Important notice

You must read the following disclaimer before continuing. The following disclaimer applies to the prospectus following this page and you are therefore advised to read this disclaimer carefully before accessing, reading or making any other use of the attached prospectus. In accessing the attached prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from Philippine Savings Bank (the "Bank") as a result of such access.

You acknowledge that the attached prospectus and the information contained therein are strictly confidential and intended for you only. You are not authorized to and you may not forward or deliver the attached prospectus, electronically or otherwise, to any other person or reproduce such prospectus in any manner whatsoever, nor may you disclose the information contained in the attached prospectus to any third-party or use it for any other purpose. **Any forwarding, distribution, publication or reproduction of the attached prospectus in whole or in part or disclosure of any information contained therein or any use of such information for any other purpose is unauthorized.** Failure to comply with this directive may result in a violation of the securities laws of applicable jurisdictions. Nothing in this electronic transmission constitutes an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where it is unlawful to do so, and access has been limited so that it shall not constitute directed selling efforts (as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act")) in the United States or elsewhere. The securities referred to in the attached prospectus have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, resold, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

CONFIRMATION OF YOUR REPRESENTATION: IN ORDER TO BE ELIGIBLE TO VIEW THE ATTACHED PROSPECTUS, INVESTORS MUST COMPLY WITH THE FOLLOWING PROVISIONS. YOU HAVE BEEN SENT THE ATTACHED PROSPECTUS ON THE BASIS THAT YOU HAVE CONFIRMED THAT YOU AND THE PERSON, IF ANY, FOR WHOSE ACCOUNT YOU ARE ACTING, ARE LOCATED OUTSIDE OF THE UNITED STATES (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND, TO THE EXTENT YOU PURCHASE THE SECURITIES DESCRIBED IN THE ATTACHED PROSPECTUS, YOU WILL BE DOING SO PURSUANT TO REGULATION S UNDER THE SECURITIES ACT; AND CONSENT TO DELIVERY BY ELECTRONIC TRANSMISSION.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein.

This prospectus has been made available to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of transmission and consequently neither the Bank nor any of its affiliates, directors, officers, employees, agents, representatives or advisors accepts any liability or responsibility whatsoever in respect of any difference between the prospectus distributed to you in electronic format and the hard copy version. You are reminded that the attached prospectus has been delivered to you on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver this prospectus, electronically or otherwise, to any other person.

You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

Philippine Savings Bank

PSBank Center
777 Paseo de Roxas cor. Sedeño St., Makati City, 1226 PHILIPPINES
TELEPHONE NUMBER (632) 885-8208

Prospectus relating to the ₱ 8.0 billion Rights Offer
of 142, 856,925 Common Shares with a Par Value of ₱10.00 per Share
to be offered at the Offer Price of ₱ 56.00 per Rights Share
to be listed and traded on The Philippine Stock Exchange, Inc.
Ratio of 1:1.68177 Common Shares held as of Record Date of Dec. 20, 2018

Sole Issue Manager, Bookrunner, and Lead Underwriter

THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION. THE OFFER OF THE SECURITIES IS EXEMPT PURSUANT TO SECTION 10.1 (E) AND (L) OF THE SECURITIES REGULATION CODE OF THE PHILIPPINES (THE "SRC") AND, ACCORDINGLY THE SECURITIES HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SRC. ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

The date of this Prospectus is December 14, 2018.

PHILIPPINE SAVINGS BANK
PSBank Center
777 Paseo de Roxas cor. Sedeño St.
Makati City, 1226 Philippines
Telephone Number: (632) 885-8208
www.psbank.com.ph

This Prospectus relates to the offer for subscription (the "Offer") of 142,856,925 shares of common stock (the "Rights Shares"), with a par value of ₱10.00 per share (the "Common Shares"), of Philippine Savings Bank, a banking corporation organized under the laws of the Republic of the Philippines (the "Bank" or "PS Bank"), by way of a stock rights offering to existing eligible shareholders of record of Common Shares (the "Eligible Shareholders") at the proportion of one Rights Share for every 1.68177 existing Common Shares held as of Dec. 20, 2018 (the "Record Date") at an offer price of ₱ 56.00 per Rights Share (the "Offer Price"). Any fractional share shall be disregarded in the computation of the Rights Shares that Eligible Shareholders will be entitled to. Metropolitan Bank & Trust Company ("Metrobank") which owns 82.68% of the Bank's shareholdings intends to, subscribe for at least their respective minimum allotment of Rights Shares.

Holders of Common Shares who are eligible to participate in the Offer are: (i) holders located in the Philippines and (ii) holders located in jurisdictions outside the Philippines and outside the United States where it is legal to participate in the Offer under the securities laws of such jurisdiction.

First Metro Investment Corporation ("First Metro") shall act as sole issue manager, bookrunner, and lead underwriter (the "Issue Manager" and "Underwriter"). First Metro shall purchase or procure subscribers to purchase the unsubscribed portion of the Offer in order to ensure that the Rights Shares covered by the Offer will be fully subscribed.

The Underwriter will act as underwriter of the Offer. To the extent that any Rights Shares remain unsubscribed for by the Eligible Shareholders after the mandatory second round of the Offer, the Underwriter will take up all such remaining Rights Shares in accordance with the underwriting agreement (the "Underwriting Agreement") to be entered into with the Bank.

The authorized capital stock of the Bank is ₱4,250,000,000 consisting of 425,000,000 Common Shares with a par value of ₱10.00 per share. As of September 30, 2018, the Bank's total outstanding and issued Common Shares was 240,252,491. After the Offer, the Bank will have 383,109,416 issued and outstanding Common Shares and the percentage of the Rights Shares to the Bank's total issued and outstanding Common Shares will be 37.29%. See "The Rights Offer" on page 13.

All of the Common Shares of the Bank issued prior to and to be issued pursuant to the Offer have, or will have, identical rights and privileges. The Common Shares may be owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits under Philippine law. See "Summary of the Offer", "Risk Factors" and "Description of the Common Shares" on pages 15, 20 and 136, respectively.

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities. The Bank is subject to Philippine legislation restricting the aggregate foreign ownership to 40.0% of the outstanding Common Shares. Accordingly, the Bank cannot allow the issuance or the transfer of its Common Shares which may result in the Bank ceasing to be at least 60.0% owned by Philippine nationals. As of September 30, 2018, approximately 99.33% of the Common Shares were held by Philippine nationals. See "Summary of the Offer", "Risk Factors" and "Foreign Exchange and Foreign Investment Regulations" on pages 15, 20 and 134, respectively.

Each holder of Common Shares will be entitled to such dividends as may be declared by the Bank's Board of Directors (the "Board" or the "Board of Directors"), provided that the *Bangko Sentral ng Pilipinas* (the "BSP") and the Philippine Securities and Exchange Commission (the "SEC") approve such declaration, and that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of the Bank's total outstanding capital stock. Dividends may be declared only from the Bank's unrestricted retained earnings. There are no specific requirements relating to the Bank's dividend policy. The Bank declared cash dividends amounting to ₱ 720.76 million annually for years 2015, 2016 and 2017. See "Dividends and Dividend Policy" on page 48.

The Bank's Common Shares are listed on The Philippine Stock Exchange, Inc. ("PSE") under the symbol "PSB". As of December 13, 2018 the closing price of the Bank's Common Shares on the PSE was ₱ 72.50 per Common Share.

The Bank files annual and interim reports, as well as other information, with the PSE. The information filed by the Bank with the PSE does not form part of this Prospectus, is not incorporated by reference herein and should not be relied on when making an investment decision with respect to the Rights Shares.

The Offer is conditioned on the listing of the Rights Shares on the PSE. The approval by the PSE of the Offer is based on the price set forth above. The Bank expects to raise gross proceeds of up to ₱ 7.99 billion. The net proceeds from the Offer, determined by deducting from the gross proceeds the total listing and processing fees and legal, professional and other expenses, which are estimated not to exceed 1.28% of the proceeds of the Offer, will be used to support the expected growth of the Bank and strengthen its Core Tier 1 Capital under Basel III. See "Use of Proceeds" on page 45.

No dealer, salesman, or any other person has been authorized to give any information or to make any representation not contained in this Prospectus. If given or made, any such information or representation must not be relied upon as having been authorized by the Bank or the Underwriter. The distribution of this Prospectus and the offer and sale of the Rights Shares may, in certain jurisdictions, be restricted by law. The Bank and the Underwriter require persons into whose possession this Prospectus comes to inform themselves of and observe all such restrictions.

NOTHING IN THIS PROSPECTUS CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE RIGHTS SHARES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION AND THE RIGHTS SHARES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

Unless the context clearly indicates otherwise, any reference to "the Bank" refers to Philippine Savings Bank on an unconsolidated basis. The information contained in this Prospectus relating to the Bank, its operations and those of its associates has been supplied by the Bank, unless otherwise stated herein. To the best of its knowledge and belief, the Bank, which has taken reasonable care to ensure that such is the case, together with First Metro Investment Corporation, have exercised diligence, and the Bank confirms that, as of the date of this Prospectus, the information contained in this Prospectus relating solely to the Bank, its operations and those of associates, is true and that there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and that the Bank hereby accepts full and sole responsibility for the accuracy of the information contained in this Prospectus with respect to the same. Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made pursuant to this Prospectus shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the affairs of the Bank since such date. The Underwriter has not prepared or certified any part of this Prospectus, and assumes no liability for information supplied by the Bank in relation to this Prospectus.

In making an investment decision, investors must rely on their own examination of the Bank and the terms of the Offer, including the material risks involved. Investors are not entitled to rely on the Underwriter for purposes of making an investment decision to subscribe to the Rights Shares. The Offer is being made on the basis of this Prospectus only.

Market data and certain industry forecasts used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified, and neither the Bank nor the Underwriter makes any representation as to the accuracy of such information.

In this Prospectus, references to "Pesos" or "₱" are to the lawful currency of the Philippines. The Bank maintains its accounts in Philippine Pesos. References to "U.S. Dollars", "U.S.$", "U.S. $" or "$" are to the lawful currency of the United States of America. This Prospectus contains translations of certain amounts into U.S. Dollars at specified rates solely for the convenience of the reader. In addition, unless otherwise indicated, U.S. Dollar/Philippine Peso exchange rates referred to in this Prospectus are Bankers Association of the Philippines weighted average rates for the indicated period or on the applicable date, as relevant. No representation is made that the Peso, U.S. Dollar, or other currency amounts referred to herein could have been or could be converted into Pesos, U.S. Dollars, or any other currency, as the case may be, at this rate, at any particular rate or at all.

This Prospectus includes forward-looking statements. The Bank has based these forward-looking statements largely on its current expectations and projections about future events and financial trends affecting its business. The words "believes", "may", "will", "estimates", "continues", "anticipates", "intends", "expects" and similar words are intended to identify forward-looking statements. In light of these risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. The Bank's actual results could differ substantially from those anticipated in the Bank's forward-looking statements.

The Bank filed its application for the listing and trading of the Rights Shares with the PSE on October 26, 2018. The application for listing of the Rights Shares was approved on November 28, 2018 by the board of directors of the PSE, subject to the fulfilment of certain listing conditions. The PSE assumes no responsibility for the correctness of any statements made or opinions expressed in this Prospectus. The PSE makes no representation as to its completeness and expressly disclaims any liability whatsoever for any loss arising from reliance on the entire or any part of this Prospectus. Such approval for listing is permissive only and does not constitute a recommendation or endorsement of the Rights Shares by the PSE.

On October 19, 2018, in a letter addressed to the Bank's President, the BSP took note of and did not express any objection to the proposed Offer by the Bank, with a reminder that the Bank should comply with the requirements of Sections X126 and X127 of the Manual of Regulations for Banks (the "Manual" or "MORB").

The Bank has filed an Application for Confirmation of Exempt Transaction with the SEC to confirm that the Offer is exempt from the registration requirements of the Securities Regulation Code of the Philippines (Republic Act No. 8799) (the "SRC"). On November 16, 2018, the SEC issued a Notice of Confirmation of Exempt Transaction confirming that the Offer is exempt from the registration requirements of the SRC.

THE OFFER OF THE RIGHTS SHARES IS EXEMPT PURSUANT TO SECTION 10.1(E) AND (L) OF THE SRC AND, ACCORDINGLY THE RIGHTS SHARES HAVE NOT BEEN REGISTERED WITH THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION UNDER THE SRC AND ANY FUTURE OFFER OR SALE THEREOF IS SUBJECT TO REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE QUALIFIES AS AN EXEMPT TRANSACTION.

PHILIPPINE SAVINGS BANK

By:

(Original Signed and Duly Notarized)

Jose Vicente L. Alde
President

By:

(Original Signed and Duly Notarized)

Perfecto Ramon Z. Dimayuga, Jr.
Senior Vice President and Treasurer

TABLE OF CONTENTS

GLOSSARY OF CERTAIN TERMS

In this Prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below:

AFS	available-for-sale
AMLC	Anti-Money Laundering Council
Anti-Money Laundering Act	Anti-Money Laundering Act 2001 of the Philippines, as amended
ATM	automated teller machine
the Bank or PSBank	Philippine Savings Bank
Banking Day	a day (except Saturdays, Sundays, and holidays) on which banks in the Philippines are open for business
BIR	Philippine Bureau of Internal Revenue
Board or the Board of Directors	the board of directors of the Bank
BCBS	Basel Committee on Banking Supervision
BSP	Bangko Sentral ng Pilipinas
CAGR	compound annual growth rate
CAR	capital adequacy ratio
CET1	Common Equity Tier 1
Common Shares	Shares of common stock of the Bank, each with a par value of
Director	a director of the Bank
DOSRI	directors, officers, stockholders, and related interests
D-SIB	domestic systemically important bank
EDGE	Electronic Disclosure Generation Technology of the PSE
Eligible Shareholders	existing holders of record of Common Shares as of the Record Date who are: (i) located in the Philippines; and (ii) located in jurisdictions outside the Philippines and the United States where it is legal to participate in the Offer under the securities laws of such jurisdictions
FDCU	foreign currency deposit unit
First Metro	First Metro Investment Corporation
FVPL	fair value through profit or loss
General Banking Law	General Banking Law (Republic Act No. 8791)
Government	the government of the Republic of the Philippines
HFT	held-for-trading
HTM	held-to-maturity
IBCL	interbank call loan
LTNCD	long-term negotiable certificate of time deposit
MORB or the Manual	Manual of Regulations for Banks issued by the BSP
Metro Manila	the metropolitan area comprising the cities of Caloocan, Las Piñas, Makati, Malabon, Mandaluyong, Manila, Marikina, Muntinlupa, Navotas, Parañaque, Pasay, Pasig, Quezon, Valenzuela, Taguig and San Juan, which together comprise the "National Capital Region" and are collectively referred to as "Metro Manila"
Monetary Board	Monetary Board of the BSP
New Central Bank Act	New Central Bank Act (Republic Act No. 7653)
PAS	Philippine Accounting Standards
PCD Nominee	PCD Nominee Corporation, a corporation wholly owned by the PDTC
PDTC	the Philippine Depository and Trust Corporation, the central securities depository of, among others, securities listed and traded on the PSE
Pesos or ₱	the lawful currency of the Philippines
PFRS	Philippine Financial Reporting Standards
Philippine National	as defined under the Republic Act No. 7042, as amended, means a citizen of the Philippines, or a domestic partnership or association wholly owned by citizens of the Philippines, or a corporation organized under the laws of the Philippines of which at least 60.0% of the capital stock outstanding and entitled to vote is owned and held by

	citizens of the Philippines, or a corporation organized abroad and registered to do business in the Philippines under the Philippine Corporation Code, of which 100.0% of the capital stock outstanding and entitled to vote is wholly owned by Filipinos or a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippine National and at least 60.0% of the fund will accrue to the benefit of Philippine Nationals
Philippines	Republic of the Philippines
PSE	The Philippine Stock Exchange, Inc.
Receiving Agent	Metrobank — Trust Banking Group
ROPA	real and other properties acquired
SCCP	Securities Clearing Corporation of the Philippines
SEC	the Philippine Securities and Exchange Commission
SMEs	small-and-medium-enterprises
SRC	Securities Regulation Code of the Philippines (Republic Act No. 8799) and its implementing rules, as amended
Stock Transfer Agent	Metrobank — Trust Banking Group
Treasury	the Bank's treasury operations
UITF	unit investment trust funds
Underwriter	First Metro Investment Corporation
VAT	value-added tax

EXECUTIVE SUMMARY

This summary highlights information contained elsewhere in this Prospectus. The following summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Prospectus. For a discussion of certain matters investors should consider in evaluating an investment in the Rights Shares, see "Risk Factors" on page 20. Investors are recommended to read this entire Prospectus carefully, including the Bank's financial statements and related notes.

OVERVIEW

Philippine Savings Bank ("PSBank" or the "Bank") was established on June 30, 1959 primarily to engage in savings and mortgage banking. The Bank has outpaced some of its key competitors and is, today, the country's second largest thrift bank in terms of assets. The Bank is the country's first publicly listed thrift bank. The Bank caters mainly to the retail and consumer markets and offers a wide range of products and services such as deposits, loans, treasury, and trust. As of September 30, 2018, it has 250 branches. The Bank's total assets stood at ₱231.09 billion, ₱223.32 billion, and ₱196.85 billion as of September 30, 2018, December 31, 2017, and December 31, 2016, respectively. Its total equity was at ₱23.88 billion, ₱22.39 billion, and ₱20.04 billion as of September 30, 2018, December 31, 2017, and December 31, 2016, respectively.

As of September 30, 2018, the Bank is 82.68%-owned by Metropolitan Bank & Trust Company ("Metrobank"), a universal bank that provides a full range of banking and other financial services through its local and international branches. Metrobank is the country's second largest domestic bank with assets of ₱1.79 trillion and has an extensive distribution network of over 700 branches nationwide as of September 30, 2018.

HISTORY

The Bank was established in June 30, 1959, primarily to engage in savings and mortgage banking. Its first head office was located in Quiapo, Manila. In 1983, Metrobank acquired majority stake in the Bank, and in 2004 further increased its shareholdings to the present level of 82.68%.

In 1991, the Bank was authorized to perform trust functions, and, in 1995, was granted a quasi-banking license.

The Bank moved its principal office to its current address at the PSBank Center, 777 Paseo de Roxas Avenue corner Sedeño St., Makati City, Philippines in 2003. The website of the Bank is www.psbank.com.ph. No information on the website should be considered or construed as part of the Offering Circular.

Despite challenges that came its way through several crises in the local, Asian and global economies, PSBank – through its prudent management, innovation and customer-centric focus – consistently delivered. From being dubbed as a friendly bank in the 1960s, PSBank underscored its primary objective of quality customer service, simplified processes, quick credit decision and innovative products through its mandate and promise: *Simple Lang, Maaasahan*.

Recent Developments

The Board of Directors, in its meeting held on February 22, 2018, passed a resolution approving the promotion of Senior Vice President Noli S. Gomez to Executive Vice President effective March 1, 2018.

