-	-	-	-	-	-	-	-	(6,159)	(6,159)	
Balance at December 31, 2015		<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 42,322,902</u>	<u>P 1,459,541</u>	<u>P 301</u>	<u>(P 770,333)</u>	<u>P 50,121</u>	<u>P 59,465,832</u>	<u>P 23,793</u>	<u>P 59,489,625</u>	

Notes to Financial Statements are located in the accompanying flash drive.

PARENT BANK

Notes	Common Stock	Additional Paid-in Capital	Surplus Free	Surplus Reserves	Net Unrealized Fair Value Gains (Losses) on Investment Securities	Remeasurements of Defined Benefit Plan	Other Reserves	Total Capital Funds
Balance at January 1, 2017								
As previously reported	P 10,583,439	P 5,819,861	P 52,236,330	P 220,990	P 244,725	(P 1,138,830)	P 50,121	P 68,016,636
Effect of correction of prior period adjustment	-	-	244,700	-	(244,700)	-	-	-
As restated	10,583,439	5,819,861	52,481,030	220,990	25	(1,138,830)	50,121	68,016,636
Total comprehensive income (loss) for the year	-	-	8,281,948	-	-	(35,625)	-	8,246,323
Cash dividends	-	-	(2,010,853)	-	-	-	-	(2,010,853)
Appropriations during the year	-	-	(14,183)	14,183	-	-	-	-
Balance at December 31, 2017	<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 58,737,942</u>	<u>P 235,173</u>	<u>P 25</u>	<u>(P 1,174,455)</u>	<u>P 50,121</u>	<u>P 74,252,106</u>
Balance at January 1, 2016								
As previously reported	P 10,583,439	P 5,819,861	P 43,585,231	P 206,103	P 244,725	(P 768,974)	P 50,121	P 59,720,506
Effect of correction of prior period adjustment	-	-	244,700	-	(244,700)	-	-	-
As restated	10,583,439	5,819,861	43,829,931	206,103	25	(768,974)	50,121	59,720,506
Total comprehensive income (loss) for the year	-	-	10,253,502	-	-	(369,856)	-	9,883,646
Cash dividends	-	-	(1,587,516)	-	-	-	-	(1,587,516)
Appropriations during the year	-	-	(14,887)	14,887	-	-	-	-
Balance at December 31, 2016	<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 52,481,030</u>	<u>P 220,990</u>	<u>P 25</u>	<u>(P 1,138,830)</u>	<u>P 50,121</u>	<u>P 68,016,636</u>
Balance at January 1, 2015								
As previously reported	P 10,583,439	P 5,819,861	P 39,750,041	P 189,564	P 268,725	(P 658,362)	P 50,121	P 56,003,389
Effect of correction of prior period adjustment	-	-	244,700	-	(244,700)	-	-	-
As restated	10,583,439	5,819,861	39,994,741	189,564	24,025	(658,362)	50,121	56,003,389
Total comprehensive income (loss) for the year	-	-	6,074,252	-	(24,000)	(110,612)	-	5,939,640
Cash dividends	-	-	(2,222,523)	-	-	-	-	(2,222,523)
Appropriations during the year	-	-	(16,539)	16,539	-	-	-	-
Balance at December 31, 2015	<u>P 10,583,439</u>	<u>P 5,819,861</u>	<u>P 43,829,931</u>	<u>P 206,103</u>	<u>P 25</u>	<u>(P 768,974)</u>	<u>P 50,121</u>	<u>P 59,720,506</u>

Notes to Financial Statements are located in the accompanying flash drive.



STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2017, 2016 and 2015

(Amounts in Thousands of Philippine Pesos)

	Notes	GROUP			PARENT BANK		
		2017	2016	2015	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		P 10,686,095	P 11,975,945	P 8,167,555	P 9,109,147	P 10,735,456	P 7,045,018
Adjustments for:							
Impairment losses - net	20	875,587	1,594,120	659,013	881,744	1,163,393	142,037
Depreciation and amortization	15, 19	634,902	716,429	618,596	432,074	483,923	415,786
Fair value gains on investment properties	16, 27	(620,074)	(385,687)	(416,173)	(603,706)	(385,687)	(404,432)
Gain on sale and exchange of properties	27	(183,938)	(149,970)	(542,129)	(174,883)	(148,837)	(537,507)
Share in net profit of subsidiaries	14	-	-	-	(3,429,942)	(3,474,490)	(2,432,552)
Operating profit before working capital changes		11,392,572	13,750,837	8,486,862	6,214,434	8,373,758	4,228,350
Decrease in financial assets at fair value through profit or loss		607,892	699,388	25,086,852	605,136	697,720	25,109,720
Increase in financial assets at amortized cost		(48,693,096)	(12,364,233)	(54,721,480)	(48,693,431)	(12,364,234)	(54,721,144)
Increase in loans and other receivables		(46,524,280)	(57,428,344)	(40,982,577)	(40,936,429)	(46,272,649)	(32,949,638)
Decrease in investment properties		122,893	415,364	811,500	320,545	465,453	744,817
Decrease in assets held for sale		-	73,943	209,422	-	73,943	209,422
Decrease (increase) in other resources		(530,756)	(111,606)	(1,478,288)	(1,597,413)	(1,421,919)	245,405
Increase (decrease) in deposit liabilities		71,131,081	64,901,694	505,994	71,935,609	59,367,168	(13,530,273)
Increase (decrease) in other liabilities		(1,438,658)	1,238,749	(3,116,479)	1,491,023	3,956,127	(4,066,943)
Cash generated from (used in) operations		(13,932,352)	11,175,792	(65,198,194)	(10,660,526)	12,875,367	(74,730,284)
Cash paid for income taxes		(607,277)	(400,897)	(429,244)	(607,117)	(408,585)	(383,137)
Net Cash From (Used in) Operating Activities		(14,539,629)	10,774,895	(65,627,438)	(11,267,643)	12,466,782	(75,113,421)
CASH FLOWS FROM INVESTING ACTIVITIES							
Acquisitions of bank premises, furniture, fixtures and equipment	15	(781,898)	(668,123)	(896,938)	(703,989)	(527,534)	(649,757)
Proceeds from sale of bank premises, furniture, fixtures and equipment		66,580	114,251	137,487	52,189	61,148	124,782
Additional investment in a subsidiary	14	-	-	-	(1,845)	(1,832)	(5,982)
Decrease in financial assets at fair value through other comprehensive income		-	3,057	3,009,431	-	3,333	3,000,000
Dividends received from subsidiaries		-	-	-	-	1,565,869	64,300
Net Cash From (Used in) Investing Activities		(715,318)	(550,815)	2,249,980	(653,645)	1,100,984	2,533,343
CASH FLOWS FROM FINANCING ACTIVITIES							
Repayments of bills payable	22, 37	(170,590,655)	(144,125,571)	(165,047,816)	(121,190,186)	(73,734,958)	(70,200,511)
Availments of bills payable	22, 37	165,702,992	150,674,062	158,214,874	111,174,648	82,334,612	71,643,626
Net availments of notes payable	23	25,135,000	-	-	25,135,000	-	-
Dividends paid	25	(2,010,853)	(1,587,516)	(2,222,522)	(2,010,853)	(1,587,516)	(2,222,522)
Net Cash From (Used in) Financing Activities		18,236,484	4,960,975	(9,055,464)	13,108,609	7,012,138	(779,407)
EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS							
		281,715	589,873	(119,060)	281,714	589,862	(119,068)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (Carried Forward)							
		P 3,263,252	P 15,774,928	(P 72,551,982)	P 1,469,035	P 21,169,766	(P 73,478,553)

	Notes	GROUP			PARENT BANK		
		2017	2016	2015	2017	2016	2015
NET INCREASE (DECREASE)							
IN CASH AND CASH EQUIVALENTS (Brought Forward)							
		P 3,263,252	P 15,774,928	(P 72,551,982)	P 1,469,035	P 21,169,766	(P 73,478,553)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD							
Cash and other cash items	8	6,021,358	6,566,176	6,667,885	5,630,560	6,190,565	6,259,380
Due from Bangko Sentral ng Pilipinas (BSP)	8	56,151,239	70,036,867	112,829,122	52,208,244	60,992,001	104,001,928
Due from other banks	9	42,425,310	19,697,783	16,021,008	41,412,122	18,376,441	15,441,459
Interbank loans receivable	10	24,362,800	16,884,953	50,219,746	24,362,800	16,884,953	50,219,746
		128,960,707	113,185,779	185,737,761	123,613,726	102,443,960	175,922,513
CASH AND CASH EQUIVALENTS AT END OF PERIOD							
Cash and other cash items	8	6,633,237	6,021,358	6,566,176	6,249,122	5,630,560	6,190,565
Due from BSP	8	66,276,960	56,151,239	70,036,867	60,350,126	52,208,244	60,992,001
Due from other banks	9	54,520,482	42,425,310	19,697,783	53,690,233	41,412,122	18,376,441
Interbank loans receivable	10	4,793,280	24,362,800	16,884,953	4,793,280	24,362,800	16,884,953
		P 132,223,959	P 128,960,707	P 113,185,779	P 125,082,761	P 123,613,726	P 102,443,960

Supplemental Information on Non-cash Investing Activities

1. Additions to investment properties in settlement of loans and receivables amounted to P549,438 in 2017, P405,571 in 2016 and P501,423 in 2015 in the Group's financial statements and P346,920 in 2017, P399,821 in 2016 and P501,424 in 2015 in the Parent Bank's financial statements (see Note 16).
2. In 2016 and 2015 (nil in 2017), certain investment properties with carrying values of P86,878 and P150,552, respectively, were reclassified to Bank Premises, Furniture, Fixtures and Equipment in the Group's financial statements and P86,878 and P88,492, respectively, in the Parent Bank's financial statements (see Notes 15 and 16).

Notes to Financial Statements are located in the accompanying flash drive.

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017, 2016 AND 2015
*(Amounts in Thousands of Philippine Pesos, Except Par Value,
Per Share Data, Exchange Rates and as Indicated)*

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Union Bank of the Philippines (the Bank, UnionBank or the Parent Bank) was incorporated in the Philippines on August 16, 1968 and operates as a universal bank through its universal banking license acquired in July 1992. The Philippine Securities and Exchange Commission (SEC) has approved the Bank's amendment on its Articles of Incorporation on October 31, 2013 for the extension of the Bank's corporate life for another 50 years until August 16, 2068.

The Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. As of December 31, 2017, the Bank and its subsidiaries (the Group) has 317 branches and 265 on-site and 61 off-site automated teller machines (ATMs), located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 48.83% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies.

The Bank's subsidiaries (all incorporated in the Philippines), effective percentage of ownership and the nature of the subsidiaries' businesses, as of December 31, 2017, are as follow:

Name of Subsidiary	Percentage of Ownership	Nature of Business
City Savings Bank, Inc. (CSB)	99.77%	Thrift bank
First-Agro Industrial Rural Bank, Inc. (FAIR Bank)*	86.67%	Rural Bank
Union Properties, Inc. (UPI)	100.00%	Real estate administration
First Union Plans, Inc. (FUPI)**	100.00%	Pre-need
First Union Direct Corporation (FUDC)**	100.00%	Financial products marketing
First Union Insurance and Financial Agencies, Inc. (FUIFA) **	100.00%	Agent for insurance and financial products
UBP Insurance Brokers, Inc. (UBPIBI)	100.00%	Insurance brokerage
UBP Securities, Inc. (UBPSI)	100.00%	Securities brokerage
UnionBank Currency Brokers Corporation (UCBC)	100.00%	Foreign currency brokerage
UnionDataCorp (UDC)	100.00%	Data processing
Interventure Capital Corporation (IVCC)	60.00%	Venture capital

* Newly acquired subsidiary in 2017 through CSB and UPI with 49% and 37.67% share in ownership, respectively.

** FUDC, FUPI and FUIFA are wholly-owned subsidiaries of UPI.

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed in the sections that follow:

- (a) CSB was incorporated and registered with the SEC on December 9, 1965. On December 9, 2014, the SEC approved the amendment extending CSB's corporate term for another 50 years from December 9, 2015. It is a thrift bank specializing in granting teacher's loans under the Department of Education's Automatic Payroll Deduction System.

On January 23, 2015, the Board of Directors (BOD) approved the proposal to purchase the remaining 894 common shares of CSB held by some 41 minority shareholders, of which 203 shares, 59 shares and an additional 9 shares were acquired in December 2015, February 2016 and March 2016, respectively, thereby, further increasing the Bank's percentage ownership to 99.73%, 99.75% and 99.76% as of those respective dates.

In 2017, the number of shares of CSB currently held by the Bank is 257,671 shares as it has acquired 37 new shares bringing its percentage of ownership at 99.77%.

- (b) FAIR Bank was registered with the SEC on September 15, 1998 primarily to engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises. FAIR Bank has one (1) banking office and ten (10) branches located all over Cebu. On December 21, 2015, CSB, UPI and the major stockholders of FAIR Bank signed a Memorandum of Agreement which provided for the terms of the acquisition of a total of 77.78% of the issued and outstanding capital stock of FAIR Bank by CSB and UPI [see Note 3.1(b)]. On December 15, 2016, the Monetary Board of the BSP approved the acquisition by CSB and UPI of FAIR Bank's 441,000 common shares and 259,002 common shares, respectively, from the selling shareholders of FAIR Bank. The common shares acquired by CSB and UPI represented 49.00% and 28.78%, respectively, of the issued and outstanding capital stock of FAIR Bank. The funds for the payment of the acquisition were deposited in an escrow account with UnionBank TISG and the escrow amount will be released in tranches, subject to the fulfillment of certain conditions necessary to fully transfer ownership over the acquired shares to CSB and UPI.

On March 17, 2017, CSB and UPI subscribed to 294,000 and 306,000 new common shares, respectively, of FAIR Bank at par value of P100 per share. As a result of the subscription, the percentage of ownership of UPI in FAIR Bank increased to 37.67% while CSB's ownership interest stood at 49%.

- (c) UPI was incorporated and registered with the SEC on December 20, 1993. It is presently engaged in the administration and management of the Parent Bank's premises and other properties such as buildings, condominium units and other real estate, wholly or partially owned by the Group. Pursuant to the action of the BOD of UPI approving the amendment of its Articles of Incorporation on May 13, 2004, the primary purpose of UPI was changed from a real estate developer to a real estate administrator. The SEC approved such amendment on December 13, 2004. Through its wholly-owned subsidiaries, FUPI, FUDC and FUIFAI, UPI is also engaged in the sale of pre-need plans, marketing of financial products and being an agent for life and non-life insurance products.

- (d) UBPIBI was organized to engage in the insurance brokerage business. It was incorporated and registered with the SEC on February 27, 1992. In 1995, the BOD of UBPIBI approved the cessation of its operations.
- (e) UBPSI was incorporated and registered with the SEC on March 2, 1993. It was organized to engage in the business of buying, selling or dealing in stocks and other securities. In January 1995, as approved by UBPSI's stockholders and BOD, UBPSI sold its stock exchange seat in the PSE. Accordingly, UBPSI ceased its stock brokerage activities.
- (f) UCBC was registered in the SEC on June 14, 1994. It was organized to engage in the foreign currency brokerage business. On March 23, 2001, the BOD of UCBC approved the cessation of its business operations effective on April 16, 2001. Since then, UCBC's activities were significantly limited to the settlement of its liabilities.
- (g) UDC was registered with the SEC on September 8, 1998. It was organized to handle the centralized branch accounting services as well as the processing of credit card application forms of the Parent Bank and the entire backroom operations of FUPI. On July 1, 2003, the BOD of UDC approved the cessation of its business operations effective on August 30, 2003. The services previously handled by UDC are now undertaken by the Centralized Processing Service Unit of the Parent Bank.
- (h) IVCC was incorporated and registered with the SEC on October 10, 1980. It was organized to develop, promote, aid and assist financially any small or medium scale enterprises and to purchase, receive, take or grant, hold, convey, sell, lease, pledge, mortgage and otherwise deal with such real and personal property, including securities and bonds of other corporations as the transaction of the lawful business of the corporation may reasonably and necessarily require, subject to the limitations prescribed by law and the constitution. IVCC has ceased operations since 1992.

The BOD and the stockholders of UBPIBI, UCBC and UDC have approved to dissolve the Companies by amending their respective Articles of Incorporation shortening their company's corporate term to December 31, 2016. UBPIBI has secured a tax clearance from Bureau of Internal Revenue (BIR) in 2017 while UCBC and UDC are still in process of securing their respective tax clearances from the BIR.

The total assets, liabilities and capital funds of these subsidiaries amount to P5,425, P3,155 and P2,090, respectively, as of December 31, 2017 and P5,710, P2,029 and P3,681, respectively, as of December 31, 2016.

The Bank's registered address, which is also its principal place of business, is at UnionBank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City. AEVI's registered address is located at NAC Tower, 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

1.2 Approval of Financial Statements

The consolidated financial statements of UnionBank and Subsidiaries and the financial statements of the Parent Bank as of and for the year ended December 31, 2017 (including the comparative financial statements as of December 31, 2016 and for the years ended December 31, 2016 and 2015, and the corresponding figures as of January 1, 2016) were authorized for issue by the Bank's BOD on February 23, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These 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 consolidated financial statements of the Group and 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 (IASB), 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 resource, 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 Standards (PAS 1), *Presentation of Financial Statements*. The Group presents statement of comprehensive income separate from the statement of income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have 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.

In 2016, the Parent Bank has applied the amendment to PAS 27 (Amendments), *Separate Financial Statements – Equity Method in Separate Financial Statements*, retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative separate financial statements for December 31, 2015 and the corresponding figures as of January 1, 2015. However, the application of the restatement resulted in the recognition of additional Net Unrealized Fair Value Gains on Investment Securities account instead of applying such to the Surplus Free account. Accordingly, the Parent Bank presents a third separate statement of financial position as of January 1, 2016 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

The effect of the correction of prior period error on the affected capital funds components of the Parent Bank is shown below.

	<u>As Previously Reported</u>	<u>Effects of Prior Period Error</u>	<u>As Restated</u>
December 31, 2016			
<i>Changes in components of capital funds:</i>			
Surplus free	P 52,236,330	P 244,700	P 52,481,030
Net unrealized fair value gains on investment securities	244,725	(<u>244,700</u>)	25
		<u>P -</u>	
January 1, 2016			
<i>Changes in components of capital funds:</i>			
Surplus free	P 43,585,231	P 244,700	P 43,829,931
Net unrealized fair value gains on investment securities	244,725	(<u>244,700</u>)	25
		<u>P -</u>	

The correction did not have any impact on the Parent Bank's statements of income, statements of comprehensive income and statements of cash flows for the years ended December 31, 2016 and 2015.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.18).

Items included in the financial statements of the Group are measured using its functional currency, the currency of the primary economic environment in which the Group operates.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2017 that are Relevant to the Group

The Group adopted for the first time the following amendments and annual improvements 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
Annual Improvements to PFRS (2014-2016 Cycle)		
PFRS 12	:	Disclosures of Interest in Other Entities – Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale

Discussed below are the relevant information about these amendments and improvements.

- (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). It requires 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, it suggests 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 in the current year and has not disclosed comparative figures as allowed by the transitional provisions. A reconciliation between the opening and closing balances of liabilities arising from financing activities, which includes both cash and non-cash changes are presented in Note 37.

- (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 this amendment had no impact on the Group's financial statements.
- (iii) Annual improvements to PFRS (2014-2016 Cycle) made minor amendments to PFRS 12 (Amendments), *Disclosure of Interest in Other Entities Scope Clarification on Disclosure of Summarized Financial Information for Interests classified as held for sale*. The amendment clarifies that the disclosure requirements of PFRS 12 applies to interest in other entities classified as held for sale with practical concession in the presentation of summarized financial information. The amendment states that an entity need not present summarized financial information for interests in subsidiaries, associates, or joint ventures that are classified as held for sale.

(b) *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 following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group'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. Management has assessed that this amendment has no significant impact on the Group's financial statements.
- (ii) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions), herein referred to as PFRS 9. In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Group on January 1, 2014, PFRS 9 (2014) includes the following major provisions presented in the succeeding pages.

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value through other comprehensive income (FVOCI) measurement for eligible debt securities; and;
- an expected loss 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.

Based on an assessment and comprehensive study of the Group'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 has identified the following areas that are expected to be most impacted by the application of PFRS 9 (2014):

- In compliance with PFRS9, the Expected Credit Loss (ECL) will be calculated for all assets classified under Amortized Cost and FVOCI, which include, but are not limited to, corporate loans, consumer finance loans, and bonds. The ECL is composed of three major components -- probability of default (PD), loss given default (LGD), and exposure at default (EAD). PD captures the obligor or borrower risk. LGD reflects, in part, how collateral is being managed. EAD is largely the on-balance amount and off-balance amount (for committed lines) in the event of a default. The off-balance amount to be included shall be computed through the credit conversion factor (CCF).

The significant increase/improvement in credit risk (SICR) model shall be used to classify accounts into PFRS 9 ECL's three stages. A set of defined empirical-based rules and expert judgment that discriminate good and bad credit make up the SICR. The 12-month ECL is computed for Stage 1 accounts, while the lifetime ECL is calculated for Stage 2 and Stage 3 accounts. Accounts with evident impairment are classified under Stage 3 and shall follow the Bank's impairment methodology. On the other hand, Stage 1 and Stage 2 accounts shall use future values derived from the term structures of the PD, LGD, and CCF. These future values also take into consideration prospective business environment conditions through the inclusion of macroeconomic forecasts.

Altogether, the resulting value is called the baseline ECL. In order to compute for the probability-weighted ECL, calibration factors and scenario weights are embedded into the baseline model. Finally, risk management policies complement the application of probability-weighted ECL models. Together, ECL models and their corresponding policies, should enhance the assessment and monitoring of accounts.

Management has assessed that the application of the ECL model will not result in significantly lower or higher impairment losses as compared with PAS 39.

- The FVOCI category for debt instruments, both for government securities and corporate bonds, will be available effective January 1, 2018, in addition to the financial assets at amortized cost and FVTPL categories of the previously adopted PFRS 9 (2009, 2010 and 2013 versions). Financial assets classified under the FVOCI category are held in order to collect contractual cash flows but may be subsequently sold. Changes in the fair value of FVOCI securities are recognized in other comprehensive income up until derecognition, when the fair value change will be recognized in profit or loss. The Group may classify securities under the FVOCI category consistent with its business model, impact of which is minimal as majority of the portfolio will remain to be in the financial assets at amortized cost category.
- (iii) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendments to PFRS 10 require full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendments have been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. The amendments did not have a significant impact on the Group's financial statements.
- (iv) 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 and comprehensive study of the Group's revenue streams as of December 31, 2017, which has been limited to the facts and circumstances existing at that date, management determined that this new standard has no material impact on the Group's financial statements.

- (v) 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. Management has initially assessed that this amendment has no material impact on the Group's financial statements.
- (vi) Annual Improvements to PFRS 2014-2016 Cycle. Among the improvements, PAS 28 (Amendment), *Investment in Associates – Clarification on Fair Value through Profit or Loss Classification* (effective from January 1, 2018) is relevant to the Group. The amendment clarifies that the option for venture capital organization, mutual funds and other similar entities to elect the fair value through profit or loss classification in measuring investments in associates and joint ventures shall be made at initial recognition, separately for each associate or joint venture. Management has initially assessed that this amendment has no impact on the Group's financial statements.
- (vii) PAS 28 (Amendment), *Investment in Associates – Long-term Interest in Associates and Joint Venture* (effective from January 1, 2019). The amendment clarifies that the scope exclusion in PFRS 9 (2014) applies only to ownership interests accounted for using the equity method. Thus, the amendment further clarifies that long term interests in an associate or joint venture – to which the equity method is not applied – must be accounted for under PFRS 9 (2014), which shall also include long term interests that, in substance, form part of the entity's net investment in an associate or joint venture. Management is currently assessing the impact of this new standard in its financial statements.
- (viii) 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 sole payments of principal and interest (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 new standard in its financial statements.

- (ix) 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 similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized 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.

- (x) 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 Group 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 Group 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 new interpretation in its financial statements.

- (xi) Annual Improvements to PFRS 2015-2017 Cycle. Among the improvements, the following amendments are relevant to the Group but had no material impact on the Group'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.
 - PFRS 3 (Amendments), *Business Combinations* and PFRS 11 (Amendments), *Joint Arrangements – Remeasurement of Previously Held Interests in a Joint Operation*. The amendments clarify that previously held interest in a joint operation shall be remeasured when the Group obtains control of the business. On the other hand, previously held interests in a joint operation shall not be remeasured when the Group obtains joint control of the business.

2.3 Basis of Consolidated and Separate Financial Statements

The Group's financial statements comprise the accounts of the Bank and its subsidiaries, as enumerated in Note 1.1 and as disclosed under Note 14, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, and expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in the separate financial statements are also eliminated in full. Intercompany losses that indicate impairment are recognized in the Group's financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Bank using consistent accounting policies, except CSB and FAIR Bank.

Certain accounting policies applied by CSB and FAIR Bank in the preparation of their respective financial statements are not consistent with the accounting policies applied by the Group. Upon consolidation of the Group and computation for the Parent Bank's share in net profit or loss and in other comprehensive income or loss of CSB and FAIR Bank, certain adjustments were made to the financial statements of these entities to be consistent with the Group's accounting policies.

The Group's and Parent Bank's investments in special purpose companies (SPCs), as described in Note 14, are recognized in the financial statements through the Investment Properties account instead of equity investments. Individually identifiable assets of these SPCs (land and building) acquired by the Group are classified as investment properties and not as investments in the shares of stock of the SPCs.

In the Parent Bank's separate financial statements, investments in subsidiaries are initially recognized at cost and subsequently accounted for using the equity method (see Notes 14).

All subsequent changes to the share in the equity of the subsidiaries are recognized in the carrying amount of the Parent Bank's investment. Changes resulting from the profit or loss generated by the subsidiaries are reported as Share in net profit of subsidiaries under Miscellaneous account in the Parent Bank's separate statement of income.

Changes resulting from other comprehensive income of the subsidiaries or items that have been directly recognized in the subsidiaries' equity are recognized in other comprehensive income of the Parent Bank. Any distributions received from the subsidiaries (e.g., dividends) are recognized as reduction in the carrying amount of investment in subsidiaries. However, when the Parent Bank's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the Parent Bank recognizes its share on those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

In computing the Parent Bank's share in net profit or loss of subsidiaries, unrealized gains or losses on transactions between the Parent Bank and its subsidiaries are eliminated to the extent of the Parent Bank's interest in the subsidiaries. Where unrealized losses are eliminated, the underlying asset is also tested for impairment from a group perspective.

The Parent Bank accounts for its investments in subsidiaries and non-controlling interests as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity, it is exposed, or has rights to, variable returns from its involvement with the entity, and it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Group reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.4).

(b) Transactions with Non-controlling Interests

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in capital funds. Disposals of equity investments to non-controlling interests may result in gains and losses for the Group that are also recognized in capital funds.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

The Parent Bank holds interests in various subsidiaries as presented in Notes 1.1 and 14.

2.4 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and is carried at cost less accumulated losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is recognized directly to profit.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as capital funds is not remeasured, and its subsequent settlement is accounted for within capital funds.

2.5 Financial Assets

Financial assets are recognized when the Group 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described on the succeeding page.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Interbank Loans Receivable, Financial Assets at Amortized Cost under Trading and Investment Securities, Loans and Other Receivables and certain accounts under Other Resources.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including Cash and Other Cash Items and non-restricted balances of Due from BSP, Due from Other Banks and Interbank Loans Receivable. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2017 and 2016, the Group has not made such designation.

(ii) Financial Assets at FVTPL

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Gain (Loss) on Trading and Non-trading Financial Assets account in the statement of income.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous Income account when the right of payment has been established.

(iii) Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in Net Unrealized Fair Value Gains (Losses) on Investment Securities in the statement of changes in capital funds. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net Unrealized Fair Value Gains (Losses) on Investment Securities account is not reclassified to profit or loss, but is reclassified directly to Surplus Free account.

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous Income account, when the Group's right to receive dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) *Impairment of Financial Assets*

The Group 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 (or events) has an impact on the estimated future cash flows of the financial assets 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 Group 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 Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that lender would not otherwise consider; (iv) it is probable that the borrower will enter bankruptcy or other financial reorganization; (v) the disappearance of an active market for that financial asset because of financial difficulties; or, (vi) 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 yet be identified with the individual financial assets in the group.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) *Financial Assets Carried at Amortized Cost*

For financial assets classified and measured at amortized cost, the Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 financial assets 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 or current effective interest rate determined under the contract if the loan has a variable 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 financial asset carried at amortized cost 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 Group 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 foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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 in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group also takes into account basic guidelines in setting up allowance for credit losses as prescribed under BSP Circular No. 855 (Appendix 18). Financial institutions with credit operations that may not economically justify a more sophisticated loan loss estimation methodology or where practices fall short of expected standards shall be subject to the said guidelines.

When possible, the Group seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria evidencing the good quality of the loan are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate. The difference between the recorded amount of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses account in profit or loss.

When a loan receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of impairment losses in profit or loss.

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 statement of income.

(ii) *Financial Assets Carried at Fair Value with Changes Recognized in Other Comprehensive Income*

For financial assets at FVOCI, the Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of investments classified as financial assets at FVOCI, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for equity investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is reclassified from other comprehensive income and recognized in profit or loss.

Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

(c) *Derecognition of Financial Assets*

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 *Derivative Financial Instruments*

The Group is a counterparty to derivatives contracts, such as currency forwards and warrants. These contracts are entered into as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as those of its customers.

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as resources 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 (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. When such evidence exists, which indicates a fair value different from the transaction price, the Group recognizes a gain or loss at initial recognition.

For more complex instruments, the Group 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 in fair value indicated by valuation techniques is recognized in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

Changes in the fair value of derivatives are recognized in profit or loss.

2.7 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 in value.

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

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	25 – 50 years
Furniture, fixtures and equipment	5 – 10 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements of five to ten 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 2.19).

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

If a change in use requires an item of bank premises, furniture, fixtures and equipment to be reclassified to investment properties, the difference between the carrying amount of such asset and its fair value as of the date of change in use is recognized in other comprehensive income and accumulated in equity under the Other Reserves account. If the asset is subsequently retired or disposed of, the related revaluation surplus is transferred directly to Surplus Free account.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization 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 on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.8 Investment Properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost which comprise its purchase price and directly attributable cost incurred. These include parcels of land and buildings and related improvements acquired by the Group from defaulting borrowers not held for sale in the next 12 months. Subsequently, investment properties are accounted for under the fair value model. It is revalued every three years except those significantly high-valued properties (which are appraised every other year) and is reported in the statement of financial position at its market value as determined by independent appraisal companies acceptable by the BSP. The carrying amounts recognized in the statement of financial position reflect the prevailing market conditions at the reporting date.

Investment properties of the Group under construction or development, if the fair value of these properties cannot be reliably measured, are measured at cost until construction or development is complete. At completion, these properties are measured at fair value.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment properties under Miscellaneous Income or Expenses account in the statement of income.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

2.9 Intangible Assets

Intangible assets include goodwill and acquired computer software. Goodwill represents the excess of the acquisition cost over the fair value of the identifiable net assets (a) of the former International Exchange Bank (iBank) in its merger with the Bank on April 30, 2006; and, (b) of CSB upon its acquisition by the Bank on January 8, 2013 (see Note 1.1). Goodwill has indefinite useful life and, thus, not subject to amortization but requires an annual test for impairment. Goodwill is subsequently carried at cost less accumulated impairment losses.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Goodwill sometimes cannot be allocated on a non-arbitrary basis to individual cash-generating units, but only to groups of cash-generating units. As a result, the lowest level within the Parent Bank at which goodwill is monitored for internal management purposes sometimes comprises a number of cash-generating units. The Group's cash-generating unit represents all the branches and segments of the Parent Bank, including the units that were integrated to the Parent Bank as a result of the acquisitions.

Acquired computer software used in administration is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on a straight-line basis over the expected useful lives ranging from five to ten years, as the lives of these intangible assets are considered finite. These costs are recognized in profit or loss as part of Depreciation and amortization under the Other Expenses account in the statement of income. Costs associated with maintaining computer software are expensed as incurred. In addition, intangible assets are subject to impairment testing as described in Note 2.19.

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.

2.10 Other Resources

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

2.11 Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, notes payable, and other liabilities (except tax-related payables, pre-need reserves and post-employment defined benefit obligation) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of income under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

Bills payable and notes payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received). These are subsequently measured at amortized cost; any difference between the proceeds net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivative liabilities, which are included as part of Other Liabilities, are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Other liabilities, apart from derivative liabilities, are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

2.12 Offsetting Financial Instruments

Financial resources and 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 there is a legally enforceable right to offset 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.

2.13 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 obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

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. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, at an amount not exceeding the balance of the related provision. 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 assessment 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 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 Group 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.

2.14 Pre-Need Reserves and Insurance Premium Reserves

(a) Pre-need Reserves

In the Group's consolidated financial statements, pre-need reserves (PNR), presented as part of Other Liabilities in the consolidated statement of financial position, are recognized for all pre-need benefits guaranteed and payable by FUPI as defined in the pre-need pension plan contracts.

PNR for pension plans are determined using the requirements on provisioning of PAS 37 and the specific method of computation required by the Insurance Commission (IC) as described below.

The amount recognized as a provision to cover the PNR is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The risks and uncertainties that inevitably surround many events and circumstances were taken into account in reaching the best estimate of a provision.

PNR is computed based on the following considerations:

- (i) On actively paying plans, provision is equivalent to the present value of future plan benefits reduced by the present value of future trust fund contributions required per product model discounted using the transitory discount rate which does not exceed the lower of the attainable rate as certified by the Trustee, and the discount interest rate prescribed by the IC in accordance with IC Circular Letter No. 23-2012, *Valuation of Transitory Pre-need Reserves*, for old basket of plans previously approved by the SEC.
- (ii) On lapsed plans, provision is equivalent to the present value of future plan benefits reduced by the present value of future trust fund contributions at lapse date, multiplied by the reinstatement rate.
- (iii) On fully paid plans, provision is equivalent to the present value of future plan benefits discounted using the transitory discount rate.

- (iv) Future events that may affect the foregoing amounts are reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur.
- (v) The rates of surrender, cancellation, reinstatement, utilization and inflation, when applied, represent the actual experience of FUPI in the last three years, or the industry, in the absence of a reliable experience.
- (vi) The probability of pre-termination or surrender of fully paid plans are considered in determining the PNR of fully paid plans. A pre-termination experience on fully paid plans of 5% and below are considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date.

The computation of the foregoing assumptions is validated by the IC-accredited actuary of FUPI.

Any excess in the amount of the trust fund as a result of the revised reserving requirement shall neither be released from the fund nor be credited/set-off to future required contributions.

(b) Insurance Premium Reserves

Insurance premium reserves for life, pension and educational plans represents FUPI's actuarially-determined liability in accordance with PAS 37 to guarantee the benefits provided in the plan in consideration of the insurance premium funds assigned for this purpose as determined and certified by the IC-accredited actuary.

2.15 Capital Funds

Common stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of common stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus free includes all current and prior period results as reported in the statement of income and which are available and not restricted for use by the Group, reduced by the amounts of dividend declared, if any.

Surplus reserves pertains to the following:

- (a) Portion of the Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. The surplus set-up is equal to 10% of the net profit accruing from the trust business until the surplus shall amount to 20% of authorized capital stock. The reserve shall not be paid out as dividends, but losses accruing in the course of the trust business may be charged against this account.

- (b) Accumulated trust fund income of FUPI that is automatically restricted to payments of benefits of planholders and related payments in accordance with the amended Pre-need Uniform Chart of Accounts (PNUCA).

Net unrealized fair value gains (losses) on investment securities pertains to cumulative mark-to-market valuation of financial assets at FVOCI.

Remeasurements of defined benefit plan refer to accumulated actuarial losses, net of gains, as a result of remeasurements of post-employment defined benefit plan and return on plan assets (excluding amount included in net interest).

Other reserves pertains to the difference between the net carrying amount and fair value of certain properties that were reclassified from owner-occupied properties to investment properties to reflect the change in use.

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to the Group which are presented separately in the Group's statement of income and within the capital funds in the Group's statement of financial position and changes in capital funds.

2.16 Revenue and Cost Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Group; and the costs incurred or to be incurred can be reliably measured. Expenses are recognized in profit or loss upon utilization of the resources or services or at the date these are incurred. All finance costs are reported on an accrual basis. The following specific recognition criteria of income and expenses must also be met before income or expense is recognized:

- (a) *Interest* – Interest income and expenses are recognized in profit or loss for all instruments measured at amortized cost and debt instruments classified as financial assets at FVTPL and FVOCI 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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees 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 impairment, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

- (b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. Loan commitment fees are earned as services are provided, recognized as other income on a time proportion basis over the commitment period.
- (c) *Gain (loss) on trading and non-trading financial assets* – Gain (loss) on trading and non-trading financial assets is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the difference of the selling price and the carrying amount of securities) and as a result of the mark-to market valuation of outstanding securities classified as FVTPL at year-end.
- (d) *Premium revenues* – Premiums from sale of pre-need plans are recognized as earned when collected inclusive of advance premium payments. When premiums are recognized as income, the related cost of contracts is computed and recognized, with the result that the benefits and expenses are matched with such revenue.
- (e) *Miscellaneous income* includes the following accounts:
 - (i) *Commissions earned on credit cards* – Commissions earned on credit cards are recognized as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments. Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased. Interest income is recognized on every term of installment billed to the cardholders and computed using the effective interest method.
 - (ii) *Gain (loss) from sale of assets* – Profit or loss from assets sold or exchanged is recognized when the risks and rewards to the assets is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured.
 - (iii) *Rental* – Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases (see Note 2.17).
 - (iv) *Income from bancassurance business* – Exclusive access fee (EAF) related to the bancassurance partnership is recognized using the straight line method as income over the first five years of the bancassurance partnership.
 - (v) *Dividend* – Dividend income is recognized when the Group's right to receive payment is established.
 - (vi) *Income from trust operations* – Trust fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

2.17 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases, which do not transfer to the Group 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 repairs, maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized as income in profit or loss on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translations

The accounting records of the Group are maintained in Philippine pesos except for the Foreign Currency Deposit Unit (FCDU) of the Parent Bank which are maintained in United States (U.S.) dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System closing rates (PDSCR) prevailing at the end of the period (for resources and liabilities) and at the average PDSCR for the period (for income and expenses).

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency 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.

2.19 Impairment of Non-financial Assets

The Group's intangible assets (consisting of goodwill and computer software recorded as part of Other Resources), bank premises, furniture, fixtures and equipment, investments in subsidiaries (for Parent Bank only) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill, are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

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, reflecting market conditions, less costs to sell and value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group'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 and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.20 Employee Benefits

The Group's employment benefits to employees are 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 Group, 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 Group'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 (included as part of Other Liabilities) is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows arising from expended benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by Philippine Dealing & Exchange Corp., 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 to the net defined benefit liability or asset and is included as part of Interest Expense or Interest Income in the statement 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 post-employment plan under which the Group pays fixed contributions into an independent entity, such as the Social Security System. The Group 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 and assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group 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 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 end of the reporting period are discounted to their present value.

(d) *Profit-Sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders, as indicated in the statement of income, after certain regulatory adjustments. The Group recognizes a provision where it is contractually obliged to pay the bonus plans. The Group also recognizes a provision for profit-sharing and bonus plans 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 the reporting date. They are included as part of Accrued taxes and other expenses under the Other Liabilities account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of the cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For tax reporting purposes, capitalized borrowing costs are recognized as expense in the period they are incurred. When the qualifying assets, in which the borrowing costs are capitalized, are subsequently sold or depreciated, the capitalized borrowing costs are added back in the profit before tax for the purpose of computing the taxable income.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.22 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 capital funds, 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 using 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 carryforward 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 assets 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 the 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 assets to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

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 capital funds. In this case, the tax is also recognized in other comprehensive income or directly in capital funds, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group 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.

2.23 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the Group and their 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 Group'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.

2.24 Earnings Per Share

Basic earnings per share are determined by dividing the net profit for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year, after retroactive effect to any stock dividends declared in the current year.

Diluted earnings per common share are also computed by dividing net profit by the weighted average number of common shares subscribed and outstanding at the end of the reporting period, after making adjustments to reflect the effects of any potentially dilutive preferred shares, stock options and warrants.

2.25 Trust and Fiduciary Activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These resources and the related income arising thereon are excluded from these financial statements, as they are neither resources nor income of the Group.

2.26 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and services as disclosed in Note 6, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these services require different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its consolidated financial statements in arriving at the operating profit of the operating segments.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a particular segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Group's operations are organized according to the nature of the products and services provided. Financial information on business segments is presented in Note 6.

2.27 Events After the End of the Reporting Period

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

3. SUMMARY OF ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements in accordance with PFRS requires 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 ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group'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) Determining Functional and Presentation Currency

The Group has determined that its functional and presentation currency is the Philippine pesos, which is the currency of the primary environment in which the Group operates.

(b) *Assessment of Control or Significant Influence over an Investee Company*

Judgment is exercised in determining whether the Group already has significant influence or control over an entity. In assessing each interest over an entity, the Group considers the power over the investee, exposure, or rights, to variable returns from its involvement with the investee, and, the ability to use its power over the investee to affect the amount of the investor's returns.

As discussed in Note 1.1(b), a MOA was executed between the major Sellers of FAIR Bank and the Group, whereby the latter agreed to purchase all of the Sellers' rights, title and interest in FAIR Bank. In 2017, the Deed of Absolute Sale covering the shares was executed and all corresponding taxes on the transaction were paid. Furthermore, the Group has acquired additional shares in 2017 increasing its ownership to 86.67% of FAIR Bank's common stock. Hence, management considers that the Group only acquired control or significant influence over FAIR Bank in 2017.

(c) *Evaluation of Business Model in Managing Financial Instruments*

The Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group.

(d) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(e) *Distinction Between Investment Properties and Owner-occupied Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(f) Distribution Between Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or 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 judgment will result in either overstatement or understatement of resources and liabilities. As of December 31, 2017 and 2016, management has determined that the Group's existing lease agreements are operating leases.

(g) Classification of Acquired Properties and Fair Value Determination of Investment Properties

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations and as Investment Properties if the Group intends to hold the properties for capital appreciation or for lease, or as Financial Assets in accordance with PFRS 9. At initial recognition, the Group determines the fair value of acquired properties based on valuations performed by independent appraisal companies accredited by the BSP. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(h) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and of contingencies are discussed in Notes 2.13 and relevant disclosures are presented in Note 34.

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 the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Estimation of Impairment Losses on Loans and Other Receivables and Financial Assets at Amortized Cost

The Group reviews its loan and other receivables and investment portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group 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.

Impairment losses on loans and other receivables recognized in profit or loss are discussed in Notes 13 and 20, while the information about debt securities is disclosed in Note 12.

(b) *Distinction of Fair Value Measurement of Financial Assets and Financial Liabilities*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The financial assets and financial liabilities measured at fair value in the statements of financial position as of December 31, 2017 and 2016 are grouped into the fair value hierarchy as presented in Note 7.3.

The carrying amounts and fair values of those financial assets and financial liabilities not presented in the statement of financial position at their fair values are summarized in Note 7.1.

(i) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Group to BSP for clearing and reserve requirements. 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) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. 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.

(iii) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-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.

(iv) *Other Liabilities*

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

(c) *Determination of Fair Value of 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 reported fair value of financial instruments. The Group 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.

(d) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software, Leasehold, Rights and Improvements*

The Group 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. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment and computer software is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

In 2017, based on current facts and circumstances, management have changed the estimated useful life of leasehold, rights and improvements. The change in useful life of these assets which were applied prospectively did not result in material change in the annual depreciation expense.

The carrying amounts of bank premises, furniture, fixtures and equipment, leasehold, rights and improvements and computer software are presented in Notes 15 and 19, respectively.

(e) *Determination of Fair Value of Investment Properties*

The Group's investment properties is composed of land, buildings and related improvements carried at fair value at the end of the reporting period.

The fair value of investment properties is determined based on valuations performed by independent appraisal companies accredited by the BSP at the end of each reporting period. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. The amounts of revaluation and fair value gains recognized on certain land, buildings and land improvements are disclosed in Note 16.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

The fair value determination for investment properties is discussed in Note 7.5.

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Group 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. The carrying value of deferred tax assets is disclosed in Note 29.

(g) *Estimation of Impairment of Non-financial Assets*

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. 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 these 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. The Group determines the recoverable value of goodwill by discounting the estimated excess earnings using the Group's cost of equity as the discount rate. The recoverable value of goodwill is being determined by an external appraiser. The same data (i.e., estimated excess earnings and the Group's cost of equity) used by the Group was used by the external appraiser in evaluating whether the asset is impaired or not.

Impairment losses recognized on non-financial assets are disclosed in Note 20.

(b) *Valuation of Post-employment and Other Benefits*

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

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation, as well as significant assumptions used in estimating such obligation are presented in Note 28.2.

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group and Parent Bank policies. These estimates may vary depending on future changes in salaries and actual experiences during the year.

(i) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period. In 2016, the Group, through CSB and UPI, entered in a MOA to purchase common shares of FAIR Bank, and the Deed of Sale was executed on January 9, 2017, with the corresponding taxes on the transaction paid in February 2017. On March 17, 2017, the Group acquired additional shares, gaining control over FAIR Bank, with a total of 86.67% ownership.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risks are inherent in the business activities of the Group. Among its identified risks are credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, operational risk, legal risk, and regulatory risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Group identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resulting risk positions. The objective of risk management is to ensure that the Group conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

4.1 Risk Management Strategies

The Group maintains a prudent risk management strategy to ensure its soundness and profitability. Business units are held accountable for all the risks and related returns, and ensure that decisions are consistent with business objectives and risk tolerance. Strategies, policies and limits are reviewed regularly and updated to ensure that risks are well-diversified and risk mitigation measures are undertaken when necessary. A system for managing and monitoring risks is in place so that all relevant issues are identified at an early stage and appropriate actions are taken. The risk policies, guidelines and processes are designed to ensure that risks are continuously identified, analysed, measured, monitored and managed. Risk reporting is done on a regular basis, either monthly or quarterly.

Although the BOD is primarily responsible for the overall risk management of the Group's activities, the responsibility rests at all levels of the organization. The risk appetite is defined and communicated through an enterprise-wide risk policy framework.

4.2 Risk Management Structure

The BOD of the Parent Bank exercises oversight of the Parent Bank's risk management process as a whole and through its various risk committees. For the purpose of day-to-day management of risks, the Parent Bank has established independent Risk Management Units (RMUs) that objectively review and ensure compliance to the risk parameters set by the BOD. They are responsible for the monitoring and reporting of risks to senior management and the various committees of the Parent Bank.

On the other hand, the risk management processes of its subsidiaries are handled separately by their respective BODs.

The Parent Bank's BOD is primarily responsible for setting the risk appetite, approving risk parameters, credit policies, and investment guidelines, as well as establishing the overall risk taking capacity of the Parent Bank. To fulfill its responsibilities in risk management, the BOD has established the following committees, whose functions are described in the succeeding page.

- (a) The Executive Committee (EXCOM), composed of seven members of the BOD, exercises certain functions as delegated by the BOD including, among others, the approval of credit proposals, asset recovery and real and other properties acquired (ROPA) sales within its delegated limits.
- (b) The Risk Management Committee (RMC), composed of seven members of the BOD, is responsible for the development and oversight of the Parent Bank's risk management program. It assists the BOD in the management of identified risks and reviewing risk policies, strategies and procedures. It receives and reviews management reports on risk exposures and provides guidance when needed. The RMC also provides oversight, direction, and guidance to the other risk committees, specifically the Market Risk Committee (MRC) and the Operations Risk Management Committee (ORMC).
- (c) The MRC, composed of six members of the BOD, sets policies and standards for market risk identification, analysis and management. The MRC also monitors the sensitivity of the Group's financial condition to the effects of market volatility and adverse price changes on the Group's portfolio of financial instrument and oversees the Group's liquidity position through the Asset and Liability Committee (ALCO).
- (d) The ORMC, composed of at least three members of the BOD and two members from Senior Management, reviews various operations risk policies and practices.
- (e) The Audit Committee is a committee of the BOD that is composed of five members, most of whom are with accounting, auditing, or related financial management expertise or experience. The skills, qualifications, and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD. Two of these five members are independent directors, including the Chairman.

The Audit Committee serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders. It also oversees the Bank's financial reporting process on behalf of the BOD. It assists the BOD in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices and the sufficiency of auditing relative thereto, and regulatory compliance.

To effectively perform these functions, the Audit Committee has a good understanding of the Parent Bank's business including the following: Parent Bank's structure, business, controls, and the types of transactions or other financial reporting matters applicable to the Parent Bank. The Audit Committee also has a good understanding of the Parent Bank's internal controls to determine whether these controls are adequate, functioning as designed, and operating effectively. It also considers the potential effects of emerging business risks and their impact on the Parent Bank's financial position and results of operations.

Among the responsibilities of the Audit Committee are:

- (i) *Oversight of the financial reporting process.* The Audit Committee ensures that the Parent Bank has a high-quality reporting process that provides transparent, consistent and comparable financial statements. In this regard, the Audit Committee works closely with management especially the Office of the Financial Controller, the Internal Audit Division (IAD), as well as the external auditors, to effectively monitor the financial reporting process and the existence of significant financial reporting issues and concerns.
- (ii) *Oversight of the audit process.* The Audit Committee is knowledgeable on the audit function and the audit process. The Audit Committee maintains supportive, trusting and inquisitive relationships with both internal and external auditors to enhance its effectiveness.

In the performance of these functions, the Audit Committee is supported by the IAD. The IAD Head derives authority from and is directly accountable to the Audit Committee. However, administratively, the IAD Head reports to the President of the Bank.

The IAD is entirely independent from all the other organizational units of the Bank, as well as from the personnel and work that are to be audited. It operates under the direct control of the Audit Committee and is given an appropriate standing within the Bank to be free from bias and interference. The IAD is free to report its findings and appraisals internally at its own initiative to the Audit Committee.

The IAD is authorized by the Audit Committee to have unrestricted access to all functions, records, property, and personnel of the Bank subject to existing mandate and applicable laws. This includes the authority to allocate resources, set audit frequencies, select subjects, determine scope of work, and apply the techniques required to accomplish the audit engagement objectives.

The IAD is also authorized to obtain the necessary assistance from personnel within the Bank units where they perform audits, as well as other specialized services within or outside the Bank.

The IAD presents its annual audit plan at the beginning of the year for approval by the Audit Committee.

At least once a month, the Audit Committee meets to discuss the results of the assurance and consulting engagements and case investigations by IAD. The results of these meetings are regularly reported by the Audit Committee Chairman to the BOD in its monthly meetings.

In response to the increasing role of internal audit under Basel II, the IAD acquired the right skill set and approach to fulfill its role to conduct an annual independent review of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) document and its underlying processes and procedures.

The Bank's IAD passed and obtained the highest rating of "Generally Conforms" on the external quality assessment conducted in January 2014. The review showed that the Bank's IAD audit activities comply with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

- (f) The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfill its corporate governance responsibilities. It is responsible in ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines.

CGC's specific duties include, among others, making recommendations to the BOD regarding continuing education of directors, overseeing the periodic performance evaluation of the BOD, its committees, senior management, and the function of the Chief Compliance and Corporate Governance Officer. It also performs oversight functions over the Compliance and Corporate Governance Office (CCGO) and the Anti-Money Laundering Committee of the Bank.

The CGC is composed of seven (7) members of the BOD, two (2) of whom are independent directors, including its Chairman, and one (1) belonging to the Bank's senior management. It has two (2) sub-committees, namely, the Nominations Sub-Committee (NOMCOM) and the Compensation and Remuneration Sub-Committee (COMPREM).

The NOMCOM is comprised of six (6) voting members of the BOD, one of whom is an independent director, and one non-voting member in the person of the Human Resources Director. The NOMCOM is responsible for reviewing the qualifications of and screening candidates for the BOD, key officers of the Bank and nominees for independent directors. It oversees the implementation of programs for identifying, retaining and developing critical officers and the succession plan for various units in the organization.

The COMPREM is composed of seven (7) members of the BOD, two (2) of whom are independent directors, including its Chairman. It is responsible for overseeing implementation of the programs for salaries and benefits of directors and senior management. It monitors adequacy, effectiveness and consistency of the Bank's compensation program vis-à-vis corporate philosophy and strategy.

- (g) The Related Party Transaction Committee is a board-level committee composed of five (5) members, three (3) of whom are independent directors including its Chairman. The other two (2) members are the Head of Internal Audit Division and the Chief Compliance and Corporate Governance Officer who are both non-voting members. The Committee assists the BOD in the fulfillment of its corporate governance responsibilities on related party transactions by ensuring that these are transacted at arm's length terms. Where applicable, the Committee reviews and approves related party transactions or endorses them to the BOD for approval or confirmation.

The Bank's CCGO assists the CGC in fulfilling its functions by apprising the same of pertinent regulations and other issuances relating to compliance or corporate governance and continuously giving updates thereon. In addition, the CCGO keeps the CGC abreast of governance issues being brought about among private organizations and individuals advocating good governance practices. It then makes recommendations to the CGC based on such governance issues and practices applicable and relevant to the Bank.

The major risk types identified by the Group are discussed in the following sections:

4.3 Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation to the Group. The risk may arise from lending, trade finance, treasury, investments, derivatives and other activities undertaken by the Group. Credit risk is managed through strategies, policies and limits that are approved by the respective BOD of the various companies within the Group. With respect to the Parent Bank, it has a well-structured and standardized credit approval process and credit scoring system for each of its business and/or product segments.

The RMU undertakes several functions with respect to credit risk management. The RMU independently performs credit risk assessment, evaluation and review for its retail, commercial and corporate financial products to ensure consistency in the Parent Bank's risk assessment process. It also ensures that the Parent Bank's credit policies and procedures are adequate and are constantly updated to meet the changing demands or risk profiles of the business units.

The RMU's portfolio management function involves the review of the Parent Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and the development of a strategy for the Parent Bank to achieve its desired portfolio mix and risk profile. The RMU reviews the Parent Bank's loan portfolio quality in line with the Parent Bank's policy of avoiding significant concentrations of exposure to specific industries or groups of borrowers. Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features. Concentrations indicate the relative sensitivity of the Parent Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Parent Bank's policies and procedures include guidelines for maintaining a diversified portfolio mix (e.g., concentration limits). Identified concentrations of credit risks are controlled and managed accordingly. The RMU also monitors compliance to the BSP's limit on exposure to any single person or group of connected persons to an amount not exceeding 25% of the Parent Bank's adjusted capital accounts.

4.3.1 Corporate Loans

Corporate lending activities are undertaken by the Parent Bank's Corporate Banking Center. The customer accounts under this group belong to the top tier corporations, conglomerates and large multinational companies. The Parent Bank undertakes a comprehensive procedure for the credit evaluation and risk assessment of large corporate borrowers based on its Internal Credit Risk Rating System (ICRRS). The rating system assesses risks on a three-dimensional level: Borrower Risk, Facility Risk and Security Risk. It also has established concentration limits depending on the Borrower Risk Rating and overall credit quality.

Borrower risk is evaluated by considering (a) quantitative factors, such as profitability, liquidity, capital adequacy and sales growth; (b) qualitative factors, such as management skills and management integrity; and, (c) industry risk. Industry risk is assessed by considering certain industry characteristics, such as its importance to the economy, growth outlook, cyclicity, industry structure and relevant government policies.

Based on foregoing factors, each borrower is assigned a Borrower Risk Rating (BRR), a 10-grade scoring system that ranges from AAA to D, with AAA to A as High Grade, BBB to B as Standard Grade and CCC and lower as Substandard grade. Borrowers with high grade BRRs are considered to have very strong credits where the Parent Bank may be comfortable in granting clean short-term facilities. Borrowers with standard BRRs are similarly acceptable credits but may require collateral to mitigate the credit risk. On the other hand, borrowers with substandard BRRs are deemed to be high risk and thus may be required by the Bank to pledge high grade collateral or other forms of credit enhancements.

Below is a summary as of December 31, 2017 and 2016 of the Parent Bank's corporate loans that are subject to the Corporate ICRRS (gross of the related allowance for impairment) with their respective credit scores:

	Credit Score	Description	Amount	
			2017	2016
High grade	AA	High quality	P -	P -
	A	Satisfactory quality	54,685,093	43,909,730
Standard grade	BBB	Average	28,762,773	43,881,100
	BB	Fair	23,215,725	3,542,106
	B	Low	239,850	5,302,000
Substandard grade		Non-rated	4,093,273	3,213,738
	CCC			
	and below	Substandard	6,612,570	4,024,459
			<u>P 117,609,284</u>	<u>P 103,873,133</u>

The description of each credit score is explained further as follows:

Highest Quality - These borrowers have a high degree of stability, substance and diversity. They are expected to remain of high quality in virtually all economic conditions and have access to substantial amount of funds through the public markets at any time.

High Quality - These borrowers have a comfortable degree of stability, substance and diversity. They have access to substantial amount of funds through the public market under normal conditions. These are normally the quality multinationals or local corporations which are well capitalized.

Satisfactory Quality - These borrowers have strong cash flows and acceptable degree of stability and substance under normal market conditions. However, they may be susceptible to cyclical changes or concentrations of business risk may be present.

Average - These borrowers have adequate cash flows to meet its commitments and can withstand normal business cycles. However, any prolonged unfavorable economic period would create deterioration beyond acceptable levels as clear risk elements exists reflecting volatility of earnings and performance.

Fair - These borrowers have adequate cash flows to meet its commitments but faces on-going uncertainties and exposure to adverse business, financial or economic conditions.

Low - Although these borrowers currently have adequate cash flows to meet their commitments, their performance have already been weakened and any continuation of adverse business, financial or economic conditions or further downturns are already expected to impair their capacity or willingness to meet their financial commitments.

Substandard - These borrowers have inadequate cash flows and are exposed to a real risk of non-payment of principal. The probability of default increases as the credit score goes down to CCC and lower.

In addition to the BRR, the Parent Bank assigns a loan exposure rating (LER), a 100-point system which is comprised of a Facility Tenor Rating (FTR) and a Security Risk Rating (SRR). The FTR measures the maturity risk based on the length of loan exposure, while the SRR measures the quality of the collateral and risk of its potential deterioration over the term of the loan. The FTR and the SRR, each a 100-point scoring system, are given equal weight in determining the LER.

Once the BRR and the LER have been determined, the credit limit to a borrower is determined under the Risk Asset Acceptance Criteria (RAAC) which is a range of acceptable combinations of the BRR and the LER. Under the RAAC system, a borrower with a high BRR will have a broader range of acceptable LERs.

The credit rating for each borrower is reviewed annually or earlier if the borrower has a higher risk profile or when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy. Any major change in the credit scoring system, the RAAC range and/or the risk-adjusted pricing system is presented to and approved by the RMC.

4.3.2 Commercial Loans

The Parent Bank's commercial banking activities are undertaken by its Commercial Banking Center (ComBank). These consist of banking products and services rendered to customers which are entities that are predominantly small and medium scale enterprises (SMEs). These products and services are similar to those provided to large corporate customers, with the predominance of trade finance-related products and services.

ComBank uses a separate 10-grade credit scoring system for commercial accounts, comprised of: an Obligor Risk Rating (ORR), a Facility Risk Adjustment (FRA) and a Final Risk Rating (FRR). An Estimated Cash Risk Position is indicated to determine the secured and unsecured portion of the obligation.

The ORR is an assessment of the creditworthiness of the borrower (or guarantor) without considering the type or amount of the facility, or its security arrangements. It is an indicator of the probability that a borrower cannot meet its credit obligations in the foreseen manner. In determining the ORR, the focus lies on the outlook of the borrower. Although the borrower's financial condition is evaluated on the basis of the historical financial statements, this is primarily to determine any trend in the company's financial position going forward, and how it will impact the company's future solvency or debt-service capabilities.

Based on above factors, each borrower is assigned an ORR that ranges from 1 to 10, with 1 to 3 as High Grade, 4 to 6 as Standard Grade and 7 and lower as Substandard Grade. Borrowers with high grade ORRs are usually granted clean short-term loan facilities. Borrowers with standard ORRs may be required by the Parent Bank to provide collateral to enhance their credit rating. On the other hand, borrowers with substandard ORRs are deemed to be high risk, thus, may be required by the Bank to pledge high grade collateral.

On the next page is a summary as of December 31, 2017 and 2016 of the Parent Bank's commercial loans that are subject to the Corporate ICRRS (gross of related allowance for impairment) with their respective credit scores.

	<u>Credit Score</u>	<u>Description</u>	<u>Amount</u>	
			<u>2017</u>	<u>2016</u>
High grade	1	Substantially risk-free	P -	P -
	2	Minimal risk	7,309,526	3,293,382
	3	Moderate risk	15,395,067	9,116,919
Standard grade	4	Average risk	8,337,772	5,034,097
	5	Above average risk	5,921,403	6,601,784
	6	High risk	1,414,847	294,853
Substandard grade	7 and below	Past due and C rated	2,975,667	4,344,707
Non-rated			2,209,528	562,320
			P 43,563,810	P 29,248,062

Substantially Risk-free - These borrowers have high degree of stability, substance and diversity. They are expected to remain of high quality in virtually all economic conditions and have access to substantial amount of funds through the public market at any time.

Minimal Risk - These borrowers have strong market and financial position with history of successful performance. The overall debt service capacity as measured by cash flow to total debt service, as well as their ability to meet their financial commitments, is very strong.

Moderate Risk - These borrowers have strong cash flows and acceptable degree of stability and substance under normal market conditions. However, they may be susceptible to cyclical changes or concentrations of business risk may be present.

Average Risk - These borrowers have adequate cash flows to meet its commitments and can withstand normal business cycles. However, any prolonged unfavorable economic period would create deterioration beyond acceptable levels as clear risk elements exists reflecting volatility of earnings and performance.

Above Average Risk - These borrowers have adequate cash flows to meet its commitments but faces on-going uncertainties and exposure to adverse business, financial or economic conditions.

High Risk - Although these borrowers currently have adequate cash flows to meet their commitments, their performance have already been weakened and any continuation of adverse business, financial or economic conditions or further downturns are already expected to impair their capacity or willingness to meet their financial commitments.

Substandard - These borrowers represent inadequacy of cash flows and real risk of non-payment of principal. The probability of default increases as credit rating goes down from seven.

Basically independent from influence of any transactional factors, the ORR is combined with the FRA to allow a more precise depiction of risk. The FRA takes into account the conduct or handling of the borrower's loan and depository accounts. The combination of the ORR and the FRA results in a borrower risk rating which may be combined with other relevant factors not considered initially in the credit scoring system to determine the FRR.

4.3.3 Retail Financial Products

The consumer loan portfolio of the Parent Bank is composed of four main product lines, namely: Credit Cards, Auto Loans, Home Loans, and Salary Loans. Each of these products has an established credit risk guidelines and systems for managing credit risk across all businesses. Scoring models have been revised and fine-tuned while data analytics has been enhanced to improve portfolio quality and product offers.

On the other hand, CSB, an accredited lending institution with the Department of Education (DepEd), provides salary loans to teachers under an agreement with DepEd for payroll deductions.

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.

4.3.4 Exposure to Credit Risk

Maximum exposure to credit risk without taking into account any collateral held or other credit enhancements for on-books financial assets and off-books items, net of allowance, are shown in the table below and on the next page.

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<i>Credit risk exposures relating to on-books items:</i>				
Due from BSP	P 66,276,960	P 56,151,239	P 60,350,126	P 52,208,244
Due from other banks	54,520,482	42,425,310	53,690,233	41,412,122
Interbank loans receivable	<u>4,793,280</u>	<u>24,362,800</u>	<u>4,793,280</u>	<u>24,362,800</u>
	<u>125,590,722</u>	<u>122,939,349</u>	<u>118,833,639</u>	<u>117,983,166</u>
Financial assets at FVTPL				
Derivative assets	365,950	90,634	365,950	90,634
Debt securities	<u>-</u>	<u>890,312</u>	<u>-</u>	<u>890,312</u>
	<u>365,950</u>	<u>980,946</u>	<u>365,950</u>	<u>980,946</u>
<i>Balance carried forward</i>	<u>P 125,956,672</u>	<u>P 123,920,295</u>	<u>P 119,199,589</u>	<u>P 118,964,112</u>

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<i>Balance brought forward</i>	<u>P 125,956,672</u>	<u>P 123,920,295</u>	<u>P 119,199,589</u>	<u>P 118,964,112</u>
Financial assets at amortized cost				
Government bonds and other debt securities	163,654,915	114,278,277	163,654,915	114,278,277
Other debt securities – Private bonds and commercial papers	2,816,744	3,499,951	2,816,744	3,499,951
Redeemable preferred shares	<u>-</u>	<u>335</u>	<u>-</u>	<u>-</u>
	<u>166,471,659</u>	<u>117,778,563</u>	<u>166,471,659</u>	<u>117,778,228</u>
Loans and receivables				
Receivables from customers				
Corporate	116,261,352	102,830,443	116,261,352	102,830,443
Consumer	91,456,123	84,366,536	35,157,389	28,090,446
Commercial	47,189,182	31,406,165	47,124,310	31,401,414
Bills purchased	3,423,349	4,430,024	3,423,349	4,430,024
Securities purchased under reverse repurchase agreement (SPURRA)	13,572,371	4,240,467	4,130,362	-
Accrued interest receivable (AIR)	1,796,717	1,257,994	1,280,056	1,056,687
Others	582,916	457,811	423,159	457,811
Accounts receivable	3,014,315	3,069,893	855,655	802,708
AIR - other receivables	2,136,868	1,482,707	2,133,724	1,479,804
Sales contract receivables	1,186,676	1,372,010	1,186,676	1,372,010
Unquoted debt securities classified as loans (UDSCL)	404,698	459,422	-	-
Installment contracts receivable	10,192	12,594	-	-
	<u>281,034,759</u>	<u>235,386,066</u>	<u>211,976,032</u>	<u>171,921,347</u>
<i>Credit risk exposures relating to off-books items:</i>				
Financial guarantees (see Note 34.2)	4,703,587	4,061,235	4,703,587	4,061,235
Loan commitments and other credit-related liabilities	24,186,916	23,701,658	23,936,916	23,701,658
	<u>28,890,503</u>	<u>27,762,893</u>	<u>28,640,503</u>	<u>27,762,893</u>
	<u>P 602,353,593</u>	<u>P 504,847,817</u>	<u>P 526,287,783</u>	<u>P 436,426,580</u>

(a) *Cash and Cash equivalents*

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are Due from BSP, Due from Other Banks and Interbank Loans Receivable.