At the Annual Stockholders' Meeting held on April 23, 2018, the stockholders resolved and approved, among others, the election of nine directors for the ensuing year, with Rosanna F. De Vera as newly-elected director in replacement of former director, Amelia B. Cabal. Subsequently, during the Organizational Meeting of the Board of Directors held on April 23, 2018, with all nine (9) directors present, the following directors were elected to their new positions, among others (1) Vicente R. Cuna, Jr. as Vice Chairman, and (2) Jose Vicente L. Alde as President.

In its meeting held on October 15, 2018, the Board of Directors passed a resolution declaring a 7.5% Regular Cash Dividend for the third quarter of 2018 amounting to ₱180.19 million, equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of October 30, 2018 and will be paid no later than the Payment Date of November 14, 2018.

COMPETITIVE STRENGTHS

Majority owned by the Metrobank Group. As of September 30, 2018, PSBank is 82.68% owned by the Metrobank Group, which is the second largest Philippine universal bank in terms of assets as of June 30, 2018. Metrobank's total assets was recorded at ₱1.79 trillion and controlled 12.00% of the Philippine universal and commercial banking system's total asset base as of September 30, 2018, according to the BSP. Metrobank believes that it was also among the top three largest Philippine bank in terms of net loans and receivables with an outstanding balance of ₱1.05 trillion, by total deposits with ₱1.32 trillion and total stockholders' equity of ₱275.50 billion. The Bank believes its financial strength contributes to its strong market position. The Bank's strong financial condition gives the Bank flexibility to invest in new products, services, branches, information technology and other infrastructure required for the execution of its growth strategy. Metrobank and PSBank serve distinct core markets and coordinate on market segmentation.

Focused on the consumer market. PSBank's focus is on retail deposit taking and consumer lending to upper- and middle-income classes. Through its 250 branches, it has been able to accumulate ₱197.66 billion deposit liabilities as of September 30, 2018. The Bank has enjoyed strong loan portfolio growth over the past three years, with its total loan portfolio growing from ₱112.10 billion as of September 30, 2015 to ₱153.87 billion as of September 30, 2018, representing a three-year compound annual growth rate of 11.14 %. The bank's loan portfolio consists mainly of consumption and real estate loans which comprised ₱114.01 billion or 88.24 %, ₱130.87 or 89.43 %, and ₱137.92 billion or 89.63 % of the bank's total loan portfolio as of December 31, 2016, 2017, and September 30, 2018, respectively. As of September 30, 2018, the Bank's loan portfolio was highly concentrated on other service activities, real estate activities, wholesale and retail trade, and financial insurance activities comprising ₱97.28 billion or 63.23 %, ₱43.99 billion or 28.59 %, ₱2.74 billion or 1.78 %, and ₱1.95 billion or 1.27 % of the bank's total loan portfolio.

Consistent customer service and training. PSBank emphasizes providing consistent and exceptional Customer Experience (CX) at all times. CX is considered a major part of all performance evaluation reviews for both front-line and back-end support personnel. In an industry where products and services being offered seem to be homogenous, PSBank aims to set itself apart through a unique and consistent customer-driven experience in all customer touchpoints, anchored on its brand positioning --- to keep things "*Simple at Maaasahan*".

Investments in Information Technology. PSBank has been investing in technology to take advantage of business opportunities, better security, and improved operational efficiency. These investments have seen fruition across the organization, some of which are: a faster turn-around time for credit decisions; improved servicing at branches; the launch of digital platforms and services; improved uniform compliance to credit policies and better risk and profit monitoring for its loan portfolio. PSBank offers one of the fastest turn-around times for consumer loan applications in the industry --- a one day turn-around decision time for Auto Loans, one day for Home Loans covering accredited properties, and three days for Flexi/Personal Loans. It also offers one of the more robust and customer-friendly Mobile APP to enable customers to their banking via mobile phones.

STRATEGIES

The Bank's vision is to be the country's consumer and retail bank of choice. It also aims to become the country's largest and most profitable thrift bank. The Bank will do this by continuously improving on its strategic management discipline that focuses on the customer --- serving their needs by adapting to changes in their preferences and life stages; and overall, providing exceptional customer experience at every touch point. There will be heavy use of data analytics to further understand the customer and enable customization of services in the hope of increasing "share of wallet" and customer loyalty. PSBank will continue to step up its digital banking innovations by developing pioneering mobile, online and even in-branch digital services for more efficient banking transactions. It will strengthen its branch network capabilities even as it develops other customer touch points and service channels.

The bottom line objective is to always stay ahead of the profitability curve by generating more business and keeping cost of operations optimal; and likewise build a competitive advantage through greater focus and understanding of preferred market segments. These are also enabled by having a customer-centric culture within the Bank, and an organizational structure which encourages employees to be flexible and motivated contributors.

The Bank will continue to keep to its brand promise of delivering "*Simple Lang, Maasahan* (Simple and Reliable)" service at all times.

Awards and Citations. PSBank has been consistently recognized for its efforts cutting across various banking initiatives, foremost of which is providing differentiated customer experience. In 2018 alone, it was a good harvest for PSBank, as it was given with the following awards:

1. 2018 Bangko Sentral ng Pilipinas Pagtugon Award --- it's 3rd after having won the same in 2015 & 2016;
2. Top performing publicly-listed company in the country by the Institute of Corporate Directors
3. 2018 CX Awards from IQPC (International Quality & Productivity Centre) which recognizes CX efforts in the Asia Pacific Region:
    a. Two (2) Silver awards for *Best Customer Experience* and *Best Customer Experience Team*
    b. Two (2) Bronze awards for *Best Social Media Strategy* and *Best Use of Mobile*
4. 53rd Philippine Anvil Awards
    a. Two (2) Silver Anvil awards for *PSBank's PayMe "Sweldo"* situational commercial and for its *2016 Annual Report*
5. 2018 PANAta Awards (from the Philippine Association of National Advertisers/PANA)
    a. Bronze Award in Brand Builder Excellence in Brand Positioning category for the Bank's "Techie" campaign
6. 16th Philippine Quill Awards
    a. Two (2) Quill award of Merit for *PSBank's PayMe "Sweldo"* situational commercial and for its 2016 Annual Report
7. 2018 World HRG Congress
    a. 2018 Global Best Employer Brand, and the Continuous Innovation in HR Strategy at Work
8. Philippines' Best Employer at the 1st Best Employer Brand Awards
9. Best Launch Strategy Award by Facebook Workplace

Business Activities. In recent years, PSBank has been aggressively developing innovative and disruptive digital banking solutions amid growing prevalence of the use of digital technology for banking transactions. PSBank saw the challenge of digitizing banking transactions as an opportunity to provide products and services that would set it apart from other financial organizations and likewise address changing consumer demands and preferences. Among such services include Cardless Withdrawal, which allows customers to withdraw cash without using an ATM card; PayMe, which enables customers to give and receive payments from other users in real time; and ATM Lock, which enables clients to lock their ATM card and prevent its unauthorized use in any ATM, point of sale or online transactions that require the card number.

RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with an investment in the Bank. These risks include:

- Risks relating to the Bank
- Risks relating to the Philippine Banking Industry
- Risks relating to the Philippines
- Risks relating to the Rights Shares

Please refer to the section entitled "Risk Factors", which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of Rights Shares.

COMPANY AND ISSUER INFORMATION

The Bank is a Philippine corporation with its registered office located at 777 Paseo de Roxas Avenue cor. Sedeño St., Makati City. The Bank's telephone numbers are (632) 885-8208/944-1573/944-1772 and the corporate website is www.psbank.com.ph. The Bank has been listed on the PSE since October 10, 1994. The information on the website is not incorporated by reference into, and does not constitute part of, this Prospectus.

SUMMARY OF FINANCIAL INFORMATION

The following tables provide selected financial information of the Bank which has been derived from its audited financial statements as of and for the years ended December 31, 2017, 2016, and 2015 prepared in accordance with Philippine Financial Reporting Standards and unaudited interim condensed financial statements of the Bank as of September 30, 2018 and for the nine months ended September 30, 2018 and 2017 prepared in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting.

Statements of Income

	For the years ended December 31 (audited)			**For the nine months ended September 30 (unaudited)**	
(In ₱)	**2015**	**2016**	**2017**	**2017**	**2018**
Interest Income	11,002,726,921	12,492,470,031	14,543,776,800	10,728,401,358	12,098,751,373
Interest Expense	2,520,780,655	2,828,547,914	3,464,677,418	2,523,895,466	3,437,956,357
Net Interest Income	8,481,946,266	9,663,922,117	11,079,099,382	8,204,505,892	8,660,795,016
Net Service Fees and Commission Income	1,195,492,050	1,136,347,206	1,375,774,149	1,015,495,490	1,119,276,862
Other Operating Income	1,124,094,654	1,678,559,898	1,434,248,690	1,050,365,811	1,015,573,779
Total Operating Income	10,801,532,970	12,478,829,221	13,889,122,221	10,270,367,193	10,795,645,657
Other Expenses	8,513,308,445	9,843,739,367	11,039,478,119	8,220,465,442	8,460,747,376
Income before Share in Net Income of a Joint Venture and Income Tax	2,288,224,525	2,635,089,854	2,849,644,102	2,049,901,751	2,334,898,281
Share in Net Income of a Joint Venture	20,213,935	35,466,690	71,836,533	45,572,679	54,573,580
Income before Income Tax	2,308,438,460	2,670,556,544	2,921,480,635	2,095,474,430	2,389,471,861
Provision for (Benefit from) Income Tax	(42,461,640)	219,713,234	267,061,507	217,457,514	359,060,156
Net Income	**2,350,900,100**	**2,450,843,310**	**2,654,419,128**	**1,878,016,916**	**2,030,411,705**

Statements of Condition

	As of December 31 (audited)			As of September 30 (unaudited)	
(In ₱)	**2015**	**2016**	**2017**	**2017**	**2018**
Assets					
Cash and Other Cash Items	3,934,496,578	2,778,009,185	2,596,872,801	2,291,471,561	2,736,594,300
Due from Bangko Sentral ng Pilipinas	11,143,781,766	13,986,784,696	15,265,387,772	21,482,104,677	14,334,085,640
Due from Other Banks	1,861,110,141	1,838,630,022	1,508,489,309	1,461,627,963	1,623,161,006
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	2,513,904,112	3,254,311,599	1,842,023,049	450,000,000	1,950,000,000
Financial Assets at Fair Value through Profit or Loss	2,821,437,211	1,360,792,147	366,235,689	552,476,974	5,293,448
Available-for-Sale Investments	8,928,662,491	13,115,812,858	16,925,485,941	16,132,284,263	-
Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	-	11,510,143,687
Held-to-Maturity Investments	14,946,668,457	23,156,886,629	29,473,724,384	29,354,944,663	-
Hold-to-Collect Investments	-	-	-	-	36,151,618,808
Loans and Receivables	113,867,515,442	127,221,847,151	144,964,513,221	140,090,366,403	152,371,787,847
Investments in a Joint Venture	690,333,838	727,176,484	607,162,821	580,736,522	661,736,400
Property and Equipment	2,746,074,371	2,667,170,455	2,480,012,354	2,545,794,142	2,292,452,715
Investment Properties	3,344,154,413	3,861,708,308	3,930,317,479	3,957,202,348	4,091,945,824
Deferred Tax Assets	1,194,416,550	1,300,724,234	1,429,327,369	1,407,650,925	1,231,321,805
Goodwill and Intangible Assets	444,460,121	505,165,868	714,924,056	496,968,153	679,045,733
Other Assets	894,231,737	1,078,083,056	1,219,566,379	1,305,348,122	1,451,592,535
Total Assets	169,331,247,228	196,853,102,692	223,324,042,624	222,108,976,716	231,090,779,748
Liabilities					
Deposit Liabilities					
Demand	12,906,567,074	15,339,143,653	19,112,561,892	18,297,139,684	20,491,030,582
Savings	22,835,987,240	27,236,228,764	30,383,783,001	29,960,465,768	32,851,690,243
Time	98,553,753,813	115,811,946,185	136,042,056,714	132,766,430,898	135,861,937,936
Long-Term Negotiable Certificates of Deposits	-	-	3,375,000,000	3,375,000,000	8,459,500,000
SubTotal	**134,296,308,127**	**158,387,318,602**	**188,913,401,607**	**184,399,036,350**	**197,664,158,761**
Bills Payable	4,494,845,747	6,093,796,533	1,492,418,518	6,048,100,121	270,100,000
Subordinated Notes	5,952,051,581	5,975,732,110	2,978,997,695	2,978,351,809	2,980,990,380
Treasurer's, Cashier's and Manager's Checks	1,348,621,410	1,760,505,822	2,213,869,703	1,537,692,747	1,471,648,009
Accrued Taxes, Interest and Other Expenses	1,050,769,312	1,193,816,372	1,658,423,304	1,411,093,461	1,693,316,812
Financial Liabilities at Fair Value Through Profit or Loss	-	65,316,678	-	11,293,987	29,630,801
Income Tax Payable	8,055,422	466,880	375,277	71,051,160	79,473,761
Other Liabilities	3,005,540,869	3,338,477,499	3,673,232,353	3,747,327,800	3,024,736,476
Total Liabilities	150,156,192,468	176,815,430,496	200,930,718,457	200,203,947,435	207,214,055,000
Equity					
Common Stock	2,402,524,910	2,402,524,910	2,402,524,910	2,402,524,910	2,402,524,910
Capital Paid in Excess of Par Value	2,818,083,506	2,818,083,506	2,818,083,506	2,818,083,506	2,818,083,506
Surplus Reserves	1,035,275,317	1,035,275,317	1,035,402,901	1,035,275,317	1,035,402,901
Surplus	13,433,426,596	15,163,512,433	17,097,046,504	16,500,961,245	18,916,790,502
Net Unrealized Gain (Loss) on Available-for-Sale Investments	179,775	(842,908,364)	(411,510,218)	(314,943,068)	(757,988,512)
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	-	-	-	-	-

	As of December 31 (audited)			As of September 30 (unaudited)	
(In ₱)	**2015**	**2016**	**2017**	**2017**	**2018**
Remeasurement Losses on Retirement Plan	(471,371,011)	(541,701,193)	(545,392,541)	(541,701,193)	(545,392,541)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	67,642	1,443,599	1,245,144	1,443,599	1,245,144
Cumulative Translation Adjustment	(43,131,975)	1,441,988	(4,076,039)	3,384,965	6,058,838
Total Equity	19,175,054,760	20,037,672,196	22,393,324,167	21,905,029,281	23,876,724,748
	169,331,247,228	**196,853,102,692**	**223,324,042,624**	**222,108,976,716**	**231,090,779,748**

Select Financial Ratios

(in % except for Earnings per Share)	As of December 31 (audited)			As of September 30 (unaudited)	
	2015	**2016**	**2017**	**2017**	**2018**
Return on Average Assets (1)	1.49	1.34	1.26	1.20	1.19
Return on Average Equity (2)	12.74	12.50	12.51	11.94	11.70
Net Interest Margin on Average Earning Assets (3)	6.37	6.17	6.10	6.02	6.01
Tier 1 Capital Adequacy Ratio (4)	12.40	11.08	11.09	11.36	11.09
Capital Adequacy Ratio (5)	18.04	14.07	13.87	14.19	13.79
Basic/Diluted Earnings per share (P) (6)	9.79	10.20	11.05	7.82	8.45

(1) Net income divided by average total assets for the period indicated. Average total assets is based on outstanding balances at the beginning and end of the period divided by two.

(2) Net income divided by average total equity for the period indicated. Average total equity is based on outstanding balances at the beginning and end of the period divided by two.

(3) Net interest income divided by average interest-earning assets for the period indicated. Average interest-earning assets is based on outstanding balances at the beginning and end of the period divided by two. (Earning assets comprised of Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable and Securities Purchased Under Resale Agreements , Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables, Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive (FVOCI), Available-for-sale Investments, Hold-to-Collect Investments (HTC) and Held to Maturity Investments

(4) Tier 1 capital divided by total risk weighted assets as reported to the BSP.

(5) Total qualifying capital divided by total risk-weighted assets, as reported to the BSP.

(6) Net income divided by weighted average number of outstanding common share for basic earnings per share. . As of December 31, 2017, 2016 and 2015 and as of September 30, 2018, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

THE RIGHTS OFFER

The Bank is offering for subscription up to 142,856,925 Rights Shares by way of a stock rights offering to Eligible Shareholders on a pre-emptive rights basis at the proportion of one Rights Share for every 1.68177 existing Common Shares held as of the Record Date at the Offer Price of ₱ 56.00 per Rights Share.

Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Such fractions will be aggregated and sold for the benefit of the Bank. The Rights Shares may be subscribed by Eligible Shareholders of record of the Bank as of the Record Date. Below are the key dates of the Offer:

Pricing Date	....	Dec. 14, 2018
Ex-Date	....	Dec. 17, 2018
Record Date	....	Dec. 20, 2018
Offer Period		
Start	....	Jan. 7, 2019
End	....	Jan. 11, 2019
Listing Date	....	Jan. 18, 2019

The dates listed above may be changed at the discretion of the Bank and the Underwriter, subject to the approval of the PSE.

The Underwriter shall purchase, or procure subscribers to purchase, the unsubscribed portion of the Offer, after the second round, in order to ensure that the Rights Shares covered by the Offer will be fully subscribed. See "Plan of Distribution" on page 47.

As of September 30, 2018, the Bank's total outstanding and issued Common Shares was 240,252,491. After the Offer, the Bank will have 383,109,416 issued and outstanding Common Shares and the percentage of the Rights Shares to the Bank's total issued and outstanding Common Shares will be 37.29%.

SUMMARY OF THE OFFER

Issuer	Philippine Savings Bank (the "Bank"), a banking corporation organized under the laws of the Republic of the Philippines
Rights Shares	142,856,925 Common Shares of the Bank with a par value of ₱ 10.00 per share. The Rights Shares shall be issued from the unissued capital stock of the Bank and rank equally in all respects with the existing Common Shares, including the right to receive all dividends or distributions made, paid, or declared after a valid subscription agreement is perfected between the Bank and a buyer as evidenced by the written acceptance by the Bank of the application to subscribe (the "Application to Subscribe" or the "Application") of the buyer and other conditions, including listing of the Rights Shares on the PSE.
Sole Issue Manager, Bookrunner, and Lead Underwriter	First Metro Investment Corporation
Stock Transfer Agent and Receiving Agent	Metrobank-Trust Banking Group
The Offer	The Bank is offering Common Shares for subscription to Eligible Shareholders on a pre-emptive rights basis. The Rights Shares that remains unsubscribed after the Second Round of the Offer are being underwritten on a firm commitment basis by the Underwriter. The Underwriter shall purchase, or procure subscribers, to purchase a portion of the unsubscribed Offer, after the Second Round of the Offer, to ensure that the Rights Shares covered by the Offer are fully subscribed.
Offer Price	The Rights Shares are being offered at a price of ₱ 56.00 per share. The Offer Price is computed based on the volume-weighted average price ("VWAP") of the Bank's Common Shares on the PSE for each of the 15 consecutive trading days immediately prior to (and excluding) the Pricing Date, subject to a discount of 21.68%.
Offer Period	The Offer Period shall commence on Jan. 7, 2019 at 9:00 a.m. (Manila time) and end on Jan. 11, 2019 at 12:00 p.m. (Manila time). The Bank and the Underwriter reserve the right to extend or terminate the Offer Period with the approval of the PSE.
Minimum Subscription	Each Application must be for a minimum of one (1) Rights Share.
Eligible Shareholders	The Rights Shares are being offered to eligible existing holders of record of Common Shares as of the Record Date. Holders of Common Shares who are eligible to participate in the Offer are: (i) holders located inside the Philippines and (ii) holders located in jurisdictions outside the Philippines and the United States where it is legal to participate in the Offer under the securities laws of such jurisdiction. The Common Shares of the Bank may be held by any person or entity, regardless of nationality, subject to the right of the Bank to reject an Application or reduce the number of Rights Shares applied for subscription or purchase if the same will cause the Bank to be in breach of the Philippine ownership requirement under relevant Philippine laws.
Rights Entitlement	Each eligible holder of Common Shares is entitled to subscribe to one (1) Rights Share for every 1.68177 Common Shares held as of the Record Date (the "Entitlement Shares").