(b) *Investments*

The Group continuously monitors defaults of borrowers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. All investments held by the Group are considered as either as high grade or standard grade that is neither past due nor specifically impaired.

(c) *Loans and Other Receivables*

The RMU reviews the Parent Bank's loan portfolio quality in line with the Parent Bank's policy of avoiding significant concentrations of exposure to specific industries or groups of borrowers. In order to avoid excessive concentrations of risk, the Parent Bank's policies and procedures include guidelines for maintaining a diversified portfolio (e.g., concentration limits). Identified concentrations of credit risks are controlled and managed accordingly. The RMU also monitors compliance to the BSP's limit on exposure to any single person or group of connected persons to an amount not exceeding 25% of the Parent Bank's adjusted capital accounts.

4.3.5 Concentrations of Credit Risk

An analysis of concentrations of credit risk for loans and other receivables and investment securities (grossed up for any allowance for impairment losses and unearned discounts) of the Group and the Parent Bank by industry and by geographic location as of December 31, 2017 and 2016 is shown in the succeeding pages.

Group

	2017			
	Loans and Other Receivables		Investment Securities	Total
	Amount	%		
<i>Concentration by industry</i>				
Real estate activities	P 46,910,394	16.02	P 2,641,001	P 49,551,395
Financial and insurance activities	43,289,049	14.79	138,346,287	181,635,336
Information and communication	30,842,229	10.53	7,577	30,849,806
Electricity, gas steam and air conditioning supply	25,744,226	8.79	25,794,080	51,538,306
Wholesale and retail trade, repair of motor vehicles	19,832,471	6.77	508	19,832,979
Manufacturing	13,064,296	4.46	2,787	13,067,083
Transportation and storage	9,454,975	3.23	-	9,454,975
Accommodation and food Service activities	8,543,498	2.92	-	8,543,498
Other service activities	4,538,525	1.55	-	4,538,525
Construction	4,312,242	1.47	-	4,312,242
Activities of households as employers and undifferentiated goods and services	1,924,257	0.66	-	1,924,257
Agriculture, forestry and fishing	1,315,692	0.45	-	1,315,692
Arts, entertainment and Recreation	1,174,569	0.40	-	1,174,569
Professional, scientific and technical activities	290,146	0.10	-	290,146
Others	81,551,398	27.86	45,369	81,596,767
	<u>P 292,787,967</u>	<u>100.00</u>	<u>P 166,837,609</u>	<u>P 459,625,576</u>
<i>Concentration by location</i>				
Philippines	P 291,725,048	99.64	P 92,408,663	P 384,133,711
Others - Asia	706,602	0.24	53,243,125	53,949,727
North America	110,132	0.04	4,749,146	4,859,278
South America	131,489	0.04	9,847,069	9,978,558
Russia	91,427	0.03	4,062,066	4,153,493
United States	21,217	0.01	2,525,581	2,546,798
Europe	2,052	-	1,959	4,011
	<u>P 292,787,967</u>	<u>100.00</u>	<u>P 166,837,609</u>	<u>P 459,625,576</u>

Group

	2016			
	Loans and Other Receivables		Investment Securities	Total
	Amount	%		
<i>Concentration by industry</i>				
Real estate activities	P 41,027,847	16.59	P 2,630,708	P 43,658,555
Financial and insurance activities	31,952,213	12.92	99,054,779	131,006,992
Information and communication	16,924,790	6.85	-	16,924,790
Electricity, gas steam and air conditioning supply	15,942,777	6.45	16,405,457	32,348,234
Manufacturing	14,422,167	5.83	887	14,423,054
Transportation and storage	8,408,403	3.40	-	8,408,403
Wholesale and retail trade, repair of motor vehicles	7,803,800	3.16	7	7,803,807
Other service activities	6,222,979	2.52	-	6,222,979
Accommodation and food Service activities	5,920,925	2.39	619,873	6,540,798
Construction	3,328,150	1.35	-	3,328,150
Agriculture, forestry and fishing	2,453,595	0.99	-	2,453,595
Activities of households as employers and undifferentiated goods and services	1,940,583	0.78	-	1,940,583
Arts, entertainment and Recreation	378,454	0.15	-	378,454
Professional, scientific and technical activities	199,659	0.08	-	199,659
Others	90,323,213	36.54	47,798	90,371,011
	<u>P 247,249,555</u>	<u>100.00</u>	<u>P 118,759,509</u>	<u>P 366,009,064</u>
<i>Concentration by location</i>				
Philippines	P 246,664,313	99.76	P 77,697,652	P 324,361,965
Others - Asia	576,781	0.24	38,763,208	39,339,989
Europe	8,461	-	1,537	9,998
United States	-	-	2,297,112	2,297,112
	<u>P 247,249,555</u>	<u>100.00</u>	<u>P 118,759,509</u>	<u>P 366,009,064</u>

Parent Bank

	2017			
	Loans and Other Receivables		Investment Securities	Total
	Amount	%		
<i>Concentration by industry</i>				
Real estate activities	P 46,812,854	21.11	P 2,641,001	P 49,453,855
Financial and insurance activities	33,196,029	14.97	138,346,287	171,542,316
Information and communication	30,842,230	13.91	7,577	30,849,807
Electricity, gas steam and air conditioning supply	25,692,121	11.59	25,794,080	51,486,201
Manufacturing	13,064,296	5.89	2,787	13,067,083
Transportation, storage	9,454,975	4.26	-	9,454,975
Wholesale and retail trade, repair of motor vehicles	19,829,137	8.94	508	19,829,645
Other service activities	4,525,322	2.04	-	4,525,322
Accommodation and food service activities	8,543,498	3.85	-	8,543,498
Construction	4,302,415	1.94	-	4,302,415
Activities of households as employers and undifferentiated goods and services	1,731,586	0.78	-	1,731,586
Arts, entertainment and Recreation	1,174,569	0.53	-	1,174,569
Agriculture, forestry and fishing	636,018	0.29	-	636,018
Professional, scientific and technical activities	290,146	0.13	-	290,146
Others	<u>21,670,384</u>	<u>9.77</u>	<u>45,369</u>	<u>21,715,753</u>
	<u>P 221,765,580</u>	<u>100.00</u>	<u>P 166,837,609</u>	<u>P 388,603,189</u>
<i>Concentration by location</i>				
Philippines	P 220,702,661	99.52	P 92,408,663	P 313,111,324
Others - Asia	706,602	0.32	53,243,125	53,949,727
Europe	2,052	-	1,959	4,011
North America	110,132	0.05	4,749,146	4,859,278
South America	131,489	0.06	9,847,069	9,978,558
Russia	91,427	- 0.04	4,062,066	4,153,493
United States	<u>21,217</u>	<u>- 0.01</u>	<u>2,525,581</u>	<u>2,546,798</u>
	<u>P 221,765,580</u>	<u>100.00</u>	<u>P 166,837,609</u>	<u>P 388,603,189</u>

Parent Bank

	2016			
	Loans and Other Receivables		Investment Securities	Total
	Amount	%		
<i>Concentration by industry</i>				
Real estate activities	P 40,941,172	22.55	P 2,630,708	P 43,571,880
Financial and insurance activities	26,990,913	14.86	99,054,779	126,045,692
Information and communication	16,924,790	9.32	-	16,924,790
Electricity, gas steam and air conditioning supply	15,942,777	8.78	16,405,122	32,347,899
Manufacturing	14,422,167	7.94	887	14,423,054
Transportation, storage	8,408,403	4.63	-	8,408,403
Wholesale and retail trade, repair of motor vehicles	7,803,800	4.30	7	7,803,807
Other service activities	6,220,166	3.43	-	6,220,166
Accommodation and food service activities	5,916,028	3.26	619,873	6,535,901
Construction	3,328,150	1.83	-	3,328,150
Activities of households as employers and undifferentiated goods and services	1,940,583	1.07	-	1,940,583
Arts, entertainment and Recreation	378,454	0.20	-	378,454
Agriculture, forestry and fishing	219,653	0.12	-	219,653
Professional, scientific and technical activities	199,659	0.11	-	199,659
Others	<u>31,951,557</u>	<u>17.60</u>	<u>47,798</u>	<u>31,999,355</u>
	<u>P 181,588,272</u>	<u>100.00</u>	<u>P 118,759,174</u>	<u>P 300,347,446</u>
<i>Concentration by location</i>				
Philippines	P 181,003,030	99.68	P 77,697,317	P 258,700,347
Others - Asia	576,781	0.32	38,763,208	39,339,989
Europe	8,461	-	1,537	9,998
United States	-	-	2,297,112	2,297,112
	<u>P 181,588,272</u>	<u>100.00</u>	<u>P 118,759,174</u>	<u>P 300,347,446</u>

4.3.6 Credit Quality of Financial Assets

The credit quality of loans and other receivables as well as investment securities are summarized below.

Group

	<u>2017</u>		
	<u>Loans and Other Receivables</u>	<u>Investment Securities</u>	<u>Total</u>
Neither past due nor impaired	P 274,436,809	P 166,837,609	P 441,274,418
Past due but not impaired	6,299,072	-	6,299,072
Impaired	<u>11,121,860</u>	<u>-</u>	<u>11,121,860</u>
	291,857,741	166,837,609	458,695,350
Allowance for impairment	<u>(10,822,982)</u>	<u>-</u>	<u>(10,822,982)</u>
	<u>P 281,034,759</u>	<u>P 166,837,609</u>	<u>P 447,872,368</u>
	<u>2016</u>		
	<u>Loans and Other Receivables</u>	<u>Investment Securities</u>	<u>Total</u>
Neither past due nor impaired	P 233,332,535	P 118,759,509	P 352,092,044
Past due but not impaired	6,449,327	-	6,449,327
Impaired	<u>6,517,813</u>	<u>-</u>	<u>6,517,813</u>
	246,299,675	118,759,509	365,059,184
Allowance for impairment	<u>(10,913,609)</u>	<u>-</u>	<u>(10,913,609)</u>
	<u>P 235,386,066</u>	<u>P 118,759,509</u>	<u>P 354,145,575</u>

Parent Bank

	<u>2017</u>		
	<u>Loans and Other Receivables</u>	<u>Investment Securities</u>	<u>Total</u>
Neither past due nor impaired	P 207,291,620	P 166,837,609	P 374,129,229
Past due but not impaired	4,275,920	-	4,275,920
Impaired	<u>10,053,832</u>	<u>-</u>	<u>10,053,832</u>
	221,621,372	166,837,609	388,485,981
Allowance for impairment	<u>(9,645,340)</u>	<u>-</u>	<u>(9,645,340)</u>
	<u>P 211,976,032</u>	<u>P 166,837,609</u>	<u>P 378,813,641</u>
	<u>2016</u>		
	<u>Loans and Other Receivables</u>	<u>Investment Securities</u>	<u>Total</u>
Neither past due nor impaired	P 170,595,388	P 118,759,174	P 289,354,562
Past due but not impaired	4,947,378	-	4,947,378
Impaired	<u>5,934,994</u>	<u>-</u>	<u>5,934,994</u>
	181,477,760	118,759,174	300,236,934
Allowance for impairment	<u>(9,556,413)</u>	<u>-</u>	<u>(9,556,413)</u>
	<u>P 171,921,347</u>	<u>P 118,759,174</u>	<u>P 290,680,521</u>

The table below shows the credit quality per class of financial assets that are neither past due nor impaired, based on the Bank's rating system.

Group

	2017			
	<u>High Grade</u>	<u>Standard Grade</u>	<u>Substandard Grade</u>	<u>Total</u>
Due from BSP	P 66,276,960	P -	P -	P 66,276,960
Due from other banks	53,655,721	864,761	-	54,520,482
Interbank loans receivable	4,793,280	-	-	4,793,280
	<u>124,725,961</u>	<u>864,761</u>	<u>-</u>	<u>125,590,722</u>
Financial assets at FVTPL				
Derivative assets	281,314	84,636	-	365,950
Debt securities	-	-	-	-
	<u>281,314</u>	<u>84,636</u>	<u>-</u>	<u>365,950</u>
Financial assets at amortized cost				
Government bonds and other debt securities	136,967,485	26,687,430	-	163,654,915
Other debt securities – Private bonds and commercial papers	2,816,744	-	-	2,816,744
	<u>139,784,229</u>	<u>26,687,430</u>	<u>-</u>	<u>166,471,659</u>
Loans and other receivables				
Receivables from customers				
Corporate	54,685,093	56,352,686	6,582,943	117,620,722
Commercial	22,641,030	24,072,062	30,500	46,743,592
Consumer	-	85,471,597	-	85,471,597
Bills purchased	-	3,463,370	-	3,463,370
Accrued interest receivable	-	1,766,776	-	1,766,776
Others	-	645,633	-	645,633
SPURRA	13,572,370	-	-	13,572,370
UDSCL	56,686	348,012	-	404,698
AIR – other receivables	3,143	2,133,724	-	2,136,867
Accounts receivable	-	175,731	1,670,793	1,846,524
Sales contract receivable	-	764,660	-	764,660
	<u>90,958,322</u>	<u>175,194,251</u>	<u>8,284,236</u>	<u>274,436,809</u>
	<u>P 355,749,826</u>	<u>P 202,831,078</u>	<u>P 8,284,236</u>	<u>P 566,865,140</u>

	2016			
	High Grade	Standard Grade	Substandard Grade	Total
Due from BSP	P 56,151,239	P -	P -	P 56,151,239
Due from other banks	38,454,755	3,970,555	-	42,425,310
Interbank loans receivable	<u>24,362,800</u>	<u>-</u>	<u>-</u>	<u>24,362,800</u>
	<u>118,968,794</u>	<u>3,970,555</u>	<u>-</u>	<u>122,939,349</u>
Financial assets at FVTPL				
Derivative assets	72,460	18,174	-	90,634
Debt securities	<u>-</u>	<u>890,312</u>	<u>-</u>	<u>890,312</u>
	<u>72,460</u>	<u>908,486</u>	<u>-</u>	<u>980,946</u>
Financial assets at amortized cost				
Government bonds and other debt securities	101,540,949	12,737,328	-	114,278,277
Other debt securities – Private bonds and commercial papers	-	3,499,951	-	3,499,951
Redeemable preferred shares	<u>-</u>	<u>335</u>	<u>-</u>	<u>335</u>
	<u>101,540,949</u>	<u>16,237,614</u>	<u>-</u>	<u>117,778,563</u>
Loans and other receivables				
Receivables from customers				
Corporate	43,909,730	55,942,322	3,975,787	103,827,839
Commercial	12,324,097	15,576,268	3,000,263	30,900,628
Consumer	-	83,413,713	-	83,413,713
Bills purchased	-	4,473,125	-	4,473,125
Accrued interest receivable	-	1,001,030	-	1,001,030
Others	-	496,409	-	496,409
SPURRA	4,240,467	-	-	4,240,467
UDSCL	111,410	348,012	-	459,422
AIR – other receivables	2,903	1,681,111	-	1,684,014
Accounts receivable	-	170,221	1,691,792	1,862,013
Sales contract receivable	<u>-</u>	<u>973,875</u>	<u>-</u>	<u>973,875</u>
	<u>60,588,607</u>	<u>164,076,086</u>	<u>8,667,842</u>	<u>233,332,535</u>
	<u>P 281,170,810</u>	<u>P 185,192,741</u>	<u>P 8,667,842</u>	<u>P 475,031,393</u>

Parent Bank

	2017			
	<u>High Grade</u>	<u>Standard Grade</u>	<u>Substandard Grade</u>	<u>Total</u>
Due from BSP	P 60,350,126	P -	P -	P 60,350,126
Due from other banks	53,655,579	34,654	-	53,690,233
Interbank loans receivable	<u>4,793,280</u>	<u>-</u>	<u>-</u>	<u>4,793,280</u>
	<u>118,798,985</u>	<u>34,654</u>	<u>-</u>	<u>118,833,639</u>
Financial assets at FVTPL				
Derivative assets	281,314	84,636	-	365,950
Debt securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>281,314</u>	<u>84,636</u>	<u>-</u>	<u>365,950</u>
Financial assets at amortized cost				
Government bonds and other debt securities	136,967,485	26,687,430	-	163,654,915
Other debt securities – Private bonds and commercial papers	<u>2,816,744</u>	<u>-</u>	<u>-</u>	<u>2,816,744</u>
	<u>139,784,229</u>	<u>26,687,430</u>	<u>-</u>	<u>166,471,659</u>
Loans and other receivables				
Receivables from customers				
Corporate	54,685,093	56,352,686	6,582,943	117,620,722
Commercial	22,641,030	24,013,036	30,500	46,684,566
Consumer	-	30,587,343	-	30,587,343
Bills purchased	-	3,463,370	-	3,463,370
Accrued interest receivable	-	1,250,114	-	1,250,114
Others	-	497,126	-	497,126
SPURRA	4,130,362	-	-	4,130,362
AIR – other receivables	-	2,133,724	-	2,133,724
Accounts receivable	-	169,077	-	169,077
Sales contract receivable	<u>-</u>	<u>755,216</u>	<u>-</u>	<u>755,216</u>
	<u>81,456,485</u>	<u>119,221,692</u>	<u>6,613,443</u>	<u>207,291,620</u>
	<u>P 340,321,013</u>	<u>P 146,028,412</u>	<u>P 6,613,443</u>	<u>P 492,962,868</u>

	2016			
	High Grade	Standard Grade	Substandard Grade	Total
Due from BSP	P 52,208,244	P -	P -	P 52,208,244
Due from other banks	38,454,613	2,957,509	-	41,412,122
Interbank loans receivable	<u>24,362,800</u>	<u>-</u>	<u>-</u>	<u>24,362,800</u>
	<u>115,025,657</u>	<u>2,957,509</u>	<u>-</u>	<u>117,983,166</u>
Financial assets at FVTPL				
Derivative assets	72,460	18,174	-	90,634
Debt securities	<u>-</u>	<u>890,312</u>	<u>-</u>	<u>890,312</u>
	<u>72,460</u>	<u>908,486</u>	<u>-</u>	<u>980,946</u>
Financial assets at amortized cost				
Government bonds and other debt securities	101,540,949	12,737,328	-	114,278,277
Other debt securities – Private bonds and commercial papers	<u>-</u>	<u>3,499,951</u>	<u>-</u>	<u>3,499,951</u>
	<u>101,540,949</u>	<u>16,237,279</u>	<u>-</u>	<u>117,778,228</u>
Loans and other receivables				
Receivables from customers				
Corporate	43,909,730	55,942,322	3,975,787	103,827,839
Commercial	12,324,097	15,571,470	3,000,263	30,895,830
Consumer	-	27,326,419	-	27,326,419
Bills purchased	-	4,473,125	-	4,473,125
Accrued interest receivable	-	1,001,030	-	1,001,030
Others	-	496,409	-	496,409
AIR – other receivables	-	1,479,804	-	1,479,804
Accounts receivable	-	131,806	-	131,806
Sales contract receivable	<u>-</u>	<u>963,126</u>	<u>-</u>	<u>963,126</u>
	<u>56,233,827</u>	<u>107,385,511</u>	<u>6,976,050</u>	<u>170,595,388</u>
	<u>P 272,872,893</u>	<u>P 127,488,785</u>	<u>P 6,976,050</u>	<u>P 407,337,728</u>

The table below shows the aging analysis of past due but not impaired financial assets per class of the Group.

	2017				Total
	Less than 31 days	31 to 90 days	91 to 180 days	More than 180 days	
Loans					
Commercial	P 1,425,691	P 1,108,943	P 347,124	P 1,294,613	P 4,176,371
Consumer	111,326	52,968	11,112	16,534	191,940
Corporate	903	9,672	14,509	486,289	511,373
Accrued interest receivable	17,270	7,400	-	-	24,670
Others	<u>13,477</u>	<u>10,321</u>	<u>-</u>	<u>-</u>	<u>23,798</u>
	<u>1,568,667</u>	<u>1,189,304</u>	<u>372,745</u>	<u>1,797,436</u>	<u>4,928,152</u>
Sales contracts receivable	<u>256,931</u>	<u>110,063</u>	<u>52,655</u>	<u>12,560</u>	<u>432,209</u>
	<u>P 1,825,598</u>	<u>P 1,299,367</u>	<u>P 425,400</u>	<u>P 1,809,996</u>	<u>P 5,360,361</u>
Other receivables - Accounts receivable	<u>P 202,033</u>	<u>P 134,515</u>	<u>P 101,656</u>	<u>P 500,507</u>	<u>P 938,711</u>
	2016				Total
	Less than 31 days	31 to 90 days	91 to 180 days	More than 180 days	
Loans					
Consumer	P 913,576	P 464,233	P 189,992	P 2,073,009	P 3,640,810
Commercial	81,075	29,085	198,068	6,467	314,695
Corporate	50,274	10,219	1,772	963,622	1,025,887
Accrued interest receivable	20,506	6,077	-	-	26,583
	<u>1,065,431</u>	<u>509,614</u>	<u>389,832</u>	<u>3,043,098</u>	<u>5,007,975</u>
Sales contracts receivable	<u>224,128</u>	<u>96,974</u>	<u>40,010</u>	<u>49,617</u>	<u>410,729</u>
	<u>P 1,289,559</u>	<u>P 606,588</u>	<u>P 429,842</u>	<u>P 3,092,715</u>	<u>P 5,418,704</u>
Other receivables - Accounts receivable	<u>P 210,351</u>	<u>P 77,639</u>	<u>P 204,349</u>	<u>P 538,284</u>	<u>P 1,030,623</u>

The table below shows the aging analysis of past due but not impaired financial assets per class of the Parent Bank.

	2017				Total
	Less than 31 days	31 to 90 days	91 to 180 days	More than 180 days	
Loans					
Consumer	P 110,993	P 52,379	P 11,112	P 16,534	P 191,018
Commercial	1,154,609	633,106	40,478	698,561	2,526,754
Corporate	903	9,672	14,509	486,289	511,373
Accrued interest receivable	17,270	7,400	-	-	24,670
Others	9,439	4,320	-	-	13,759
	<u>1,293,214</u>	<u>706,877</u>	<u>66,099</u>	<u>1,201,384</u>	<u>3,267,574</u>
Sales contracts receivable	<u>256,931</u>	<u>110,002</u>	<u>52,567</u>	<u>11,960</u>	<u>431,460</u>
	<u>P 1,550,145</u>	<u>P 816,879</u>	<u>P 118,666</u>	<u>P 1,213,344</u>	<u>P 3,699,034</u>
Other receivables –					
Accounts receivable	<u>P -</u>	<u>P 121,966</u>	<u>P 92,298</u>	<u>P 362,592</u>	<u>P 576,886</u>
	2016				Total
	Less than 31 days	31 to 90 days	91 to 180 days	More than 180 days	
Loans					
Consumer	P 736,147	P 226,914	P 14,031	P 1,636,587	P 2,613,679
Commercial	81,075	29,085	198,068	6,467	314,695
Corporate	50,274	10,219	1,772	963,622	1,025,887
Accrued interest receivable	20,506	6,077	-	-	26,583
	888,002	272,295	213,871	2,606,676	3,980,844
Sales contracts receivable	224,128	96,799	39,757	48,200	408,884
	<u>P 1,112,130</u>	<u>P 369,094</u>	<u>P 253,628</u>	<u>P 2,654,876</u>	<u>P 4,389,728</u>
Other receivables –					
Accounts receivable	<u>P -</u>	<u>P 39,511</u>	<u>P 189,613</u>	<u>P 328,526</u>	<u>P 557,650</u>

4.3.7 Collateral Held As Security and Other Credit Enhancements

The Group holds collateral against loans and other receivables from customers in order to mitigate risk. The collateral may be in the form of mortgages over real estate property, chattels, inventory, cash, securities and/or guarantees. The Bank regularly monitors and updates the fair value of the collateral depending on the type of credit exposure. Estimates of the fair value of collateral are considered in the review and assessment of the adequacy of allowance for credit losses. In general, the Bank does not require collateral for loans and advances to other banks, except when securities are held as part of reverse repurchase agreements.

An estimate of the fair value of collateral and other security enhancements held by the Group against loans and other receivables as of December 31, 2017 and 2016 is shown below.

	<u>2017</u>		<u>2016</u>
Against individually impaired			
Property	P 57,136	P	2,443,398
Deposits	25,002		47,423
Others	41,610		15,558,440
	<u>123,748</u>		<u>18,049,261</u>
Against collectively impaired			
Property	3,594,897		2,013,131
Deposits	272		-
	<u>3,595,169</u>		<u>2,013,131</u>
Against past due but not impaired			
Property	3,661,467		5,665,602
Deposits	526		-
Others	53,860		9,510
	<u>3,715,853</u>		<u>5,675,112</u>
Against neither past due nor impaired			
Property	42,266,886		81,039,950
Deposits	114,634		610,781
Others	35,334,038		1,699,377
	<u>77,715,558</u>		<u>83,350,108</u>
	<u>P 85,150,328</u>	P	<u>109,087,612</u>

The Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of the assets after foreclosure proceedings have taken place.

4.4 Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Group's customers and repay deposits on maturity. The ALCO and the Treasurer of the Group ensure that sufficient liquid assets are available to meet short-term funding and regulatory requirements. Liquidity is monitored by the Group on a daily basis and under stressed situations.

A contingency plan is formulated to set out the amount and the sources of funds (such as unused credit facilities) that are available to the Group and the circumstances under which the Group may use such funds.

The Group also manages its liquidity risks through the use of a Maximum Cumulative Outflow (MCO) limit which regulates the outflow of cash on a cumulative basis and on a tenor basis. To maintain sufficient liquidity in foreign currencies, the Group has also set an MCO limit for certain designated foreign currencies. The MCO limits are endorsed by the MRC and approved by the BOD.

The table below shows the maturity profile of the financial liabilities based on contractual undiscounted cash flows (amounts in millions of Philippine pesos).

Group

	2017						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
<i>Non-derivative liabilities</i>							
<i>Deposit liabilities</i>							
Demand	P 127,424	P -	P -	P -	P -	P -	P 127,424
Savings	57,745	-	-	-	-	-	57,745
Time	117	159,980	71,771	9,329	7,505	18,371	267,073
	185,286	159,980	71,771	9,329	7,505	18,371	452,242
Bills payable	1	30,769	2,301	1,226	7,359	1,855	43,511
Notes payable	-	-	97	518	615	36,013	37,243
Manager's checks	8,677	-	-	-	-	-	8,677
Accrued interest payable	-	941	-	-	-	-	941
Accounts payable	-	2,855	-	-	-	-	2,855
Other liabilities	-	4,085	-	-	-	189	4,274
	193,964	198,630	74,169	11,073	15,479	56,428	549,743
<i>Derivative liabilities</i>							
Outflow	-	3,934	32	13	8	-	3,987
Inflow	-	(3,911)	(32)	(12)	(8)	-	(3,963)
	-	23	-	1	-	-	24
Total liabilities	P 193,694	P 198,653	P 74,169	P 11,074	P 15,479	P 56,428	P 549,767
	2016						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
<i>Non-derivative liabilities</i>							
<i>Deposit liabilities</i>							
Demand	P 121,167	P -	P -	P -	P -	P -	P 121,167
Savings	49,321	-	-	-	-	-	49,321
Time	30,206	104,828	42,846	9,913	9,105	11,291	208,189
	200,694	104,828	42,846	9,913	9,105	11,291	378,677
Bills payable	1	41,037	2,958	98	1,108	3,389	48,591
Notes payable	-	-	97	97	194	8,071	8,459
Manager's checks	6,177	-	-	-	-	-	6,177
Accrued interest payable	-	605	-	-	-	-	605
Accounts payable	-	2,144	-	-	-	-	2,144
Other liabilities	-	5,729	-	-	-	179	5,908
	206,872	154,343	45,901	10,108	10,407	22,930	450,561
<i>Derivative liabilities</i>							
Outflow	-	6,198	45	-	-	-	6,243
Inflow	-	(6,063)	(44)	-	-	-	(6,107)
	-	135	1	-	-	-	136
Total liabilities	P 206,872	P 154,478	P 45,902	P 10,108	P 10,407	P 22,930	P 450,697

Parent Bank

	2017						Total
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	
<i>Non-derivative liabilities</i>							
<i>Deposit liabilities</i>							
Demand	P 128,049	P -	P -	P -	P -	P -	P 128,049
Savings	55,738	-	-	-	-	-	55,738
Time	<u>64</u>	<u>128,491</u>	<u>66,569</u>	<u>7,820</u>	<u>6,498</u>	<u>8,670</u>	<u>218,112</u>
	183,851	128,491	66,659	7,820	6,498	8,670	401,899
Bills payable	-	26,577	2,301	7	161	49	29,095
Notes payable	-	-	97	518	615	36,013	37,243
Manager's checks	8,677	-	-	-	-	-	8,677
Accrued interest payable	-	793	-	-	-	-	793
Accounts payable	-	2,367	-	-	-	-	2,367
Other liabilities	-	<u>4,084</u>	-	-	-	<u>187</u>	<u>4,271</u>
	<u>192,528</u>	<u>162,312</u>	<u>69,057</u>	<u>8,345</u>	<u>7,274</u>	<u>44,919</u>	<u>484,345</u>
<i>Derivative liabilities</i>							
Outflow	-	3,934	32	13	8	-	3,987
Inflow	-	(3,911)	(32)	(12)	(8)	-	(3,963)
	-	<u>23</u>	-	<u>1</u>	-	-	<u>24</u>
Total liabilities	<u>P 192,528</u>	<u>P 162,335</u>	<u>P 69,057</u>	<u>P 8,346</u>	<u>P 7,274</u>	<u>P 44,919</u>	<u>P 484,369</u>
2016							
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
<i>Non-derivative liabilities</i>							
<i>Deposit liabilities</i>							
Demand	P 121,867	P -	P -	P -	P -	P -	P 121,867
Savings	47,153	-	-	-	-	-	47,153
Time	<u>29,953</u>	<u>69,564</u>	<u>39,488</u>	<u>9,572</u>	<u>7,783</u>	<u>3,694</u>	<u>160,054</u>
	198,973	69,564	39,488	9,572	7,783	3,694	329,074
Bills payable	-	36,301	2,889	18	26	57	39,291
Notes payable	-	-	97	97	194	8,071	8,459
Manager's checks	6,177	-	-	-	-	-	6,177
Accrued interest payable	-	491	-	-	-	-	491
Accounts payable	-	1,875	-	-	-	-	1,875
Other liabilities	-	<u>5,727</u>	-	-	-	<u>178</u>	<u>5,905</u>
	<u>205,150</u>	<u>113,958</u>	<u>42,474</u>	<u>9,687</u>	<u>8,003</u>	<u>12,000</u>	<u>391,272</u>
<i>Derivative liabilities</i>							
Outflow	-	6,198	45	-	-	-	6,243
Inflow	-	(6,063)	(44)	-	-	-	(6,107)
	-	<u>135</u>	<u>1</u>	-	-	-	<u>136</u>
Total liabilities	<u>P 205,150</u>	<u>P 114,093</u>	<u>P 42,475</u>	<u>P 9,687</u>	<u>P 8,003</u>	<u>P 12,000</u>	<u>P 391,408</u>

All derivative liabilities for both the Group and Parent Bank in 2017 and 2016 pertain to foreign currency forwards.