	Fractions of the Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares. Such fractions will be aggregated and sold for the benefit of the Bank. Subscription to the Rights Shares in certain jurisdictions may be restricted by law. Foreign investors interested in subscribing or purchasing the Rights Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Rights Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Rights Shares. The offer process in relation to the Entitlement Shares shall also be known as the First Round of the Offer.
Additional Subscription	If an applicant fully subscribes to his Entitlement Shares and subject to the availability of unsubscribed Rights Shares arising from the failure of the other Eligible Shareholders to fully exercise their Rights Shares entitlement, the applicant may simultaneously apply for an additional subscription of the unsubscribed Rights Shares (the "Additional Rights Shares"). The Additional Rights Shares are payable in full upon submission of the Application. If the aggregate number of Additional Rights Shares available for subscription equals or exceeds the aggregate number of Additional Rights Shares so subscribed for, an applicant will be allocated the number of Additional Rights Shares indicated in his Application. If the aggregate number of Additional Rights Shares available for subscription is less than the aggregate number of Additional Rights Shares so subscribed for, the available Additional Rights Shares will be allocated to applicants who have applied to subscribe for such Additional Rights Shares and such allocation shall be made at the discretion of the Bank primarily based on each applicant's original shareholding in the Bank as of the Record Date relative to the original shareholding of all other applicants for Additional Rights Shares as of such Record Date, provided that no applicant for Additional Rights Shares shall be allocated more Additional Rights Shares than the number for which such applicant has applied. There can be no guarantee made as to the number of Additional Rights Shares an applicant may be allocated. A subscription for Additional Rights Shares is irrevocable on the part of the applicant and may not be cancelled or modified by such applicant. The offer process in relation to the Additional Rights Shares shall also be known as the Second Round of the Offer.
Restrictions on Ownership	The Philippine Constitution and related statutes set forth restrictions on foreign ownership of companies engaged in certain activities. The Bank is subject to Philippine legislation restricting the aggregate foreign ownership to 40.0% of the outstanding Shares. Accordingly, the Bank cannot allow the issuance or the transfer of its Common Shares which may result in the Bank ceasing to be at least 60.0% owned by Philippine nationals. As of September 30, 2018, approximately 99.33% of the Common Shares were held by Philippine nationals. After completion of the Offer, foreign equity shall not exceed 40% of the Bank's share capital. For more information, see the sections titled "Risk Factors" and "Description of the Common Shares" on pages 20 and 136, respectively, of this Prospectus.
Procedure for Application	All Applications shall be evidenced by the Application to Subscribe, duly executed by an authorized signatory of the applicant and the corresponding payment for the Rights Shares

	covered by the Application and all other required documents. The duly executed Application and required documents should be submitted during the Offer Period to either the Receiving Agent or any designated branches of the Bank. Eligible Shareholders of certificated shares that are located outside the Philippines and the United States may initially submit an Application to the Receiving Agent by email and/or fax on or before the end of the Offer Period with the original copies delivered via courier thereafter. If the applicant is an eligible individual shareholder, the applicant must submit the following supporting documents: • a properly completed Application to Subscribe; • photocopy of one (1) valid government-issued identification document (ID) as prescribed by the BSP in its Circular Nos. 608 (Series of 2008) and 792 (Series of 2013), and in its Memorandum No. M-2012-021 (e.g., SSS, GSIS, driver's license, passport, PRC ID, Senior Citizens ID or digital TIN ID); and, the duly accomplished signature card If the applicant is a corporation, partnership, or trust account, the Application to Subscribe must be accompanied by: (1) An original copy of a duly notarized corporate secretary's certificate: • setting forth the resolution of the applicant's board of directors or equivalent body authorizing the purchase of the Rights Shares indicated in the Application; • identifying the designated signatories authorized to sign the Application and any and all documents in connection therewith; • certifying the incumbency and the specimen signatures of the authorized signatories, including his or her specimen signature; and, • certifying to the percentage of the applicant's capital or capital stock held by Philippine nationals; (2) Photocopy of one (1) valid government-issued identification card of the authorized signatories; (3) The duly accomplished signature card signed by the authorized signatories; and (4) A certified true copy of the latest articles of incorporation, by-laws and SEC Certificate of Registration of the applicant, or the equivalent charter documents applicable for such institutional applicant, duly certified by its corporate secretary. If the applicant is a non-Filipino (individual shareholder or corporation, partnership or trust account), the Application to Subscribe must also be accompanied by a certification letter (in the form attached to the Application to Subscribe) representing and warranting that: • the applicant is not a resident in the United States; and, • the applicant's purchase of the Rights Shares will not violate the laws of their resident jurisdiction. Applications must be received by the Receiving Agent or by designated branches of the Bank not later than 12:00 P.M., (Manila time) on Jan. 11, 2019, the last day of the Offer Period. Applications received thereafter or without the required documents will be rejected. Applications shall be considered irrevocable upon submission to the Receiving Agent, and shall be subject to the terms and conditions of the Offer as stated in this Prospectus and in the Application. The actual subscription and/or purchase of the Rights Shares shall become effective only upon the actual listing of the Rights Shares on the PSE.
Payment Terms	The Rights Shares must be paid for in full to the designated "PSBank Stock Rights Offer" settlement account upon submission of the Application. Payment must be made by (a) check drawn against any BSP-authorized agent bank or any branch thereof in Metro Manila to the order of "PSBank Stock Rights Offer"; (b) debit of an existing PSBank account owned (solely or jointly under an "and/or" arrangement) by such applicant; or (c)

	cash. Certificated shareholders residing outside of the Philippines and outside the United States may submit their payment by way of remittance (telegraphic transfer) in favor of the Bank for direct credit to "PSBank Stock Rights Offer". Check payments must be dated as of the date of submission of the Application and crossed "Payee's Account Only". Check payments for regional clearing shall not be accepted. All bank charges shall be for the account of the applicant. The payment for the subscription price must be received by the Bank in full without any deduction.
Acceptance/Rejection of Applications	The Bank has full discretion to accept or reject all or a portion of any Application under the terms and conditions of the Offer. The actual number of Rights Shares to which any applicant may be entitled is subject to the confirmation of the Bank. Applications where checks are dishonored upon first presentment and Applications which do not comply with the terms of the Offer shall be rejected. Moreover, payment received upon submission of an Application does not constitute approval or acceptance by the Bank of the Application. An Application, when accepted, shall constitute an agreement between the applicant and the Bank for the subscription to the Rights Shares at the time, in the manner and subject to terms and conditions set forth in the Application and those described in this Prospectus. Notwithstanding the acceptance of any Application by the Bank, the actual subscription and/or purchase by an applicant of the Rights Shares will become effective only upon listing of the Rights Shares on the PSE. If such condition is not fulfilled on or before the periods provided above, all application payments will be returned to the applicants without interest and, in the meantime, the said application payments will be held in a separate bank account with the Receiving Agent.
Refunds	In the event that the number of Rights Shares to be received by an applicant is less than the number covered by its Application, or if an Application is rejected by the Bank, then the Bank shall refund, without interest, via check payable to the relevant applicant, within five (5) Banking Days from the end of the Offer Period, the amount corresponding to the number of Rights Shares not issued to such applicant. Such refund check shall be made available for pickup at the offices designated PSBank Branches where the shareholder have submitted its SRO application within five (5) Banking Days following the end of the Offer Period. Refund checks that remain unclaimed after 30 days from the date such checks are made available for pickup shall be mailed at the Applicant's risk to the address indicated in the Application.
Documentary Stamp Tax	All documentary stamp taxes applicable to the original issuance of the Rights Shares shall be for the sole account of the Bank.
Registration and Lodgment of Shares with the Philippine Depository & Trust Corp	Rights Shares are required to be lodged with the Philippine Depository & Trust Corp. (the "PDTC"). Applicants must provide the required information in the Application to effect the lodgment. Applicants may request their shares to be issued in certificated form and to receive stock certificates evidencing their investment in the Rights Shares through their respective brokers after full payment, lodgment and listing of the Rights Shares and in accordance with existing procedures. Any expense incurred in connection with such issuance of stock certificates shall be for the account of the applicant, except for expenses to be incurred by the Metrobank — Trust Banking Group in its capacity as the stock transfer agent, which shall be borne by the Bank *provided*, a request and submission of completed documents and requirements to the Metrobank — Trust Banking Group is made within 90 calendar days from the Listing Date.
Registration of Foreign Investments	The BSP requires that investments in the Rights Shares funded by inward remittance of foreign currency be converted to Philippine Pesos and registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance is to be sourced from the domestic banking system. The registration with the BSP of all foreign investments in the Rights Shares shall be the responsibility of the foreign investor and all

	costs therefor borne by such foreign investor.
Lock-up	The Bank has agreed with the Lead Underwriter that, other than (i) in connection with the issuance of Rights Shares for purposes of the Offer or (ii) for issuances of Common Shares pursuant to the Bank's employee stock option plan, neither the Bank nor any person acting on its behalf will, for a period of 180 days after the Listing Date, without the prior written consent of the Lead Underwriter, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options.
Listing and Trading	The Bank's application for the listing of the Rights Shares was approved by the PSE on November 28, 2018. All of the Rights Shares are expected to be listed on the PSE on January 18, 2019. Trading is expected to commence on the same date that the relevant Rights Shares are listed on the PSE.
Timetable	The timetable of the Offer is scheduled as follows:

Pricing Date	Dec. 14, 2018	
Ex-Date	Dec. 17, 2018	
Record Date	Dec. 20, 2018	
Offer Period	Jan. 7, 2019 Jan. 11, 2019	9:00 a.m. (Manila time) to 12:00 p.m. (Manila time)
Listing Date	Jan. 18, 2019	

	The dates listed above are subject to market and other conditions and may be changed at the discretion of the Bank and the Underwriter, subject to the approval of the PSE.
Underwriter's Firm Commitment to Purchase	The Rights Shares that remains unsubscribed after the Second Round of the Offer are being underwritten on a firm commitment basis by the Underwriter. The Underwriter shall purchase, or procure subscribers, to purchase a portion of the unsubscribed Offer, after the Second Round of the Offer, to ensure that the Rights Shares covered by the Offer are fully subscribed. See the section titled "Plan of Distribution" on page 47 of this Prospectus.

RISK FACTORS

An investment in the Offer described in this Prospectus involves a number of risks. The price of the Common Shares can and does fluctuate, and any individual security may experience upward or downward movements, and may become valueless. There is inherent risk that losses may be incurred rather than profit as a result of buying and selling securities. Past performance is not a guide to future performance and there may be a large difference between the buying and selling price of the Rights Shares.

The means by which the Bank intends to address the risk factors discussed herein are principally presented under the captions "Business," beginning on page 78 of this Prospectus, "Management's Discussion and Analysis of Financial Condition and Results of Operations," beginning on page 56 of this Prospectus, "Management – Corporate Governance Committee" beginning on page 106 of this Prospectus and "Risk Management," beginning on page 116 of this Prospectus.

Investors should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Rights Shares. This section entitled "Risk Factors" does not purport to disclose all of the risks or other significant aspects of investing in the Rights Shares. The occurrence of any of the events discussed below and any additional risks and uncertainties not presently known to the Bank or that are currently considered immaterial could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects and on the Rights Shares and the investors may lose all or part of their investment. Investors may request publicly available information on the Rights Shares and the Bank from the SEC and PSE.

An investor should seek professional advice if he or she is uncertain of, or has not understood any aspect of the Offer or the nature of risks involved in purchasing, holding and trading the Rights Shares. Each investor should consult its own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of an investment in the Rights Shares.

The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.

RISKS RELATING TO THE BANK

The Bank may face increasing levels of non-performing loans (NPL) and provisions for its assets, which may materially affect the Bank's business, financial condition, and results of operations and adequacy of capital.

The Bank's results of operations have been, and will continue to be, adversely affected by the level of its non-performing loans ("NPL's"). For the years ended December 31, 2016, 2017 and for the nine months ended September 30, 2018, the Bank's total NPLs were equal to ₱ 4.53 billion, ₱4.77 billion and ₱6.08 billion, respectively; while for the years ended December 31, 2016, 2017, and for the nine months ended September 30, 2018, the Bank's total NPLs to gross loans ratios were at 3.42%, 3.22% and 3.90%, respectively. On December 31, 2016, 2017, and September 30, 2018, the Bank's provisions for credit losses on receivables from customers were ₱2.22 billion, ₱2.27 billion and ₱1.54 billion, respectively, representing 1.72%, 1.55%, and 1.00% of the Bank's total loan portfolio for these periods, respectively.

The volatile economic conditions in the Philippines, including volatile foreign exchange and interest rates, may adversely affect many of the Bank's customers, causing uncertainty regarding their ability to fulfill obligations under the Bank's loans and significantly increasing the Bank's exposure to credit risk. For example, rising interest rate levels may adversely affect the Philippine economy in general and the ability of commercial and retail borrowers to repay their loans to the bank in particular. All these factors, and more, would increase the number of NPLs and as such would require a significant level of provisions for impairment losses in the future. Any significant increase in the Bank's NPLs could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility.

As of December 31, 2016, 2017 and September 30, 2018, the Bank posted trading and foreign exchange gains (losses) of ₱533.66 million, ₱(8.75) million, and ₱(19.74) million, respectively The Bank's income from trading and investment activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates, debt prices, stock market fluctuations, economic and political challenges and other conditions that may fluctuate from time to time. Such volatility may be of an increase or decrease in interest rates, which may have material impact on the value of the Bank's investments in fixed income securities. With possible unfavorable conditions in the global financial market, there is no assurance that the Bank will be able to realize a stable amount of trading and foreign exchange gains or a loss from such trading or that the Bank will hold unto its trading and investment securities to realize interest income. Any or all of which could have a material adverse effect in connection to its investment and trading activities' income.

The Bank has a significant exposure to the Philippine real estate market, thus, a downturn in the Philippine real estate market could increase the Bank's NPLs and otherwise adversely affect the Bank's business, financial condition and results of operations.

The Bank has significant exposure to the Philippine real estate market because of its portfolio of loans to real estate companies, as well as the number of real estate it holds as collateral. As of September 30, 2018, loans secured by real estate collateral accounted for ₱33.77 billion or 21.94% of the Bank's total secured loans to customers. Furthermore, loans to customers involved in real estate, renting and other real estate related activities accounted for ₱88.96 billion or 57.81% of the Bank's loans to customers. As of September 30, 2018, unsecured loans accounted for ₱30.43 billion or 19.78% of the Bank's lending portfolio. This primarily consists of commercial loans, personal loans and employee loans.

The real estate market in the Philippines is highly cyclical, and real estate prices have always been volatile. Real estate prices are affected by a number of factors, including, among other things, the supply of and demand for comparable properties, the rate of economic growth in the Philippines, the remittances from overseas Filipino workers ("OFWs"), the geographic location, the taxation of the Philippine government and the political and economic developments. Consequently, an extended downturn in the Philippine real estate sector could increase the level of the Bank's NPLs alongside related provisions for impairment loan losses. If such environment occurs, this will reduce the Bank's net income and subsequently materially and adversely affect the Bank's business, financial condition and results of operations.

Historically low interest rates, expansion in overall liquidity, extensive construction of real estate and other factors could lead to the risk of formation of asset bubbles in the industry, which could adversely affect the Bank's business, which has a substantial portfolio of real properties.

The Bank has a substantial portfolio of real properties. In any real estate property market, there is an inherent risk of an asset price bubble. This occurs when there is a gross imbalance between the supply and demand in the property market, causing an unusual increase in asset prices, followed by a drastic drop in prices when the bubble bursts.

For the past several years, central banks globally, including the BSP, have kept overall interest rates at historically low levels for an extended period of time. This has occurred in conjunction with recent high levels of liquidity in the Philippines because of the strong and growing remittances from OFWs, the expansion of consumer credit provided by banks, the expiry of the BSP's requirement for banks to maintain special deposit accounts and strong inflows of foreign investments, among other factors.

In the Philippines, the real estate sector's growth is mainly driven by low interest rates funding, robust remittances from OFWs, and the fast-growing Business Process Outsourcing sector. All of which are vulnerable to global economic and political changes. Over the last few years, the pace of real estate construction, particularly for housing in and surrounding Metro Manila and other urban areas, has been strong by historical standards.

All of these factors have increased the risk that rising prices may not be sustainable, particularly in the real estate sector. If rising prices are not sustained, the result could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses.

As of December 31, 2016, 2017, and September 30, 2018, the Bank's secured loans represented 77.21%, 79.37%, and 80.22% of the Bank's total loans, and 22.63%, 21.37%, and 21.94% of the collateral on these secured loans consisted of real estate properties. There is no assurance that the Bank will be protected from suffering a complete loss if the loan becomes non-performing. There is no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss. The recorded values of the Bank's collateral may not accurately reflect its liquidation value which is the maximum amount the Bank may likely recover from a full sale of the collateral minus expense of such sale.

There is no assurance that the realized value of the collateral would be sufficient to cover the Bank's loans.

Furthermore, in respect to the valuation of the Bank's collateral, the valuation of such collaterals may not be reflected and as such may be outdated. There may be some cases where there may be no purchasers for any type of collateral; and thus, there will be difficulties in liquidating such collateral at a reasonable price. Any deterioration in the value of the collateral securing the Bank's loan, including with respect to any future collateral taken by the Bank, would mean that its provisions for credit losses could materially and adversely affect the Bank's business, financial condition and result of operations. Moreover, the Bank may not be able to fully recover the value of such collateral or be able to impose any guarantee because, in part, of challenges and delays involving in enforcing such obligations through the Philippine legal system. In the Philippines, to enforce a guarantee on foreclosed on collateral; the banks are required to follow certain procedures specified by Philippine Law. These procedures are subject to administrative and bankruptcy law requirements which may be more burdensome than in certain other jurisdictions. These may last several years and lead to physical deterioration and collapse of market value, especially if the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. While in possession of the collateral, these factors have exposed, and may continue to expose, the Bank's legal liability. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore its effectiveness in taking security for the loans it grants.

The value of the Bank's collateral may be overstated and may decline in the future.