4.5 *Market Risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading book or banking book. The market risk for the trading portfolio is managed and monitored based on a Value-at-Risk (VaR) methodology. Meanwhile, the market risk for the non-trading positions are managed and monitored using other sensitivity analyses.

The Group applies a VaR methodology to assess the market risk of positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Group uses the parametric VaR approach in assessing the possible changes in the market value of investment securities based on historical data for a rolling one year period. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption.

VaR may also be underestimated or overestimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

The VaR figures are backtested daily against actual and hypothetical profit and loss of the trading book to validate the robustness of the VaR model. To supplement the VaR, the Group performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Group's VaR model.

Since VaR is an integral part of the Group's market risk management, VaR limits are established annually for all financial trading activities and exposures against the VaR limits and are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Group.

A summary of the Group's VaR position at December 31, 2017 and 2016 follows (amounts in millions of Philippine pesos):

	<u>Foreign</u>	<u>Interest</u>	<u>Equity</u>	<u>Total VaR</u>	
	<u>Exchange</u>	<u>Rate</u>			
2017	P	13.2	P -	P 196.0	P 209.2
Average daily		15.9	3.3	204.0	223.3
Highest		39.9	16.3	215.4	256.5
Lowest		3.8	-	152.5	161.7
2016	P	8.1	P 2.9	P 161.3	P 172.3
Average daily		14.9	14.4	167.1	196.5
Highest		52.6	78.7	179.9	273.7
Lowest		4.9	2.2	152.3	169.4

The high and low of the total portfolio may not equal to the sum of the individual components as the highs and lows of the individual portfolios may have occurred on different trading days. The VaR for foreign exchange is the foreign exchange risk throughout the Parent Bank.

4.6 Interest Rate Risk

A critical element of the Group's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income and ensuring that the exposure in interest rates is kept within acceptable limits.

The Group employs "gap analysis" to measure the interest rate sensitivity of its assets and liabilities, also known as Earnings-at-Risk (EaR). This sensitivity analysis is performed at least every quarter. The EaR measures the impact on the net interest income for any mismatch between the amounts of interest-earning assets and interest-bearing liabilities within a one-year period. The EaR is calculated by first distributing the interest sensitive assets and liabilities into tenor buckets based on time remaining to the next repricing date or the time remaining to maturity if there is no repricing and then subtracting the liabilities from the assets to obtain the repricing gap. The repricing gap per tenor bucket is then multiplied by the assumed interest rate movement and appropriate time factor to derive the EaR per tenor. The total EaR is computed as the sum of the EaR per tenor within one year. To manage the interest rate risk exposure, BOD-approved EaR limits were established.

Non-maturing or repricing assets or liabilities are considered to be non-interest rate sensitive and are not included in the measurement.

A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities while a negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an entity with a positive gap will have more interest rate sensitive assets repricing at a higher interest rate than interest rate sensitive liabilities which will be favorable to it. During a period of falling interest rates, an entity with a positive gap will have more interest rate sensitive assets repricing at a lower interest rate than interest rate sensitive liabilities, which will be unfavorable to it.

The asset-liability gap position of the Group and Parent Bank at carrying amounts follows (amounts in millions of Philippine pesos):

Group

	2017			
	<u>Up to Six Months</u>	<u>Beyond Six Months to One Year</u>	<u>Beyond One Year</u>	<u>Total</u>
<i>Resources</i>				
Loans	P 102,288	P 26,362	P 151,981	P 280,631
Placements	61,425	-	64,165	125,590
Investments	801	-	168,897	169,698
Other financial assets	<u>289</u>	<u>63</u>	<u>52</u>	<u>404</u>
	<u>164,803</u>	<u>26,425</u>	<u>385,095</u>	<u>576,323</u>
<i>Liabilities</i>				
Deposit liabilities	239,684	7,188	200,744	447,616
Bills payable	33,180	7,161	2,730	43,071
Notes payable	<u>-</u>	<u>-</u>	<u>32,165</u>	<u>32,165</u>
	<u>272,864</u>	<u>14,349</u>	<u>235,639</u>	<u>522,852</u>
Asset-Liability Gap	<u>(P 108,061)</u>	<u>P 12,076</u>	<u>P 149,456</u>	<u>P 53,471</u>
2016				
	<u>Up to Six Months</u>	<u>Beyond Six Months to One Year</u>	<u>Beyond One Year</u>	<u>Total</u>
<i>Resources</i>				
Loans	P 151,354	P 25,190	P 58,842	P 235,386
Placements	71,775	-	51,164	122,939
Investments	<u>-</u>	<u>850</u>	<u>120,762</u>	<u>121,612</u>
	<u>223,129</u>	<u>26,040</u>	<u>230,768</u>	<u>479,937</u>
<i>Liabilities</i>				
Deposit liabilities	187,133	8,881	180,471	376,485
Bills payable	43,777	1,093	3,230	48,100
Notes payable	<u>-</u>	<u>-</u>	<u>7,200</u>	<u>7,200</u>
	<u>230,910</u>	<u>9,974</u>	<u>190,901</u>	<u>431,785</u>
Asset-Liability Gap	<u>(P 7,781)</u>	<u>P 16,066</u>	<u>P 39,867</u>	<u>P 48,152</u>

Parent Bank

	2017			
	Up to Six Months	Beyond Six Months to One Year	Beyond One Year	Total
<i>Resources</i>				
Loans	P 81,963	P 15,952	P 114,061	P 211,976
Placements	58,586	-	60,248	118,834
Investments	801	-	168,845	169,646
	<u>141,350</u>	<u>15,952</u>	<u>343,154</u>	<u>500,456</u>
<i>Liabilities</i>				
Deposit liabilities	201,984	6,317	191,673	399,974
Bills payable	28,799	162	49	29,010
Notes payable	-	-	32,165	32,165
	<u>230,783</u>	<u>6,479</u>	<u>223,887</u>	<u>461,149</u>
Asset-Liability Gap	<u>(P 89,433)</u>	<u>P 9,473</u>	<u>P 119,267</u>	<u>P 39,307</u>
	2016			
	Up to Six Months	Beyond Six Months to One Year	Beyond One Year	Total
<i>Resources</i>				
Placements	P 70,715	P -	P 47,268	P 117,983
Loans	136,337	14,796	20,788	171,921
Investments	-	850	120,707	121,557
	<u>207,052</u>	<u>15,646</u>	<u>188,763</u>	<u>411,461</u>
<i>Liabilities</i>				
Deposit liabilities	147,964	7,585	172,490	328,039
Bills payable	39,084	26	57	39,167
Notes payable	-	-	7,200	7,200
	<u>187,048</u>	<u>7,611</u>	<u>179,747</u>	<u>374,406</u>
Asset-Liability Gap	<u>P 20,004</u>	<u>P 8,035</u>	<u>P 9,016</u>	<u>P 37,055</u>

The Parent Bank's maturing financial liabilities within the one to six month period pertain to time deposits as well as bills payable due to banks and other financial institutions. Maturing bills payable are usually settled through repayments. When maturing financial assets are not sufficient to cover the related maturing financial liabilities, the bills payable and other currently maturing financial liabilities are rolled over/refinanced or are settled by entering into new borrowing arrangements with other counterparties.

The following table sets out, the impact of changes in interest rates on the Group's and Parent Bank's net interest income (amounts in millions of Philippine pesos).

	<u>Group</u>		<u>Parent Bank</u>	
	<u>100</u>	<u>(100)</u>	<u>100</u>	<u>(100)</u>
Change in interest rates (in basis points)				
2017				
Change in annualized net interest income	(P 1,243.9)	P 1,243.9	(P 993.0)	P 993.0
As a percentage of net interest income	(7.1%)	7.1%	(7.4%)	7.4%
2016				
Change in annualized net interest income	(P 294.4)	P 294.4	(P 5.4)	P 5.4
As a percentage of net interest income	(2.0%)	2.0%	0.0%	0.0%

This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income may vary from the Bank's internal model.

4.7 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates.

The Group's net foreign exchange exposure, taking into account any spot or forward exchange contracts, is computed as foreign currency assets less foreign currency liabilities. The foreign exchange exposure is limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches, as well as foreign exchange trading with corporate accounts and other financial institutions. The Group is permitted to engage in proprietary trading to take advantage of foreign exchange fluctuations.

The breakdown of the financial resources and financial liabilities of the Group and Parent Bank as to foreign currency-denominated balances, translated to Philippine pesos as of December 31, 2017 and 2016 is shown below.

	<u>2017</u>		
	<u>U.S. Dollars</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
<i>Resources:</i>			
Cash and other cash items	P 551,642	P 163,435	P 715,077
Due from other banks	50,579,934	2,449,693	53,029,627
Interbank loans receivables	4,793,280	-	4,793,280
Financial assets at FVTPL	52,917	-	52,917
Financial assets at amortized cost	106,618,631	421,183	107,039,814
Loans and other receivables	<u>10,829,857</u>	<u>12,829</u>	<u>10,842,686</u>
	<u>173,426,261</u>	<u>3,047,140</u>	<u>176,473,401</u>
<i>Liabilities:</i>			
Deposit liabilities	105,604,603	2,848,048	108,452,651
Bills payable	28,953,460	6,951	28,960,411
Notes payable	24,965,000	-	24,965,000
Derivative liabilities	6,742	-	6,742
Accrued interest and other expenses	355,778	495	356,273
Other liabilities	<u>365,901</u>	<u>72,563</u>	<u>438,464</u>
	<u>160,251,484</u>	<u>2,928,057</u>	<u>163,179,541</u>
Currency swaps and forwards	(12,640,760)	(115,203)	(12,755,963)
Net exposure	<u>P 534,017</u>	<u>P 3,880</u>	<u>P 537,897</u>
	<u>2016</u>		
	<u>U.S. Dollars</u>	<u>Other Foreign Currencies</u>	<u>Total</u>
<i>Resources:</i>			
Cash and other cash items	P 409,160	P 36,536	P 445,696
Due from other banks	39,153,372	1,953,494	41,106,866
Interbank loans receivables	24,362,800	-	24,362,800
Financial assets at FVTPL	942,257	-	942,257
Financial assets at amortized cost	73,400,273	363,798	73,764,071
Loans and other receivables	<u>10,713,586</u>	<u>11,188</u>	<u>10,724,774</u>
	<u>148,981,448</u>	<u>2,365,016</u>	<u>151,346,464</u>
<i>Liabilities:</i>			
Deposit liabilities	95,435,562	2,199,446	97,635,008
Bills payable	39,102,076	6,110	39,108,186
Derivative liabilities	4,471	-	4,471
Accrued interest and other expenses	237,586	567	238,153
Other liabilities	<u>979,707</u>	<u>75,420</u>	<u>1,055,127</u>
	<u>135,759,402</u>	<u>2,281,543</u>	<u>138,040,945</u>
Currency swaps and forwards	(13,098,723)	(138,918)	(13,237,641)
Net exposure	<u>P 123,323</u>	<u>(P 55,445)</u>	<u>P 67,878</u>

The Bank's foreign currency position for BSP reporting purposes is determined by also considering the foreign currency position of non-financial assets and non-financial liabilities that are denominated in foreign currencies, such as sundry debits, due from head office and branches, sundry credits and other dormant credits. The Bank's net foreign currency exposure for BSP reporting, which is required to be presented in aggregate net U.S. dollar amounts and translated to Philippine pesos, as of December 31, 2017 and 2016 follows:

	<u>2017</u>	<u>2016</u>
In U.S. dollars	<u>\$ 11,315</u>	<u>\$ 643</u>
In Philippine pesos	<u>P 564,958</u>	<u>P 31,970</u>

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

The following tables illustrate the sensitivity of the net results and capital funds to the changes in foreign exchange rates on the Group's financial assets and financial liabilities. The percentages change (increase and decrease) have been determined based on the average market volatility in exchange rates in the previous 12 months, using a confidence level of 99%. The sensitivity analysis is based on the Group's and the Parent Bank's foreign currency-denominated financial instruments held at each reporting date, including currency swaps and forwards.

	<u>2017</u>		<u>2016</u>	
	<u>% change</u>	<u>Effect on net profit for the year</u>	<u>% change</u>	<u>Effect on net profit for the year</u>
U.S. dollars	0.5%	P 2,670	1.0%	P 1,276
Japanese yen	1.5%	28	2.5%	42
Euros	1.5%	357	1.5%	580
Others	1.3%	(745)	1.7%	(1,941)

4.8 Operational Risk

To standardize the practice and to conform to international standards, the Parent Bank has adopted the Basel Committee's definition of operational risk. This is formalized in the Parent Bank's approved Operational Risk Management Framework. Operational risk is the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events. This definition also covers legal risk as well as, the risk arising from dealings with Outsourced Service Providers (OSPs) and the use of technology-related products, services, delivery channels, and processes. This definition excludes strategic and reputational risk.

Each specific unit of the Parent Bank has its roles and responsibilities in the management of operational risk and these are clearly stated in the operational risk management framework. At the BOD level, an ORMC was formed to provide overall direction in the management of operational risk, aligned with the overall business objectives.

The ORMC covers the following areas of concern:

- (a) The adequacy of the Parent Bank's policies, procedures, organization and resources for preventing, or limiting the damage from unexpected loss due to deficiencies in information systems, business, operational and management processes, employee skills and supervision, equipment and internal controls.
- (b) Results of periodic or special risk assessments conducted in various businesses, operating units, products and information systems of the Parent Bank, to proactively uncover operational and information technology risks that may result to actual loss or damage to the Parent Bank.
- (c) Summarized results of internal audits, BSP examinations and investigation of administrative cases that highlight trends indicative of present or emerging exposures to specific operational risks.
- (d) Regulatory compliance issues, whether currently existing, or anticipated to arise as a result of new laws or regulations.
- (e) Business continuity strategies, plans, and resources.

An Operational Risk Management Unit (ORMU) was formed and given the mandate to build and lead the roadmap in developing the foundations and systems necessary for the effective implementation of an Operational Risk Management Framework. The ORMU, together with all other Risk Units, reports directly to the Chief Risk Officer.

In managing products, services and systems, these are implemented only after a thorough operational and technical risk evaluation. As part of the product and systems approval process, product managers ensure that risks are clearly identified and adequately controlled and mitigated. For existing products, services and systems, regular reviews are conducted and controls are assessed to determine continued effectiveness. The Parent Bank, as part of its continuing effort to manage operational risk, has ensured that the basic controls to manage exposure to operational risk have been embedded in its processes.

For all technology-related activities and initiatives, the Parent Bank has a board level Technology Steering Committee (TSC) to provide oversight function. It is composed of seven members, two (2) of whom are members of the Bank's BOD while five (5) are Senior Management officers from both the business and the operational units, thereby allowing a comprehensive and high-level guidance on technology-related issues that may impact the Parent Bank. The Parent Bank has developed and implemented a Business Continuity Plan to give assurance that Bank services will continue in the event of disasters or unforeseen circumstances.

4.9 Legal Risk and Regulatory Risk Management

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory compliance risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws, monetary, tax or other governmental regulations of the country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Chief Compliance and Corporate Governance Officer. The Chief Compliance and Corporate Governance Officer is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing and regularly reporting to the CGC and the BOD.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

As the Bank's lead regulator, the BSP sets and monitors capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets, known as the "capital adequacy ratio" (CAR). Risk-weighted assets is the aggregate value of assets weighted by credit risk, market risk, and operational risk, based on BSP-prescribed formula provided under BSP Circular No. 360 and BSP Circular No. 538 which contain the implementing guidelines for the revised risk-based capital adequacy framework to conform to Basel II recommendations.

Effective January 1, 2014, the BSP has adopted the new risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for the Philippine banking system in accordance with the Basel III standards through BSP Circular No. 781. The adopted Basel III risk-based capital adequacy framework requires the Group to maintain:

- (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 Group's and the Parent Bank's regulatory capital position as of December 31, 2017 and 2016, as reported to the BSP, follow (amounts in millions):

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Common Equity Tier 1 Capital				
Paid-up common stock	P 10,583	P 10,583	P 10,583	P 10,583
Additional paid in capital	5,820	5,820	5,820	5,820
Surplus free	45,062	37,629	45,062	37,629
Undivided profits	7,603	9,318	7,202	9,055
Other comprehensive income	(911)	(736)	(894)	(754)
Minority interest in financial allied subsidiary	<u>44</u>	<u>28</u>	<u>-</u>	<u>-</u>
Sub-total	<u>68,201</u>	<u>62,642</u>	<u>67,773</u>	<u>62,333</u>
Less Regulatory Adjustments:				
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates	213	195	149	136
Deferred income tax	4,443	4,492	3,782	3,811
Goodwill	11,331	11,331	7,887	7,887
Other intangible assets	731	628	640	529
Investments in equity of consolidated subsidiary banks and quasi banks, and other financial allied undertakings	-	-	16,786	13,548
Other equity investments in non-financial allied and non-allied undertakings	<u>853</u>	<u>543</u>	<u>853</u>	<u>543</u>
Total regulatory adjustments to Common Equity Tier 1 capital	<u>17,571</u>	<u>17,189</u>	<u>30,097</u>	<u>26,454</u>
Total Common Equity Tier 1 capital	<u>P 50,630</u>	<u>P 45,453</u>	<u>P 37,676</u>	<u>P 35,879</u>
Total Tier 1 capital	<u>P 50,630</u>	<u>P 45,453</u>	<u>P 37,676</u>	<u>P 35,879</u>
Tier 2 Capital				
General loan loss provision	P 2,524	P 2,392	P 2,000	P 1,823
Unsecured subordinated debt	<u>7,200</u>	<u>7,200</u>	<u>7,200</u>	<u>7,200</u>
Total Tier 2 capital	<u>9,724</u>	<u>9,592</u>	<u>9,200</u>	<u>9,023</u>
Net Tier 1 capital	50,630	45,453	37,676	35,879
Net Tier 2 capital	<u>9,724</u>	<u>9,592</u>	<u>9,200</u>	<u>9,023</u>
Total qualifying capital	<u>P 60,354</u>	<u>P 55,045</u>	<u>P 46,876</u>	<u>P 44,902</u>

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Credit risk-weighted assets	P 376,145	P 312,803	P 314,104	P 251,648
Market risk-weighted assets	7,691	6,459	7,691	6,459
Operational risk-weighted assets	<u>35,307</u>	<u>31,281</u>	<u>25,563</u>	<u>25,077</u>
Total risk-weighted assets	<u>P 419,143</u>	<u>P 350,543</u>	<u>P 347,358</u>	<u>P 283,184</u>
Capital ratios:				
Total regulatory capital expressed as percentage of total risk weighted assets	<u>14.40%</u>	<u>15.70%</u>	<u>13.50%</u>	<u>15.86%</u>
Total Tier 1 expressed as percentage of total risk-weighted assets	<u>12.08%</u>	<u>12.97%</u>	<u>10.85%</u>	<u>12.67%</u>
Total Common Equity Tier 1 expressed as percentage of total risk-weighted assets	<u>12.08%</u>	<u>12.97%</u>	<u>10.85%</u>	<u>12.67%</u>
Conservation buffer	<u>6.08%</u>	<u>6.97%</u>	<u>4.85%</u>	<u>6.67%</u>

The Group has fully complied with the CAR requirements of the BSP.

The breakdown of credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets follow (in millions):

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
On-books assets	P 371,439	P 309,521	P 309,398	P 248,366
Off-books assets	2,917	3,204	2,917	3,204
Counterparty risk-weighted assets in the banking books	1,542	-	1,542	-
assets in the trading books	<u>247</u>	<u>78</u>	<u>247</u>	<u>78</u>
Total Credit Risk-Weighted Assets	<u>P 376,145</u>	<u>P 312,803</u>	<u>P 314,104</u>	<u>P 251,648</u>
Capital Requirements	<u>P 37,615</u>	<u>P 31,280</u>	<u>P 31,410</u>	<u>P 25,165</u>
Interest rate exposures	P 156	P 997	P 156	P 997
Equity exposures	5,288	5,314	5,288	5,314
Foreign exchange exposures	<u>2,247</u>	<u>148</u>	<u>2,247</u>	<u>148</u>
Total Market Risk-Weighted Assets	<u>P 7,691</u>	<u>P 6,459</u>	<u>P 7,691</u>	<u>P 6,459</u>
Capital Requirements	<u>P 769</u>	<u>P 646</u>	<u>P 769</u>	<u>P 646</u>
Total Operational Risk-Weighted Assets - Basic indicator	<u>P 35,307</u>	<u>P 31,281</u>	<u>P 25,563</u>	<u>P 25,077</u>
Capital Requirements	<u>P 3,531</u>	<u>P 3,128</u>	<u>P 2,556</u>	<u>P 2,508</u>

The total credit exposure broken down by type of exposures and risk weights follow (in millions):

Group

	2017					Total Credit Risk Weighted Assets
	Total Credit Risk Exposure	Total Credit Risk Exposure after Risk Mitigation	0%-50%	75%-100%	150%	
Risk-Weighted On-Books Assets						
Cash on hand	P 6,622	P 6,622	P 6,622	P -	P -	P -
Checks and other cash items	9	9	9	-	-	2
Due from BSP	66,278	66,278	66,278	-	-	-
Due from other banks	54,534	54,532	53,656	8,779	-	23,840
Financial assets at FVTPL	1	1	-	1	-	1
Financial assets at FVOCI	44	44	-	44	-	44
Financial assets at amortized cost	169,992	166,769	136,880	29,889	-	61,957
UDSCL	406	406	58	348	-	348
Loans and receivables	266,462	266,229	12,631	250,517	3,081	257,702
SPURRA	13,572	10,270	10,270	-	-	-
Sales contract receivable (SCR)	1,097	1,097	-	245	852	1,523
ROPA	4,916	4,916	-	-	4,916	7,373
Other assets	18,086	18,086	155	17,930	-	17,930
Total risk-weighted on-books assets not covered by CRM	602,019	595,259	286,559	307,753	8,849	370,720
Total risk-weighted on-books assets covered by CRM	-	6,760	6,760	-	-	719
	P 602,019	P 602,019	P 293,319	P 307,753	P 8,849	P 371,439
Risk-Weighted Off-Books Assets						
Direct credit substitutes (e.g., general guarantee of indebtedness and acceptances)	P 1,199	P -	P -	P 1,199	P -	P 1,199
Transaction-related contingencies (e.g., performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	2,404	-	-	1,202	-	1,202
Trade-related contingencies arising from movements of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one year	2,581	-	-	516	-	516
	P 6,184	P -	P -	P 2,917	P -	P 2,917
Counterparty Risk-Weighted Assets in the Banking Books						
Repo-style Exposure	P 25,925	P 3,951	P 3,951	P -	P -	P 1,542
Counterparty Risk-Weighted Assets in the Trading Books						
Exchange Rate Contracts	P 15,531	P 4,634	P 332	P 132	P -	P 247
Total	P 649,659	P 610,604	P 297,602	P 310,802	P 8,849	P 376,145
2016						
	Total Credit Risk Exposure	Total Credit Risk Exposure after Risk Mitigation	0%-50%	75%-100%	150%	Total Credit Risk Weighted Assets
Risk-Weighted On-Books Assets						
Cash on hand	P 6,010	P 6,010	P 6,010	P -	P -	P -
Checks and other cash items	15	15	15	-	-	3
Due from BSP	56,155	56,155	56,155	-	-	-
Due from other banks	42,420	42,420	38,453	3,967	-	19,440
Financial assets at FVTPL	1	1	-	-	-	1
Financial assets at FVOCI	44	44	-	44	-	44
Financial assets at amortized cost	120,506	118,654	102,267	16,387	-	40,835
UDSCL	606	606	258	348	-	348
Loans and receivables	250,262	249,866	32,055	216,136	1,674	225,466
SPURRA	4,240	848	848	-	-	-
Sales contract receivable (SCR)	1,267	1,267	-	299	968	1,751
ROPA	5,062	5,062	-	-	5,062	7,594
Other assets	13,477	13,477	-	13,477	-	13,477
Total risk-weighted on-books assets not covered by CRM	500,065	494,425	236,061	250,658	7,704	308,959
Total risk-weighted on-books assets covered by CRM	-	562	1,118	3	-	562
	P 500,065	P 494,987	P 237,179	P 250,661	P 7,704	P 309,521

	2016					Total Credit Risk Weighted Assets
	Total Credit Risk Exposure	Total Credit Risk Exposure after Risk Mitigation	0%-50%	75%-100%	150%	
Risk-Weighted Off-Books Assets						
Direct credit substitutes (e.g., general guarantee of indebtedness and acceptances)	P 960	P -	P -	P 960	P -	P 960
Transaction-related contingencies (e.g., performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	2,077	-	-	1,038	-	1,038
Trade-related contingencies arising from movements of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one year	6,029	-	-	1,206	-	1,206
	<u>P 9,066</u>	<u>P -</u>	<u>P -</u>	<u>P 3,204</u>	<u>P -</u>	<u>P 3,204</u>
Counterparty Risk-Weighted Assets in the Trading Books						
Exchange Rate Contracts	P 10,718	P -	P 118	P 27	P -	P 78
Total	<u>P 519,849</u>	<u>P 494,987</u>	<u>P 237,297</u>	<u>P 253,892</u>	<u>P 7,704</u>	<u>P 312,803</u>

Parent Bank

	2017					Total Credit Risk Weighted Assets
	Total Credit Risk Exposure	Total Credit Risk Exposure after Risk Mitigation	0%-50%	75%-100%	150%	
Risk-Weighted On-Books Assets						
Cash on hand	P 6,249	P 6,249	P 6,249	P -	P -	-
Due from BSP	60,351	60,351	60,351	-	-	-
Due from other banks	53,690	53,690	53,656	35	-	22,995
Financial assets through other comprehensive income	44	44	-	44	-	44
Financial assets at amortized cost	169,992	166,768	136,880	29,888	-	61,957
Loans and receivables	209,415	209,182	12,627	195,409	1,147	199,737
SPURRA	4,130	826	826	-	-	-
SCR	1,097	1,097	-	245	-	1,523
ROPA	4,831	4,831	-	-	4,831	7,247
Other assets	15,176	15,176	-	15,176	-	15,176
Total risk-weighted on-books assets not covered by CRM	524,975	518,214	270,589	240,797	6,830	308,679
Total risk-weighted on-books assets covered by CRM	-	6,760	6,760	-	-	719
	<u>P 524,975</u>	<u>P 524,974</u>	<u>P 277,349</u>	<u>P 240,797</u>	<u>P 6,830</u>	<u>P 309,398</u>
Risk-Weighted Off-Books Assets						
Direct credit substitutes (e.g. general guarantee of indebtedness and acceptances)	P 1,199	P -	P -	P 1,199	P -	P 1,199
Transaction-related contingencies (e.g., performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	2,404	-	-	1,202	-	1,202
Trade-related contingencies arising from movements of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year	2,581	-	-	516	-	516
	<u>P 6,184</u>	<u>P -</u>	<u>P -</u>	<u>P 2,917</u>	<u>P -</u>	<u>P 2,917</u>
Counterparty Risk-Weighted Assets in the Banking Books						
Repo-style Exposure	P 25,925	P 3,951	P 3,951	P -	P -	P 1,542
Counterparty Risk-weighted Assets in the Trading Books						
Exchange Rate Contracts	P 15,532	P 464	P 331	P 132	P -	P 247
Total Credit Risk-Weighted Assets	<u>P 572,616</u>	<u>P 529,389</u>	<u>P 281,631</u>	<u>P 243,846</u>	<u>P 6,830</u>	<u>P 314,104</u>

	2016					Total Credit Risk Weighted Assets
	Total Credit Risk Exposure	Total Credit Risk Exposure after Risk Mitigation	0%-50%	75%-100%	150%	
Risk-Weighted On-Books Assets						
Cash on hand	P 5,631	P 5,631	P 5,631	P -	P -	P -
Checks and other cash items	2	2	3	-	-	-
Due from BSP	52,211	52,211	52,211	-	-	-
Due from other banks	41,410	41,410	38,453	2,958	-	18,431
Financial assets through other comprehensive income	44	44	-	44	-	44
Financial assets at amortized cost	120,506	118,654	102,267	16,387	-	40,835
Loans and receivables	193,412	193,017	32,052	160,047	917	168,240
SCR	1,267	1,267	-	299	968	1,751
ROPA	5,062	5,062	-	-	5,062	7,593
Other assets	10,910	10,910	-	10,910	-	10,910
Total risk-weighted on-books assets not covered by CRM	430,455	428,208	230,617	190,645	6,947	247,804
Total risk-weighted on-books assets covered by CRM	-	2,247	2,244	3	-	562
	P 430,455	P 430,455	P 232,861	P 190,648	P 6,947	P 248,366
Risk-Weighted Off-Books Assets						
Direct credit substitutes (e.g. general guarantee of indebtedness and acceptances)	P 960	P -	P -	P 960	P -	P 960
Transaction-related contingencies (e.g., performance bonds, bid bonds, warranties and stand-by LCs related to particular transactions)	2,077	-	-	1,038	-	1,038
Trade-related contingencies arising from movements of goods (e.g., documentary credits collateralized by the underlying shipments) and commitments with an original maturity of up to one (1) year	6,029	-	-	1,206	-	1,206
	P 9,066	P -	P -	P 3,204	P -	P 3,204
Counterparty Risk-weighted Assets in the Trading Books						
Exchange Rate Contracts	P 10,718	P -	P 118	P 27	P -	P 78
Total	P 450,239	P 430,455	P 232,979	P 193,879	P 6,947	P 251,648

Risk weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government and those guarantors and exposures with the highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and Philratings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporations and Corporates.

5.2 Minimum Capital Requirement

Under the relevant provisions of current BSP regulations, the required minimum capitalization of a universal bank is P20.0 billion both as of December 31, 2017 and 2016. As of those dates, the Bank is in compliance with these regulations.

5.3 Ensuring Sufficient Capital

On January 15, 2009, the BSP issued Circular No. 639, which articulates 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, as well as maintain capital adequate to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which only covers credit, market and operational risks. On December 29, 2009, the BSP issued Circular No. 677 that effectively extends the implementation of the ICAAP from January 2010 to January 2011.

Cognizant of the importance of a strong capital base to meet strategic and regulatory requirements, the Bank has adopted a robust ICAAP on a group-wide level that is consistent with its risk philosophy and risk appetite. The ICAAP Document embodies the Bank's risk philosophy, risk appetite, and risk governance framework and structure, and integrates these with: (a) the Bank's strategic objectives and long-term strategies called FOCUS 2020; (b) the five-year financial and business plans; and, (c) the capital plan and dividend policy.

The ICAAP's objective is to ensure that the BOD and Senior Management actively and promptly identify and manage the material risks arising from the general business environment, and that an appropriate level of capital is maintained to cover these risks. To test the adequacy of its capital even under difficult conditions, the Bank conducts regular stress testing to assess the effects of extreme but plausible events on its capital. The results are thoroughly discussed during Risk Management Committee meetings, and reported to the Board. In the course of its discussions, the BOD and Senior Management may request for additional stress testing scenarios or revisions to the test assumptions in order to better align these to current trends and forecasts.

The Bank has a cross-functional ICAAP technical team, comprised of representatives from the core risk management units – credit, market, operational, information technology, and emerging risks; corporate planning; financial controllership; treasury; internal audit; and compliance. This ensures a well-coordinated approach to the development, documentation, implementation, review, improvement, and maintenance of the various sub-processes included in the ICAAP. The key members of the ICAAP technical team are enrolled in further training as well as various fora and briefings to enhance their knowledge and expertise particularly on the subjects of ICAAP, Basel II and III, and their interface with International Financial Reporting Standard.

On January 15, 2013, the BSP issued Circular No. 781, which specifies the implementing guidelines on the revised risk-based capital adequacy framework in accordance with the Basel III standards, applicable to universal and commercial banks as well as their subsidiary banks and quasi-banks effective January 1, 2014. Beginning 2013, the Bank's ICAAP Document considered the possible impact of Basel III implementation on the eligibility of unsubordinated notes as qualifying capital and the changes in composition of qualifying capital.

On January 8, 2013, the BOD approved the purchase of CSB, aligned with the Bank's long-term strategy of building asset businesses based on consumers. With the materiality of CSB's assets in relation to the entire Group and the former's expansion plans, the Bank's ICAAP Document showed the results of scenario analyses on a solo and consolidated basis.

The BSP, on October 29, 2014, issued Circular No. 856 that requires banks identified as Domestic Systemically Important Banks (D-SIBs) to comply with a higher loss absorbency (HLA) requirement on top of the common equity tier 1 and capital conservation buffer to increase going concern loss absorbency and reduce extent or impact of failure on the domestic economy. The HLA requirement will be phased-in from January 1, 2017 with full implementation by January 1, 2019. For the purposes of the ICAAP Document submitted starting 2016, the Bank included in the assessment the implications of the circular to its capital targets.