The value of the Bank's collateral may be overstated and may not accurately reflect the net recovery it is likely to receive from the sale of such collateral. Some of the Bank's collateral value may be outdated and may not reflect its current market value. In some instances, there may be no purchasers for a particular type of collateral securing the Bank's loans, including with respect to, any future collateral taken by the Bank. This would mean that the Bank's provision for loan loss for the connecting loan is inadequate and would demand an increase in such provisions. Any increase in the Bank's provisions would adversely affect its results of operations and financial condition as well as the Bank's capital adequacy ratio ("CAR"), which could trigger a need for the Bank to raise additional capital.

The Bank's restructured loans may become non-performing because of the way these loans have been structured or otherwise as a result of the inherent weaknesses of the borrower.

Restructuring is granted to those borrowers which have impaired cash flow and/or affected by natural calamities. Where possible, the Bank seeks to restructure rather than take possession of the collateral.

Reasons for restructuring should be established such as exhibiting problems in debt servicing with history of payment default, difficulties in servicing current payment amortization due to tight cash flow. Restructuring requests are evaluated based on their current financial capacity, re-evaluates collateral position and payment history.

Restructured loans are classified as non-performing upon default of the principal and interest payment. Restructured loan shall not be considered as non-performing except when at the time of restructuring, principal and interest are updated and yielding a rate that fully compensate the Bank for the cost of fund and credit risk. Restoration of restructured loan to performing shall only be effective after satisfactory track record of payments have been established or with at least 3 consecutive installment payments.

Management continuously reviews restructured loans to ensure that all criteria are met and future payments are likely to occur.

As of December 31, 2016, 2017, and September 30, 2018, ₱0.08 billion, ₱0.07 billion and ₱0.09 billion of restructured loans, respectively, were classified as NPLs. As of December 31, 2016, 2017, and September 30, 2018, the Bank had ₱0.21 billion, ₱0.19 billion, and ₱0.14 billion of restructured loans respectively, in its loan portfolio, ₱0.13 billion, ₱0.12 billion, and ₱0.05 billion of which, respectively, were included under the Bank's performing loans. If a significant number of the Bank's customers are unable to meet their payment obligations under restructured loans, the Bank's NPL portfolio will increase, thereby requiring additional allowances, and may affect the Bank's business, financial condition and results of operations.

The Bank may not be successful in implementing new business strategies.

The Bank's ability to grow its revenue will partly depend on its ability to successfully implement its business strategies, which may expose the Bank to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Bank anticipates, and there can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank's competitors may have substantially greater experience and resources for the new and expanded business activities; and,
- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

There can be no guarantee that the applied strategy will reach success because of these several factors, including, increasing competition and changes in the macro-economic environment. When expanding its set of products and services, particularly in the retail segment, the Bank expects to face significant competition from other banks that are already offering or are in the process of adding such products or services. There is no assurance that the Bank will be able to compete effectively against such existing banks or that new products will be met with sufficient customer demand, which may lead to lower than expected return on investments for the Bank. In addition, the Bank aims to enhance both existing branch efficiencies to grow its deposit base as well as offer cross-selling opportunities to new and existing customers. However, there is no assurance that such strategy will be successful, including as a result of other banks moving into the same geographic areas.

There are many other considerations that will determine the Bank's success in implementing new strategies. These other factors, among others are the retention of its key management, senior executives and upon their ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, senior executives or their inability to attract or retain other key individuals could hinder the Bank's implementation of its strategies.

Increased enforcement by the Government related to priority lending for the agrarian reform and agricultural sectors could adversely affect the Bank's business, financial condition and results of operations.

The Philippine Government has imposed an agrarian reform and agriculture lending policy requiring Philippine banks to extend certain loan amounts to agrarian beneficiaries and the agricultural sectors of the country. Failure to meet the specified level of loans may result in fines being assessed against a non-compliant bank. As of September 30, 2018, the minimum amount required to be allocated for agrarian reform and other agricultural credit was ₱9.7 billion and ₱14.5 billion, respectively. However, the Bank is unable to generate sufficient exposure to the agrarian reform and agricultural sectors because of its prudent credit and risk management policies, the Bank has paid fines in the past and may continue to do so in the future. There can be no assurance that the Government will not increase its penalties for non-compliance or force banks to lend in accordance with the policy in the future. If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the agrarian reform and agricultural sectors that are inconsistent with the Bank's credit and risk management policies, it could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to credit, market and liquidity risks which may have an adverse effect on its credit ratings and its cost of funds.

If any of the strategies of the bank in respect to its management of its exposure to market or credit risks are not effective, then the Bank may not be able to mitigate its risk exposure. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. Furthermore, the Bank's earning depend on, among others, the ability to accurately value models and its critical accounting estimates, and the adequacy of its allowances for credit losses. Thus, the Bank can suffer higher than anticipated losses. The successful management of credit, market and operational risks are important considerations in managing its liquidity risk because in doing so, it affects the evaluation of its credit ratings by rating agencies. If the Bank fails to manage credit, market and liquidity risk effectively, this could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank's failure to manage risks associated with its information and technology systems could adversely affect its business.

The Bank is subject to risks relating to its information and technology systems and processes. The Bank is highly dependent on its hardware and software for its information technology. Any damage or interruptions by human error misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption, loss of support services from third parties such as internet service providers and telephone companies, disruption, outrage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence in the Bank. These may adversely affect the Bank's business, financial condition and result of operations.

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as security breaches and other disruptive problems caused by the Bank's increased use of the internet. Computer break-ins and security breaches could affect the security of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs security systems, including firewalls and password encryption, designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and securities problems is likely to persist and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Bank's success depends upon, among other factors, the retention of its key management, senior executives, and upon its ability to attract and retain other highly capable individuals. Increased competition from other Philippine banks and branches of international banks with significant financial resources may hinder the Bank's ability to hire and retain qualified employees to fill positions of need in connection with the Bank's key growth businesses. The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial position and results of operations.

The Bank is involved in litigation, which could result in financial losses or harm its business.

The Bank is, and may in the future be, implicated in lawsuits on an on-going basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. However, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits or outside the coverage of bank insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition and results of operations, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

The Bank is a subsidiary with the Metropolitan Bank & Trust Banking Corp. (Metrobank) and its interest may not be aligned with those of the public shareholders of the Bank.

The Bank is a subsidiary of Metrobank. As of September 30, 2018, Metrobank held 82.68% of the common shares of the Bank.

Metrobank has a significant influence over the outcome of all matters to be decided by the Bank's shareholders including, composition of its Board of Directors, composition of management and strategy, among others. The interest of Metrobank may not be in line with that of the public shareholders of the Bank.

RISKS RELATING TO THE PHILIPPINE BANKING INDUSTRY

The Philippine banking industry is highly competitive and increasing competition may result in declining margins in the Bank's principal businesses.

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank. The recent mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business opportunities and service delivery. As of June 30, 2018, according to data from the BSP, there were a total of 43 domestic and foreign universal and commercial banks operating in the Philippines. In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Republic Act No. 10641 (approved on 15 July 2014): (a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; (b) investment of up to 100% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leverages for asset growth and market share gains; and,
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP, as of September 30, 2018, past due ratios in the Philippine universal and commercial banking system was at 1.84%, an improvement from a 5.29% to 3.42% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 138.26% as of September 30, 2018, higher than the 96.82% to 126.36% range reported from 2009 to 2011, according to the BSP. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

The Bank may have to comply with strict regulations and guidelines issued by banking regulatory authorities in the Philippines, including the BSP, the BIR and international bodies, including the FATF.

The Bank's banking interests are principally regulated and supervised principally by, and have reporting obligations to, the BSP. It is also subsidiarily regulated, and has reporting and disclosure obligations to, the Securities and Exchange Commission ("SEC"), the Philippine Stock Exchange ("PSE") and the Anti-Money Laundering Council ("AMLC"). The Bank is also subject to the banking, corporate, taxation and other regulations and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue of the Philippines (the "BIR") ,as well as international bodies such as the Financial Action Task Force ("FATF"). The regulatory and legal framework governing the Bank differs in certain material respects from that in effect in other countries and may continue to change as the Philippine economy and commercial and financial markets evolve.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines.

The BSP has also recently ordered universal, commercial and thrift banks to conduct Real Estate Stress Tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit ("REST Limit") combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the Bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame.

On 3 June 2016, the BSP formally adopted the Interest Rate Corridor (IRC) system as a framework for conducting its monetary operations. The IRC is a system for guiding short-term market rates towards the BSP policy interest rate which is the overnight reverse repurchase (RRP) rate that is currently at 4.5%. It consists of a rate at which the BSP lends to banks under its Overnight Lending Facility ("OLF") which is currently at 5.0% and a rate at which it takes deposits from them under its Overnight Deposit Facility ("ODF") which is currently at 4.0%. Under this corridor, the lending rate is above the BSP target/policy rate (thereby forming an upper bound for short-term market rates) while the deposit rate is below the BSP rate (thereby forming the lower bound). The BSP likewise introduced the Term Deposit Facility ("TDF") to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

The BIR has also promulgated rules on the submission of an Alphabetical List ("Alphalist") of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit an Alphalist of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld.

The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 with regard to the lumping into a single amount.

While the Philippines enacted the Anti-Money Laundering Act of 2001 (the "Anti-Money Laundering Act" or "AMLA") to introduce more stringent anti-money laundering ("AML") regulations, these regulations did not initially comply with the standards set by the FATF. However, following pressure from the FATF, an amendment to the AMLA became effective on March 23, 2003. In January 2005, the Philippines was removed from the list of Non-Cooperative Countries and Territories and the AML systems (including strict customer identification, suspicious transaction reporting, bank examinations, and legal capacities to investigate and prosecute money laundering) were all identified to be of a satisfactory nature. Currently, the Philippines is on the "grey list", as the FATF, in news reports, noted a "high-level political commitment" from local authorities to address noted deficiencies in its AML regime.

A recent amendment to the AML regime, Republic Act No. 10168, was enacted on June 18, 2012. This law defined the crime of financing of terrorism. This is one of the last pending amendments to the AML regime requested by the FATF, however, it is noted that this is not a guarantee that the Philippines will not be blacklisted or will be removed from the watch list.

On February 15, 2013, Republic Act No. 10365 was approved. This amendment expanded the coverage of the AMLA to include "covered persons, natural and juridical". Additions to the enumeration of covered persons include jewelry dealers for transactions in excess of P1.00 million and the Land Registration Authority for real estate purchases in excess of ₱500,000.00. Furthermore, the enumeration of predicate crimes expanded to include 20 additional crimes including bribery, extortion, malversation of public funds, fraud and financing of terrorism.

In 2016, the Anti-Money Laundering Council ("AMLC") approved the Revised Implementing Rules and Regulations of the AMLA. On March 15, 2017, the BSP issued BSP Circular No. 950 which further expanded covered persons to include company service providers, and person who manage their client's money, security or other assets, manage bank or securities accounts, organize funds for the creation, operation, or management of companies, create, operate, or manage entities or relationships, or who buy and sell business entities.

In July 2017, Republic Act No. 109271 was signed into law, and it further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of P5.00 million or its equivalent in any other currency. Furthermore, the law provides that: (a) a freeze order issued by the Court of Appeals pursuant to an ex parte petition by the AMLC shall not exceed six months and if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets; and (b) a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

Under the AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Philippine Court of Appeals, upon verified ex parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order, which shall be effective immediately and which shall not exceed six months depending upon the circumstances of the case.

BSP Circular No. 495 (2005), as amended by BSP Circular No. 527 (2006), requires all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by October 14, 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under the AMLA.

BSP Memorandum No. M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System ("ARRS"), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound AML policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines, could have a material adverse effect on the Bank's business, financial condition and results of operations. As part of the administrative sanctions, the AMLC may impose sanctions, monetary penalties, warnings or reprimands and fines upon any covered person, its directors, its officers and employees for violation of the AMLA or its implementing rules and regulations, or for failure to comply with AMLC orders, resolutions or issuances. The monetary penalties are in amounts as may be determined by the AMLC, taking into consideration all relevant circumstances, but not exceeding P500,000.00 per violation. The imposition of administrative sanctions is without prejudice to the filing of criminal charges against persons responsible for violations. There are penalties for, among other offences, failure to keep records, malicious reporting and breach of confidentiality.

Further, there is no assurance that the BSP or other Philippine regulators will not issue stricter or tighten regulations as a result of events affecting financial institutions in the Philippines, including the cyber heist of the Bangladesh Bank in 2016.

Additionally, the BSP reduced the rates of required reserves against deposit and deposit substitute liabilities commencing on reserve week June 1, 2018, as follows: (a) 18% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 18% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repossession agreements; (d) 4% against long-term negotiable certificates of time-deposits under BSP Circular No. 304 issued on October 25, 2011; (e) 6% against bonds; and (f) 7% against long-term negotiable certificates of time deposits under BSP Circular No. 824 issued on January 30,2014.

In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Bank’s failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines and in other relevant jurisdictions could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank may experience difficulties due to the implementation of Basel III in the Philippines.

On December 17, 2009, the Basel Committee on Banking Supervision (the "BCBS") proposed a number of fundamental reforms to the regulatory capital framework. On December 16, 2010, BCBS released two documents entitled "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III: International Framework for Liquidity Risk Management, Standards and Monitoring" and on January 13, 2011 issued a press release entitled "Basel Committee issues final elements of the reforms to raise the quality of regulatory capital" (collectively "**Basel III**"). The proposed reforms will require instruments to comply with the new eligibility criteria in order to obtain regulatory capital treatment and will introduce a deduction approach to regulatory adjustments and treatment of equity investments in non-financial and non-allied undertakings.

The revised guidelines would essentially require banks to hold more capital of higher quality. The minimum capital adequacy ratio will remain at 10.00%. However, the BSP will adopt a minimum Common Equity Tier 1 ("CET1") ratio of 6.00%, a minimum Tier 1 ratio of 7.50%, and a capital conservation buffer of 2.50%. As of the date of this Prospectus, the BSP does not envisage adopting the countercyclical capital buffer, though this remains subject to further review. The full adoption of the new minimum ratios, including the capital conservation buffer, began on January 1, 2014. The regulatory deductions were likewise deducted in full from CET1 on this date. Regulatory capital instruments that were rendered ineligible under the minimum conditions of Basel III qualified as regulatory capital only until the end of 2013.

On 15 January 2009, the BSP issued Circular No. 639 covering the Internal Capital Adequacy Assessment Process ("ICAAP") which supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. The BSP requires banks to have in place an ICAAP that (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital. In 2011, the BSP issued BSP Circular 709, which aligns with the Basel Committee on Banking Supervision ("BCBS") on the eligibility criteria on Additional bank Concern Capital and Tier 2 Capital to determine eligibility of capital instruments to be issued by Philippine banks/quasi-banks as Hybrid Tier 1 Capital and Lower Tier 2 Capital. Further, in January 2013, the BSP issued Circular No. 781 as the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect in January 2014, highlights of which include:

- adopting a new categorization of the capital base;
- adopting eligibility criteria for each capital category that is not yet included in Circular 709;
- as applicable, allowing the BSP to adopt regulatory deductions in Basel III;
- keeping minimum CAR at 10%, and prescribing:
- a minimum Common Equity Tier 1 ("CET1") ratio of 6.0%;
- a minimum Tier 1 CAR of 7.5%;
- an additional capital conservation buffer ("CCB") of 2.5%;
- revaluation of certain AFS securities and the impairments that could arise from trading losses;
- if the Bank is classified as "systemically important", it may be required to hold additional capital reserves;
- by January 1, 2014, rendering ineligible existing capital instruments as of December 31, 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework;
- by January 1, 2016, rendering ineligible regulatory capital instruments issued under Circulars No. 709 and 716 before the revised capital framework became effective; and,
- by subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On October 29, 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("D-SIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and CCB.

Identified D-SIBs will need to put up an additional 1.5 - 3.5% CET1 depending on their classification. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance required by January 1, 2019.

The systemic importance of a bank is assessed in relation to the impact of its failure on the domestic economy based on certain bank-specific factors (on a consolidated basis): size, interconnectedness, substitutability/financial institution infrastructure, and complexity. Banks that have a score that exceeds the cut-off under the indicator-based measurement approach shall be classified as DSIBs. In assessing DSIBs, supervisory judgment may also be utilized based on the principles set forth in the circular. Using cluster analysis, DSIBs will be initially be allocated into two buckets with an empty bucket to provide banks with an incentive to avoid becoming more systemically important. The assessment will be run annually, and DSIBs reallocated as a result.

Banks identified as DSIBs will be required to have higher loss absorbency ("HLA"). This higher requirement is aimed at ensuring that DSIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern, considering that the failure of a DSIB is expected to have a greater impact on the domestic financial system and the economy as a whole. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital.

The magnitude of additional loss absorbency for the higher populated bucket will be 2.50% of risk-weighted assets at all times, with the initial empty bucket at 3.50% of risk-weighted assets, and 1.50% for the lower bucket:

Bucket	**Score Range**	**Minimum additional loss absorbency (common equity as a percentage of risk-weighted assets)**
3 (empty)	B–C	3.50%
2	A–B	2.50%
1	Cut-off point – A	1.50%

The HLA requirement for DSIBs is envisioned to be on top of the capital conservation buffer ("**CCB**") under BSP Circular No. 781. The total CET1 capital requirement for DSIBs will be as follows:

Bucket	**Minimum CET1 Requirement (a)**	**Capital Conservation Buffer (b)**	**DSIB HLA Requirement (c)**	**Total Additional CET1 Requirement (b+c)**	**Total Required CET1 (a+b+c)**
3 (empty)	6.00%	2.50%	3.50%	6.00%	12.00%
2	6.00%	2.50%	2.50%	5.00%	11.00%
1	6.00%	2.50%	1.50%	4.00%	10.00%

Transitional arrangements to implement the HLA requirement will be implemented. In the case of banks included in the first list of DSIBs (released in June 2015 based on December 2014 data), compliance with the HLA requirement will be phased-in starting January 1, 2017, with full compliance ion January 1, 2019. After the phase-in period, banks identified as DSIBs will have 18 months to comply with the required HLA.

Data Cut-Off	**Release of DSIBs List**	**Compliance Period**
December 2014	June 2015	Phased-in: January 1, 2017 – January 1, 2019
December 2015	June 2016	Phased-in: January 1, 2018 – January 1, 2019
December 2016	June 2017	January 1, 2019 – December 31, 2019
December 2017	June 2018	January 1, 2020 – December 31, 2020
December 2018	June 2019	January 1, 2021 – December 31, 2021

The circular likewise imposes capital distribution constraints should a DSIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

Restrictions on Distributions	**Level of CET 1 Capital**	
	Bucket 1	**Bucket 2**
No distribution (until the minimum CET1, CCB, and more than 50.00% of the DSIB HLA requirements are met; and conditions (a) and (b) are complied with.)	< 9.25%	< 9 .75%

Restrictions on Distributions	Level of CET 1 Capital	
	Bucket 1	Bucket 2
50.00% of earnings may be distributed (if the minimum CET1, CCB, and more than 50.00% of the DSIB HLA requirements are met; and conditions (a) and (b) are complied with.	> 9.25% – 10.00%	> 9.75% – 11.00%

A DSIB will not be subject to any restriction on distribution if the following conditions are met:

a. Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;
b. Compliance with total required CET1 (under the circular) before distribution; and,
c. Compliance with minimum capital ratios after distribution.

DSIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its Internal Capital Adequacy Assessment Process ("ICAAP").

These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a DSIB by the BSP.

To align with international standards, the BSP has adopted the BCBS's eligibility criteria to determine the eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 Capital and Tier 2 Capital with the issuance of BSP Circular No. 709 effective January 1, 2011.

On January 15, 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the 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. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10.00% on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.00% and 7.50%, respectively. A capital conversion buffer of 2.50% comprised of CET1 capital, shall also apply.

On February 15, 2013, BSP Circular No. 786 was issued, which prescribed risk disclosure requirements on loss absorbency features of capital instruments. Through this, the BSP aimed to uphold investor protection through enhanced disclosure and transparency through the following requirements imposed upon the banks/quasi-banks: (i) subjecting investors to a client suitability test, (ii) providing the appropriate risk disclosure statement for the issuance of the capital instruments; (iii) securing written certifications from the investors; and (iv) making these available to the BSP, as may be required. Later, through BSP Memorandum No. M-2013-008, the BSP clarified that the abovementioned requirements apply in relation to all prospective investors.

On March 5, 2013, the BSP released Memorandum No. M-2013-008, which contained a list of Frequently Asked Questions on the Basel III Implementing Guidelines. The new capital requirements, required loss absorbency features and risk disclosure requirements for prospective investors are addressed in such memorandum.

Memorandum No. M-2013-008 clarified, among others, that the BSP is fundamentally aligned with the Basel Committee's proposals, but there are facets which the BSP has set the prudential bar higher either by design or by reason that these are the *de facto* practice existing already in the Philippines.

Further, the BSP explained in Memorandum No. M-2013-008 that loss absorbency measures ensure that capital instruments are in a position to fully absorb losses before any public sector funds are injected and taxpayers are exposed to losses. This effectively means that debt instruments qualifying as regulatory capital are required to be treated as similar to equity with respect to absorbing losses from operations.
In December 2010, the BCBS released "Basel III: Global Regulatory Framework for More Resilient Banks and Banking Systems", which was later revised in June 2011. In December 2010, the BCBS released "Basel III: International Framework for Liquidity Risk Measurement Standards and Monitoring", which was later revised in January 2013. Pursuant to these frameworks, the BCBS affirmed the implementation of the following to supplement banks' higher minimum capital requirements and new capital buffers: leverage ratio, the supervisory monitoring for which shall be from 2011 to 2012, followed by a parallel run from 2013 to 2017 with disclosure commencing on January 1, 2015 and migration to Pillar 1 by

2018; liquidity coverage ratio, the observation period for which starts in 2011 and implementation in 2015; and the net stable funding ratio, the observation period for which starts in 2012 and implementation targeted by 2018.

Moreover, the BSP adopted the Basel III leverage ratio framework under BSP Circular No. 881 (2015). The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, computed as the level of a bank's Tier 1 capital against its total on-book and off book exposures, must not be less than 5.00%. During the monitoring period up to the end of 2017, sanctions will not be imposed on covered institutions falling below the 5.00% minimum, but covered institutions are required to submit periodic reports.

Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should be no lower than 100.00%. Per BSP Circular No. 996 dated February 8, 2018, subsidiary banks and quasi-banks are required to maintain an LCR ratio of at least 100% both during observation period up to December 31, 2018 and during implementation period beginning January 1, 2019 subject to certain entailing reportorial and disclosure requirements as well as liquidity build-up plans. Subsequently, BSP Circular No. 1007 re: NSFR was issued on June 6, 2018 requiring banks to hold enough liquidity or stable sources of funding at a minimum ratio of Available Stable Funding (ASF) over the Required Stable Funding (RSF) of 100% for a 1-year period starting January 1, 2019 after an observation period of up to December 31, 2018. This NSFR, which likewise entails reporting both on a solo and consolidated basis, complements the required Liquidity Coverage Ratio (LCR) that requires banks to hold sufficient High Quality Liquid Assets (HQLAs) easily convertible to cash to service liquidity requirements over a 30-day stress period.

If the Bank is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely affected. There can be no assurance that the Bank will be able to meet the requirements of Basel III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition and results of operations. Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board, may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

As of June 30, 2018, according to the BSP and under the Revised Basel III standards (Memorandum No. M-2013-056), the Philippine universal and commercial banking industry's CAR was 15.75% on a consolidated basis and 15.21% on a solo basis. As of September 30, 2018, the Bank's consolidated Tier 1 capital adequacy ratio/CET1 ratio and total consolidated capital adequacy ratio were 11.09% and 13.79%, respectively, as reported to the BSP. Although the net proceeds from the Offer are expected to result in an increase in the Bank's CET1 ratio, to the extent that First Metro takes up or purchases any unsubscribed Rights Shares after the mandatory second round of the Offer, such purchase or take up of shares shall be treated as a deduction from the Bank's CET1 capital under Basel III regulations, which could partially offset any increase in the Bank's CET1 ratio post-Offer.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ("LTV") ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP, however, the banks' internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Further, the BSP has also issued BSP Circular No. 1011 re: Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments which set forth the guidelines for recording transactions and preparing financial statements and reports to the BSP, among others, in the adoption of PFRS9 effective January 1, 2018 primarily with respect to the classification and measurement of financial instruments. This circular also requires the adoption of Expected Credit Loss (ECL) models in measuring credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent in accordance with the provisions of PFRS9.

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition and results of operations. Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

Further, there can be no assurance that the Bank will not face increased pressure on its capital in the future to comply with Basel III standards which may have an adverse effect on the Bank's business, financial condition, results of operations and prospects.

The Bank's provisioning based on expected credit loss approach is subject to volatility.

BSP issued Circulars No. 912 and 1011 on the adoption of PFRS9. These mandated all Philippine banks, including the Bank and Metrobank, to adopt the expected credit loss (ECL) model approach in measuring credit impairment. Banks are required to consider past events, current conditions and forecast of economic conditions in assessing impairment. In response to these, the Bank created quantitative models by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. These are subject to model risks and may cause some volatility in the calculation of provisions. Moreover, PFRS9 requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP and external auditors of these models may also result in changes being made by the Bank to the factors relevant thereto. The level of provisions currently recognized by the Bank in respect of its loan portfolios depends largely on the quality of the portfolio and estimated value of the collateral coverage for the portfolio. Although the Bank has a policy to test its loan portfolios for impairment on a quarterly basis in order to ensure adequacy of provisions as needed and in line with changing market conditions, the level of the Bank's provisions may not be adequate to cover any deterioration in the overall credit quality of the Bank's loan portfolios, including the value of the underlying collateral. In particular, the amount of the Bank's reported loan losses may be influenced by factors beyond their control. While the Bank believes its current level of provisions and collateral position are more than adequate to cover its bad credit exposures, an unexpected or significant increase in bad credit exposures may result in the need for higher levels of provisions in the future.

Any future changes in PFRS may affect the financial reporting of the Bank's business.

PFRS continues to evolve as standards and interpretations promulgated effective January 1, 2018 and onwards come into effect. PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option ("FVO") is not invoked, be subsequently measured at: (a) amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at fair value through other comprehensive income ("FVOCI") if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income ("OCI") or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss ("FVTPL")."). For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the criteria for using the FVO.

PFRS 9 also introduced a new expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach in PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses. PFRS 9 also replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. PFRS 9 became effective for annual periods beginning on or after January 1, 2018. The window for early adoption of PFRS 9 by banks and other BSP-supervised financial institutions was closed in 2016 under BSP Circular No. 912 (s. 2016).

The Bank has adopted PFRS 9 effective January 1, 2018 using a modified retrospective approach. This approach allowed the Bank not to restate prior periods, however, adjustments were made at the beginning balance of the annual reporting period at the date of initial adoption. For more details please see Note 2 of the audited financial statements as of December 31, 2017 and for the years ended December 31, 2016 and 2017 of the Bank elsewhere in this Prospectus.

PFRS 16 replaces the accounting requirements for leases under the old Standard (IAS 17, Leases). The new standard requires all leases to be reported on balance sheet as assets and liabilities. PFRS 16 shall be effective for annual periods beginning on or after January 1, 2019. The early adoption of PFRS 16 by entities is allowed provided such entities have also adopted PFRS 15. The Bank is currently assessing the impact of adopting this standard. The Bank believes that other amendments and improvement to PFRS issued effective January 1, 2018 and onwards will not have material impact on the Bank's future financial statements.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The sovereign credit ratings of the Philippines directly affect companies resident and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2017. Fitch also upgraded the Philippines' long-term foreign currency issuer default rating from "BBB-" to "BBB" in December 2017. All ratings are above investment grade and the highest that the country has received so far from any credit ratings agency. International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are resident in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

The Philippine banking industry is generally exposed to higher credit risks and greater market volatility than that of more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment; The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product (GDP) of the Philippines; and,
- Volatility of interest rates and U.S. Dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries.

In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine Universal and Commercial banking industry were 1.40% and 1.27% as of the years ended December 31, 2016 and 2017, respectively, and 1.34% as of August 31, 2018.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different banks within each bank, including the Bank, may be incomplete or obsolete. The Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations. However, BSP's early adoption of Basel III on January 1, 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards, with no transition period, are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks. In addition, the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 20% to be held with the BSP (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.5% of local currency deposit balances).

If the Bank were not to comply with FATCA, this may cause material and adverse impact on the Bank's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes. FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, FFIs that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens. An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status. After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next move will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions ("PFFIs") in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service ("IRS"). There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request. Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on March 11, 2014 as an Expanded Affiliate bank i.e., Metropolitan Bank & Trust Company (lead financial institution) and subsidiaries — First Metro (including First Metro Securities, PBC Capital Investment Corporation, First Metro Asset Management Inc., First Metro Save & Learn Dollar Bond Fund, First Metro Asia Focus Equity Fund, Inc., FMIC Equities, Inc. and First Metro Philippine Equity Exchange Traded Fund, Inc.), Resiliency SPC, Inc., PSBank, Metrobank Card Corporation, Orix Metro Leasing and Finance Corporation, Metropolitan Bank (China) Limited and Metropolitan Bank (Bahamas) Limited. The Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement ("IGA"). The Bank's FATCA ID and Global Intermediary Identification Number is IBMW8G.00000.LE.608. Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the IRS. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force. Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld it could result in the bank's taxation charge being increased. In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.

Global markets have experienced, and may continue to experience, significant dislocation and turbulence due to economic and political instability in several areas of the world. These ongoing global economic conditions have led to significant volatility in capital markets around the world, including Asia, and further volatility could significantly impact investor risk appetite and capital flows into emerging markets including the Philippines, as well as the price of the Common Shares. In 2015, the effect of the devaluation of the Renminbi by the PRC, coupled with the slowing of economic growth in various regions around the world, has had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. Moreover, the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso) in 2016 resulted in capital outflows from these economies. Meanwhile, the three-year bailout granted by the Eurozone leaders in August 2015 provides Greece a temporary relief from its liquidity pressure, but concerns remain on whether the Greek government will be successful in implementing the proposed austerity measures and necessary economic reforms to satisfy the conditions of the bailout and its creditors.

Further, economic conditions in some Eurozone sovereign states could possibly lead to these member states re-negotiating or restructuring their existing debt obligations, which may lead to a material change in the current political and/or economic framework of the European Monetary Union. One potential change that may result from the crisis is an end to the single-currency system that prevails across much of Europe, with some or all European member states reverting to currency forms used prior to adoption of the euro. The crisis could also lead to the restructuring or breakup of other political and monetary institutions within the European Union. The risk may have been exacerbated by the referendum on membership of the European Union, held in the UK on 23 June 2016, where the UK public voted by a majority in favor of the British government taking the necessary action for the UK to leave the European Union. If the UK or certain states within the Eurozone were to exit the European Union, or following the occurrence of such other reform as contemplated herein, such countries may not be able to meet their existing debt obligations or may default on these obligations, which could have a ripple effect across sovereign states and the private sector in Europe and the rest of the world and possibly lead to a global economic crisis. Any changes to the euro currency could also cause substantial currency readjustments across Europe and other parts of the world, further exacerbating the credit crisis. These events and uncertainties could adversely impact the Bank's business, financial condition and results of operations.

The broad ramifications of "Brexit" to the UK, the EU and the global economy have yet to unravel, casting uncertainty to global prospects and possible volatility in financial markets. In addition, the uneven and divergent conditions across major economies and the resulting desynchronization in policy environment persist, with the US continuing to show firmer signs of economic growth and possible monetary tightening in the horizon, while Japan and the Eurozone require more economic stimulus and unconventional monetary measures (e.g., negative interest rates) to revive their economies. Likewise putting a downside risk to the global outlook are the protracted economic slowdown in China, the ongoing geopolitical crises that include among others, Syrian civil war and terrorist acts committed by ISIS.

The results of the recently held US Presidential elections shocked global markets, significantly affecting stock and futures indices and currencies globally, on and shortly after election day. Moreover, the election of Donald J. Trump as the US President has been believed by certain economists as creating uncertainties in the direction of the US economy and US trade policies, which could adversely affect the global market. There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. The success of the Bank's banking business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services. These developments may adversely affect trade volumes with potentially negative effects on the Philippines.

RISKS RELATING TO THE PHILIPPINES

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses.

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to U.S.$1.00 in July 1997 to ₱56.18 to U.S.$1.00 by December 2004.

While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As of December 31, 2017, according to BSP data, the Peso has remained steady at ₱ 49.92 per US$1 from ₱ 49.81 per U.S.$1.00 at the end of 2016. As of September 30, 2018, the Peso was at ₱54.02 against the U.S. dollar.

Substantially all of the Bank's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Bank's business, financial position and results of operations.

Substantially all of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, their businesses are highly dependent on the state of the Philippine economy. Demand for banking services, residential real estate, automotive, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos.

Other factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- foreign exchange rate fluctuations and foreign exchange controls;
- downgrade in the long-term foreign and local currency sovereign credit ratings of the Philippines or the related outlook for such ratings;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- Government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and,
- other regulatory, social, political or economic developments in or affecting the Philippines.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

Political instability in the Philippines could destabilize the country and may have a negative effect on the Bank's businesses.

The Philippines has from time to time experienced severe political and social instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct by the previous administration.

On March 27, 2014, the Government and the Moro Islamic Liberation Front ("MILF") signed a peace agreement, the Comprehensive Agreement on Bangsamoro. On September 10, 2014, the draft of the Bangsamoro Basic Law ("BBL") was submitted by former President Aquino to Congress. The BBL is a draft law intended to establish the Bangsamoro political entity in the Philippines and provide for its basic structure of government, which will replace the existing Autonomous Region in Muslim Mindanao. Following the Mamasapano incident where high-profile terrorists clashed with armed members of the Bangsamoro Islamic Freedom Fighters and MILF leading to the deaths of members of the Special Action Force ("SAF") of the Philippine National Police, MILF, the Bangsamoro Islamic Freedom Fighters, and several civilians, the Congress stalled deliberations on the BBL. The Board of Inquiry on the Mamasapano incident and the Senate released their reports on the Mamasapano incident. On March 27, 2015, former President Aquino named a Peace Council consisting of five original members to study the draft BBL. Seventeen (17) co-convenors were later named as part of the Peace Council. The Council examined the draft law and its constitutionality and social impact. The Council Members testified before the House of Representatives and the Senate, and submitted their report, which endorses the draft BBL but with some proposed amendments. On May 13 and 14, 2015, the Senate conducted public hearings on the BBL in Zamboanga and Jolo, Sulu, with the Zamboanga City government and sultanate of Sulu opposing their inclusion in the proposed Bangsamoro entity. On June 6, 2017, the Bangsamoro Transition Commission approved the final draft of the BBL. The final draft was submitted to President Rodrigo Duterte in the presence of Congress on July 17, 2017. On September 20, 2017, President Duterte gave verbal commitments to certify as urgent the BBL in order to facilitate the immediate passage of the bill. . On February 1, 2018, President Duterte gave further verbal commitments to have the BBL passed before any charter change to the Constitution, and the administration remains to expect the passage of the bill by March 2018. On May 30, 2018 and May 31, 2018, the House of Representatives and the Senate, respectively approve their final version of the bill. Representatives from the two chambers of Congress met for the bicameral conference committee on July 9 to 13, 2018 to iron out differences in their versions of the BBL. On July 27, 2018, President Rodrigo Duterte signed Republic Act No. 11054, approving the BBL, which was renamed the "Bangsamoro Organic Law".

The Philippine Presidential elections were held on May 9, 2016 and on June 30, 2016 President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these banks. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

On April 28, 2014, the Philippines and U.S. officials signed the Enhanced Defence Cooperation Agreement ("EDCA") shortly before the visit to the Philippines of former United States President Barack Obama. This agreement was intended to foster the implementation of the Philippines and U.S. Mutual Defence Treaty and to allow a greater U.S. military presence in the Philippines. Activists criticized the move and held protests and some lawmakers argued that there was a lack of transparency in the preparation and signing of the agreement.

President Duterte has spoken publicly about the potential of the Philippines ending certain mutual defense treaties and agreements with the United States, including EDCA; however, no formal plans have been announced. In a written statement published on September 6, 2016, the Department of Foreign Affairs affirmed that President Duterte continues to value the alliance with the United States, noting that both countries share common goals in their pursuit of the war against drugs, terrorists, crime and poverty.

There can be no assurance that the current administration will continue to implement social and economic policies favored by the previous administration. Major deviation from the policies of the previous administration or fundamental change of direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. The President's unorthodox and radical methods may also raise risks of social and political unrest. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Bank's businesses, prospects, financial condition and results of operations.

Acts of terrorism could destabilize the country and could have a material adverse effect on the Bank's businesses, financial condition, and results of operation.

The Philippines has been subject to a number of terrorist attacks since 2000. In recent years, the Philippine military has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were not allegedly met. After almost a year in captivity, Sekkingstad and Flor were finally released. In September 2016, the Abu Sayyaf abducted Jurgen Gustav Kantner and killed his wife while the couple were sailing off the waters of the southern Philippines. Recently, Kantner was beheaded in February 2017, after ransom demands were not allegedly met. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, mainly in regions in the southern part of the Philippines, such as the province of Maguindanao. Although no one has claimed responsibility for these attacks, it is believed that the attacks are the work of various separatist banks, possibly including the Abu Sayyaf organization. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines and adversely affect the country's economy.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist banks seeking greater autonomy, including the MILF, the Moro National Liberation Front and the New People's Army. In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters ("BIFF") and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On September 2, 2016, a bombing that killed 15 and injured 71 took place in Davao City, Mindanao. It is believed that the Abu Sayyaf organization and/or their allies are responsible for the bombing. In May 2017, members of the "Maute bank", a local terrorist bank with alleged allegiances to the Islamic State of Iraq and Syria, captured partes of Marawi City in Lanao del Sur to allegedly establish an Islamic State caliphate in Mindanao. In response, President Duterte issued Proclamation No. 216 declaring martial law and suspended the writ of habeas corpus over the whole island of Mindanao, allowing arrests for those connected with the crisis. The Congress has granted the request of President Duterte to extend martial law in Mindanao until December 31, 2017. On October 17, 2017, President Duterte declared the liberation of Marawi City from terrorists and the beginning of the rehabilitation of Marawi City. As of October 30, 2017, more than 1,000 people including at least 165 soldiers, 919 Maute bank fighters, and 47 civilians have been killed since fighting broke out. Currently, several fund raising activities are being held by local government units to help rebuild Marawi City as well as aid families of the soldiers and policemen who were killed in the campaign to retake Marawi City from terrorists.