On March 10, 2016, BSP issued Circular No. 904 that sets out the guidelines that D-SIBs should follow in maintaining a recovery plan for future destabilizing events and/or crises. The Bank's first recovery plan, approved by the BOD in May 2016, was submitted to the BSP in June 2016 as a supplement to the 2016 ICAAP Document. Moving forward, the recovery plan shall form an integral part of the annual ICAAP Document submitted to BSP on or before March 31 of each year. The Bank's Capital Management Manual was also updated and presented to the BOD in June 2016 to align with the D-SIB recovery plan guidelines set by the Circular.

The Bank's ICAAP document is subjected each year to an independent review by the Internal Audit Division (IAD) to provide reasonable assurance that the Bank has met the regulatory requirements. For the 2017 ICAAP document submission, the results of the audit assessment were presented to the Audit Committee and the BOD in May 2017. Based on IAD's assessment of the ICAAP document, its related supporting documents, and existing processes and structures, IAD reported that the Bank has satisfactorily complied with the minimum requirements prescribed in BSP Circular No. 639. Presence of a proper governance and oversight function of the ICAAP, comprehensive risk management framework, and sound capital management process were verified in the audit process. For 2017, the Bank's ICAAP document was submitted to the BSP on March 30, 2017.

6. SEGMENT REPORTING

6.1 Business Segments

The Group's main operating businesses are organized and managed separately according to the nature of products and services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Group in reporting to its chief operating decision-maker for its strategic decision-making activities. The Group's main business segments are as presented in the succeeding pages.

(a) *Consumer Banking*

This segment principally handles individual customers' deposits and provides consumer type loans, such as automobiles and mortgage financing, credit card facilities and funds transfer facilities.

(b) *Corporate and Commercial Banking*

This segment principally handles loans and other credit facilities and deposit and current accounts for corporate, institutional, small and medium enterprises, and middle market customers.

(c) *Treasury*

This segment is principally responsible for managing the Bank's liquidity and funding requirements, and handling transactions in the financial markets covering foreign exchange and fixed income trading and investments and derivatives.

(d) *Headquarters*

This segment includes corporate management, support and administrative units not specifically identified with Consumer Banking, Corporate and Commercial Banking or Treasury.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment resources and liabilities comprise operating resources and liabilities including items such as taxation and borrowings. Revenues and expenses that are directly attributable to a particular business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

6.2 Analysis of Segment Information

Segment information of the Group as of and for the years ended December 31, 2017, 2016 and 2015 follow (in millions):

	<u>Consumer Banking</u>	<u>Corporate and Commercial Banking</u>	<u>Treasury</u>	<u>Headquarters</u>	<u>Total</u>
<u>December 31, 2017</u>					
Results of operations					
Net interest income and other income	P 13,262	P 4,897	P 4,452	P 2,455	P 25,066
Other expenses	(6,743)	(1,475)	(1,183)	(4,103)	(13,504)
Income before impairment losses and income tax	<u>P 6,519</u>	<u>P 3,422</u>	<u>P 3,269</u>	<u>(P 1,648)</u>	11,562
Impairment losses				(876)	(876)
Tax expense				(2,266)	(2,266)
Net income					<u>P 8,420</u>
Segment resources	<u>P 152,942</u>	<u>P 190,458</u>	<u>P 250,591</u>	<u>P 28,120</u>	<u>P 622,111</u>
Segment liabilities	<u>P 248,330</u>	<u>P 127,347</u>	<u>P 123,078</u>	<u>P 49,370</u>	<u>P 548,125</u>
Other information:					
Depreciation and amortization	<u>P 268,871</u>	<u>P 34,202</u>	<u>P 6,125</u>	<u>P 325,704</u>	<u>P 634,902</u>
Capital expenditures	<u>P 449,638</u>	<u>P 135,144</u>	<u>P 14,133</u>	<u>P 645,595</u>	<u>P 1,244,510</u>

	Consumer Banking	Corporate and Commercial Banking	Treasury	Headquarters	Total
<u>December 31, 2016</u>					
Results of operations					
Net interest income and other income	P 12,899	P 4,291	P 7,059	P 1,075	P 25,324
Other expenses	(5,715)	(1,235)	(683)	(4,121)	(11,754)
Income before impairment losses and income tax	<u>P 7,184</u>	<u>P 3,056</u>	<u>P 6,376</u>	<u>(P 3,046)</u>	13,570
Impairment losses					(1,594)
Tax expense					(1,910)
Net income					<u>P 10,066</u>
Segment					
resources	<u>P 134,896</u>	<u>P 157,913</u>	<u>P 203,603</u>	<u>P 28,020</u>	<u>P 524,432</u>
Segment liabilities	<u>P 227,834</u>	<u>P 106,232</u>	<u>P 100,085</u>	<u>P 22,694</u>	<u>P 456,845</u>
Other information:					
Depreciation and amortization	<u>P 341</u>	<u>P 54</u>	<u>P 6</u>	<u>P 315</u>	<u>P 716</u>
Capital expenditures	<u>P 109</u>	<u>P 11</u>	<u>P 1</u>	<u>P 253</u>	<u>P 374</u>
<u>December 31, 2015</u>					
Results of operations					
Net interest income and other income	P 11,192	P 3,990	P 3,821	P 1,185	P 20,189
Other expenses	(5,173)	(1,066)	(687)	(4,435)	(11,362)
Income before impairment losses and income tax	<u>P 6,019</u>	<u>P 2,924</u>	<u>P 3,134</u>	<u>(P 3,250)</u>	8,827
Impairment losses					(659)
Tax expense					(2,151)
Net income					<u>P 6,017</u>
Segment					
resources	<u>P 118,994</u>	<u>P 118,362</u>	<u>P 175,185</u>	<u>P 29,117</u>	<u>P 441,658</u>
Segment liabilities	<u>P 193,405</u>	<u>P 98,289</u>	<u>P 68,583</u>	<u>P 21,891</u>	<u>P 382,168</u>
Other information:					
Depreciation and amortization	<u>P 326</u>	<u>P 53</u>	<u>P 5</u>	<u>P 235</u>	<u>P 619</u>
Capital expenditures	<u>P 314</u>	<u>P 4</u>	<u>P 7</u>	<u>P 315</u>	<u>P 640</u>

7. CATEGORIES, FAIR VALUE MEASUREMENT AND OFFSETTING OF
FINANCIAL ASSETS AND FINANCIAL LIABILITIES

7.1 Comparison of Carrying Amounts and Fair Values

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

Group

	2017			
	Classes		Carrying Amount	Fair Value
	At Amortized Cost	At Fair Value		
Financial Assets				
At amortized cost				
Cash and other cash items	P 6,633,237	P -	P 6,633,237	P 6,633,237
Due from BSP	66,276,960	-	66,276,960	66,276,960
Due from other banks	54,520,482	-	54,520,482	54,520,482
Interbank loans receivable	4,793,280	-	4,793,280	4,793,280
Financial assets at				
amortized cost	166,471,659	-	166,471,659	161,669,316
Loans and other receivables	281,034,759	-	281,034,759	281,068,917
Trust fund assets	1,881,808	-	1,881,808	1,881,808
Returned checks and other cash items	260,780	-	260,780	260,780
At fair value				
Financial assets at FVTPL	-	3,182,040	3,182,040	3,182,040
Financial assets at FVOCI	-	43,783	43,783	43,783
Trust fund assets	-	1,886,861	1,886,861	1,886,861
Financial Liabilities				
At amortized cost				
Deposit liabilities	447,616,213	-	447,616,213	447,599,503
Bills payable	43,070,825	-	43,070,825	43,070,825
Notes payable	32,165,000	-	32,165,000	32,013,570
Manager's checks	8,676,900	-	8,676,900	8,676,900
Bills purchased – domestic and foreign	3,463,370	-	3,463,370	3,463,370
Accounts payable	2,853,536	-	2,853,536	2,853,536
Accrued interest payable	941,243	-	941,243	941,243
Payment orders payable	430,508	-	430,508	430,508
Due to Treasurer of the Philippines	3,005	-	3,005	3,005
At fair value				
Derivatives with negative fair values	-	23,684	23,684	23,684

		2016			
		Classes			
		At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
<i>Financial Assets</i>					
At amortized cost					
Cash and other cash items	P	6,021,358	P -	P 6,021,358	P 6,021,358
Due from BSP		56,151,239	-	56,151,239	56,151,239
Due from other banks		42,425,310	-	42,425,310	42,425,310
Interbank loans receivable		24,362,800	-	24,362,800	24,362,800
Financial assets at					
amortized cost		117,778,563	-	117,778,563	110,524,789
Loans and other receivables		235,386,066	-	235,386,066	235,495,954
Trust fund assets		2,665,776	-	2,665,776	2,665,776
Returned checks and other cash items		101,939	-	101,939	101,939
At fair value					
Financial assets at FVTPL		-	3,789,932	3,789,932	3,789,932
Financial assets at FVOCI		-	43,783	43,783	43,783
Trust fund assets		-	2,216,668	2,216,668	2,216,668
<i>Financial Liabilities</i>					
At amortized cost					
Deposit liabilities		376,485,132	-	376,485,132	376,428,873
Bills payable		48,100,192	-	48,100,192	48,100,192
Notes payable		7,200,000	-	7,200,000	7,127,637
Manager's checks		6,177,372	-	6,177,372	6,177,372
Bills purchased –					
domestic and foreign		4,473,125	-	4,473,125	4,473,125
Accounts payable		2,143,522	-	2,143,522	2,143,522
Payment orders payable		1,073,911	-	1,073,911	1,073,911
Accrued interest payable		604,606	-	604,606	604,606
Due to Treasurer of the Philippines		3,005	-	3,005	3,005
At fair value					
Derivatives with negative fair values		-	135,957	135,957	135,957

Parent Bank

		2017			
		Classes			
		At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
<i>Financial Assets</i>					
At amortized cost					
Cash and other cash items	P	6,249,122	P -	P 6,249,122	P 6,249,122
Due from BSP		60,350,126	-	60,350,126	60,350,126
Due from other banks		53,690,233	-	53,690,233	53,690,233
Interbank loans receivable		4,793,280	-	4,793,280	4,793,280
Financial assets at					
amortized cost		166,471,659	-	166,471,659	161,669,316
Loans and other receivables		211,976,032	-	211,976,032	212,010,190
Returned checks and other cash items		260,780	-	260,780	260,780
At fair value					
Financial assets at FVTPL		-	3,130,421	3,130,421	3,130,421
Financial assets at FVOCI		-	43,783	43,783	43,783

		2017			
		Classes		Carrying Amount	Fair Value
		At Amortized Cost	At Fair Value		
<i>Financial Liabilities</i>					
At amortized cost					
Deposit liabilities	P	399,974,200	P -	P 399,974,200	P 399,957,489
Bills payable		29,009,719	-	29,009,719	29,009,719
Notes payable		32,165,000	-	32,165,000	32,013,570
Manager's checks		8,676,900	-	8,676,900	8,676,900
Bills purchased – domestic and foreign		3,463,370	-	3,463,370	3,463,370
Accounts payable		2,367,083	-	2,367,083	2,367,083
Accrued interest payable		792,842	-	792,842	792,842
Payment orders payable		430,508	-	430,508	430,058
Due to Treasurer of the Philippines		3,005	-	3,005	3,005
At fair value					
Derivatives with negative fair values		-	23,684	23,684	23,684
		2016			
		Classes		Carrying Amount	Fair Value
		At Amortized Cost	At Fair Value		
<i>Financial Assets</i>					
At amortized cost					
Cash and other cash items	P	5,630,560	P -	P 5,630,560	P 5,630,560
Due from BSP		52,208,244	-	52,208,244	52,208,244
Due from other banks		41,412,122	-	41,412,122	41,412,122
Interbank loans receivable		24,362,800	-	24,362,800	24,362,800
Financial assets at amortized cost		117,778,228	-	117,778,228	110,524,454
Loans and other receivables		171,921,347	-	171,921,347	172,031,235
Returned checks and other cash items		101,939	-	101,939	101,939
At fair value					
Financial assets at FVTPL		-	3,735,557	3,735,557	3,735,557
Financial assets at FVOCI		-	43,783	43,783	43,783
<i>Financial Liabilities</i>					
At amortized cost					
Deposit liabilities		328,038,591	-	328,038,591	327,982,332
Bills payable		39,166,961	-	39,166,961	39,166,961
Notes payable		7,200,000	-	7,200,000	7,127,637
Manager's checks		6,177,372	-	6,177,372	6,177,372
Bills purchased – domestic and foreign		4,473,125	-	4,473,125	4,473,125
Accounts payable		1,874,825	-	1,874,825	1,874,825
Accrued interest payable		490,735	-	490,735	490,735
Payment orders payable		1,073,911	-	1,073,911	1,073,911
Due to Treasurer of the Philippines		3,005	-	3,005	3,005
At fair value					
Derivatives with negative fair values		-	135,957	135,957	135,957

7.2 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and 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;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource 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 financial 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 Group 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.

7.3 Financial Instruments Measured at Fair Value

The financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2017 and 2016 are grouped into the fair value hierarchy as follows (in millions).

Group

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2017</u>					
<i>Resources</i>					
Financial assets at FVTPL	11				
Equity securities		P 2,719	P 97	P -	P 2,816
Derivative assets		319	-	47	366
Trust fund assets	19	1,887	-	-	1,887
Financial assets at FVOCI					
Equity securities		-	-	44	44
		<u>P 4,925</u>	<u>P 97</u>	<u>P 91</u>	<u>P 5,113</u>
<i>Liabilities</i>					
Derivatives with negative fair values	24	<u>P 24</u>	<u>P -</u>	<u>P -</u>	<u>P 24</u>
December 31, 2016					
<i>Resources</i>					
Financial assets at FVTPL	11				
Equity securities		P 2,724	P 85	P -	P 2,809
Debt securities		890	-	-	890
Derivative assets		-	91	-	91
Trust fund assets	19	2,217	-	-	2,217
Financial assets at FVOCI					
Equity securities		-	-	44	44
		<u>P 5,831</u>	<u>P 176</u>	<u>P 44</u>	<u>P 6,051</u>
<i>Liabilities</i>					
Derivatives with negative fair values	24	<u>P -</u>	<u>P 136</u>	<u>P -</u>	<u>P 136</u>

Parent Bank

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2017</u>					
<i>Resources</i>					
Financial assets at FVTPL	11				
Equity securities		P 2,667	P 97	P -	P 2,764
Derivative assets		319	-	47	366
Financial assets at FVOCI					
Equity securities		-	-	44	44
		<u>P 2,986</u>	<u>P 97</u>	<u>P 91</u>	<u>P 3,174</u>
<i>Liabilities</i>					
Derivatives with negative fair values	24	<u>P 24</u>	<u>P -</u>	<u>P -</u>	<u>P 24</u>

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2016</u>					
<u>Resources</u>					
Financial assets at FVTPL	11				
Equity securities		P 2,669	P 85	P -	P 2,754
Debt securities		890	-	-	890
Derivative assets		-	91	-	91
Financial assets at FVOCI					
Equity securities		-	-	44	44
		<u>P 3,559</u>	<u>P 176</u>	<u>P 44</u>	<u>P 3,779</u>
<u>Liabilities</u>					
Derivatives with negative fair values	24	<u>P -</u>	<u>P 136</u>	<u>P -</u>	<u>P 136</u>

There were no gains or losses recognized in profit or loss for Level 3 instruments. There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

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

(a) *Debt securities*

Fair values of debt securities under Level 1, composed of government securities issued by the Philippine government and other foreign governments and private debt securities, are determined based on quoted prices at the close of business as appearing on Bloomberg.

(b) *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 (see Note 3.2).

(c) *Equity securities*

As of December 31, 2017 and 2016, instruments included in Level 1 comprise equity securities classified as financial assets at FVTPL. These securities were valued based on their closing prices on the PSE.

Club shares classified as financial assets at FVTPL are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

7.4 Financial Instruments Measured at Amortized Cost for Which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of financial assets and financial liabilities which are not measured at fair value in the 2017 and 2016 statements of financial position but for which fair value is disclosed.

Group

	2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and other cash items	P 6,633,237	P -	P -	P 6,633,237
Due from BSP	66,276,960	-	-	66,276,960
Due from other banks	54,520,482	-	-	54,520,482
Interbank loans receivable	-	-	4,793,280	4,793,280
Financial assets at amortized cost	161,669,316	-	-	161,669,316
Loans and other receivables	-	-	281,068,917	281,068,917
Trust fund assets	1,881,808	-	-	1,881,808
Returned checks and other cash items	-	-	260,780	260,780
Financial Liabilities				
Deposit liabilities	447,599,503	-	-	447,599,503
Bills payable	-	43,070,825	-	43,070,825
Notes payable	-	32,013,570	-	32,013,570
Manager's checks	-	-	8,676,900	8,676,900
Bills purchased – domestic and foreign	-	-	3,463,370	3,463,370
Accounts payable	-	-	2,853,536	2,853,536
Accrued interest payable	-	-	941,243	941,243
Payment orders payable	-	-	430,508	430,508
Due to Treasurer of the Philippines	-	-	3,005	3,005
2016				
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and other cash items	P 6,021,358	P -	P -	P 6,021,358
Due from BSP	56,151,239	-	-	56,151,239
Due from other banks	42,425,310	-	-	42,425,310
Interbank loans receivable	-	-	24,362,800	24,362,800
Financial assets at amortized cost	110,524,789	-	-	110,524,789
Loans and other receivables	-	-	235,495,954	235,495,954
Trust fund assets	2,665,776	-	-	2,665,776
Returned checks and other cash items	-	-	101,939	101,939
Financial Liabilities				
Deposit liabilities	376,428,873	-	-	376,428,873
Bills payable	-	48,100,192	-	48,100,192
Notes payable	-	7,127,637	-	7,127,637
Manager's checks	-	-	6,177,372	6,177,372
Bills purchased – domestic and foreign	-	-	4,473,125	4,473,125
Accounts payable	-	-	2,143,522	2,143,522
Accrued interest payable	-	-	604,606	604,606
Payment orders payable	-	-	1,073,911	1,073,911
Due to Treasurer of the Philippines	-	-	3,005	3,005

Parent Bank

	2017			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and other cash items	P 6,249,122	P -	P -	P 6,249,122
Due from BSP	60,350,126	-	-	60,350,126
Due from other banks	53,690,233	-	-	53,690,233
Interbank loans receivable	-	-	4,793,280	4,793,280
Financial assets at amortized cost	161,669,316	-	-	161,669,316
Loans and other receivables	-	-	212,010,190	212,010,190
Returned checks and other cash items	-	-	260,780	260,780
Financial Liabilities				
Deposit liabilities	399,957,489	-	-	399,957,489
Bills payable	-	29,009,719	-	29,009,719
Notes payable	-	32,013,570	-	32,013,570
Manager's checks	-	-	8,676,900	8,676,900
Bills purchased – domestic and foreign	-	-	3,463,370	3,463,370
Accounts payable	-	-	2,367,083	2,367,083
Accrued interest payable	-	-	792,842	792,842
Payment orders payable	-	-	430,508	430,508
Due to Treasurer of the Philippines	-	-	3,005	3,005
2016				
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and other cash items	P 5,630,560	P -	P -	P 5,630,560
Due from BSP	52,208,244	-	-	52,208,244
Due from other banks	41,412,122	-	-	41,412,122
Interbank loans receivable	-	-	24,362,800	24,362,800
Financial assets at amortized cost	110,524,454	-	-	110,524,454
Loans and other receivables	-	-	172,031,235	172,031,235
Returned checks and other cash items	-	-	101,939	101,939
Financial Liabilities				
Deposit liabilities	327,982,332	-	-	327,982,332
Bills payable	-	39,166,961	-	39,166,961
Notes payable	-	7,127,637	-	7,127,637
Manager's checks	-	-	6,177,372	6,177,372
Bills purchased – domestic and foreign	-	-	4,473,125	4,473,125
Accounts payable	-	-	1,874,825	1,874,825
Accrued interest payable	-	-	490,735	490,735
Payment orders payable	-	-	1,073,911	1,073,911
Due to Treasurer of the Philippines	-	-	3,005	3,005

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

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 in the preceding pages, which are not traded in an active market, are determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value 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 Group uses valuation technique, it maximizes the use of observable market data where it is available and rely 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.

7.5 Fair Value Measurement of Investment Properties

The table below shows the levels within the hierarchy of investment properties measured at fair value on a recurring basis as of December 31, 2017 and 2016.

	2017			
	Level 1	Level 2	Level 3	Total
<u>Group</u>				
Investment properties				
Land	P -	P 7,988,116	P -	P 7,988,116
Building and improvements	-	-	6,165,430	6,165,430
<u>Parent Bank</u>				
Investment properties				
Land	-	7,832,606	-	7,832,606
Building and improvements	-	-	5,690,404	5,690,404
	2016			
	Level 1	Level 2	Level 3	Total
<u>Group</u>				
Investment properties				
Land	P -	P 7,709,442	P -	P 7,709,442
Building and improvements	-	-	5,815,521	5,815,521
<u>Parent Bank</u>				
Investment properties				
Land	-	7,709,442	-	7,709,442
Building and improvements	-	-	5,392,105	5,392,105

The fair value of the Group's and the Parent Bank's investment properties (see Note 16) are determined on the basis of the appraisals performed by independent appraisal companies acceptable by the BSP, with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation process is conducted by the appraisers with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, appraisal companies take into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management's assessment, the best use of the Group's and the Parent Bank's non-financial assets indicated above is their current use.

The fair value of investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market data approach that reflects observable and recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable and recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value will be the lower level of the hierarchy or Level 3. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

(b) *Fair Value Measurement for Building and Improvements*

The Level 3 fair value of the investment properties was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Group during the year for its investment properties. The movements in the investment properties categorized under Level 3 of the fair value hierarchy follow:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 5,815,521	P 5,663,920	P 5,392,105	P 5,245,544
Additions	315,475	302,257	273,938	296,507
Fair value gains	245,973	19,761	228,966	19,761
Adjustments	4,710	-	11,644	-
Net reclassification from (to)				
bank premises, furniture, fixtures and equipment	-	(86,878)	-	(86,878)
Disposals	(216,249)	(83,539)	(216,249)	(82,829)
Balance at year-end	<u>P 6,165,430</u>	<u>P 5,815,521</u>	<u>P 5,690,404</u>	<u>P 5,392,105</u>

Fair value gains recognized from these investment properties are presented as part of Fair value gains on investment properties under the Miscellaneous Income account in the statements of income (see Note 27.1). On the other hand, realized gains from the sale of these investment properties recognized by the Group and the Parent Bank amounted to P125,867 and P125,833, respectively, in 2017, P89,656 and P89,010, respectively, in 2016, P44,087 and P40,159, respectively, in 2015 for both the Group and the Parent Bank, and are presented as part of Gain from sale of assets under the Miscellaneous Income account in the statements of income (see Note 27.1).

7.6 Offsetting Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Group and the Parent Bank with amounts presented in the statements of financial position as of December 31, 2017 and 2016 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statements of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statements of financial position.

	December 31, 2017			December 31, 2016		
	Related amounts not set off in the statement of financial position			Related amounts not set off in the statement of financial position		
	Financial instruments	Collateral received	Net amount	Financial instruments	Collateral received	Net amount
Group						
Financial assets						
Financial assets at FVTPL						
Currency forwards	P 318,766	P -	P 318,766	P 43,649	P -	P 43,649
Warrants	47,184	-	47,184	46,986	-	46,986
Loans and receivables	753,518	753,518	-	978,478	978,478	-
Total financial assets	<u>P 1,119,468</u>	<u>P 753,518</u>	<u>P 365,950</u>	<u>P 1,069,113</u>	<u>P 978,478</u>	<u>P 90,635</u>
Financial liabilities						
Derivative liabilities	P 23,684	P -	P 23,684	P 135,957	P -	P 135,957
Deposit liabilities	1,055,806	753,518	302,288	1,286,400	978,478	307,922
Total financial liabilities	<u>P 1,079,490</u>	<u>P 753,518</u>	<u>P 325,972</u>	<u>P 1,422,357</u>	<u>P 978,478</u>	<u>P 443,879</u>
Parent Bank						
Financial assets						
Financial assets at FVTPL						
Currency forwards	P 318,766	P -	P 318,766	P 43,649	P -	P 43,649
Warrants	47,184	-	47,184	46,986	-	46,986
Loans and receivables	753,518	753,518	-	977,413	977,413	-
Total financial assets	<u>P 1,119,468</u>	<u>P 753,518</u>	<u>P 365,950</u>	<u>P 1,068,048</u>	<u>P 977,413</u>	<u>P 90,635</u>
Financial liabilities						
Derivative liabilities	P 23,684	P -	P 23,684	P 135,957	P -	P 135,957
Deposit liabilities	1,055,631	753,518	302,113	1,284,723	977,413	307,310
Total financial liabilities	<u>P 1,079,315</u>	<u>P 753,518</u>	<u>P 325,797</u>	<u>P 1,420,680</u>	<u>P 977,413</u>	<u>P 443,267</u>

8. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following as of December 31:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Cash and other cash items	<u>P 6,633,237</u>	<u>P 6,021,358</u>	<u>P 6,249,122</u>	<u>P 5,630,560</u>
Due from BSP				
Mandatory reserves	<u>P 63,651,796</u>	<u>P 51,163,740</u>	<u>P 59,922,734</u>	<u>P 47,267,745</u>
Non-mandatory reserves	<u>2,625,164</u>	<u>4,987,499</u>	<u>427,392</u>	<u>4,940,499</u>
	<u>P 66,276,960</u>	<u>P 56,151,239</u>	<u>P 60,350,126</u>	<u>P 52,208,244</u>

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including ATMs. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

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. Due from BSP bears annual interest rates ranging from 0.0% to 3.5% in 2017, from 0.0% to 3.5% in 2016, and from 0.0% to 2.5% in 2015, except for the amounts within the required reserve as determined by BSP. Total interest income earned by the Group amounted to P332,703, P500,610, and P768,034 in 2017, 2016 and 2015, respectively, while the total interest income earned by the Parent Bank amounted to P171,583, P338,891, and P555,393 in 2017, 2016 and 2015, respectively. These are presented as part of Interest Income on Cash and Cash Equivalents account in the statements of income.

Cash and other cash items and due from BSP are 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 shall keep its required reserves in the form of deposits placed in the bank's demand deposit account with the BSP. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as drawings against such deposits shall be limited to: (a) settlement of obligation with the BSP, and (b) withdrawals to meet cash requirements.

9. DUE FROM OTHER BANKS

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

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign banks	P 52,867,637	P 40,715,205	P 52,867,637	P 40,715,205
Local banks	<u>1,652,845</u>	<u>1,710,105</u>	<u>822,596</u>	<u>696,917</u>
	<u>P 54,520,482</u>	<u>P 42,425,310</u>	<u>P 53,690,233</u>	<u>P 41,412,122</u>

The breakdown of this account as to currency follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
U.S. dollars	P 50,579,934	P 39,153,372	P 50,579,934	P 39,153,372
Philippine pesos	1,490,855	1,318,444	660,606	305,256
Other currencies	<u>2,449,693</u>	<u>1,953,494</u>	<u>2,449,693</u>	<u>1,953,494</u>
	<u>P 54,520,482</u>	<u>P 42,425,310</u>	<u>P 53,690,233</u>	<u>P 41,412,122</u>

Annual interest rates on these deposits range from 0.00 to 3.00% in 2017 and 0.00% to 1.60% in both 2016 and 2015. Total interest income on Due from Other Banks earned by the Group amounted to P34,741, P26,923, and P25,589 in 2017, 2016, and 2015, respectively, while total interest income earned by the Parent Bank amounted to P24,068, P20,840, and P16,432 in 2017, 2016 and 2015, respectively. These are presented as part of Interest Income on Cash and Cash Equivalents account in the statements of income.

Due from other banks are included in cash and cash equivalents for cash flow statement reporting purposes.

10. INTERBANK LOANS RECEIVABLE

Interbank loans receivable consists of loans granted to other banks. These loans have terms ranging from 1 to 37 days in 2017 and 1 to 77 days in 2016.

All Interbank loans receivables of both the Group and the Parent Bank amounting to P4,793,280 and P24,362,800 in 2017 and 2016, respectively, are denominated in foreign currencies. Interest income earned on interbank loans amounted to P92,777 in 2017, P80,449 in 2016, and P22,988 in 2015 and is presented as Interest Income on Interbank Loans Receivable account in the statements of income. Annual interest rates on interbank loans receivable range from 0.5% to 3.1% in 2017, 0.07% to 2.6% in 2016, and 0.01% to 2.5% in 2015.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following as of December 31:

	<u>Group</u>		<u>Parent</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Equity securities	P 2,816,090	P 2,808,986	P 2,764,471	P 2,754,611
Derivative assets	365,950	90,634	365,950	90,634
Debt securities	-	890,312	-	890,312
	<u>P 3,182,040</u>	<u>P 3,789,932</u>	<u>P 3,130,421</u>	<u>P 3,735,557</u>

The breakdown of this account as to currency follows:

	<u>Group</u>		<u>Parent</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Philippine pesos	P 3,129,123	P 2,847,675	P 3,077,504	P 2,793,300
U.S. dollars	52,917	942,257	52,917	942,257
	<u>P 3,182,040</u>	<u>P 3,789,932</u>	<u>P 3,130,421</u>	<u>P 3,735,557</u>

All financial assets at FVTPL are held for trading. Fair values of derivative assets were determined through valuation technique using the net present value computation. The fair values of debt and equity securities have been determined directly by reference to published prices quoted in active markets (see Note 7.3).

The Group recognized fair value losses on financial assets at FVTPL amounting to P13,220, P86,632 and P117,514 in 2017, 2016 and 2015, respectively, in the Group's and Parent Bank's financial statements and is netted against Gains on Trading and Non-trading Financial Assets account in the statements of income.

The Group recognized trading gains on disposal due to sale of financial assets at FVTPL amounting to P6,960 and P449,496 in 2017 and 2015, respectively, and a trading loss of P49,554 in 2016 are presented as part of Gain on Trading and Non-trading Financial Assets account in the statements of income.

Interest income generated from these financial assets amounted to P52,425, P59,058, and P498,004 in 2017, 2016, and 2015, respectively, and is shown as part of Interest Income on Trading and Investment Securities account in the statements of income.

Derivative instruments include foreign currency forwards and warrants. Foreign currency forwards represent commitments to purchase/sell foreign currency on a future date at an agreed exchange rate.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and liabilities (see Note 24) are set out below.

	<u>December 31, 2017</u>		
	<u>Notional</u>	<u>Fair Values</u>	
	<u>Amount</u>	<u>Assets</u>	<u>Liabilities</u>
Currency forwards			
Bought	P 5,197,401	P 1,796	P 23,577
Sold	16,681,238	316,970	107
Warrants	<u>4,493,700</u>	<u>47,184</u>	<u>-</u>
	<u>P 26,372,339</u>	<u>P 365,950</u>	<u>P 23,684</u>
	<u>December 31, 2016</u>		
	<u>Notional</u>	<u>Fair Values</u>	
	<u>Amount</u>	<u>Assets</u>	<u>Liabilities</u>
Currency forwards			
Bought	P 1,610,738	P 20,886	P 283
Sold	13,256,823	22,763	135,674
Warrants	<u>4,474,800</u>	<u>46,985</u>	<u>-</u>
	<u>P 19,342,361</u>	<u>P 90,634</u>	<u>P 135,957</u>

12. FINANCIAL ASSETS AT AMORTIZED COST

The Group's and Parent Bank's financial assets at amortized cost as of December 31, 2017 and 2016 consist of the following:

	<u>Group</u>		<u>Parent</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Government bonds and other debt securities	P 163,654,915	P 114,278,277	P 163,654,915	P 114,278,277
Other debt securities:				
Private bonds and commercial papers	2,816,744	3,499,951	2,816,744	3,499,951
Redeemable preferred shares	<u>-</u>	<u>335</u>	<u>-</u>	<u>-</u>
	<u>P 166,471,659</u>	<u>P 117,778,563</u>	<u>P 166,471,659</u>	<u>P 117,778,228</u>

Investment securities of both the Group and the Parent Bank with an aggregate principal amount of P24,216,050 as of December 31, 2017 and P38,518,084 as of December 31, 2016 were pledged as collaterals for bills payable under repurchase agreements.