Similar attacks or conflicts between the Government and armed or terrorist banks could lead to further injuries or deaths of civilians and police or military personnel, which could destabilize parts of the country and adversely affect the country's economy. Any increase in the frequency, severity, or geographic reach of terrorist acts could adversely affect the country's economy. Any such destabilization could cause interruption to parts of the Bank's businesses and materially and adversely affect its financial conditions, results of operations and prospects.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu," occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organization ("WHO") declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of Ebola virus infection but was later released after testing negative for the disease. While still Ebola-free, the Philippines, however, remains vulnerable to exposure and spread of the disease for the following reasons: a) the considerable number of OFWs in the Ebola-hit West African countries; b) the impact of international travel which raises the probability of transmission; and c) lack of the necessary infrastructure to contain the spread of the disease. In March 2016, the Director-General of WHO terminated the Public Health Emergency of International Concern in regards to the Ebola Virus Disease outbreak.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV (i.e., the Middle East Respiratory Syndrome-Corona virus). She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection, putting the country once again free of an active case of the disease.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

In August 2017, an outbreak of bird flu from a poultry farm in Central Luzon was confirmed, and the avian influenza strain was later found to be transmissible to humans. In response to the outbreak, restrictions on the transport and sale of birds and poultry products outside a seven-kilometer radius control areas surrounding the affected site were imposed. The Philippines has since been cleared of any human infection of the avian influenza virus.

If the outbreak of the Ebola virus, MERS-CoV, Zika virus, bird flu or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

The push for charter change has been causing political unrest which could adversely affect the Bank's financial condition, results of operations and cash flows.

Despite constitutional reform being a divisive issue in the Philippines, the Duterte administration has considered it a legislative priority to amend the Philippine Constitution ("Charter Change") primarily to change the form of Philippine government from a unitary one to a federal one. The shift to a federal form of government was among President Duterte's key promises during his election campaign in 2016. President Duterte believes that the shift would promote peace most especially in conflict-torn Mindanao, curb poverty nationwide, and empower local government units in the Philippines.

The House of Representatives has already taken the initial steps toward the establishment of a Philippine federal structure of government. On January 16, 2018, the House of Representatives passed Joint Resolution No. 9, proposing that both the Senate and the House of Representatives transform into a Constitutional Assembly with the authority to amend the Constitution. On January 17, 2018, the subcommittee on constitutional amendments of the House of Representatives presented its proposed amendments to political provisions of the current Constitution, including the establishment of a Federal Republic divided into five states: Luzon, Metro Manila, Visayas, Bangsamoro, and Mindanao. Each state, under the said proposal, would have a unicameral state assembly with legislative powers, and a premiere with executive powers. The subcommittee likewise proposed to establish a parliament with a 300-member Federal Assembly as national legislative department and a Senate as the regional legislative body. Meanwhile, the President would remain as head of state under the proposal and would have a term of five years with one re-election, whereas a Prime Minister would be constituted as the head of the Philippine government, and would be elected by members of the Philippine parliament.

With respect to proposed amendments to economic provisions of the current Constitution, the House of Representatives subcommittee also proposed to delete certain provisions in the current Constitution providing foreign nationality restrictions, particularly in the following areas: exploitation, development and utilization of natural resources, ownership of alienable lands, franchise on public utilities, practice of profession, ownership of educational institutions, mass media and advertising.

Business groups in the Philippines believe that such amendments will enable the Government to achieve its goal of sustainable and inclusive economic growth, and that an increase in foreign investments would create more job opportunities for Filipinos.

The Speaker of the House of Representatives has posited that the House of Representatives alone may proceed to amend the Constitution even without the concurrence of the Senate, but senators insist that the lower house of Congress must wait for Senate concurrence to formally begin proposing amendments to the Constitution. The impasse between the two chambers has resulted to a crisis of government administration, causing conflicts among different political groups. In addition, while President Duterte has stated that he wishes to step down from office at the end of his six-year term in 2022, critics believe that Charter Change would pave the way for Duterte to perpetuate his political power and begin an authoritarian regime over the archipelago.

Due to the Bank's businesses being subject to extensive regulation from the Government and also dependent upon economic stability, the potential for instability and unrest may have a material adverse effect on the Bank and its financial condition, results of operations and prospects.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. At the last Monetary Board meeting in December 2017, the BSP maintained its key policy rates at 3.00% for overnight borrowing and 3.5% for overnight lending rates. However, interest rates may increase in the future as price pressures begin building as a result of strong economic growth.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations. An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Bank's business materially disrupt the Bank's operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effects on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of Philippine securities laws and the PSE's listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. As a result, public shareholders of the Bank may not have access to the same amount of information or have access to information in as timely of a manner as may be the case for companies listed in the U.S. and many other jurisdictions. Furthermore, although the Bank complies with the requirements of the Philippine SEC with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the SRC requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20.0% of the Board, whichever is the lower number. The Bank currently has five independent directors. Many other jurisdictions may require more independent directors.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of interests of public shareholders of the Bank may be less well-defined and enforced in the Philippines than elsewhere, putting public shareholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of public shareholders of the Bank.

Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.

The Philippines, China and several Southeast Asian nations have been engaged in a series of long-standing territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). The Philippines made several efforts during the course of 2011 and 2012 to establish a framework for resolving these disputes, calling for multilateral talks to delineate territorial rights and establish a framework for resolving disputes.

Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a bank of small islands and reefs known as the Scarborough Shoal. In April and May 2012, the Philippines and China accused each other of deploying vessels to the shoal in an attempt to take control of the area, and both sides unilaterally imposed fishing bans at the shoal later that year. These actions threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, as well as a temporary suspension of tours to the Philippines by Chinese travel agencies. Since July 2012, Chinese vessels have reportedly turned away Philippine fishing boats attempting to enter the shoal, and the Philippines has continued to protest China's presence there. In January 2013, the Philippines sent notice to the Chinese embassy in Manila that it intended to seek international arbitration to resolve the dispute under UNCLOS. China has rejected and returned the notice sent by the Philippines to initial arbitral proceedings.

On 9 May 2013, a Philippine Coast Guard ship opened fire on a Taiwanese fisherman's vessel in a disputed exclusive economic zone between Taiwan and the Philippines, killing a 65-year old Taiwanese fisherman. Although the Philippine government maintained that the loss of life was unintended, Taiwan imposed economic sanctions on the Philippines in the aftermath of the incident. Taiwan eventually lifted the sanctions in August 2013 after a formal apology was issued by the Government of the Philippines.

In September 2013, the Permanent Court of Arbitration in The Hague, Netherlands issued rules of procedure and initial timetable for the arbitration in which it will act as a registry of the proceedings. Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted and the operations of the Bank could be adversely affected as a result. In particular, further disputes between the Philippines and China may lead both countries to impose trade restrictions on the other's imports. On 12 July 2016, the five-member Arbitral Tribunal at the Permanent Court of Arbitration in The Hague, Netherlands, unanimously ruled in favor of the Philippines on the maritime dispute over the West Philippine Sea. The Tribunal's landmark decision contained several rulings, foremost of which invalidated China's "nine-dash line", or China's alleged historical boundary covering about 85% of the South China Sea, including 80% of the Philippines Exclusive Economic Zone ("EEZ") in the West Philippine Sea. China rejected the ruling, saying that it did not participate in the proceedings for the reason that the court had no jurisdiction over the case. Any such impact from these disputes could adversely affect the Philippine economy, and materially and adversely affect the Bank's business, financial position and financial performance.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Bank has operations could materially and adversely affect the Bank's business, financial condition and results of operations.

Investors may face difficulties enforcing judgments against the Bank.

The Bank is organized under the laws of the Republic of the Philippines. It may be difficult for investors to effect service of process outside of the Philippines upon the Bank. Moreover, it may be difficult for investors to enforce judgments against the Bank outside of the Philippines in any actions pertaining to the Rights Shares. In addition, substantially all of the directors and officers of the Bank are residents of the Philippines, and all or a substantial portion of the assets of such persons are or may be located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons or enforce against such persons judgments obtained in courts or arbitral tribunals outside of the Philippines predicated upon the laws of jurisdictions other than in the Philippines.

The Philippines is not a party to any international treaty in relation to the recognition or enforcement of foreign judgments but is a signatory to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Judgments obtained against the Bank in any foreign court may be recognized and enforced by the courts of the Philippines in an independent action brought in accordance with the relevant procedures set forth in the Rules of Court of the Philippines to enforce such judgment. However, such foreign judgment or final order may be rejected in the following instances: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the Bank did not have notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

Overseas shareholders may be subject to restrictions on repatriation of Pesos received with respect to the Common Shares.

Under BSP regulations, as a general rule, Philippine residents may freely dispose of their foreign exchange receipts and foreign exchange may be freely sold and purchased outside the Philippine banking system. Restrictions exist on the sale and purchase of foreign exchange within the Philippine banking system. In particular, a foreign investment must be registered with the BSP if foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings which accrue thereon is sourced from the Philippine banking system. The Government has, in the past, instituted restrictions on the conversion of Pesos into foreign currency and the use of foreign exchange received by Philippine residents to pay foreign currency-denominated obligations. The Monetary Board of the BSP, with the approval of the President of the Philippines, has statutory authority during a foreign exchange crisis or in times of national emergency to suspend temporarily or restrict sales of foreign exchange, to require licensing of foreign exchange transactions or to require delivery of foreign exchange to BSP or its designee. The Bank is not aware of any pending proposals by the Government relating to such restrictions. The Government has from time to time made public pronouncements of a policy not to impose restrictions on foreign exchange. Any restrictions imposed in the future pursuant to such statutory authority could adversely affect the ability of the Bank to source foreign currency to comply with its foreign currency-denominated obligations and adversely affect the ability of investors to repatriate foreign currency upon sale of the Common Shares or dividends or distributions relating to them.

RISKS RELATING TO THE RIGHTS SHARES

The Bank's shares are subject to Philippine foreign ownership limitations.

Under the General Banking Law (R.A. No. 8791) (the "General Banking Law"), as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40% of the voting stock. The percentage of foreign-owned voting stock in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a Bank, shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation. Since the aggregate foreign ownership in the Bank is limited to a maximum of 40.0% of its voting stock, the Bank cannot allow the issuance or the transfer of its Common Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law. For more information, see the section titled "Foreign Exchange and Foreign

Investment Regulations" on page 134 of this Prospectus. Further, the Philippine Constitution and related statutes limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Tenth Regular Foreign Investment Negative List, provide that certain activities are nationalized or partly nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly nationalized and thus, companies that own land may only have a maximum of 40% foreign equity.

The relative volatility and illiquidity of the Philippine securities market may substantially limit investors' ability to sell the Rights Shares at a suitable price or at a time they desire.

The Philippine securities markets are substantially smaller, less liquid, and more volatile relative to major securities markets in the United States and other jurisdictions, and are not as highly regulated or supervised as some of these other markets are. The Offer Price could differ significantly from the price at which the Common Shares will trade subsequent to completion of the Offer. There can be no assurance that even after the Rights Shares have been approved for listing on the PSE, any active trading market for the Common Shares will develop or be sustained after the Offer, or that the Offer Price will correspond to the price at which the Common Shares will trade in the Philippine public market subsequent to the Offer. There is no assurance that investors may sell the Rights Shares at prices or at times deemed appropriate. Factors that could affect the price of the Bank's Common Shares include the following:

- fluctuations in the Bank's results of operations and cash flows or those of other companies in the Bank's industry;
- the public's reaction to the Bank's press releases, announcements and filings with the SEC and PSE;
- additions or departures of key personnel;
- changes in financial estimates or recommendations by research analysts;
- changes in the amount of indebtedness the Bank has outstanding;
- changes in general conditions in the Philippines and international economy, financial markets or the industries in which the Bank operates, including changes in regulatory requirements and changes in political conditions in the Philippines;
- significant contracts, acquisitions, dispositions, financings, joint marketing relationships, joint ventures or capital commitments by the Bank or its competitors;
- asset impairments or other charges;
- developments related to significant claims or proceedings against the Bank;
- the Bank's dividend policy; and,
- future sales of the Bank's equity or equity-linked securities.

In recent years, stock markets, including the PSE, have experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market prices of the Bank's Common Shares.

Fluctuations in the exchange rate between the Peso and the U.S. Dollar may have an adverse effect on the value of the Common Shares.

The Common Shares are listed on the PSE, where securities are quoted and traded in Pesos. If there are any cash dividends on such Common Shares, these dividends will be paid in Pesos. Fluctuations in the exchange rate between the Peso and the U.S. Dollar may affect, among other things, the U.S. Dollar value of the proceeds that a holder receives upon a sale of such shares or in respect of any cash dividends paid on such shares.

Developments in other markets and countries may adversely affect the Philippine economy and, therefore, the market price of the Common Shares.

In the past, the Philippine economy and the securities of Philippine companies have been, to varying degrees, influenced by economic and market conditions in other countries, especially other countries in Southeast Asia, as well as investors' responses to those conditions. Although economic conditions are different in each country, investors' reactions to adverse developments in one country may affect the market price of securities of companies in other countries, including the

Philippines. For example, the recent economic crisis in the United States and Europe triggered market volatility in other countries' securities markets, including the Philippines. Accordingly, adverse developments in the global economy could lead to a reduction in the demand for, and market price of, the Common Shares.

The Bank's management has broad discretion to determine how to use the proceeds received from this Offer, and may use them in ways that may not enhance the Bank's operating results or the price of the Bank's Common Shares.

The Bank plans to use the net proceeds of this offering as described under "Use of Proceeds". The Bank's management will have broad discretion over the use and investment of the net proceeds of this offering, and accordingly investors in this offering will need to rely upon the judgment of the Bank's management with respect to the use of proceeds with only limited information concerning management's specific intentions.

USE OF PROCEEDS

The Bank expects to raise gross proceeds from the Offer of approximately ₱ 8.0 billion assuming an Offer Price of ₱56.00 per Rights Share. After deducting estimated PSE listing and processing fees and estimated legal, professional and other expenses related to the Offer of approximately ₱ 86.21 million, net proceeds to the Bank from the Offer are expected to be approximately ₱7.90 billion.

Breakdown of Proceeds to the Bank:

	Amount
Gross proceeds	₱7,999,987,800
Estimated Offer expenses	₱102,223,577
Estimated net proceeds	**₱7,897,764,223**

Breakdown of Offer Expenses of the Bank:

	Amount
Estimated PSE Listing and Processing Fees (exclusive of 12% VAT) [1]	
PSE Listing and Processing Fee	₱8,009,988
SEC Filing Fee	₱7,999,988
Estimated Legal, Professional and Other Expenses	₱86,213,601
Estimated Offer Expenses	**₱102,223,577**

In the event that the actual expenses relating to the Offer are different from the above estimates, the actual net proceeds to the Bank from the Offer may be higher or lower than the expected net proceeds set forth above. Any increase or decrease in the net proceeds to the Bank shall be addressed by making a corresponding increase or decrease, as the case may be, to the Bank's provision for working capital requirements.

Use of Net Proceeds

In general, the Bank intends to use the net proceeds from the Offer to strengthen its CET1 capital, further solidifying the Bank's capital adequacy and financial strength. In terms of specific application, the net proceeds will be used to support the Bank's expected asset growth primarily on consumer loans. Within the first three months, the Bank expects that the net proceeds will be initially invested in investments allowed under BSP regulations but will eventually be reinvested in loans to be disbursed within the next 12 months.

The foregoing discussion represents a best estimate of the use of the net proceeds of the Offer based on the Bank's current plans and anticipated expenditures. Actual use of the net proceeds may vary from the foregoing discussion and management may find it necessary or advisable to use portions of the net proceeds and the Bank may temporarily reallocate the proceeds for other interim purposes, taking into consideration the prevailing business climate and the interests of the Bank and its shareholders taken as a whole. The net proceeds of the Offer shall not be used to repay any of the Bank's debt obligations with the Underwriter, if any. In the event of any material deviation, adjustment or reallocation in the planned use of proceeds, the Bank will secure the approval of its Board of Directors for such deviation, adjustment or reallocation and promptly make the appropriate disclosures to the SEC and the PSE.

The Bank will disclose via the PSE's Electronic Disclosure Generation Technology ("EDGE") the following disclosures to ensure transparency in the use of proceeds:

1. Any disbursements made in connection with the planned use of proceeds from the Offer;
2. Quarterly progress reports on the application of the proceeds from the Offer on or before the first 15 days of the following quarter. The quarterly progress reports should be certified by the Bank's Chief Financial Officer, Controller or Treasurer and external auditor;
3. Annual summary of the application of the proceeds on or before January 31 of the following year. The annual summary report should be certified by the Bank's Chief Financial Officer, Controller or Treasurer, and external auditor; and,

4. Approval by the Bank's Board of Directors of any reallocation on the planned use of proceeds, or of any change in the work program. The actual disbursement or implementation of such reallocation must be disclosed by the Bank at least 30 days prior.

PLAN OF DISTRIBUTION

The Offer

The Rights Shares shall be offered on a pro-rata basis to existing holders of Common Shares of the Bank as of the Record Date of December 20, 2018. Under the PSE's Revised Listing Rules, the Bank, subject to the approval of the PSE, shall set the Record Date which shall not be less than 15 trading days from approval of the PSE's board of directors.

The Offer shall be in the proportion of one (1) Rights Share for every 1.68177 Common Shares held as of the Record Date at an Offer Price of ₱ 56.00 per Rights Share.

The unexercised Rights Shares shall be offered to those shareholders who had previously exercised their rights and had signified their intention to subscribe to any unsubscribed Rights Shares via payment of the total Offer Price of the Rights Shares they wish to subscribe in excess of their entitlements. The Additional Rights Shares to which an applicant is entitled to subscribe shall be in the proportion to the number of Common Shares held by such applicant as of the Record Date to the total number of Common Shares held by all applicants to Additional Rights Shares as of the Record Date.

Existing shareholdings in certificated and scripless form will be treated as separate shareholdings for the purpose of calculating entitlements under the Offer. Fractions of Rights Shares will not be allotted to existing shareholders and fractional entitlements will be rounded down to the nearest whole number of Rights Shares.

First Metro will assist the Bank in soliciting interest from existing shareholders of the Bank in the purchase of the Rights Shares. To the extent that any Rights Shares remain unsubscribed in the Offer, after the mandatory second round, such Rights Shares, subject to certain conditions, will be taken up by the Underwriter who shall procure purchasers, or failing which, shall purchase the unsubscribed shares as set out below. The responsibility of the Underwriter to underwrite the Offer and any subsequent underwriting, if any, shall be several and not joint, and are conditional on the parties to the Offer mutually agreeing on the Offer Price.