The breakdown of this account as to currency as of December 31, 2017 and 2016 follows:

	Group		Parent	
	2017	2016	2017	2016
U.S. dollars	P 106,618,631	P 73,400,273	P 106,618,631	P 73,400,273
Philippine pesos	59,431,845	44,014,492	59,431,845	44,014,157
Euros	<u>421,183</u>	<u>363,798</u>	<u>421,183</u>	<u>363,798</u>
	<u>P 166,471,659</u>	<u>P 117,778,563</u>	<u>P 166,471,659</u>	<u>P 117,778,228</u>

Financial assets at amortized cost denominated in Philippine pesos have fixed interest rates ranging from 3.375% to 18.250% per annum in 2017 and from 3.375% to 9.375% per annum in 2016 and 2015, while financial assets at amortized cost denominated in U.S. dollars and Euros have fixed interest rates ranging from 2.250% to 9.50% per annum in 2017 and from 2.875% to 9.5% per annum in 2016 and 2015. These bonds have maturities of 5 to 31 years.

Interest income generated from these financial assets, including amortization of premium or discount, amounted to P6,658,201, P4,719,560, and P3,258,324 in 2017, 2016 and 2015, respectively, and is shown as part of Interest Income on Trading and Investment Securities account in the statements of income. The fair values of the Group's and Parent Bank's financial assets at amortized cost as of December 31, 2017 amounted to P161,669,316, while the fair values of the Group's and Parent Bank's financial assets at amortized cost as of December 31, 2016 amounted to P110,524,789 and P110,524,454 respectively (see Note 7.4).

Debt securities with face value of P6,918,030, P34,039,249 and P1,346,906 were disposed in 2017, 2016 and 2015, respectively, as permitted under the Group's business model and in accordance with PFRS 9. The Group recognized gains amounting to P272,841, P3,951,187 in 2017 and 2016, respectively, and loss of P57,756 in 2015, and is included as part of Gain on Trading and Non-trading Financial Assets account in the statements of income.

Government bonds with face value of P701,316, P825,524, P899,792 as of December 31, 2017, 2016 and 2015, respectively, are deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 30).

13. LOANS AND OTHER RECEIVABLES

This account consists of the following as of December 31:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Receivables from customers:				
Loans and discounts	P 261,785,276	P 226,261,989	P 203,311,422	P 167,800,408
Customers' liabilities under acceptances and trust receipts	4,633,892	3,789,963	4,633,892	3,789,963
Bills purchased	3,497,698	4,507,453	3,497,698	4,507,453
Accrued interest receivable	1,888,104	1,327,085	1,371,443	1,125,778
	271,804,970	235,886,490	212,814,455	177,223,602
Unearned discounts	(930,226)	(949,880)	(144,208)	(110,512)
Allowance for impairment	(10,165,105)	(10,187,637)	(9,000,632)	(8,846,265)
	260,709,639	224,748,973	203,669,615	168,266,825
Other receivables:				
SPURRA	13,572,371	4,240,467	4,130,362	-
Accounts receivable	3,668,341	3,792,015	1,497,724	1,510,218
Accrued interest receivable	2,136,868	1,482,707	2,133,724	1,479,804
Sales contracts receivable	1,189,315	1,374,648	1,189,315	1,374,648
UDSCL	404,698	459,422	-	-
Installment contracts receivable	11,404	13,806	-	-
	20,982,997	11,363,065	8,951,125	4,364,670
Allowance for impairment	(657,877)	(725,972)	(644,708)	(710,148)
	20,325,120	10,637,093	8,306,417	3,654,522
	P 281,034,759	P 235,386,066	P 211,976,032	P 171,921,347

Non-performing loans (NPLs) of the Bank as of December 31, 2017 and 2016 as reported to the BSP are presented below, net of specific allowance for impairment in compliance with BSP Circular 855, respectively.

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Gross NPLs	P 10,504,321	P 9,308,299	P 7,919,234	P 7,778,179
Specific reserves	(7,323,304)	(7,726,683)	(6,682,900)	(6,954,582)
Net NPLs	P 3,181,017	P 1,581,616	P 1,236,334	P 823,597

Under Section X309 of the MORB, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing.

In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered non-performing when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the total outstanding balance thereof shall be considered non-performing at the same time that they become past due i.e. when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, the principal and interest payments have been updated and the loan is yielding a rate of interest that fully compensates the Bank for its cost of funds and credit risk.

Restructured loans of the Group amount to P1,596,891 as of December 31, 2017 and P1,611,582 as of December 31, 2016. Interest income on these restructured loans amounted to P15,586, P15,786, and P14,747 in 2017, 2016 and 2015, respectively.

As of December 31, 2017 and 2016, total loan loss reserves of the Group amounted to P10,073,718 and P10,118,546, respectively. These represent the balance of the allowance for impairment on receivables from customers as of December 31, 2017 and 2016 less the allowance for impairment on accrued interest receivable of P91,387 and P69,091 respectively.

The breakdown of total loans and other receivables (net of unearned discounts) as to secured, with corresponding collateral types, and unsecured loans follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Secured:				
Government securities	P 1,806,818	P 1,256,691	P 1,806,818	P 1,256,691
Real estate	10,656,277	10,755,668	10,594,916	10,732,100
Chattel mortgage	3,024,432	3,568,714	3,024,432	3,568,714
Deposit hold-out	753,612	978,478	753,518	977,413
Others	<u>1,972,158</u>	<u>2,694,157</u>	<u>1,972,158</u>	<u>2,694,157</u>
	18,213,297	19,253,708	18,151,842	19,229,075
Unsecured	<u>273,644,444</u>	<u>227,045,967</u>	<u>203,469,530</u>	<u>162,248,685</u>
	<u>P 291,857,741</u>	<u>P 246,299,675</u>	<u>P 221,621,372</u>	<u>P 181,477,760</u>

The breakdown as to secured and unsecured of non-accruing loans of the Group, which the Bank reported to the BSP as of December 31, follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Secured	P 1,549,145	P 1,810,499	P 1,530,260	P 1,809,545
Unsecured	<u>9,493,714</u>	<u>7,956,832</u>	<u>6,916,550</u>	<u>6,427,666</u>
	<u>P 11,042,859</u>	<u>P 9,767,331</u>	<u>P 8,446,810</u>	<u>P 8,237,211</u>

The maturity profile of loans and other receivables follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Less than one year	P 96,245,948	P 75,520,634	P 80,430,667	P 66,078,176
One year to less than five years	101,585,096	85,901,699	47,229,828	30,843,431
Beyond five years	<u>94,026,697</u>	<u>84,877,342</u>	<u>93,960,877</u>	<u>84,556,153</u>
	<u>P 291,857,741</u>	<u>P 246,299,675</u>	<u>P 221,621,372</u>	<u>P 181,477,760</u>

Loans and other receivables bear annual interest ranging from 4.00% to 21.00% in 2017, from 0.95% to 17.94% in 2016, and from 4.39% to 18.37% in 2015.

The breakdown of loans (receivable from customers excluding accrued interest receivable) as to type of interest rate follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Variable interest rates	P 191,270,498	P 157,378,556	P 191,230,409	P 157,378,556
Fixed interest rates	<u>78,646,368</u>	<u>77,180,849</u>	<u>20,212,603</u>	<u>18,719,268</u>
	<u>P 269,916,866</u>	<u>P 234,559,405</u>	<u>P 211,443,012</u>	<u>P 176,097,824</u>

The amounts of interest income per type of loans and receivables for each reporting period are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Group</u>			
Receivables from customers	P 17,112,650	P 14,546,273	P 11,649,979
Other receivables:			
SPURRA	155,847	101,175	20,688
Sales contracts receivable	140,282	149,084	137,248
UDSCL	5,985	7,456	8,221
Instalment contracts receivable	679	649	1,252
Others	<u>76</u>	<u>120</u>	<u>462</u>
	<u>P 17,415,519</u>	<u>P 14,804,757</u>	<u>P 11,817,850</u>
<u>Parent Bank</u>			
Receivables from customers	P 11,355,974	P 9,102,151	P 7,139,290
Other receivables:			
SPURRA	155,847	101,175	20,688
Sales contracts receivable	<u>140,282</u>	<u>149,084</u>	<u>137,248</u>
	<u>P 11,652,103</u>	<u>P 9,352,410</u>	<u>P 7,297,226</u>

Loans and discounts amounting to P19,046 for both December 31, 2017 and 2016 have been assigned to BSP to secure the Bank's borrowings under BSP rediscounting privileges (see Note 22).

The movements in the allowance for impairment of loans and other receivables are summarized below (see Note 20):

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 10,913,609	P 10,693,134	P 9,556,413	P 9,621,992
Impairment losses - net during the year	875,587	1,594,120	881,744	1,163,393
Other adjustments/transfers	(966,214)	(1,373,645)	(792,817)	(1,228,972)
Balance at end of year	<u>P 10,822,982</u>	<u>P 10,913,609</u>	<u>P 9,645,340</u>	<u>P 9,556,413</u>

14. INVESTMENTS IN SUBSIDIARIES

This account in the Parent Bank financial statements pertains to the Parent Bank's investments in the following subsidiaries, which are accounted for using the equity method:

	<u>% Interest Held</u>	<u>2017</u>	<u>2016</u>
Acquisition costs:			
CSB	99.77%	P 6,745,114	P 6,743,269
UPI	100%	624,861	624,861
UBPSI	100%	5,000	5,000
UDC	100%	3,125	3,125
UBPIBI	100%	2,500	2,500
UCBC	100%	1,000	1,000
		<u>7,381,600</u>	<u>7,379,755</u>
Accumulated equity in total comprehensive income:			
Balance at beginning of year		7,314,838	5,385,091
Share in net profit – <i>see Note 27.1</i>		3,429,942	3,474,490
Share in other comprehensive income (loss) – <i>see Note 28</i>		(15,264)	21,126
Dividends		<u>-</u>	(<u>1,565,869</u>)
		<u>10,729,516</u>	<u>7,314,838</u>
Net investment in subsidiaries		<u>P 18,111,116</u>	<u>P 14,694,593</u>

The Parent Bank's subsidiaries are all incorporated in the Philippines. The principal place of business of these subsidiaries is in Metro Manila, Philippines except for CSB and FAIR Bank, which have their principal place of operations in Cebu, Philippines.

The Parent Bank is the ultimate parent bank of UPI's wholly-owned subsidiaries, FUPI, FUDC and FUIFAI. In 2017, the Bank gained control of FAIR Bank through the 86.67% shared ownership of UPI and CSB of its shares. No equity investment account is reflected in the Parent Bank's separate financial statements in 2016 for FUPI, FUDC, and FUIFAI and including FAIR Bank in 2017, since the related investments in these subsidiaries were already eliminated at consolidation level for UPI and CSB.

Other subsidiaries of the Parent Bank are dormant. IVCC was not included in the consolidation due to immateriality of its account balances.

The Group, through CSB and UPI, obtained control of FAIR Bank on March 17, 2017 after acquiring 77.78% of the issued and outstanding capital stock of FAIR Bank. The purchase is aligned with the Bank's long-term strategy of building asset or business based on consumers.

The following table summarizes the consideration paid for the acquisition of FAIR Bank and the recognized amounts of the identifiable assets acquired and liabilities assumed, as well as the fair value at the acquisition date of the non-controlling interests in FAIR Bank. For purposes of determining the gain from purchase, the Bank determined the fair value of the identified net assets as of March 17, 2017.

Total cash consideration	<u>P 102,777</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Investment properties	198,509
Loans and receivables	163,425
Cash and cash equivalents	45,607
Property, plant and equipment	26,101
Other resources	34,986
Deposit liabilities	(242,181)
Other liabilities	(<u>27,181</u>)
Total identifiable net assets	199,266
Non-controlling interests in FAIR Bank	(<u>26,569</u>)
Total identifiable net assets acquired	172,697
Branch licenses granted by the BSP	<u>60,000</u>
	<u>232,697</u>
Gain from purchase (see Note 27.1)	<u>P 129,920</u>

The gain from purchase was caused by the fair value adjustment of FAIR Bank's investment properties and the branch licenses granted by BSP.

The fair value of the loans and receivables acquired as part of the business combination amounted to P163,425, with a gross contractual amount of P195,972. As of the acquisition date, the Group best estimate of the contractual cash flow not expected to be collected amounted to P32,547.

The following table presents the financial information for CSB, UPI, FUPI, FUDC, FUIFAI and FAIR Bank as of and for the years ended December 31, 2017 and 2016:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
<u>2017</u>				
CSB	P 77,585,53	P 63,733,321	P 8,931,671	P 3,340,769
FAIR Bank	473,218	311,722	255,916	86,228
UPI	778,577	32,074	33,936	(37,523)
FUPI	4,053,478	4,203,440	262,067	30,119
FUDC	13,635	7,303	25,766	(432)
FUIFAI	70,546	25,079	119,345	55,275
<u>2016</u>				
CSB	P 70,539,062	P 60,015,642	P 8,977,115	P 3,321,669
UPI	798,271	30,039	91,312	64,627
FUPI	5,038,875	5,340,146	131,206	(197,958)
FUDC	7,421	658	4,398	854
FUIFAI	130,567	47,254	203,200	95,160

The Parent Bank also has investments in certain SPCs. These SPCs were established primarily to manage certain investment properties of the Bank. In the Group and Parent Bank financial statements, these SPCs are consolidated through the Investment Properties account instead of equity investments even if the Bank acquired the shares of stock of the SPCs and not the investment properties themselves.

15. **BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT**

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the end of 2017 and 2016 are shown below.

Group

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold Rights and Improvements</u>	<u>Total</u>
December 31, 2017					
Cost	P 262,558	P 2,266,640	P 3,685,321	P 739,202	P 6,953,721
Accumulated depreciation and amortization	-	(513,804)	(2,266,347)	(407,774)	(3,187,925)
Net carrying amount	<u>P 262,558</u>	<u>P 1,752,836</u>	<u>P 1,418,974</u>	<u>P 331,428</u>	<u>P 3,765,796</u>
December 31, 2016					
Cost	P 255,614	P 2,220,775	P 3,166,510	P 614,194	P 6,257,093
Accumulated depreciation and amortization	-	(451,793)	(1,993,062)	(288,965)	(2,733,820)
Net carrying amount	<u>P 255,614</u>	<u>P 1,768,982</u>	<u>P 1,173,448</u>	<u>P 325,229</u>	<u>P 3,523,273</u>
January 1, 2016					
Cost	P 255,614	P 2,123,110	P 2,697,621	P 1,278,803	P 6,355,148
Accumulated depreciation and amortization	-	(396,569)	(1,731,000)	(920,775)	(3,048,344)
Net carrying amount	<u>P 255,614</u>	<u>P 1,726,541</u>	<u>P 966,621</u>	<u>P 358,028</u>	<u>P 3,306,804</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold Rights and Improvements</u>	<u>Total</u>
December 31, 2017					
Cost	P 250,171	P 2,107,391	P 3,060,417	P 309,005	P 5,726,984
Accumulated depreciation and amortization	-	(434,992)	(1,728,743)	(106,946)	(2,270,681)
Net carrying amount	<u>P 250,171</u>	<u>P 1,672,399</u>	<u>P 1,331,674</u>	<u>P 202,059</u>	<u>P 3,456,303</u>
December 31, 2016					
Cost	P 250,171	P 2,081,675	P 2,596,200	P 210,541	P 5,138,587
Accumulated depreciation and amortization	-	(393,356)	(1,549,123)	(76,957)	(2,019,436)
Net carrying amount	<u>P 250,171</u>	<u>P 1,688,319</u>	<u>P 1,047,077</u>	<u>P 133,584</u>	<u>P 3,119,151</u>
January 1, 2016					
Cost	P 250,171	P 1,991,946	P 2,207,895	P 917,530	P 5,367,542
Accumulated depreciation and amortization	-	(347,823)	(1,392,441)	(775,453)	(2,515,717)
Net carrying amount	<u>P 250,171</u>	<u>P 1,644,123</u>	<u>P 815,454</u>	<u>P 142,077</u>	<u>P 2,851,825</u>

A reconciliation of the carrying amounts at the beginning and end of 2017 and 2016 of bank premises, furniture, fixtures and equipment is shown below.

Group

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold Rights and Improvements</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 255,614	P 1,768,982	P 1,173,448	P 325,229	P 3,523,273
Additions	6,944	36,359	587,114	105,116	735,533
Disposals	-	-	(18,655)	-	(18,655)
Reclassifications/ adjustments	-	797	(1,428)	(1,060)	(1,691)
Depreciation and amortization charges for the year	-	(53,302)	(321,505)	(97,857)	(472,664)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 262,558</u>	<u>P 1,752,836</u>	<u>P 1,418,974</u>	<u>P 331,428</u>	<u>P 3,765,796</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 255,614	P 1,726,541	P 966,621	P 358,028	P 3,306,804
Additions	-	14,629	541,017	112,477	668,123
Disposals	-	(3,788)	(21,453)	-	(25,241)
Reclassifications/ adjustments	-	86,991	6,728	(2,530)	91,189
Depreciation and amortization charges for the year	-	(55,391)	(319,465)	(142,746)	(517,602)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P 255,614</u>	<u>P 1,768,982</u>	<u>P 1,173,448</u>	<u>P 325,229</u>	<u>P 3,523,273</u>

Parent Bank

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Leasehold Rights and Improvements</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 250,171	P 1,688,319	P 1,047,077	P 133,584	P 3,119,151
Additions	-	26,261	540,066	91,297	657,624
Disposals	-	-	(13,285)	-	(13,285)
Reclassifications/ adjustments	-	(545)	(2,856)	(932)	(4,333)
Depreciation and amortization charges for the year	-	(41,636)	(239,328)	(21,890)	(302,854)
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 250,171</u>	<u>P 1,672,399</u>	<u>P 1,331,674</u>	<u>P 202,059</u>	<u>P 3,456,303</u>
Balance at January 1, 2016, net of accumulated depreciation and amortization	P 250,171	P 1,644,123	P 815,454	P 142,077	P 2,851,825
Additions	-	6,692	453,508	67,334	527,534
Disposals	-	(3,788)	(14,532)	-	(18,320)
Reclassifications/ adjustments	-	86,878	2,236	(2,609)	86,505
Depreciation and amortization charges for the year	-	(45,586)	(209,589)	(73,218)	(328,393)
Balance at December 31, 2016, net of accumulated depreciation and amortization	<u>P 250,171</u>	<u>P 1,688,319</u>	<u>P 1,047,077</u>	<u>P 133,584</u>	<u>P 3,119,151</u>

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

As of December 31, 2017 and 2016, the acquisition cost of the Group's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use is P1,584,258 and P672,906, respectively, while the acquisition cost of the Parent Bank's fully-depreciated bank premises, furniture, fixtures and equipment that are still in use is P1,156,697 and P379,182, respectively.

16. INVESTMENT PROPERTIES

The Group's and Parent Bank's investment properties include several parcels of land and buildings held for capital appreciation and are stated at fair value. Investment properties with carrying value of P5,000 and above are revalued every other year and must be determined by independent appraisal companies acceptable by the BSP. While investment properties with carrying value of below P5,000 are revalued once every three years. The breakdown of this account as to type is shown in the succeeding page.

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	P 7,988,116	P 7,709,442	P 7,832,606	P 7,709,442
Building	2,914,397	2,813,274	2,439,371	2,389,858
Land improvements	3,251,033	3,002,247	3,251,033	3,002,247
	<u>P 14,153,546</u>	<u>P 13,524,963</u>	<u>P 13,523,010</u>	<u>P 13,101,547</u>

The net fair value gains and losses from investment properties account is presented under Miscellaneous Income account in the statements of income (see Note 27.1). Real property taxes related to these investment properties paid by the Group and recognized as expense for the years ended December 31, 2017, 2016 and 2015 totaled P36,344, P26,561, and P23,811, respectively, and are presented as part of Taxes and Licenses account under Other Expenses in the statements of income.

The changes in this account can be summarized as follows:

	<u>Group</u>		<u>Parent</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 13,524,963	P 13,406,802	P 13,101,547	P 12,988,426
Additions	549,438	405,571	346,920	399,821
Fair value gains	620,074	385,687	603,706	385,687
Adjustments	(4,611)	-	2,323	-
Net reclassification to bank premises, furniture, fixtures and equipment (see Note 15)	-	(86,878)	-	(86,878)
Disposals	(536,318)	(586,219)	(531,486)	(585,509)
Balance at end of year	<u>P 14,153,546</u>	<u>P 13,524,963</u>	<u>P 13,523,010</u>	<u>P 13,101,547</u>

Rent income earned by the Group on its investment properties under operating leases amounted to P184,375, P181,028, and P175,958 in 2017, 2016 and 2015, respectively, while rent income earned by the Parent Bank on these investment properties amounted to P180,708, P166,891, and P165,276 in 2017, 2016 and 2015, respectively, and is included as part of Rental account under Miscellaneous Income in the statements of income (see Note 27.1).

Other information about the fair value measurement and disclosures related to the investment properties are presented in Note 7.5.

17. ASSETS HELD FOR SALE

In 2015, management assessed that certain assets held for sale no longer meet the criteria to be classified as held for sale in accordance with PFRS 5; hence, the carrying amount of these assets held for sale were reclassified to Other Resources. Prior to its reclassification out of held for sale classification, these assets were remeasured to the lower of its recoverable amount and its carrying amount before the assets were classified as held for sale, adjusted for depreciation that would have been recognized had these assets not been classified as held for sale. Consequently, the previously recognized impairment losses, which amounted to P54,391 was accordingly reversed in 2015. The reversal of impairment losses is included as part of Impairment Reversals account in the 2015 statement of income.

18. GOODWILL

Goodwill represents the excess of the acquisition cost over the fair value of (a) former iBank's identifiable net assets on its merger with the Bank on April 30, 2006; and (b) the identifiable net assets of CSB at the date the Bank acquired ownership interest on January 8, 2013 (see Note 1.1). Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but would require an annual test for impairment. Goodwill is subsequently carried at cost less accumulated impairment losses, if any.

19. OTHER RESOURCES

The composition of Other Resources account as of December 31 follows:

	Group		Parent Bank	
	2017	2016	2017	2016
Trust fund assets	P 3,768,669	P 4,882,444	P -	P -
Deferred tax assets – net (see Note 29.1)	3,247,277	3,304,076	2,588,622	2,622,474
Computer software – net	674,497	573,115	640,123	529,336
Documentary stamps and other supplies on hand	267,519	164,630	164,874	109,455
Returned checks and other cash items	260,780	101,939	260,780	101,939
Prepaid expenses	244,930	193,009	215,730	174,102
Software under development	239,743	59,718	239,743	59,718
Sundry debits	160,650	186,808	160,667	184,672
Miscellaneous – net	1,275,188	862,585	1,199,410	807,681
	10,139,253	10,328,324	5,469,949	4,589,377
Allowance for impairment	(161,715)	(161,715)	(143,805)	(143,805)
	<u>P 9,977,538</u>	<u>P 10,166,609</u>	<u>P 5,326,144</u>	<u>P 4,445,572</u>

Trust fund assets are maintained to cover pre-need liabilities of FUPI for pre-need plans computed based on the provisions of PAS 37 as required by the IC and validated by a qualified actuary in compliance with the rules and regulations of the IC based on the amended PNUCA. The details of FUPI's trust fund assets as of December 31 follow:

	2017	2016
Due from BSP and other banks	P 346,977	P 1,723,292
Financial assets at FVTPL	1,886,861	2,216,668
Financial assets at amortized cost	1,517,322	931,161
Miscellaneous – net	17,509	11,323
	<u>P 3,768,669</u>	<u>P 4,882,444</u>

Financial assets at FVTPL comprise of investments in shares of listed companies, government securities, other corporate debt instruments and investments in certain unit investment trust funds (UITF). Except for the Group's investments in UITFs, the fair value of financial assets at FVTPL have been determined directly by reference to quoted prices generated in active markets. On the other hand, the fair value of investments in UITFs have been determined based on the closing market and trade prices of the securities comprising the fund's portfolio adjusted for the period end performance of the funds including all trades made within the funds and the related income and expenses arising therefrom. Fair value is derived using the Net Asset Value per unit of the funds (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period) published by the trustee banks and the Investment Company Association of the Philippines (see Note 7).

The movements in the Computer software account follow:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year	P 573,115	P 460,834	P 529,336	P 391,346
Additions	299,656	236,823	276,265	219,057
Amortization charges				
for the year	(120,957)	(118,147)	(87,940)	(74,851)
Reclassifications	(77,317)	(6,395)	(77,538)	(6,216)
Balance at end of year	<u>P 674,497</u>	<u>P 573,115</u>	<u>P 640,123</u>	<u>P 529,336</u>

Miscellaneous includes foreclosed machineries with carrying amount of P25,638 and P53,095 as of December 31, 2017 and 2016, respectively. In addition, as of December 31, 2017 and 2016, miscellaneous other resources also include foreclosed chattel with carrying amount of P20,211 and P47,530, respectively. Depreciation expense recognized by the Group and the Parent for these foreclosed machineries and chattel amounted to P41,280 in 2017, P80,679 in 2016, and P87,260 in 2015, and is included as part of Depreciation and Amortization account in the statements of income.

20. ALLOWANCE FOR IMPAIRMENT

Movements in the allowance for impairment are shown in the table below:

	Notes	<u>Group</u>		<u>Parent Bank</u>	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Balance at beginning of year:					
Loans and other receivables	13	P 10,913,609	P 10,693,134	P 9,556,413	P 9,621,992
Other resources	19	161,715	161,715	143,805	143,805
Financial Assets at FVOCI		<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
		<u>11,075,364</u>	<u>10,854,889</u>	<u>9,700,258</u>	<u>9,765,837</u>
Movements during the year:	13				
Provision (reversal) of impairment		875,587	1,594,120	881,744	1,163,393
Write-off/sale		(753,610)	(1,274,203)	(540,518)	(1,129,530)
Adjustments/ Reclassifications		(212,604)	(99,442)	(252,299)	(99,442)
		<u>(90,627)</u>	<u>220,475</u>	<u>88,927</u>	<u>(65,579)</u>
Balance at end of year:					
Loans and other receivables	13	10,822,982	10,913,609	9,645,340	9,556,413
Assets held for sale and other resources	19	161,715	161,715	143,805	143,805
Financial assets at FVOCI		<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
		<u>P 10,984,737</u>	<u>P 11,075,364</u>	<u>P 9,789,185</u>	<u>P 9,700,258</u>

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

Allowance for Impairment

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Reconciliation of the allowance for impairment by class follows:

Group

	2017											
	Loans and Receivables								Financial Assets at FVOCI		Assets Held for Sale and Other Resources	Total
	Corporate *	Commercial	Consumer	Accounts Receivable	Accrued Interest Receivable	Sales and Installment Contract Receivable	Other Loan Accounts *	Total				Total
Balance at beginning of year	P 4,300,912	P 1,009,327	P 4,659,950	P 722,122	P 69,091	P 3,850	P 148,357	P 10,913,609	P 40	P 161,715	P 11,075,364	
Provision during the year	243,026	189,290	421,036	3,501	25,269	(7,038)	503	875,587	-	-	875,587	
Other adjustments	(81,225)	78,360	(964,547)	(71,596)	(2,973)	7,038	68,729	(966,214)	-	-	(966,214)	
Balance at end of year	<u>P 4,462,713</u>	<u>P 1,276,977</u>	<u>P 4,116,439</u>	<u>P 654,027</u>	<u>P 91,387</u>	<u>P 3,850</u>	<u>P 217,589</u>	<u>P 10,822,982</u>	<u>P 40</u>	<u>P 161,715</u>	<u>P 10,984,737</u>	

* Corporate includes accounts under Asset Recovery Group. Other loan accounts include Bills Purchase, Branch Loans, HR Loans and Salary Loans

Impairment at end of year broken down as to individual and collective assessment:

Individual impairment	P 4,317,365	P 1,181,255	P 6,072	P 645,611	P 91,387	P 3,850	P 20,605	P 6,266,145	P 40	P 161,715	P 6,427,900
Collective impairment	145,348	95,722	4,110,367	8,416	-	-	196,984	4,556,837	-	-	4,556,837
	<u>P 4,462,713</u>	<u>P 1,276,977</u>	<u>P 4,116,439</u>	<u>P 654,027</u>	<u>P 91,387</u>	<u>P 3,850</u>	<u>P 217,589</u>	<u>P 10,822,982</u>	<u>P 40</u>	<u>P 161,715</u>	<u>P 10,984,737</u>

Parent Bank

	2017										
	Loans and Receivables								Financial Assets at FVOCI		Assets Held for Sale and Other Resources
	Corporate *	Commercial	Consumer	Accounts Receivable	Accrued Interest Receivable	Sales and Installment Contract Receivable	Other Loan Accounts*	Total			Total
Balance at beginning of year	P 4,300,912	P 1,009,183	P 3,318,722	P 707,509	P 69,091	P 2,639	P 148,357	P 9,556,413	P 40	P 143,805	P 9,700,258
Provision during the year	243,026	189,098	422,157	2,194	25,269	-	-	881,744	-	-	881,744
Other adjustments	(81,225)	73,902	(763,514)	(67,634)	(2,973)	-	48,627	(792,817)	-	-	(792,817)
Balance at end of year	<u>P 4,462,713</u>	<u>P 1,272,183</u>	<u>P 2,977,365</u>	<u>P 642,069</u>	<u>P 91,387</u>	<u>P 2,639</u>	<u>P 196,984</u>	<u>P 9,645,340</u>	<u>P 40</u>	<u>P 143,805</u>	<u>P 9,789,185</u>

* Corporate includes accounts under Asset Recovery Group. Other loan accounts include Bills Purchase, Branch Loans, HR Loans and Salary Loans.

Impairment at end of year broken down as to individual and collective assessment:

Individual impairment	P 4,317,365	P 1,176,606	P -	P 642,069	P 91,387	P 2,639	P -	P 6,230,066	P 40	P 143,805	P 6,373,911
Collective impairment	145,348	95,577	2,977,365	-	-	-	196,984	3,415,274	-	-	3,415,274
	<u>P 4,462,713</u>	<u>P 1,272,183</u>	<u>P 2,977,365</u>	<u>P 642,069</u>	<u>P 91,387</u>	<u>P 2,639</u>	<u>P 196,984</u>	<u>P 9,645,340</u>	<u>P 40</u>	<u>P 143,805</u>	<u>P 9,789,185</u>

Allowance for Impairment

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Group

	2016										
	Loans and Receivables										
	Corporate *	Commercial	Consumer	Accounts Receivable	Accrued Interest Receivable	Sales and Installment Contract Receivable	Other Loan Accounts *	Total	Financial Assets at FVOCI	Assets Held for Sale and Other Resources	Total
Balance at beginning of year	P 4,021,504	P 981,847	P 4,893,384	P 623,474	P 69,825	P 1,211	P 101,889	P 10,693,134	P 40	P 161,715	P 10,854,889
Provision during the year	345,454	(5,907)	1,096,317	95,265	8,217	2,639	52,135	1,594,120	-	-	1,594,120
Other adjustments	(66,046)	33,387	(1,329,751)	3,383	(8,951)	-	(5,667)	(1,373,645)	-	-	(1,373,645)
Balance at end of year	<u>P 4,300,912</u>	<u>P 1,009,327</u>	<u>P 4,659,950</u>	<u>P 722,122</u>	<u>P 69,091</u>	<u>P 3,850</u>	<u>P 148,357</u>	<u>P 10,913,609</u>	<u>P 40</u>	<u>P 161,715</u>	<u>P 11,075,364</u>

* Corporate includes accounts under Asset Recovery Group. Other loan accounts include Bills Purchase, Branch Loans, HR Loans and Salary Loans

Impairment at end of year broken down as to individual and collective assessment:

Individual impairment	P 4,259,283	P 963,606	P -	P 722,122	P 69,091	P 3,850	P 77,429	P 6,095,381	P 40	P 161,715	P 6,257,136
Collective impairment	41,629	45,721	4,659,950	-	-	-	70,928	4,818,228	-	-	4,818,228
	<u>P 4,300,912</u>	<u>P 1,009,327</u>	<u>P 4,659,950</u>	<u>P 722,122</u>	<u>P 69,091</u>	<u>P 3,850</u>	<u>P 148,357</u>	<u>P 10,913,609</u>	<u>P 40</u>	<u>P 161,715</u>	<u>P 11,075,364</u>

Parent Bank

	2016										
	Loans and Receivables										
	Corporate *	Commercial	Consumer	Accounts Receivable	Accrued Interest Receivable	Sales and Installment Contract Receivable	Other Loan Accounts*	Total	Financial Assets at FVOCI	Assets Held for Sale and Other Resources	Total
Balance at beginning of year	P 4,021,504	P 981,709	P 3,836,832	P 610,233	P 69,825	P -	P 101,889	P 9,621,992	P 40	P 143,805	P 9,765,837
Provision during the year	345,454	(5,912)	666,966	93,894	8,217	2,639	52,135	1,163,393	-	-	1,163,393
Other adjustments	(66,046)	33,386	(1,185,076)	3,382	(8,951)	-	(5,667)	(1,228,972)	-	-	(1,228,972)
Balance at end of year	<u>P 4,300,912</u>	<u>P 1,009,183</u>	<u>P 3,318,722</u>	<u>P 707,509</u>	<u>P 69,091</u>	<u>P 2,639</u>	<u>P 148,357</u>	<u>P 9,556,413</u>	<u>P 40</u>	<u>P 143,805</u>	<u>P 9,700,258</u>

* Corporate includes accounts under Asset Recovery Group. Other loan accounts include Bills Purchase, Branch Loans, HR Loans and Salary Loans.

Impairment at end of year broken down as to individual and collective assessment:

Individual impairment	P 4,259,283	P 963,606	P -	P 707,509	P 69,091	P 2,639	P 77,429	P 6,079,957	P 40	P 143,805	P 6,223,402
Collective impairment	41,629	45,577	3,318,722	-	-	-	70,928	3,476,856	-	-	3,476,856
	<u>P 4,300,912</u>	<u>P 1,009,183</u>	<u>P 3,318,722</u>	<u>P 707,509</u>	<u>P 69,091</u>	<u>P 2,639</u>	<u>P 148,357</u>	<u>P 9,556,413</u>	<u>P 40</u>	<u>P 143,805</u>	<u>P 9,700,258</u>

21. DEPOSIT LIABILITIES

The breakdown of deposit liabilities account follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Due to banks:				
Demand	P 382,180	P 452,648	P 840,085	P 998,070
Savings	263,076	255,674	218,659	215,342
Time	<u>5,540,072</u>	<u>4,032,991</u>	<u>5,536,935</u>	<u>4,029,906</u>
	<u>6,185,328</u>	<u>4,741,313</u>	<u>6,595,679</u>	<u>5,243,318</u>
Due to customers:				
Demand	127,042,169	120,714,187	127,208,680	120,868,768
Savings	57,481,782	49,064,864	55,519,258	46,937,438
Time	<u>256,906,934</u>	<u>201,964,768</u>	<u>210,650,583</u>	<u>154,989,067</u>
	<u>441,430,885</u>	<u>371,743,819</u>	<u>393,378,521</u>	<u>322,795,273</u>
	<u>P 447,616,213</u>	<u>P 376,485,132</u>	<u>P 399,974,200</u>	<u>P 328,038,591</u>

The breakdown of deposit liabilities account as to currency follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Philippine pesos	P 339,163,562	P 278,850,124	P 291,521,549	P 230,403,583
Foreign currencies	<u>108,452,651</u>	<u>97,635,008</u>	<u>108,452,651</u>	<u>97,635,008</u>
	<u>P 447,616,213</u>	<u>P 376,485,132</u>	<u>P 399,974,200</u>	<u>P 328,038,591</u>

The maturity profile of this account is presented below.

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Less than one year	P 431,693,529	P 366,292,647	P 389,316,706	P 324,418,297
One to five years	6,415,111	6,658,128	1,166,880	85,937
Beyond five years	<u>9,507,573</u>	<u>3,534,357</u>	<u>9,490,614</u>	<u>3,534,357</u>
	<u>P 447,616,213</u>	<u>P 376,485,132</u>	<u>P 399,974,200</u>	<u>P 328,038,591</u>

Deposit liabilities bear annual interest at rates ranging from 0.0% to 9.0% in 2017, from 0.0% to 9.0% in 2016, and from 0.0% to 8.5% in 2015 in the Group's financial statements and from 0.0% to 3.5% in 2017, 2016 and 2015 in the Parent Bank's financial statements. Demand and savings deposits usually have either fixed or variable interest rates while time deposits have fixed interest rates.

On August 8, 2013, the Monetary Board of the BSP approved the Parent Bank's issuance of up to P5,000,000 Long-term Negotiable Certificate of Deposits (LTNCD). Out of the approved P5,000,000, P3,000,000 were issued on October 18, 2013 at a coupon rate of 3.50% per annum, payable quarterly and will mature on April 17, 2019. The net proceeds was utilized to improve the Parent Bank's maturity profile and support business expansion plans.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to unified reserve requirement equivalent to 18.0% from April 6, 2012 to April 10, 2014 (under BSP Circular 753), 19.0% from April 11, 2014 to May 29, 2014 (under BSP Circular 830), and 20.0% from May 30, 2014 and thereafter (under BSP Circular 832). LTNCDs are subject to required reserves of 3% up to April 10, 2014 and 4.0% from April 11, 2014 and thereafter. As of December 31, 2017 and 2016, the Group is in compliance with such regulations.

Regular reserves as of December 31, 2017 and 2016 amounted to P63,279,707 and P50,748,472 of the Group, respectively, while that of the Parent Bank's amounted to P59,375,188 and P46,861,188, respectively.

22. BILLS PAYABLE

Bills payable consist of borrowings from:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Banks, other financial institutions and individuals	P 42,797,416	P 43,266,312	P 28,810,109	P 39,108,186
BSP	19,046	19,046	19,046	19,046
Others	254,363	4,814,834	180,564	39,729
	<u>P 43,070,825</u>	<u>P 48,100,192</u>	<u>P 29,009,719</u>	<u>P 39,166,961</u>

Bills payable to banks and other financial institutions consist mainly of amortized cost balance of short-term borrowings. Certain bills payable to banks and other financial institutions are collateralized by investment securities (see Note 12).

Bills payable to BSP mainly represent short-term borrowings availed of under the rediscounting facility of the BSP. These are collateralized by eligible loans (see Note 13).

Other bills payable of the Group mainly pertain to availments of short-term loan lines from certain related parties (see Note 31.5).

The breakdown of bills payable as to currency follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Foreign currencies	P 28,960,411	P 39,108,186	P 28,960,411	P 39,108,186
Philippine pesos	14,110,414	8,992,006	49,308	58,775
	<u>P 43,070,825</u>	<u>P 48,100,192</u>	<u>P 29,009,719</u>	<u>P 39,166,961</u>

The breakdown of interest expense on bills payable, which is presented as part of Interest Expense on Bills Payable and Other Liabilities account in the statements of income, follows:

	<u>Group</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Banks, other financial institutions and individuals	P 381,244	P 358,913	P 303,456
Others	<u>82,485</u>	<u>185,379</u>	<u>207,566</u>
	<u>P 463,729</u>	<u>P 544,292</u>	<u>P 511,022</u>
	<u>Parent Bank</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Banks, other financial institutions and individuals	P 141,812	P 114,425	P 30,501
Others	<u>2,941</u>	<u>4,217</u>	<u>6,408</u>
	<u>P 144,753</u>	<u>P 118,642</u>	<u>P 36,909</u>

The range of interest rates of bills payable per currency follows:

	<u>Group and Parent Bank</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Philippine pesos	2.59% to 12.0%	2.6% to 12.0%	2.4% to 12.0%
Foreign currencies	0.20% to 2.50%	0.0% to 2.05%	0.0% to 1.3%

23. NOTES PAYABLE

The Group's notes payable as of December 31, 2017 and 2016 consist of the following:

	<u>Coupon Interest</u>	<u>Principal Amount</u>	<u>Outstanding Balance</u>		<u>Issue Date</u>	<u>Maturity Date</u>	<u>Redemption Date</u>
			<u>2017</u>	<u>2016</u>			
Senior debt	3.369%	P 24,965,000	P24,965,000	P -	November 29, 2017	November 29, 2022	November 29, 2022
Unsecured subordinated notes	5.375%	<u>7,200,000</u>	<u>7,200,000</u>	<u>7,200,000</u>	November 20, 2014	February 20, 2025	February 20, 2020
			<u>P32,165,000</u>	<u>P32,165,000</u>			<u>P 7,200,000</u>

23.1 Senior Debt

- (a) The 2017 Notes were issued on the initial issue date at 100% with face value of USD500;
- (b) The 2017 Notes cannot be redeemed prior to their stated maturity (other than (i) in specified instalments, if applicable; (ii) for taxation reasons; or (iii) following an Event of Default) or that such Notes will be redeemable at the option of the Issuer and/or the Noteholders upon giving notice to the Noteholders or the Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Issuer and the relevant Dealer.

- (c) The 2017 Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Parent Bank and will rank *pari passu* among themselves and equally with all other unsecured obligations of the Parent Bank from time to time outstanding; and,
- (d) There are restrictions on the offer, sale and transfer of the Notes in the United State, the European Economic Area (including the United Kingdom), the Netherlands, Japan, Hong Kong, Singapore, the Philippines and the People's Republic of China and such restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes.

23.2 Unsecured Subordinated Notes

- (a) The 2014 Notes have a loss absorption feature which means the 2014 Notes are subject to a non-viability write-down in case of a non-viability trigger event. A non-viability trigger event is deemed to have occurred when the Parent Bank is considered non-viable as determined by the BSP. Upon the occurrence of a non-viability trigger event, the full principal amount of the 2014 Notes may be permanently written down to the extent required by the BSP, which could go to as low as zero, and the 2014 Notes may be cancelled;
- (b) The 2014 Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries and affiliates. The 2014 Noteholders or their transferees shall not be allowed, and waive their right to set-off any amount that may be due the Parent Bank;
- (c) The 2014 Notes constitute direct, unconditional, unsecured and subordinated obligations of the Parent Bank. Claims of 2014 Noteholders in respect of the 2014 Notes shall at all times rank *pari passu* and without any preference among themselves; and,
- (d) The 2014 Notes shall not be redeemable or terminable at the instance of the 2014 Noteholders before the maturity date, unless otherwise expressly provided therein.

Interest expense on notes payable amounted to P461,778 in 2017 and P387,000 both in 2016 and 2015 and is included under Interest Expense on Bills Payable and Other Liabilities account in the statements of income.

24. OTHER LIABILITIES

Other liabilities consist of the following as of December 31:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Manager's checks	P 8,676,900	P 6,177,372	P 8,676,900	P 6,177,372
Pre-need reserves	4,124,818	5,329,205	-	-
Bills purchased – domestic and foreign	3,463,370	4,473,125	3,463,370	4,473,125
Accounts payable	2,853,536	2,143,522	2,367,083	1,874,825
Accrued taxes and other expenses	2,618,810	2,444,229	1,932,164	1,839,911
Post-employment defined benefit obligation (see Note 28.2)	938,729	1,534,234	841,223	1,456,946
Unearned income- bancassurance (see Note 31.6)	833,333	-	833,333	-
Payment orders payable	430,508	1,073,911	430,508	1,073,911
Other dormant credits	377,337	358,265	374,530	355,046
Withholding taxes payable	163,890	118,341	126,039	85,067
Derivative liabilities (see Note 11)	23,684	135,957	23,684	135,957
Due to Treasurer of the Philippines	3,005	3,005	3,005	3,005
Miscellaneous	764,824	1,268,349	535,263	443,049
	<u>P 25,272,744</u>	<u>P 25,059,515</u>	<u>P 19,607,102</u>	<u>P 17,918,214</u>

The breakdown of Accrued taxes and other expenses account follows:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Accrued interest payable	P 941,243	P 604,606	P 792,842	P 490,735
Accrued income and other taxes (see Note 36.1)	574,936	518,936	76,043	62,773
Accrued sick leave benefits	338,984	271,980	335,032	269,071
Other accruals	763,647	1,048,707	728,247	1,017,332
	<u>P 2,618,810</u>	<u>P 2,444,229</u>	<u>P 1,932,164</u>	<u>P 1,839,911</u>

Other accruals represent mainly fringe and other Bank personnel benefits.

25. CAPITAL FUNDS

25.1 Capital Stock

The Bank's capital stock in both 2017 and 2016 consists of the following:

	<u>Shares</u>	<u>Amount</u>
Common – P10 par value		
Authorized	<u>1,311,422,420</u>	<u>P 13,114,224</u>
Issued and outstanding	<u>1,058,343,929</u>	<u>P 10,583,439</u>
Preferred – P100 par value, non-voting		
Authorized	<u>100,000,000</u>	<u>P 10,000,000</u>
Issued and outstanding	<u>-</u>	<u>P -</u>

The authorized capital stock of the Bank is P23,114,224 divided into 1,311,422,420 common shares at P10 par value and 100,000,000 preferred shares at P100 par value. The Bank's outstanding common stock as of December 31, 2017 is 1,058,343,929 shares. No preferred shares have been issued to date.

On June 29, 1992, the Bank was originally listed with the then Makati Stock Exchange, now PSE. A total of 89.7 million shares were issued at an issue price of P22.50. As of December 31, 2017 and 2016, there are 1,058.3 million shares listed at the PSE. The number of holders and the closing price of the said shares is 4,995 and P86.65 per share as of December 31, 2017, respectively, and 5,042 and P74.60 per share as of December 31, 2016, respectively.

25.2 Surplus Free

The following is a summary of the dividends declared and distributed by the Group in 2017, 2016 and 2015:

<u>Date of Declaration</u>	<u>Date of Record</u>	<u>Date of BSP Approval</u>	<u>Date of Payment</u>	<u>Dividend per Share</u>	<u>Shares Outstanding</u>	<u>Total Amount</u>
January 27, 2017	February 10, 2017	N/A	February 24, 2017	P 1.90	1,058,343,929	P 2,010,853
January 22, 2016	February 9, 2016	N/A	February 19, 2016	1.50	1,058,343,929	1,587,516
January 23, 2015	April 23, 2015	April 1, 2015	May 20, 2015	2.10	1,058,343,929	2,222,522

In compliance with BSP regulations, the Bank ensures that adequate reserves are in place for future bank expansion requirements. The foregoing cash dividend declarations were made within the BSP's allowable limit of dividends.

25.3 Surplus Reserves

The amended PNUCA requires that the portion of retained earnings representing Trust Fund Income of FUPI be automatically restricted to payments of benefits of plan holders and related payments as allowed in the amended PNUCA. The accumulated Trust Fund income should be appropriated and presented separately as Surplus Reserves in the statements of changes in capital funds. For the years ended December 31, 2017 and 2016 (nil in 2015), FUPI appropriated P261.7 million and P122.8 million, respectively, representing Trust Fund Income earned in those years.

26. SERVICE CHARGES, FEES AND COMMISSIONS

This account is broken down as follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Service charges	P 3,832,640	P 4,067,623	P 3,455,209
Bank commissions	128,175	115,804	97,177
Others	<u>351,656</u>	<u>331,128</u>	<u>183,193</u>
	<u>P 4,312,471</u>	<u>P 4,514,555</u>	<u>P 3,735,579</u>
	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Service charges	P 789,064	P 695,099	P 676,044
Bank commissions	121,174	115,804	94,401
Others	<u>167,889</u>	<u>146,465</u>	<u>54,946</u>
	<u>P 1,078,127</u>	<u>P 957,368</u>	<u>P 825,391</u>

Others include commissions earned from bancassurance partnership earned in 2017 (see Note 31.6).

27. MISCELLANEOUS INCOME AND EXPENSES

27.1 *Miscellaneous Income*

Miscellaneous income is composed of the following:

	Notes	Group		
		2017	2016	2015
Fair value gains on investment properties	7.5, 16	P 620,074	P 385,687	P 416,173
Foreign exchange gains – net		593,419	589,873	-
Trust fund income	25.3	261,653	122,733	(87,527)
Dividend		209,762	206,245	392,683
Rental	16, 34	190,025	186,796	181,626
EAF earned	31.6	166,667	-	-
Gain from sale of assets	7.5	173,792	132,971	513,009
Income from trust operations	30	141,831	148,873	165,399
Gain from purchase	14	129,920	-	-
Penalties		79,299	73,225	146,942
Gains from acquisition of investment properties		10,146	16,999	29,120
Others		<u>269,123</u>	<u>206,419</u>	<u>441,766</u>
		P 2,845,711	P 2,069,821	P 2,199,191
	Notes	Parent Bank		
		2017	2016	2015
Share in net profit of subsidiaries	14	P 3,429,942	P 3,474,490	P 2,432,552
Fair value gains on investment properties	7.5, 16	603,706	385,687	404,432
Foreign exchange gains – net		593,418	589,862	-
Dividend		204,919	133,458	325,216
Rental	16, 34	186,357	182,613	170,944
EAF earned	31.6	166,667	-	-
Gain from sale of assets	7.5	164,737	131,838	508,387
Income from trust operations	30	141,831	148,873	165,399
Penalties		79,299	73,225	146,942
Gains from acquisition of investment properties		10,146	16,999	29,120
Others		<u>229,705</u>	<u>199,180</u>	<u>441,235</u>
		P 5,810,727	P 5,336,225	P 4,624,227

The Parent Bank has not recognized its share of the net profit or losses earned or incurred by FUPI and UBPSI since the Parent Bank's accumulated share in net losses from these subsidiaries already exceeded the investment value. Detailed breakdown of the amount recognized and not recognized is shown in the succeeding page.

	<u>2017</u>	<u>2016</u>	<u>2015</u>
FUPI			
Accumulated loss	P 1,195,843	P 1,347,150	P 1,432,272
Recognized share in accumulated net loss	<u>1,045,880</u>	<u>1,045,880</u>	<u>1,323,438</u>
Unrecognized share in net loss	P 149,963	P 301,270	P 108,834
UBPSI			
Accumulated loss	P 6,698	P 8,167	P 8,839
Recognized share in accumulated net loss	<u>-</u>	<u>-</u>	<u>-</u>
Unrecognized share in net loss	P 6,698	P 8,167	P 8,839

27.2 Miscellaneous Expenses

The breakdown of miscellaneous expenses follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Insurance	P 922,020	P 726,459	P 619,102
Outside services	758,629	521,564	485,553
Repairs and maintenance	437,336	369,655	342,735
Card related expenses	308,592	205,450	111,837
Management and professional fees	352,871	288,431	181,835
Advertising and publicity	352,428	341,828	240,290
Litigation	202,383	162,857	199,918
Communication	251,089	179,137	171,100
Plan benefits	215,321	301,500	299,588
Transportation and travel	194,442	165,891	145,629
Stationery and supplies	163,342	133,510	142,252
Supervision fees	149,755	120,385	108,667
Representation and entertainment	81,364	87,339	135,211
Foreign exchange loss – net	-	-	119,060
Others	367,333	231,575	170,099
	P 4,756,905	P 3,835,581	P 3,472,876
	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Insurance	P 806,393	P 631,162	P 527,296
Outside services	533,354	463,880	414,184
Repairs and maintenance	409,708	323,096	299,869
Card related expenses	308,592	205,450	111,837
Management and professional fees	342,697	233,675	143,148
Litigation	201,184	162,857	199,837
Advertising and publicity	285,695	180,215	140,662
Communication	199,436	140,162	138,220
Supervision fees	126,689	102,801	95,380
Transportation and travel	128,196	111,253	98,890
Stationery and supplies	127,471	97,757	93,054
Representation and entertainment	80,225	86,228	133,540
Foreign exchange loss – net	-	-	119,068
Others	307,969	189,538	139,301
	P 3,857,609	P 2,928,074	P 2,654,286

28. SALARIES AND EMPLOYEE BENEFITS

28.1 Salaries and Employee Benefits Expense

Expenses recognized for employee benefits are as follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits:			
Salaries and wages	P 2,899,712	P 2,376,970	P 2,157,374
Bonuses	654,234	1,304,972	398,125
Fringe benefits	1,074,915	791,504	756,195
Social security costs	93,627	77,504	72,439
Other benefits	107,748	171,439	144,175
Post-employment benefits	386,734	289,697	302,330
Other long-term benefits	<u>68,074</u>	<u>60,533</u>	<u>41,635</u>
	<u>P 5,285,044</u>	<u>P 5,072,619</u>	<u>P 3,872,273</u>
	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits:			
Salaries and wages	P 2,395,817	P 1,981,598	P 1,807,763
Bonuses	432,575	1,099,287	217,564
Fringe benefits	1,017,789	739,779	694,744
Social security costs	68,124	57,869	54,738
Other benefits	72,104	144,374	127,802
Post-employment benefits	332,966	250,379	252,579
Other long-term benefits	<u>67,366</u>	<u>60,533</u>	<u>41,635</u>
	<u>P 4,386,741</u>	<u>P 4,333,819</u>	<u>P 3,196,825</u>

*28.2 Post-employment Defined Benefit Plan**(a) Characteristics of the Defined Benefit Plan*

The Group maintains funded, tax-qualified, noncontributory pension plans covering all regular full-time employees that are being administered by the Bank's Trust and Investment Services Group (TISG) for the Parent Bank, UPI and CSB and by a trustee bank that is legally separated from the Group for FUIFAI. Under these pension plans, all covered employees are entitled to cash benefits after satisfying certain age and service requirements.

The Group maintains five separate retirement plans. Two of which are being maintained for UnionBank and former iBank employees, hence, the Parent Bank presents pension information in its financial statements separately for the two plans. The other three pension plans are for UPI, CSB and FUIFAI employees.

UnionBank Plan

The normal retirement age is 60. The plan also provides for an early retirement at age 55, or age 50 with the completion of at least ten years of service. However, late retirement is subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly salary for each year of credited service.

Former iBank Plan

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with the completion of at least ten years of service and late retirement subject to the approval of the Bank's BOD on a case-to-case basis. Normal retirement benefit is an amount equivalent to 125% of the final monthly covered compensation for every year of credited service.

UPI Plan

The optional retirement age is 60 and the compulsory retirement age is 65. Both must have a minimum of five years of credited service. Both have the retirement benefit equal to one-half month's salary as of the date of retirement multiplied by the employee's year of service. Upon retirement of an employee, whether optional or compulsory, his services may be continued or extended on a case to case basis upon agreement of management and employee.

This is based on the retirement plan benefits provided in the Retirement Law (R.A. No. 7641).

Under the law, unless the parties provide for broader inclusions, the term one-half (1/2) month salary shall mean fifteen (15) days plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of not more than (5) days of service incentive leaves.

CSB Plan

The normal retirement age is 60 or his completion of 30 years of service whichever is earlier. The service of any member, however, may be extended from year to year beyond the normal retirement date, provided such an extension of service is with the consent of the member concerned and the express approval of CSB. The plan also provides for an early retirement after completion of at least ten years of service. Normal retirement benefit is an amount equivalent to 100% of the final basic monthly salary multiplied by the number of years of service prior to January 1, 2008 and 150% of the final basic monthly salary for services rendered starting January 1, 2008.

FUIFAI Plan

The normal retirement age is 60 with a minimum of five 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 FUIFAI'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 in the subsequent pages are based on the actuarial valuation reports obtained from independent actuaries in 2017 and 2016.

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows (see Note 24):

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Present value of the obligation	P 4,175,532	P 3,664,572	P 3,326,413
Fair value of plan assets	<u>3,236,803</u>	<u>2,130,338</u>	<u>2,328,087</u>
	<u>P 938,729</u>	<u>P 1,534,234</u>	<u>P 998,326</u>
	Parent Bank – UnionBank Plan		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Present value of obligation	P 3,084,669	P 2,771,342	P 2,509,697
Fair value of plan assets	<u>2,384,204</u>	<u>1,436,298</u>	<u>1,705,407</u>
	<u>P 700,465</u>	<u>P 1,335,044</u>	<u>P 804,290</u>
	Parent Bank – Former iBank Plan		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Present value of obligation	P 729,661	P 611,652	P 544,008
Fair value of plan assets	<u>588,903</u>	<u>489,750</u>	<u>454,694</u>
	<u>P 140,758</u>	<u>P 121,902</u>	<u>P 89,314</u>

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

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance at beginning of year	P 3,664,572	P 3,326,413	P 3,081,799
Current service cost	386,734	289,697	302,330
Interest expense	172,511	160,581	140,951
Remeasurements –			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	(127,015)	141,932	(81,664)
- experience adjustments	353,737	274,664	46,387
- changes in demographic assumptions	(119,078)	5,316	828
Benefits paid	(155,929)	(534,031)	(164,218)
Balance at end of year	<u>P 4,175,532</u>	<u>P 3,664,572</u>	<u>P 3,326,413</u>
	Parent Bank – UnionBank Plan		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Balance at beginning of year	P 2,771,342	P 2,509,697	P 2,393,606
Current service cost	295,295	209,394	207,145
Interest expense	131,402	126,238	110,585
Remeasurements –			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	(124,961)	135,930	(71,190)
- experience adjustments	231,948	285,922	(20,210)
- changes in demographic assumptions	(122,153)	14,566	17,753
Benefits paid	(98,204)	(510,405)	(127,992)
Balance at end of year	<u>P 3,084,669</u>	<u>P 2,771,342</u>	<u>P 2,509,697</u>

	Parent Bank – Former iBank Plan		
	2017	2016	2016
Balance at beginning of year	P 611,652	P 544,008	P 482,375
Current service cost	37,671	40,985	45,434
Interest expense	25,894	24,372	20,452
Remeasurements:			
Actuarial losses (gains) arising from:			
- changes in financial assumptions	(28,656)	23,008	(7,828)
- experience adjustments	160,838	7,553	48,578
- changes in demographic assumptions	(31,099)	(9,250)	(17,000)
Benefits paid	(46,639)	(19,104)	(28,003)
Balance at end of year	P 729,661	P 611,652	P 544,008

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

	Group		
	2017	2016	2015
Balance at beginning of year	P 2,130,338	P 2,328,087	P 2,260,771
Interest income	101,529	111,612	103,691
Return on plan asset (excluding amounts included in net interest)	158,826	(105,877)	(193,132)
Contribution to the plan	1,002,039	330,547	320,975
Benefits paid	(155,929)	(534,031)	(164,218)
Balance at end of year	P 3,236,803	P 2,130,338	P 2,328,087

	Parent Bank – UnionBank Plan		
	2017	2016	2015
Balance at beginning of year	P 1,436,298	P 1,705,407	P 1,669,178
Interest income	69,448	85,782	77,117
Return on plan asset (excluding amounts included in net interest)	49,046	(90,867)	(155,078)
Contribution to the plan	927,616	246,381	242,182
Benefits paid	(98,204)	(510,405)	(127,992)
Balance at end of year	P 2,384,204	P 1,436,298	P 1,705,407

	Parent Bank – Former iBank Plan		
	2017	2016	2015
Balance at beginning of year	P 489,750	P 454,694	P 458,319
Interest income	21,208	20,370	19,433
Return on plan asset (excluding amounts included in net interest)	7,784	(9,869)	(38,514)
Contribution to the plan	116,800	43,659	43,459
Benefits paid	(46,639)	(19,104)	(28,003)
Balance at end of year	P 588,903	P 489,750	P 454,694

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

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Bank deposits	P 1,121,080	P 294,001	P 468,881
Quoted equity securities:			
Financial and insurance activities	1,502,927	1,468,358	1,571,871
Electricity, gas steam and air conditioning supply	135,987	26,712	23,815
Other service activities	82,106	-	-
Real estate activities	11,967	11,719	3,010
Wholesale and retail trade	-	82,088	82,171
Manufacturing	-	158	-
Others	159	63	56
	<u>1,733,146</u>	<u>1,589,098</u>	<u>1,680,923</u>
Debt securities:			
Philippine government bonds	232,832	104,824	56,719
Corporate bonds	145,727	141,094	120,800
	<u>378,559</u>	<u>245,918</u>	<u>177,519</u>
Others	4,018	1,321	764
	<u>P 3,236,803</u>	<u>P 2,130,338</u>	<u>P 2,328,087</u>
	Parent Bank – UnionBank Plan		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Bank deposits	P 878,453	P 167,578	P 378,256
Quoted equity securities:			
Financial and insurance activities	998,963	998,456	1,114,885
Electricity, gas and water	107,840	16	12
Other service activities	76,796	-	-
Wholesale and retail trade	-	76,758	76,805
Others	15	5	6
	<u>1,183,614</u>	<u>1,075,235</u>	<u>1,191,708</u>
Debt securities:			
Philippine government bonds	206,174	83,517	41,067
Corporate bonds	112,726	109,302	93,800
	<u>318,900</u>	<u>192,819</u>	<u>134,867</u>
Others	3,237	666	576
	<u>P 2,384,204</u>	<u>P 1,436,298</u>	<u>P 1,705,407</u>

	Parent Bank – Former iBank Plan		
	2017	2016	2015
Current service cost	P 37,671	P 40,985	P 45,434
Net interest expense	4,686	4,002	1,019
	P 42,357	P 44,987	P 46,453

The amounts recognized in other comprehensive income in respect of the post-employment defined benefit plan are as follows:

	Group		
	2017	2016	2015
Actuarial gains (losses) arising from changes in:			
Financial assumption	(P 127,015)	(P 141,932)	P 81,664
Experience adjustments	353,737	(274,664)	(46,387)
Demographic assumptions	(119,078)	(5,316)	(828)
Return on plan assets (excluding amounts included in net interest)	(158,826)	(105,877)	(193,132)
	(P 51,182)	(P 527,789)	(P 158,683)

	Parent Bank – UnionBank Plan		
	2017	2016	2015
Actuarial gains (losses) arising from changes in:			
Financial assumption	(P 124,961)	(P 135,930)	P 71,190
Experience adjustments	231,948	(285,922)	20,210
Demographic assumption	(122,153)	(14,566)	(17,753)
Return on plan assets (excluding amounts included in net interest)	(49,046)	(90,867)	(155,078)
	(P 64,212)	(P 527,285)	(P 81,431)

	Parent Bank – Former iBank Plan		
	2017	2016	2015
Actuarial gains (losses) arising from changes in:			
Financial assumption	(P 28,656)	(P 23,088)	P 7,828
Experience adjustments	160,838	(7,553)	(48,578)
Demographic assumption	(31,099)	9,250	17,000
Return on plan assets (excluding amounts included in net interest)	(7,784)	(9,869)	(38,514)
	P 93,299	(P 31,260)	(P 62,264)

In addition to the above items, the Bank also recognized its share of the other comprehensive income of subsidiaries in respect of the post-employment defined benefit plan which amounted to P15,264 loss, P21,126 gain, and P10,026 loss in 2017, 2016 and 2015, respectively (see Note 14).

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

The Group expects to contribute P469,781 in 2018 while the Parent Bank expects to pay P358,628 and P60,396 for the UnionBank Plan and for the Former iBank Plan, respectively, in 2018.

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

Parent Bank – UnionBank Plan			
	2017	2016	2015
Retirement age	60	60	60
Average remaining working life	9 years	26 years	17 years
Discount rate	5.34%	5.03%	4.62%
Expected rate of salary increase	7.00%	6.00%	6.00%
Employee turnover rate	9.00%	3.00%	3.00%

Former iBank Plan			
	2017	2016	2015
Retirement age	60	60	60
Average remaining working life	7 years	18 years	13 years
Discount rate	4.83%	4.48%	4.24%
Expected rate of salary increase	7.00%	6.00%	6.00%
Employee turnover rate	5.00%	5.00%	22%

UPI			
	2017	2016	2015
Retirement age	60	60	60
Average remaining working life	6 years	14 years	15 years
Discount rate	4.93%	4.93%	4.49%
Expected rate of salary increase	7.00%	7.00%	6.00%
Employee turnover rate	3.00%	5.00%	3.00%

CSB			
	2017	2016	2015
Retirement age	60	60	60
Average remaining working life	16 years	19 years	19 years
Discount rate	5.58%	5.58%	4.89%
Expected rate of salary increase	6.00%	6.00%	7.00%
Employee turnover rate	5.00%	5.00%	5.00%

FUIFAI			
	2017	2016	2015
Retirement age	60	60	60
Average remaining working life	20 years	23 years	22 years
Discount rate	5.70%	5.38%	4.89%
Expected rate of salary increase	10.00%	10.00%	10.00%

Assumptions regarding future mortality and disability are based on published statistics and mortality tables. 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 a zero coupon government bond 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 the Retirement Plan

The plans expose the Group 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 plans are mostly invested in equity securities. Due to the long-term nature of plan obligation, a level of continuing equity investments is an appropriate element of the Group'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 Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(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 Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
<u>Group</u>			
<u>December 31, 2017</u>			
Discount rate	+/-1.0% (P	253,895)	P 294,607
Salary growth rate	+/-1.0%	299,468	(263,560)
Turn-over rate	+/-1.0% (15,635)	16,373
<u>December 31, 2016</u>			
Discount rate	+/-1.0% (P	258,915)	P 411,600
Salary growth rate	+/-1.0%	389,477	(254,939)
Turn-over rate	+/-1.0% (237,298)	104,017

	Impact on Post-employment Defined Benefit Obligation		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
<u>UnionBank Plan</u>			
<u>December 31, 2017</u>			
Discount rate	+/-1.0%	(P 181,200)	P 209,923
Salary growth rate	+/-1.0%	210,433	(185,613)
Turn-over rate	+/-1.0%	(13,236)	13,851
<u>December 31, 2016</u>			
Discount rate	+/-1.0%	(P 197,988)	P 308,954
Salary growth rate	+/-1.0%	290,611	(193,296)
Turn-over rate	+/-1.0%	(216,449)	96,797
<u>Former iBank Plan</u>			
<u>December 31, 2017</u>			
Discount rate	+/-1.0%	(P 34,852)	P 39,335
Salary growth rate	+/-1.0%	42,869	(38,719)
Turn-over rate	+/-1.0%	(2,319)	2,440
<u>December 31, 2016</u>			
Discount rate	+/-1.0%	(P 22,069)	P 55,529
Salary growth rate	+/-1.0%	51,348	(21,716)
Turn-over rate	+/-1.0%	(21,631)	6,512

The above 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 defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Retirement Committee, 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 Group 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 equity securities and bonds, although the Group also invests in bank deposits. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equities are in a diversified portfolio of investments in corporations listed in the PSE.