Relationship of the Underwriter with the Issuer

First Metro Investment Corporation ("First Metro") is a 99.25%-owned subsidiary of the Metropolitan Bank & Trust Company. Metrobank's investment banking activities are principally undertaken through First Metro. First Metro is a leading underwriter and arranger of loan syndications and issues of debt equity and equity-linked securities in the Philippine capital markets. It is a leading dealer of Government securities and other fixed income securities which it trades for its own account or sells to its customers. First Metro also participates in stock market trading for its customers through its wholly owned subsidiary, First Metro Securities Brokerage Corporation ("First Metro Securities"), with proprietary trading carried out by First Metro. First Metro also provides investment advisory and research services to business units within the Group and institutional funds. First Metro commenced operations in 1972.

Lock-Up

The Bank has voluntarily agreed with the Sole Issue Manager, Bookrunner and Lead Underwriter that, other than (i) in connection with the issuance of Rights Shares for purposes of the Offer or (ii) for issuances of Common Shares pursuant to the Bank's employee stock option plan, neither the Bank nor any person acting on its behalf will, for a period of 180 days after the Listing Date, without the prior written consent of the Underwriter, issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal of) any Common Shares or securities convertible or exchangeable into or exercisable for Common Shares or warrants or other rights to purchase Common Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Common Shares, including equity swaps, forward sales and options.

DIVIDENDS AND DIVIDEND POLICY

Dividends to be paid in cash are subject to the approval by a majority of the Board of Directors. Dividends to be paid in the form of stocks require the approval of a majority of the Board and the approval of shareholders representing no less than two-thirds of the Bank's outstanding capital stock.

Consistent with SEC rules, cash dividends declared by the Bank must have a record date that is neither less than ten nor more than 30 business/trading days from the date the cash dividends are declared/approved by the Board. With respect to stock dividends, the record date is to be neither less than ten nor more than 30 business/trading days from the date of the stockholders' approval. However, the set record date is not to be less than ten business/trading days after the Philippine Stock Exchange (PSE) has received the notice of declaration of stock dividend.

Unless approved via majority vote of the Board of Directors at a different rate depending on the Bank's earnings/results of operations, cash flow, financial condition and other factors or otherwise restricted/prohibited from declaring/paying dividends, the Bank regularly declares out of its unrestricted retained earnings and pays cash dividends at a payout ratio of ₱3.00 per share per annum or ₱0.75 per share per quarter, provided that the regulatory requirements of both the SEC and the BSP are complied with.

The table below sets out the earnings per Share and cash dividends on Common Shares declared by the Bank for the periods indicated:

For the years ended December 31,	**Earnings per share (in ₱)**	**Cash dividends per share[(1)] (in ₱)**
2015	9.79	3.00
2016	10.20	3.00
2017	11.05	3.00

Notes:
(1) Cash dividends are computed based on the outstanding Common Shares as of a designated record date.

Cash dividends declared by the Bank for the three most recent fiscal years are as follows:

Declaration Date	**Dividend per share (₱)**	**Total dividend amount (₱millions)**	**BSP Approval Date**	**Record Date**	**Payment Date**
Oct 15, 2018	0.75	180.19	N/A[(1)]	Oct 30, 2018	Nov 14, 2018
Jul 20, 2018	0.75	180.19	N/A[(1)]	Aug 6, 2018	Aug 20, 2018
Apr 23, 2018	0.75	180.19	N/A[(1)]	May 9, 2018	May 23, 2018
Jan 18, 2018	0.75	180.19	N/A[(1)]	Feb 2, 2018	Feb 19, 2018
Oct 26, 2017	0.75	180.19	N/A[(1)]	Nov 14, 2017	Nov 24, 2017
Jul 27, 2017	0.75	180.19	N/A[(1)]	Aug 11, 2017	Aug 29, 2017
Apr 24, 2017	0.75	180.19	N/A[(1)]	May 10, 2017	May 24, 2017
Jan 24, 2017	0.75	180.19	N/A[(1)]	Feb 10, 2017	Feb 24, 2017
Oct 21, 2016	0.75	180.19	N/A[(1)]	Nov 9, 2016	Nov 21, 2016
Jul 22, 2016	0.75	180.19	N/A[(1)]	Aug 8, 2016	Aug 22, 2016
Apr 26, 2016	0.75	180.19	N/A[(1)]	May 11, 2016	May 26, 2016
Jan 19, 2016	0.75	180.19	N/A[(1)]	Feb 1, 2016	Feb 19, 2016
Oct 29, 2015	0.75	180.19	N/A[(1)]	Nov 16, 2015	Nov 27, 2015
Jul 28, 2015	0.75	180.19	Sep 23, 2015	Oct 26, 2015	Nov 11, 2015
Apr 28, 2015	0.75	180.19	June 5, 2015	July 14, 2015	July 28, 2015
Jan 22, 2015	0.75	180.19	Mar 3, 2015	Mar 30, 2015	Apr 17, 2015

Note:
(1) BSP approval is no longer required in accordance with BSP Circular No. 888 dated October 9, 2015.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment was first registered with the BSP. See "Taxation—Philippine Taxation—Dividends on the Shares".

DETERMINATION OF OFFER PRICE

The Rights Shares are being offered at a price of ₱ 56.00 per share. The Offer Price was determined based on the VWAP of the Bank's Common Shares on the PSE for each of the 15 consecutive trading days immediately prior to (and excluding) the Pricing Date, subject to a discount of 21.68%.

DILUTION

After the completion of the Offer, Eligible Shareholders who exercise their rights to purchase their proportionate Rights Shares will not suffer any dilution in their respective shareholdings in the Bank.

The net book value of the Bank as of September 30, 2018 was ₱99.38 per Common Share. Net book value represents the amount of the Bank's total assets less its total liabilities, divided by the issued and outstanding common shares.

Upon receipt of the estimated ₱ 7,897,764,223 net proceeds of the Offer and the issuance of a total of 142,856,925 new Common Shares pursuant to the Offer, the Bank's pro-forma net book value would be approximately ₱82.94 per Common Share. This represents an immediate decline of ₱16.44 per Common Share for existing holders of Common Shares.

The calculation of the net book value per Common Share before and after the Offer is presented below.

Net book value as of September 30, 2018 (a)	₱ 23,876,724,748
Issued and outstanding Common Shares as of September 30, 2018 (b)	240,252,491
Net book value per share as of September 30, 2018 (c)[(1)]	₱99.38
Pro-Forma net book value after the Offer (d)[(2)]	₱31,774,488,971
Issued and outstanding Common Shares after the Offer(e)	383,109,416
Pro-Forma net book value per share after the Offer (f)[(3)]	₱82.94
Decrease per share to Existing Shareholders attributable to the Offer[(4)]	₱16.44

Notes:

(1) Computed by dividing (a) by (b)
(2) Based on the Bank's net book value as computed in (a) and adding the net proceeds from the Offer
(3) Computed by dividing (d) by (e)
(4) Computed by subtracting (c) from (f)

CAPITALIZATION

The following table sets out the unaudited long-term debt and capitalization of the Bank as of September 30, 2018, and as adjusted to give effect to the issuance of the Rights Shares, after payment of the estimated offering fees and expenses. This table should be read in conjunction with the Bank's unaudited condensed interim financial statements for the nine months ended September 30, 2018, included in this Prospectus.

	As of September 30, 2018	
	Actual	**As Adjusted**
Liabilities		
Deposit liabilities		
Demand	20,491,030,582	20,491,030,582
Savings	32,851,690,243	32,851,690,243
Time	135,861,937,936	135,861,937,936
Long-term Negotiable Certificates of Deposits	8,459,500,000	8,459,500,000
	197,664,158,761	197,664,158,761
Bills payable	270,100,000	270,100,000
Subordinated Notes	2,980,990,380	2,980,990,380
Treasurer's, Cashier's and Manager's Checks	1,471,648,009	1,471,648,009
Accrued Taxes, Interest and Other Expenses	1,693,316,812	1,693,316,812
Income Tax Payable	79,473,761	79,473,761
Financial Liabilities at Fair Value Through Profit or Loss	29,630,801	29,630,801
Other Liabilities	3,024,736,476	3,024,736,476
Total liabilities	**207,214,055,000**	**207,214,055,000**
Capital Funds		
Issued share capital	2,402,524,910	10,300,289,133
Capital paid in excess of par value	2,818,083,506	2,818,083,506
Treasury Stocks		
Surplus reserves	1,035,402,901	1,035,402,901
Surplus	18,916,790,502	18,916,790,502
Other equity adjustments/other equity reserves	(1,296,077,071)	(1,296,077,071)
Non-controlling interest		
Total capital funds	**23,876,724,748**	**31,774,488,971**
Total capitalization and indebtedness	**231,090,779,748**	**238,988,543,971**
Capital Ratios(1)		
CET1 ratio	11.09%	15.5%
Tier 1 capital ratio	11.09%	15.5%
Total capital ratio	13.79%	18.0%

Notes:

(1) CET1, Tier 1 and total capital ratios are calculated based on Basel III rules.

SELECTED STATISTICAL DATA

Average Statements of Financial Position and Related Interest

The following tables show the Bank's average balances, interest earned/incurred and average interest rates for the two years ended December 31, 2017 and 2016 and for the nine months ended September 30, 2018. Average balances are generally based on daily rate.

(₱ millions, except %)	For the years ended December 31						For the nine months ended September 30		
	2016			2017			2018		
	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)	Average Daily Balance	Interest Income/ Expense	Average Yield/ Cost (%)
Due from BSP and other banks	13,260	16	0.12%	20,271	182	0.90%	16,297	9	0.07%
Interbank loans receivables and securities purchased under resale agreements	1,791	62	3.44%	2,086	61	2.93%	1,901	50	3.46%
Trading and investments securities	33,121	1,348	4.07%	44,649	1,824	4.08%	48,336	1,496	4.08%
Loans and receivables	121,439	11,067	9.29%	137,442	12,477	9.25%	150,222	10,076	8.97%
Total assets	**169,602**	**12,492**	**7.49%**	**204,447**	**14,544**	**7.23%**	**216,756**	**11,631**	**7.16%**
Deposit Liabilities	141,832	2,410	1,71%	179,013	3,215	1.80%	192,413	3,270	2.25%
Subordinated debt, bills payable and SSURA and other borrowings	11,593	419	3.61%	7,607	250	3.29%	5,590	168	3.96%
Total liabilities	**153,425**	**2,829**	**1.87%**	**186,620**	**3,465**	**1.89%**	**198,003**	**3,438**	**2.32%**

Analysis of Changes in Interest Income and Interest Expense – Volume and Rate Analysis

The following tables provide an analysis of changes in the Bank's interest income, interest expense and net interest income between changes in volume (average daily balances) and changes in rates for the year ended December 31, 2016 compared with the year ended December 31, 2017, and the nine months ended September 30, 2017 compared with the nine months ended September 30, 2018. Volume and rate variances have been calculated on the movement in average daily balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

(₱ million)	For the year ended December 31, 2016 compared with the year ended December 31, 2017			For the nine months ended September 30, 2017 compared with the nine months ended September 30, 2018		
	Increase (Decrease) due to change in			Increase (Decrease) due to change in		
	Net Change	Average Volume	Average Rate	Net Change	Average Volume	Average Rate
Interest income on:						
Trading and Investment Securities	476	465	11	156	136	20
Loans and	1,410	1,524	(114)	874	1,073	(199)

Receivables						
Interbank Loans, Receivables and Securities Purchased Under Resale Agreements	(0)	10	(11)	(2)	(10)	8
Deposit with BSP and Other Banks	166	9	157	(125)	(24)	(101)
Interest expense on:						
Deposit Liabilities	805	649	155	941	182	759
Subordinated Debt, Bills Payable and SSURA and Other Borrowings	(169)	(144)	(25)	(27)	(60)	33
Net Interest Income	**1,415**	**1,502**	**(87)**	**(12)**	**1,053**	**(1,064)**

Yields, Spreads and Margins

The following table sets out, for the years indicated, the yields, spreads and interest margins on the Bank's interest-earning assets.

(₱ millions, except %)	**Year ended December 31,**		**9 Months ended September 30,**
	2016	**2017**	**2018**
Interest income on interest-earning assets	12,492	14,544	12,099
Interest expense on interest-bearing liabilities	2,829	3,465	3,438
Average interest-earning assets	156,595	181,503	192,168
Average interest-bearing liabilities	170,457	181,921	197,150
Average total assets	183,092	210,089	227,207
Average interest-earning assets as a percentage of average total assets	85.5%	86.4%	84.6%
Average interest-bearing liabilities as a percentage of average total assets	86.6%	86.6%	86.8%
Average interest-earning assets as a percentage of average interest-bearing liabilities	91.9%	92.9%	94.8%
Yield(2)	8.0%	8.6%	8.6%
Cost of funds(3)	1.7%	1.9%	2.3%
Spread	6.3%	6.7%	6.3%
Net interest margin(4)	6.2%	6.1%	6.0%

Notes:

(1) *Average is current balance plus previous year balance divided by 2.*

(2) *Yield is interest income on interest-earning assets divided by average interest-earning assets.*

(3) *Cost of funds is interest expense on interest-bearing liabilities divided by average interest-bearing liabilities.*

(4) *Nat interest margin is the difference between interest earned and interest expended divided by the average interest-earning assets.*

Financial Ratios

The following table sets out key financial indicators of the Bank, for the periods indicated.

(in % except for Earnings per Share)	As of December 31, (audited)			As of September 30, (unaudited)
	2015	2016	2017	2018
Dividend payout ratio(1)	30.67%	29.42%	27.17%	26.65%
Cost to average assets(2)	4.46%	4.21%	4.22%	3.08%
Common Equity Tier 1 capital ratio(3)	13.22%	12.80%	11.50%	13.26%
Capital conservation buffer (3)	7.22%	6.80%	5.50%	7.26%
Tier 1 capital ratio(3)	12.40%	11.08%	11.09%	11.09%
Total capital ratio(3)	18.04%	14.07%	13.87%	13.79%
NPA ratio(4)	4.23%	3.93%	3.62%	4.08%
Allowance as percentage of gross non-performing assets (5)	60.98%	61.26%	58.75%	51.84%

(1) Dividend payout ratio is the ratio of dividend to net income after tax (excluding non-controlling interest).

(2) Cost to average assets is the ratio of the operating expenses (including interest expense but excluding depreciation and amortization) to the average total assets.

(3) Capital adequacy ratios as of December 31, 2015, 2016 and 2017 were computed based on Basel III standards.

(4) Ratio of non-performing assets (gross ROPA plus NPLs) to gross assets (total assets per audited financial statements plus total allowance for credit and impairment losses and accumulated depreciation and amortization — ROPA) (see details in section "Selected Statistical Data — Non-performing loans")

(5) Allowance as a percentage of gross non-performing assets is the ratio of NPA provisions made to the gross NPAs.

Source: PSBank

Return on Equity and Assets

The following table presents selected financial ratios for the periods indicated.

(₱ in millions, except for %)	Year ended December 31,			As of September 30,
	2015	2016	2017	2018
Net income	2,351	2,451	2,654	2,707
Average total assets	157,469	183,092	210,089	227,207
Average shareholders' equity	18,453	19,606	21,215	23,135
Net income as a percentage of average total assets	1.49%	1.34%	1.26%	1.19%
Net income as a percentage of average shareholders' equity	12.74%	12.50%	12.51%	11.70%
Average shareholders' equity as a percentage of average total assets	11.72%	10.71%	10.10%	10.18%

Cash Flow Mismatch Analysis

The Bank manages its liquidity risk by analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. Specifically for the Bank, it utilizes a diverse range of sources of funds, although short-term deposits made with its network of domestic branches comprise the majority of such funding. To ensure that funding requirements are met, the Bank manages its liquidity risk by holding what it believes to be a sufficient amount of liquid assets of appropriate quality. It also maintains a balanced loan portfolio that is re-priced on a regular basis. Deposits with banks are made on a short-term basis.

The table below sets forth the Bank's structural liquidity gap position as of September 30, 2018 (the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows). The analysis is based on the remaining period from the end of the reporting period to the contractual maturity date, or if earlier, the expected date the asset will be realized on the earliest period in which the Bank can be required to pay its liabilities.

(₱ millions, except %)	On Demand	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Beyond 1 Year	Total
Financial Assets							
Cash and cash items	2,737	-	-	-	-	-	2,737
Due from BSP	14,334	-	-	-	-	-	14,334
Due from other banks	1,623	-	-	-	-	-	1,623
Interbank loans and receivable and SPURA	-	1,951	-	-	-	-	1,951
Financial assets at FVPL HFT investments	-	-	-	-	-	-	-
Derivative Assets - trading							
Receive	-	350	-	-	-	-	350
Pay	-	(376)	-	-	-	-	(376)
	-	(26)	-	-	-	-	(26)
AFS investments	-	2	18	203	329	15,485	16,037
Loans and Receivables							
Receivables from customers	2,042	2,529	4,897	6,682	14,864	211,346	242,360
Unquoted debt securities	-	-	-	-	-	-	-
Accrued interest receivable	43	7	39	41	105	1,672	1,907
Accounts receivable	4	295	9	11	478	46	843
Sales contract receivable	6	1	1	2	5	90	105
Other receivable	-	-	-	-	-	-	-
Other assets:							
Residual value of leased assets							-
Returned checks and other cash items	14	-	-	-	-	-	14
Miscellaneous	1	1	3	4	10	168	187
	20,804	**4,760**	**4,967**	**6,943**	**15,791**	**228,807**	**282,072**
Financial Liabilities							
Non-derivative liabilities							
Deposit liabilities							
Demand	20,491	-	-	-	-	-	20,491
Savings	32,852	-	-	-	-	-	32,852
Time	-	19,259	48,215	16,956	31,743	24,134	140,307
LTNCD	-	-	-	-	-	9,934	9,934
	53,343	19,259	48,215	16,956	31,743	34,068	203,584
Bills payable and SSURA	-	270	-	-	-	-	270
Manager's check and demand draft outstanding	1,472	-	-	-	-	-	1,472
Accrued interest payable	-	-	549	-	-	-	549
Accrued other expenses	907	-	-	-	-	-	907
Bonds payable	-	-	-	-	-	-	-
Subordinated debt	-	-	41	41	83	3,825	3,990
Non-equity non-controlling interest							-
Other liabilities							
Bills purchased-contra	8	-	-	-	-	-	8
Accounts payable	-	-	-	1,824	-	-	1,824
Marginal deposit	-	-	-	-	-	-	-
Outstanding acceptances	-	-	-	-	-	-	-
Deposits on lease contracts	-	-	-	7	1	6	14
Dividends payable	-	-	-	-	-	-	-
Miscellaneous	1	8	-	-	-	-	9
	55,731	19,537	48,805	18,828	31,827	37,899	212,627
Derivative liabilities							
Trading							
Pay	-	-	-	-	-	-	-
Receive	-	-	(376)	-	-	-	(376)
	-	-	(376)	-	-	-	(376)
Loan commitments and financial guarantees	18	-	57	-	-	-	74
	55,749	**19,537**	**48,486**	**18,828**	**31,827**	**37,899**	**212,325**
Liability Gap	(34,945)	(14,777)	(43,519)	(11,885)	(16,036)	190,908	69,747
Liability Gap as % of Total Liabilities	-16.43%	-6.95%	-20.47%	-5.59%	-7.54%	89.79%	32.80%

Notes:

(1) Financial assets – analysis of equity securities at FVPL and AFS equity securities into maturity groupings is based on the expected date on which these assets will be realized. For other financial assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier the expected date the assets will be realized.