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

(iii) *Funding Arrangements and Expected Contributions*

There is no minimum funding requirement in the country.

The maturity profile of undiscounted expected benefits payments from the plan follows:

Group

	<u>2017</u>	<u>2016</u>
Within one year	P 267,815	P 815,104
More than one year to five years	1,319,237	843,236
More than five years to ten years	1,937,696	1,346,789
More than ten years to 15 years	2,464,946	2,695,260
More than 15 years to 20 years	2,590,312	3,744,380
More than 20 years	<u>7,363,165</u>	<u>31,949,645</u>
	<u>P 15,943,171</u>	<u>P 41,394,414</u>

UnionBank Plan

	<u>2017</u>	<u>2016</u>
Within one year	P 171,484	P 621,299
More than one year to five years	997,656	710,673
More than five years to ten years	1,487,729	962,254
More than ten years to 15 years	1,947,381	2,093,349
More than 15 years to 20 years	1,836,381	2,644,472
More than 20 years	<u>5,538,972</u>	<u>28,211,488</u>
	<u>P 11,979,603</u>	<u>P 35,243,535</u>

Former iBank Plan

	<u>2017</u>	<u>2016</u>
Within one year	P 57,097	P 151,078
More than one year to five years	288,995	117,772
More than five years to ten years	301,502	270,400
More than ten years to 15 years	293,055	401,858
More than 15 years to 20 years	232,972	570,684
More than 20 years	<u>184,041</u>	<u>1,551,154</u>
	<u>P 1,357,662</u>	<u>P 3,062,946</u>

The weighted average duration of the defined benefit obligation is 15 years and 17 years in 2017 and 2016.

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	<u>Group</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Tax on pretax profit at 30%	P 3,205,829	P 3,592,784	P 2,450,267
Adjustment for income subjected to lower income tax rates	(271,960)	(320,670)	(136,338)
Tax effects of:			
FCDU income before tax	(852,176)	(1,768,406)	(217,988)
Non-taxable income	(1,543,785)	(600,632)	(382,987)
Non-deductible expenses	1,384,203	321,509	744,681
Unrecognized deferred tax asset	132	392	5,844
Others	<u>343,837</u>	<u>684,610</u>	<u>(312,904)</u>
Tax expense reported in profit or loss	<u>P 2,266,080</u>	<u>P 1,909,587</u>	<u>P 2,150,575</u>
	<u>Parent Bank</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Tax on pretax profit at 30%	P 2,732,744	P 3,220,636	P 2,184,207
Adjustment for income subjected to lower income tax rates	(219,077)	(120,222)	(112,237)
Tax effects of:			
FCDU income before tax	(852,176)	(1,768,406)	(217,988)
Non-taxable income	(1,154,912)	(1,132,269)	(1,098,831)
Non-deductible expenses	391,659	297,737	529,000
Others	<u>(71,039)</u>	<u>(15,522)</u>	<u>(313,385)</u>
Tax expense reported in profit or loss	<u>P 827,199</u>	<u>P 481,954</u>	<u>P 970,766</u>

The components of the net deferred tax assets (presented under Other Resources – (see Note 19) as of December 31, 2017 and 2016 are as follows:

	<u>Group's Statements of Financial Position</u>	
	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Allowance for impairment	P 3,278,384	P 3,522,609
Accrued other expenses	257,786	349,474
Deferred service fees	273,076	334,395
Unrealized foreign exchange loss	10,254	261,315
Others	<u>692,611</u>	<u>343,109</u>
	<u>4,512,111</u>	<u>4,810,902</u>
Deferred tax liabilities:		
Fair value gains on investment properties	1,127,598	1,135,486
Unrealized foreign exchange gain	71,015	170,609
Capitalized interest	30,751	31,849
Others	<u>35,470</u>	<u>168,882</u>
	<u>1,264,834</u>	<u>1,506,826</u>
Net deferred tax assets	<u>P 3,247,277</u>	<u>P 3,304,076</u>

	<u>Parent's Bank Statements of Financial Position</u>	
	<u>2017</u>	<u>2016</u>
Deferred tax assets:		
Allowance for impairment	P 2,923,968	P 2,888,180
Accrued other expenses	257,786	336,656
Excess MCIT	141,929	-
Unrealized foreign exchange swap loss	10,254	261,315
Others	<u>486,208</u>	<u>498,073</u>
	<u>3,820,145</u>	<u>3,984,224</u>
Deferred tax liabilities:		
Fair value gains on investment properties	1,106,101	1,133,454
Unrealized foreign exchange gain	71,011	170,605
Capitalized interest	30,751	31,849
Others	<u>23,661</u>	<u>25,842</u>
	<u>1,231,523</u>	<u>1,361,750</u>
Net deferred tax assets	<u>P 2,588,622</u>	<u>P 2,622,474</u>

	<u>Group Statements of Income</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Accrued other expenses	P 91,688	P 205,803	(P 98,991)
Impairment reversals (losses)	244,225	98,785	(370,588)
MCIT	(141,929)	(84,801)	(202,345)
Unrealized foreign exchange gain (loss)	251,061	79,988	(81,798)
Net fair value gains (losses) on investment properties	7,888	35,919	6,658
Foreign currency swap revaluation gain	99,594	-	77,439
Others	(<u>509,949</u>)	(<u>445,527</u>)	<u>884,983</u>
Deferred tax expense (income)	<u>P 42,578</u>	(<u>P 109,833</u>)	<u>P 215,358</u>

	<u>Parent Bank Statements of Income</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Impairment reversals	(P 35,788)	P 255,810	P 503,776
Accrued other expenses	78,870	(196,576)	100,496
Foreign currency swap revaluation gain (loss)	251,061	(88,107)	(250,647)
Excess MCIT	(141,929)	(84,801)	(202,345)
Net fair value gains (losses) on investment properties	(27,353)	33,887	(6,658)
Unrealized foreign exchange gain (loss)	(99,594)	8,117	255,004
Others	<u>17,311</u>	(<u>38,163</u>)	(<u>14,342</u>)
Deferred tax expense (income)	<u>P 42,578</u>	(<u>P 109,833</u>)	<u>P 385,284</u>

The Parent Bank is subject to the MCIT which is computed at 2% of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher. In 2014 and 2013, the Parent Bank recognized MCIT amounting to P100,846 and P95,555, respectively, which was applied against RCIT in 2016.

As of December 31, 2017, the Parent Bank has MCIT amounting to P141,929 that can be applied against RCIT for the next three consecutive years after the MCIT was incurred.

29.2 Relevant Tax Regulations

The following are the relevant tax regulations affecting the Group:

29.2.1 Income Tax

- (a) MCIT, computed at 2% of gross income, net of allowable deductions as defined under the tax regulations, or to RCIT of 30%, whichever is higher;
- (b) FCDU transactions with non-residents of the Philippines and other offshore banking units (offshore income) are tax-exempt, while interest income on foreign currency loans from residents other than offshore banking units (OBUs) or other depository banks under the expanded system is subject to 10% income tax;
- (c) Withholding tax of 7.5% is imposed on interest earned by residents under the expanded foreign currency deposit system; and,
- (d) Net operating loss carry-over (NOLCO) can be claimed as deduction against taxable income within three years after NOLCO is incurred.

29.2.2 Gross Receipts Tax

Banks are subject to gross receipts tax under Sec. 121 of the National Internal Revenue Code as amended.

29.2.3 Documentary Stamp Tax

Documentary stamp taxes (DST) (at varying rates) are imposed on the following:

- (a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- (b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
- (c) Acceptance of bills of exchange and letters of credit; and,
- (d) Bills of lading or receipt.

On February 7, 2004, RA No. 9243, *An Act Rationalizing the Provisions on the Documentary Stamp Tax of the NIRC*, was passed amending the rates of DST, the significant provisions of which are summarized below.

- (a) On every issue of debt instruments, there shall be collected a DST of P1.00 on each P200 or fractional part thereof of the issue price of any such debt instrument; provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days; provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.
- (b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of P0.75 on each P200, or fractional part thereof, of the par value of such stock.
- (c) On all bills of exchange or drafts, there shall be collected a DST of P0.30 on each P200, or fractional part thereof, of the face value of any such bill of exchange or draft.
- (d) The following instruments, documents and papers shall be exempt from DST:
 - Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
 - Loan agreements or promissory notes, the aggregate of which does not exceed P250,000 or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
 - Sale, barter or exchange of shares of stock listed and traded through the local stock exchange (as amended by RA No. 9648);
 - Fixed income and other securities traded in the secondary market or through an exchange;
 - Derivatives including repurchase agreements and reverse repurchase agreements;
 - Bank deposit accounts without a fixed term or maturity; and,
 - Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

29.2.4 Itemized Deduction

In 2017, 2016 and 2015, the Bank opted to claim itemized deductions.

29.2.5 Tax Reform for Acceleration and Inclusion Law

The Republic Act 10963, *The Tax Reform for Acceleration and Inclusion (TRAIN)*, is the first package of the comprehensive tax reform program envisioned by the government. The bill was signed into law on December 19, 2017 and took effect on January 1, 2018, amending the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.5%, tax on interest income of foreign currency deposits was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others will be subjected to a higher rate.

30. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the accompanying statement of financial position since these are not properties of the Bank (see Note 34.2).

	<u>2017</u>		<u>2016</u>
Investments	P 42,073,308	P	36,558,627
Others	<u>961</u>		<u>23,586</u>
	<u>P 42,074,269</u>	P	<u>36,582,213</u>

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

- (a) investment in government securities with a total face value of P701,316 and P825,524 as of December 31, 2017 and 2016, respectively, are deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Notes 12); and,
- (b) ten percent of the Bank's trust income is transferred to surplus reserves. This yearly transfer is required until the surplus reserves for trust function is equivalent to 20% of the Bank's authorized capital stock. No part of such reserves shall at anytime be paid out as dividends, but losses accruing in the course of business may be charged against such surplus. As of December 31, 2017, the reserve for trust functions amounted to P232,074 and is included as part of Surplus Reserves in the statements of changes in capital funds.

Income from trust operations of the Group and Parent Bank amounted to P141,831, P148,873 and P165,399 for the years ended December 31, 2017, 2016 and 2015, respectively, and shown as Income from trust operations account under Miscellaneous Income in the statements of income (see Note 27.1).

31. RELATED PARTY TRANSACTIONS

The Group's and Parent Bank's related parties include subsidiaries, stockholders, key management personnel and others as described below.

The summary of the Group's significant transactions with its related parties as of and for the years ended December 31, 2017 and 2016 are as follows:

Related Party Category	Note	2017		2016	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries					
Lease of properties	31.1				
Lease income		P 10,715	P -	P 9,954	P -
Refundable deposits		-	683	-	683
Management services	31.2	25,153	-	2,528	-
Trust fee income		25	-	-	-
Deposit liabilities	31.3				
Outstanding balance		-	939,655	-	910,229
Net movements		29,426	-	(143,829)	-
Interest expense on deposits		4,079	-	2,195	-
Advances	31.4				
Outstanding balance		-	1,884	-	5
Net movements		1,879	-	(6,025)	-
Stockholders and related parties under common ownership					
Deposit liabilities	31.3				
Outstanding balance		-	12,877,815	-	13,991,723
Net movements		(1,113,908)	-	3,820,895	-
Interest expense on deposits		209,276	-	182,883	-
Bills payable	31.5				
Outstanding balance		-	73,799	-	4,693,619
Net movements		(4,619,820)	-	(1,930,611)	-
Interest expense		3,263	-	177,322	-
Income from bancassurance business					
EAF earned	31.6	166,667	-	-	-
Commission income	31.6	72,044	72,044	-	-
Loans	31.8	849	849	887	887
Key management personnel	31.7	1,799,571	-	1,382,626	-
Directors, officers and other related interests					
Loans	31.8	449,157	449,157	540,588	540,588
Accounts receivable		95,123	95,123	-	-
Bills Purchased	31.8				
Outstanding balance		-	-	-	19,433
Net movements		(19,433)	-	19,433	-

Outstanding receivables from and payables to related parties, if any, arising from lease of properties, management services and advances are unsecured, noninterest-bearing and generally settled in cash within 12 months or upon demand. No impairment losses were provided for any outstanding receivables or advances as of December 31, 2017 and 2016, except for the impairment provided for the advances to UBPSI (see Note 31.4).

The Bank and its subsidiaries' retirement plans have transactions directly and indirectly with the Bank as of December 31, 2017 and 2016 as follows (see Note 31.9):

	2017		2016	
	<u>Amount of Transaction</u>	<u>Outstanding Balance</u>	<u>Amount of Transaction</u>	<u>Outstanding Balance</u>
Investment in Bank shares	P 58,056	P 252,583	P 60,946	P 194,527
Investment in Bank notes payable				
Outstanding balance	-	103,900	-	103,900
Interest income	5,460	-	5,448	-
Accrued interest income	-	367	-	348
Deposit liabilities				
Outstanding balance	-	368,706	-	275,570
Net movements	93,136	-	(111,952)	-
Interest income on deposits	5,768	-	3,300	-
Dividend income	4,049	-	4,049	-

31.1 Lease of Properties

In February 2014, the Parent Bank entered into a lease agreement with UPI, whereby the latter, as a lessee, leases one of the Parent Bank's investment properties for a period of five years. UPI pays the Parent Bank a monthly rent of P95, exclusive of VAT. Refundable deposit of UPI to the Bank amounted to P683 in both 2017 and 2016.

31.2 Management Services

The Bank entered into a sales management agreement with FUDC whereby the latter sells UnionBank Visa Credit Cards through its direct selling network. Under the terms of the agreement, the Bank pays a fixed monthly sales management fee of P4,618 and P250 in 2017 and 2016, respectively, (net of applicable taxes and service charges) plus commission per approved principal card.

31.3 Deposit Liabilities and Interest Expense

The deposit accounts of subsidiaries and stockholders with the Bank generally earn interest based on daily bank deposit rates.

31.4 Advances

The Bank also has advances to CSB and FUDC as of December 12, 2017. These are generally settled in cash upon demand. No impairment losses were provided for these advances as of December 31, 2017 and 2016.

31.5 Bills Payable and Interest Expense

In 2016, CSB availed of short-term borrowings from AEVI and Aboitiz Power Corporation, a related party under common ownership, amounting to P2,576,407 and P2,117,212, respectively. These were subsequently paid during the first quarter of the following year.

In 2017, CSB availed another loan with Aboitiz Foundation, Inc., a related party, amounting to P73,799 and payable in five years which bears an annual interest rate of 4.5%. This borrowing is included as part of Others under the Bills Payable account in the statements of financial position (see Note 22).

31.6 Bancassurance Agreement

On January 27, 2017, the Parent Bank and its subsidiary, CSB, entered into a bancassurance partnership (the Agreement) with Insular Life Assurance Company, Ltd. (Insular Life). The Agreement has a term of 15 years from commencement date. Under the Agreement, Insular Life paid the Bank an amount representing Exclusive Access Fee (EAF) that is being recognized as income over the first five years of the Agreement. EAF recognized for 2017 amounting to P166,667 is presented as Income from bancassurance business under Miscellaneous Income account in the 2017 statement of income. Unearned income arising from this transaction is presented as part of Miscellaneous under Other Liabilities account in the 2017 statement of financial position (see Note 24).

Under the distribution agreement, Insular Life will have exclusive access to the branch network of the Parent Bank and CSB. Additionally, the Bank's sales force, composed of relationship managers and financial advisors, shall be trained and licensed to sell life insurance products. Under the same Agreement, the Bank shall earn commissions on all insurance policies sold by the Bank. Commissions earned for the year ended December 31, 2017 is presented as part of Others under Service charges, fees and commissions account in the 2017 statement of income (see Note 26).

31.7 Key Management Personnel Compensation

The compensation of key management personnel for the Group and Parent Bank follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits	P 1,584,646	P 1,224,869	P 1,173,060
Post-employment benefits	147,560	97,224	87,040
Other long-term benefits	<u>67,365</u>	<u>60,533</u>	<u>41,635</u>
	<u>P 1,799,571</u>	<u>P 1,382,626</u>	<u>P 1,301,735</u>

	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Short-term benefits	P 1,363,854	P 1,096,136	P 1,050,572
Post-employment benefits	129,683	83,255	79,740
Other long-term benefits	<u>67,366</u>	<u>60,533</u>	<u>41,635</u>
	<u>P 1,560,903</u>	<u>P 1,239,924</u>	<u>P 1,171,947</u>

Directors' fees incurred by the Group amounted to P60,707 in 2017, P59,678 in 2016, and P54,731 in 2015, and by the Parent Bank amounted to P55,681 in 2017, P55,031 in 2016, and P49,896 in 2015 and are included as part of Salaries and Employee Benefits account in the statements of income.

31.8 Loans and Other Transactions

In the ordinary course of business, the Group has loans, deposits and other transactions with its related parties and with certain DOSRI. Under the Group's existing policies, these transactions are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Group. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Group, whichever is lower.

The following additional information is presented relative to DOSRI loans:

	Group		Parent Bank	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Total DOSRI loans*	P 450,006	P 560,908	P 384,084	P 502,203
Unsecured DOSRI loans*	118,407	194,567	53,333	135,861
% of DOSRI loans to total loan portfolio	0.2%	0.2%	0.2%	0.3%
% of unsecured DOSRI loans to total DOSRI loans*	0.0%	0.0%	0.0%	0.0%
% of past due DOSRI loans to total DOSRI loans	0.0%	0.0%	0.0%	0.0%
% of non-accruing DOSRI accounts to total DOSRI loans	0.0%	0.0%	0.0%	0.0%

**Total DOSRI loans and Unsecured DOSRI loans include fringe benefits that are excluded in determining the compliance with the individual ceiling under subsection X330.1 of the MORB.*

On January 31, 2007, BSP issued Circular No. 560 which provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of the Bank's subsidiaries and affiliates shall not exceed 10% of bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank.

31.9 Transactions with the Retirement Plan

The retirement fund of the Group covered under defined benefit post-employment plan maintained for qualified employees is administered by the Retirement Committee. The members of the Retirement Committee are Senior Executives and officers of the Bank as approved by the Chairman/Chief Executive Officer. Through its Retirement Committee, it has appointed TISG as the trustee for the retirement fund which is covered by trust agreements.

The composition of the retirement plan assets of the Bank and its subsidiaries as of December 31, 2017 and 2016 are the following:

	<u>Group</u>		<u>Parent Bank</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Investments in:				
Equity securities	P 1,733,146	P 1,589,098	P 1,618,192	P 1,480,212
Debt securities	378,560	245,918	351,901	224,610
Bank deposits	1,121,080	294,001	999,544	220,463
Others	<u>4,017</u>	<u>1,321</u>	<u>3,470</u>	<u>763</u>
	<u>P 3,236,803</u>	<u>P 2,130,338</u>	<u>P 2,973,107</u>	<u>P 1,926,048</u>

As of December 31, 2017 and 2016, the carrying value of the fund is equivalent to its fair value.

The retirement fund of the Group includes investments in shares of stock and notes payable of the Bank amounting to P252,583 and P103,900, respectively, as of December 31, 2017 and P194,527 and P103,900, respectively, as of December 31, 2016. The investment in Bank shares are primarily held for re-sale and the Group's retirement fund does not intend to exercise its voting rights over those shares. The terms of the investment in notes payable are discussed in Note 23.

The combined retirement fund of the Group and the retirement funds of the Bank have deposits with the Bank amounting to P368,706 and P259,074, respectively, as of December 31, 2017 and P275,570 and P212,992, respectively, as of December 31, 2016.

The related dividend income, interest income and trading gain amounted to P4,049, P11,228 and nil, respectively, in 2017 and P4,049, P8,748 and P283, respectively, in 2016.

31.10 Group Life Insurance from a Related Party

The Parent Bank entered into a contract with Insular Life for its group health insurance. The amount of the group health insurance package covering October 2017 to September 2018 is at P93,000.

32. EARNINGS PER SHARE

As of December 31, 2017, 2016 and 2015, the Group and the Parent Bank have no outstanding potentially dilutive securities hence, basic earnings per share are equal to diluted earnings per share. The basic and diluted earnings per share were computed as follows:

	<u>Group</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net profit attributable to Parent Bank's stockholders	P 8,411,325	P 10,058,276	P 6,008,032
Divided by the weighted average number of outstanding common shares (thousands)	<u>1,058,344</u>	<u>1,058,344</u>	<u>1,058,344</u>
Basic and diluted earnings per share	<u>P 7.95</u>	<u>P 9.50</u>	<u>P 5.68</u>
	<u>Parent Bank</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net profit	P 8,281,948	P 10,253,502	P 6,074,252
Divided by the weighted average number of outstanding common shares (thousands)	<u>1,058,344</u>	<u>1,058,344</u>	<u>1,058,344</u>
Basic and diluted earnings per share	<u>P 7.83</u>	<u>P 9.69</u>	<u>P 5.74</u>

33. SELECTED FINANCIAL PERFORMANCE INDICATORS

The following are some measures of the Group and Parent Bank's financial performance:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Group</u>			
Return on average capital funds:			
<u>Net profit</u> Average total capital funds	12.0%	16.3%	10.6%
Return on average resources:			
<u>Net profit</u> Average total resources	1.5%	2.2%	1.6%
Net interest margin:			
<u>Net interest income</u> Average interest-earning resources	4.0%	4.1%	4.0%
Liquidity ratio:			
<u>Current Assets</u> Current Liabilities	49.1%	51.0%	50.7%

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Debt-to-equity ratio:			
$\frac{\text{Liabilities}}{\text{Equity}}$	7.4:1	6.8:1	6.4:1
Asset-to-equity ratio:			
$\frac{\text{Asset}}{\text{Equity}}$	8.4:1	7.8:1	7.4:1
Interest rate coverage ratio:			
$\frac{\text{Earnings before interests and taxes}}{\text{Interest expense}}$	2.5:1	3.3:1	2.9:1

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<u>Parent Bank</u>			
Return on average capital funds:			
$\frac{\text{Net profit}}{\text{Average total capital funds}}$	11.9%	16.6%	10.7%
Return on average resources:			
$\frac{\text{Net profit}}{\text{Average total resources}}$	1.7%	2.7%	1.9%
Net interest margin:			
$\frac{\text{Net interest income}}{\text{Average interest-earning resources}}$	3.6%	3.7%	3.7%
Liquidity ratio:			
$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	49.9%	53.2%	53.2%
Debt-to-equity ratio:			
$\frac{\text{Liabilities}}{\text{Equity}}$	6.5:1	6.5:1	5.9:1
Asset-to-equity ratio:			
$\frac{\text{Asset}}{\text{Equity}}$	7.5:1	7.5:1	6.9:1
Interest rate coverage ratio:			
$\frac{\text{Earnings before interests and taxes}}{\text{Interest expense}}$	2.7:1	4.0:1	3.7:1

34. COMMITMENTS AND CONTINGENT LIABILITIES

34.1 Leases

The Bank leases various branch premises for an average period of seven years. The lease contracts are cancellable upon mutual agreement of the parties or renewable at the Bank's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 5%. Some leases include a clause to enable adjustment of the rental charge on an annual basis based on prevailing market rates. As of December 31, 2017, 2016 and 2015, the Bank has neither a contingent rent payable nor an asset restoration obligation in relation with these lease agreements.

Rentals charged against current operations included as part of Occupancy account in the statements of income are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Group	P 571,260	P 533,258	P 493,272
Parent	P 484,214	P 447,218	P 412,466

The estimated minimum future annual rentals payable under non-cancellable operating leases follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 342,660	P 319,781	P 298,900
Beyond one year but within five years	1,132,481	683,446	631,373
Beyond five years	<u>71,043</u>	<u>11,151</u>	<u>27,372</u>
	<u>P 1,546,184</u>	<u>P 1,014,378</u>	<u>P 957,645</u>
	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2014</u>
Within one year	P 263,515	P 239,095	P 228,459
Beyond one year but within five years	823,167	391,580	383,985
Beyond five years	<u>54,386</u>	<u>2,736</u>	<u>2,334</u>
	<u>P 1,141,068</u>	<u>P 633,411</u>	<u>P 614,778</u>

The Group has entered into commercial property leases on the Group's surplus offices. These non-cancellable leases have remaining non-cancellable lease terms of one to four years.

Total rent income earned (included under Miscellaneous Income account in the statements of income – see Note 27.1) by the Group and the Parent Bank for the years ended December 31, 2017, 2016 and 2015 are as follows:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Group	P 190,025	P 186,796	P 181,626
Parent Bank	P 186,357	P 182,613	P 170,944

The estimated minimum future annual rentals receivable under non-cancellable operating leases follows:

	Group		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 139,709	P 180,115	P 167,674
Beyond one year but within five years	<u>133,061</u>	<u>284,413</u>	<u>255,182</u>
	<u>P 272,770</u>	<u>P 464,528</u>	<u>P 422,856</u>
	Parent Bank		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Within one year	P 128,554	P 174,915	P 157,403
Beyond one year but within five years	<u>129,668</u>	<u>281,677</u>	<u>251,160</u>
	<u>P 258,222</u>	<u>P 456,592</u>	<u>P 408,563</u>

34.2 Others

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2017, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

Following is a summary of the Bank's commitments and contingent accounts:

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Trust department accounts	30	P 42,074,269	P 36,582,213
Inward bills for collections		17,221,005	18,199,559
Unused commercial letters of credit	4.3.4	4,038,136	3,286,112
Outstanding guarantees issued	4.3.4	665,451	775,123
Late deposits/payments received		5,642	46,101
Outward bills for collection		32,288	27,718
Other contingent accounts		3,016	2,911

There are several suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank's financial position and results of operations.

UPI acts as the project and fund manager of Kingswood Project. As fund manager, UPI is responsible for the treasury and money management as well as arranging the necessary facilities and accounting for the development of the project. UPI also receives a certain percentage of the sales price related to Kingswood Project as sales commission and to compensate for the marketing expenses incurred.

35. EVENTS AFTER THE END OF THE REPORTING PERIOD***35.1 Dividend Declaration***

On January 26, 2018, the Parent Bank's BOD approved the declaration of cash dividends at P1.90 per share or for a total of P2,010,853 based on the outstanding common stock of 1,058,343,929 shares as of December 31, 2017. Record date for stockholders entitled to said cash dividend is February 12, 2018 while payment was made on February 27, 2018.

35.2 Acquisition of Philippine Resources Savings Bank

On December 29, 2017, CSB signed a share purchase agreement (SPA) to acquire 100% of Philippine Resources Savings Banking Corp. (PR Savings Bank) from the Ropali Group. The deal involves the purchase of 127,723,385 common shares held by the Ropali Group, which represent 66.27% of the total outstanding capital stock of PR Savings Bank. CSB also signed an SPA with International Finance Corporation on February 23, 2018 for the 65,000,000 preferred shares of PR Savings Bank which is equivalent to 33.73%. Subject to approval from the Philippine Competition Commission (PCC) and BSP, the transaction is estimated to be completed by the second quarter of 2018.

PR Savings is the 14th largest thrift bank in the country, with assets of P12,917,000. Most of its 102 offices are located in Luzon offering motorcycle, agri-machinery, and salary loans to over 131,000 borrowers, mostly from the mass market segment.

The transaction will enable CSB to expand its reach in Luzon, and enter into new market segments, such as motorcycle and agri-machinery financing.

35.3 Acquisition of PETNET, Inc.

In February 2018, CSB and UPI signed an SPA with AEVI for the purchase of 2,461,338 common shares representing the 51% ownership of AEVI on PETNET, Inc. (PETNET). Subject to approval from the PCC and BSP, the transaction is estimated to be completed by the second quarter of 2018.

PETNET, more widely-known by its retail brand name PERA HUB, has the largest network of Western Union outlets in the Philippines. PETNET has over 2,800 outlets nationwide. It offers a variety of cash-based services including remittance, currency exchange and bills payment.

35.4 LTNCD

On February 21, 2018, the Parent Bank successfully issued LTNCD amounting to P3.0 billion due in August 2023 with a fixed rate of 4.375% per annum payable quarterly. This is the initial tranche of the Parent Bank's P20.0 billion LTNCD program as approved by BSP. This constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Parent Bank. The net proceeds from the issuance of LTNCD will be used to diversify the Parent Bank's maturity profile of funding sources and to support its business expansion plans.

36. SUPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

Presented below is the supplementary information required by the Bureau of Internal Revenue (BIR) under RR 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

36.1 Gross Receipts Tax

In lieu of the value-added tax (VAT), the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

The Bank reported total GRT amounting to P653,995 in 2017 as shown under Taxes and Licenses account (see Note 36.4). Total GRT payable as of December 31, 2017 amounted to P64,086 is included as part of Accrued taxes and other expenses under Other Liabilities account in the 2017 statement of financial position (see Note 24).

36.2 Documentary Stamp Tax

The Bank is enrolled under the Electronic DST System. In general, the Bank's DST transactions arise from the execution of debt instruments, security documents, and bills of exchange.

For the year ended December 31, 2017, DST affixed amounted to P1,060,279.

36.3 Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2017 are shown below:

Final	P	856,867
Expanded		475,680
Compensation and benefits		<u>122,889</u>
	P	<u>1,455,436</u>

36.4 Taxes and Licenses

The details of taxes and licenses in 2017 of the Parent Bank are as follows:

	<u>Note</u>	
GRT	36.1	P 653,995
DST		563,018
Real property taxes		36,698
Fringe benefits tax (FBT)		30,249
Local taxes and business permits		21,797
Miscellaneous		36,821
Less:		
FBT charged to employee benefits		<u>30,249</u>
		<u>P 1,312,329</u>

36.5 Excise Taxes

The Bank does not have excise taxes accrued since it did not have any transactions subject to excise tax.

36.6 Deficiency Tax Assessments and Tax Cases

The Bank has no outstanding deficiency tax assessments pending with the BIR.

The Bank's existing tax assessments pending with the Court of Tax Appeals (CTA) for tax liabilities of the former iBank and the Bank were all covered by the BIR's tax amnesty program for calendar years 2005 and earlier pursuant to R.A. 9480, *An Act Enhancing Revenue Administration and Collection by Granting an Amnesty on All Unpaid Internal Revenue Taxes*. The Bank availed of this amnesty program on February 4 and 19, 2008.

The Bank has a pending claim for refund of taxes arising from the BIR's denial of the Bank's applications for administrative abatement in 2007. On August 5, 2013, the CTA granted the claim for refund, ordering the BIR to refund or issue a tax credit certificate to the Bank in the amount of P90,923. The CTA en banc affirmed this decision on July 14, 2014. The BIR appealed this decision before the Supreme Court. On July 11, 2015, the Bank filed its Comment on the Petition for Review on Certiorari filed by the BIR. On July 20, 2015, the Supreme Court issued a Resolution noting the Bank's Comment. As of the issuance of the financial statements, the Bank is still awaiting for the decision of the Supreme Court.

36.7 Other Required Tax Information

The Bank has not paid or accrued any excise taxes or customs' duties and tariff fees as it had no importation for the year ended December 31, 2017.

37. **SUPPLEMENTARY INFORMATION ON LIABILITIES ARISING FROM FINANCING ACTIVITIES**

Presented below is the supplemental information on the Group's and Parent's liabilities arising from financing activities:

	<u>Bills payable</u>	<u>Notes Payable</u>	<u>Total</u>
<u>Group</u>			
Balance at January 1, 2017	P 48,100,192	P 7,200,000	P 55,300,192
Cash flows from financing activities			
Additions	165,702,992	25,135,000	190,837,992
Repayment of borrowings	(170,590,655)	-	(170,590,655)
Non-cash financing activities			
Effects of foreign exchange rate changes	(141,704)	(170,000)	(311,704)
Balance as of December 31, 2017	<u>P 43,070,825</u>	<u>P 32,165,000</u>	<u>P 75,235,825</u>
<u>Parent Bank</u>			
Balance at January 1, 2017	P 39,166,961	P 7,200,000	P 46,366,961
Cash flows from financing activities			
Additions	111,174,648	25,135,000	136,309,648
Repayment of borrowings	(121,190,186)	-	(121,190,186)
Non-cash financing activities			
Effects of foreign exchange rate changes	(141,704)	(170,000)	(311,704)
Balance as of December 31, 2017	<u>P 29,009,719</u>	<u>P 32,165,000</u>	<u>P 61,174,719</u>