(2) Financial liabilities – the maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date. When a counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the group may be required to pay.

(3) Derivative assets and liabilities do not include derivatives embedded in financial and non-financial contracts.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the Bank's financial condition and results of operations should be read in conjunction with the financial statements and the related notes included elsewhere in this Prospectus and the sections entitled "Summary of Financial Information", "Selected Statistical Information", "Risk Management" and "Business". The selected financial information presented below as of and for the years ended December 31, 2015, 2016, and 2017 were derived from the financial statements prepared in accordance with accounting principles generally accepted in the Philippines for banks and audited by SGV in accordance with PSA. The nine months ended September 30, 2018 financial statements are not reviewed by SGV.

The following discussion contains financial information for the Bank. Certain financial information for the Bank has not been made available. Investors should therefore be cautioned when relying on the incomplete financial information presented herein when making an investment decision regarding the Rights Shares.

This Prospectus contains forward-looking statements largely based on the Bank's current expectations and projections about future events and financial trends affecting its business. The Bank's actual results may differ materially from those discussed in any forward-looking statements.

OVERVIEW

Philippine Savings Bank is a thrift bank based in the Philippines. It offers a wide range of banking and other financial products and services, including deposits, loans, treasury, digital banking services, bancassurance, credit card, and trust. It caters mainly to the retail and consumer markets. The Bank is ranked second among the country's 55 thrift banks in terms of assets as of June 30, 2018 based on data from the Bangko Sentral ng Pilipinas (''BSP''). The Bank's total assets stood at ₱231.09 billion, ₱223.32 billion and ₱196.85 billion as of September 30, 2018, December 31, 2017 and December 31, 2016, respectively. Its total equity was at ₱23.88 billion, ₱22.39 billion, and ₱20.04 billion as of September 30, 2018, December 31, 2017 and December 31, 2016, respectively.

As of September 30, 2018, the Bank has a network of 250 branches nationwide. The Bank also has 580 ATMs, which are part of the Bancnet consortium. This is broken down to 263 on-site and 317 off-site locations.

As of September 30, 2018, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were at 13.79% and 11.09%, respectively.

The authorized capital stock of the Bank is ₱ 4,250,000,000 consisting of 425,000,000 Common Shares with a par value of ₱10.00 per share. As of September 30, 2018, the Bank's total outstanding and issued Common Shares was 240,252,491. As of the date of this Prospectus, no preferred shares have been issued. Based on the closing price of ₱ 71.30 of its shares on the PSE on October 25, 2018, the Bank had a market capitalization of approximately ₱ 17.13 billion.

The Bank offers a wide range of consumer and business loans. For consumer loans, these include: Auto Loan with Prime Rebate, Flexi Personal Loan with Prime Rebate, Home Loan with Prime Rebate, Home Credit Line, Home Construction Loan and Multi-Purpose Loan. For business loans, these include SME Business Credit Line, Credit Line, SME Term Loans with Prime Rebate, Standby Credit Certification and Domestic Bills Purchase Line and Domestic Letter of Credit/Trust Recipient Line.

FACTORS AFFECTING THE BANK'S RESULTS OF OPERATIONS AND FINANCIAL POSITIONS

The Bank's results of operations and financial condition and the comparability of the Bank's financial results over successive periods have been and will continue to be affected by a number of external factors, including, but not limited to, the following:

Continued Success in Executing its Growth Strategy

The Bank's performance will depend on its ability to continue to grow along with the Philippine economy by successfully implementing its growth strategy.

The Bank has established a platform of sustainable growth through its core business. Although the Bank also caters to select small, medium and large businesses thru its Small and Medium Enterprise ("SME") and Large Enterprise Groups ("LEG"), the Bank has focused on households or the retail consumer as its primary target market for deposit and loan products. The growth potential of this market is anchored on projected higher domestic consumption due to increasing population and income levels.

Competition

The Philippine banking industry is very competitive and the Bank competes against domestic and foreign banks that offer similar products and services as the Bank. Competition with other banks has and will continue to affect the cost of the Bank's funding and the Bank's ability to increase its market share of loans and deposits. The Bank also faces increasing competition in its target growth area which is the consumer market. The liberalization of foreign participation in the Philippine banking industry has resulted in increased competition. Since liberalization, foreign banks have expanded from their traditional focus on Metro Manila and large-scale corporations to building their own networks to increase market share, primarily through acquisitions of small domestic savings banks. Foreign banks tend to benefit from the support of their parent companies or established regional operations but they are limited by local regulations to a maximum of six Philippine branches in order to protect the growth and participation of local banks. An increase in competition from foreign banks as a result of relaxed entry rules could adversely affect the Bank's results of operations and financial condition.

Interest Rates

Beginning in 2004, the Government reduced its borrowings and its budget deficit, achieved in part through Government improvements in cash and revenue management as well as various privatization programs. The 91-day Treasury bill rates have decreased from an average rate of 7.3% in 2004 to an average rate of 3.3% in July 2018. The interbank call loan rate, which is the rate on loans among Philippine banks for periods less than 24 hours, primarily for the purpose of covering reserve deficiencies, has decreased from an average rate of 4.8% in 2009 to an average rate of 3.6% in July 2018. Commercial lending interest rates in the Philippines have generally followed the trends in Government borrowing rates, moving from an average range of 4.5% to 6.9% in 2015, 4.3% to 6.7% in 2016, 4.1% to 6.5% in 2017 and 4.5% to 7.0% in July 2018, based on data from the BSP.

The following tables set out certain domestic interest rates for the periods indicated:

	Domestic Interest Rates		
(Figures are weighted averages in percentages per period)	**2015**	**2016**	**2017**
91-day Treasury bill rates	1.77%	1.50%	2.12%
Interbank call loan rate (1)	2.53%	2.52%	2.63%
Philippine commercial bank average lending rates (2)	5.58%	5.64%	5.63%
Overnight reverse repurchase rates	4.00%	3.42%	3.00%

Notes:
(1) Rate on loans among Philippine banks for periods less than 24 hours.
(2) Range of monthly rates reflect the annual per percentage equivalent of all commercial banks' actual monthly interest income on peso-denominated loans to the total outstanding level of the peso-denominated demand/time loans, bills discounted, mortgage contract receivables and restructured loans.
Source: BSP

Fluctuations in domestic market interest rates can have a significant impact on the Bank by affecting its interest income, cost of funding and general performance of its existing loan portfolio and other assets. Though the Bank has a relatively stable deposit base weighted towards current account and savings account ("CASA") deposits, in a period of rising domestic interest rates, the Bank may be required to compete aggressively to attract deposits by offering higher rates to depositors in order to increase the Bank's loanable funds. At the Monetary Board meeting on May 11, 2018, the BSP increased its key policy rates for the first time since September 2014 by 25 basis points to 3.25% for overnight borrowing and 3.75% for overnight lending rates. The BSP further increased key policy rates by 25 basis points at the Monetary Board meeting on June 20, 2018 to 3.50% for overnight borrowing and 4.00% for overnight lending rates. On August 9, 2018, the BSP delivered its biggest rate hike in a decade, increasing rates by 50 basis points to 4.00% for overnight borrowing and 4.50% for overnight lending rates. Interest rates in the Philippines may continue to increase in response to inflationary pressures resulting from strong economic growth, tax reforms and global developments.

As interest rates increase, the Bank aims to protect its profitability by adjusting its lending rates upward. Likewise, rising interest rates may impact the value of the Bank's investment securities resulting in unrealized marked to market losses in its trading and available for sale investment portfolios. Furthermore, the Bank may suffer trading losses as a result of the decline in value of these securities. As the interest rate is adjusted, the Bank dynamically balances its investment securities portfolio to manage its interest rate risks and mitigate such losses while maximizing the returns of its overall portfolio. However, the Bank has refocused its priorities in recent years away from reliance on trading gains and towards maximizing recurring income (net interest income and service fees). Finally, continued increases in market interest rates could adversely affect the liquidity levels of the Bank and the Philippine banking industry in general, which have in recent years been supported by the relatively low interest rate environment in the Philippines. The Bank actively manages its assets and liabilities to maximize income and minimize cost of funding, as well as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits. In recent times, decreases in interest rates in the Philippines have resulted in increases in the Bank's fixed rate maturity securities portfolio and resulted in increased levels of trading and investment securities gains, which may not recur.

Liquidity

The Philippine banking sector saw a slight decrease in liquidity in 2017 and the beginning of 2018. Among universal and commercial banks, systemic gross loans to total deposits increased from 70.6% as of January 31, 2017 to 73.6% as of March 31, 2018, based on data from the BSP. Growth in loans outpaced deposits as gross loans increased by 20.9% from ₱6.6 billion as of January 31, 2017 to ₱8.0 billion as of March 31, 2018, while deposits increased by 15.9% from ₱9.4 billion as of January 31, 2017 to ₱10.9 billion as of March 31, 2018.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examination of banks.

Philippine Property Market

The Philippine real estate sector has shown sustained gains in the last few years due largely to increased remittances from OFWs, a steady growth in the business process outsourcing and call center industries, and relatively lower interest rates. Growth and developments are most pronounced in residential houses and condominiums, office and commercial buildings, and shopping malls/centers sub-sectors. A well-performing Philippine property market may lead to an increase in the Bank's loan book, whereas a poor performing property market may lead to an increase in NPLs. While the Bank does not have a significantly large portfolio of foreclosed assets, the resurgence of the property market gives the Bank the opportunity to increase asset disposals at higher prices.

SIGNIFICANT ACCOUNTING POLICIES

The Bank has adopted PFRS 9 effective January 1, 2018 using a modified retrospective approach. This approach allowed the Bank not to restate prior periods, however, adjustments were made at the beginning balance of the annual reporting period at the date of initial adoption. For more details please see Notes to Financial Statements of the consolidated audited financial statements as of December 31, 2017.

PFRS 16 replaces the accounting requirements for leases under the old Standard (IAS 17, Leases). The new standard requires all leases to be reported on balance sheet as assets and liabilities. PFRS 16 shall be effective for annual periods beginning on or after January 1, 2019. The early adoption of PFRS 16 by entities is allowed provided such entities have also adopted PFRS 15. The Bank is currently assessing the impact of adopting this standard. The Bank believes that other amendments and improvement to PFRS issued effective January 1, 2018 and onwards will not have material impact on the Bank's future financial statements.

SECURITIES PORTFOLIO

Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets at FVTPL consist of the following:

	December 31, 2017 (Audited)	September 30, 2018 (Unaudited)
Debt securities	₱293,076,128	₱31,002
Derivative instruments	73,159,561	5,262,446
	₱366,235,689	₱5,293,448

As of September 30, 2018 and December 31, 2017, the Bank has financial liabilities at FVTPL amounting to ₱29.6 million and nil, respectively.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)/Available-for-Sale Investments (AFS)

Financial assets at FVOCI/AFS investments consist of the following:

	December 31, 2017 (Audited)	September 30, 2018 (Unaudited)
Debt securities - AFS		
Government	₱10,762,411,432	₱–
Private	6,153,071,645	–
Debt securities - FVOCI		
Government	–	7,199,222,012
Private	–	4,300,096,310
Equity securities - AFS	12,191,529	–
Equity securities - FVOCI	–	10,825,365
	₱16,927,674,606	₱11,510,143,687
Less allowance for impairment losses	2,188,665	–
	₱16,925,485,941	₱11,510,143,687

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 4.00% to 8.13% and 2.13% to 8.13% for the nine months ended September 30, 2018 and 2017, respectively, while foreign currency-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 3.00% to 9.50% and 3.70% to 9.50% for the nine months ended September 30, 2018 and 2017, respectively.

Effective interest rates on financial assets at FVOCI/AFS investments for the nine months ended September 30, 2018 and 2017 range from 3.05% to 9.96% and 3.79% to 4.20%, respectively.

LOAN PORTFOLIO

The Bank offers a wide range of consumer and business loans. For consumer loans, these include: Auto Loan with Prime Rebate, Flexi Personal Loan with Prime Rebate, Home Loan with Prime Rebate, Home Credit Line, Home Construction Loan and Multi-Purpose Loan. For business loans, these include SME Business Credit Line, Credit Line, SME Term Loans with Prime Rebate, Standby Credit Certification and Domestic Bills Purchase Line and Domestic Letter of Credit/Trust Recipient Line.

This account consists of:

	December 31, 2017 (Audited)	September 30, 2018 (Unaudited)
Receivables from customers		
Consumption loans	₱84,276,599,224	**₱88,962,936,964**
Real estate loans	46,594,075,046	**48,957,096,311**
Commercial loans	11,975,704,903	**12,373,128,985**
Personal loans	3,486,068,122	**3,581,080,810**
	146,332,447,295	**153,874,243,070**
Less unearned discounts	145,142	**130,332**
	146,332,302,153	**153,874,112,738**
Other receivables		
Accrued interest receivable	1,911,372,461	**1,906,868,422**
Accounts receivable	1,250,586,507	**841,930,704**
Sales contract receivables	106,727,770	**78,699,523**
Bills purchased	10,482,445	**8,073,330**
	149,611,471,336	**156,709,684,717**
Less allowance for credit losses	4,646,958,115	**4,337,896,870**
	₱144,964,513,221	**₱152,371,787,847**

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

Receivables from customers earned interest income at an effective interest rate ranging from 8.76% to 9.46%, and 9.19% to 9.36% for the nine months ended September 30, 2018 and 2017, respectively.

Industry Concentration and Product Type

The table below shows the Bank's gross loans classified by economic activity, as defined and categorized by the BSP.

In ₱ millions			**December 31 (audited)**				**September 30 (unaudited)**	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	66,087	56.88%	75,920	58.76	89,620	61.24	**355**	**0.23%**
Real estate activities	36,428	31.35%	39,134	30.29	41,988	28.69	**43,993**	**28.59%**
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,771	1.53%	2,009	1.55	2,407	1.64	**2,740**	**1.78%**
Information and communication	1,725	1.48%	1,511	1.17	592	0.40	**572**	**0.37%**
Financial and insurance activities	1,418	1.22%	2,241	1.73	2,076	1.42	**1,952**	**1.27%**
Manufacturing	825	0.71%	544	0.42	641	0.44	**850**	**0.55%**
Electricity, gas, steam and air-conditioning supply	605	0.52%	1,555	1.20	1,729	1.18	**1,935**	**1.26%**
Transportation and storage	598	0.52%	706	0.55	956	0.65	**1,131**	**0.74%**
Construction	362	0.31%	419	0.32	795	0.54	**846**	**0.55%**
Water supply, sewerage, waste management and remediation activities	290	0.25%	286	0.22	234	0.16	**236**	**0.15%**
Administrative and support service activities	282	0.24%	1,168	0.90	989	0.68	**859**	**0.56%**
Accommodation and food service activities	273	0.24%	320	0.25	369	0.25	**368**	**0.24%**
Human health and social work activities	211	0.18%	351	0.27	321	0.22	**298**	**0.19%**
Education	161	0.14%	201	0.16	197	0.13	**216**	**0.14%**
Professional, scientific and technical activities	153	0.13%	81	0.06	137	0.09	**133**	**0.09%**
Arts, entertainment and recreation	32	0.03%	37	0.03	85	0.06	**78**	**0.05%**

In ₱ millions	December 31 (audited)						September 30 (unaudited)	
	2015	%	2016	%	2017	%	2018	%
Agriculture, forestry and fishing	30	0.03%	20	0.02	24	0.04	**21**	**0.01%**
Mining and quarrying	3	0.00%	5	0.00	7	0.01	**7**	**0.00%**
Others*	4,931	4.24%	2,697	2.10	3,165	2.16	**97,284**	**63.23%**
Total	**116,183**	**100.00%**	**129,206**	**100.00%**	**146,332**	**100.00%**	**153,874**	**100.00%**

** Consumption loans or loans to individuals primarily for personal use (i.e. auto loans; personal loans; employee loans; flexi salary loans)*

The Bank employs product limits, single borrower limit, DOSRI limit and Metrobank Group lending limits in its exposures. The ROC oversees the system of limits to discretionary authority that the Board delegates to Management and ensures that the system remains effective, limits are observed, and immediate corrective actions are taken whenever limits are breached. These limits are compliant to pertinent BSP regulations.

The table below shows the Bank's gross loans classified by type of product.

(In ₱ millions)	December 31 (Audited)						September 30 (unaudited)	
	2015	%	2016	%	2017	%	2018	%
Consumption Loans	60,271	51.87	70,111	54.26	84,276	57.59	88,963	57.82
Real Estate	40,681	35.01	43,900	33.98	46,594	31.84	48,957	31.82
Commercial	11,632	10.01	11,606	8.98	11,976	8.18	12,373	8.04
Personal Loans	3,600	3.10	3,590	2.78	3,486	2.39	3,581	2.33
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**153,874**	**100.00**

Over the last three years, the Bank's loan portfolio has been concentrated with auto and real estate loans. As of September 30, 2018, consumption loans have grown 9.29% and real estate loans have grown 7.51% from their respective levels in September 30, 2017. With the Bank's continued investments in information technology, greater automation and integration of processes have been achieved. This has also brought out improved efficiency through faster turn-around time for credit decisions, more uniform compliance with credit policies and better profit monitoring for its loan portfolio. As a result, the Bank offers one of the fastest turn-around times for mortgage and auto loan applications in the industry.

Maturity

The table below shows the Bank's gross loans by maturity.

(In ₱ millions)	December 31 (Audited)						September 30 (unaudited)	
	2015	%	2016	%	2017	%	2018	%
Due within one year	10,380	7.70	10,158	7.86	11,399	7.79	11,806	7.67
Due within one to five years	65,745	57.22	76,270	59.03	94,343	64.47	98,082	63.74
Due after five years	40,058	35.08	42,778	33.11	40,590	27.74	43,986	28.59
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**153,874**	**100.00**

Loans due within one year consist of personal loans. Loans due within one to five years consist primarily of auto-loans. Loans due after five years consist primarily of real estate loans for housing purchases.

(In ₱ millions)	December 31, 2017					
Breakdown of Loans by Type and Maturity	**Due within 1 year**	**%**	**Due within 1-5 years**	**%**	**Due after 5 years**	**%**
Auto	2,551	22.38	81,612	86.51	114	0.28
Commercial	3,467	30.42	5,948	6.30	2,560	6.31
Home Mortgage	3,169	27.80	5,762	6.11	37,663	92.79
Others	2,212	19.40	1,021	1.08	253	0.62
Total	**11,399**	**100.00**	**94,343**	**100.00**	**40,590**	**100.00**

(In ₱ millions)	September 30, 2018					
Breakdown of Loans by Type and Maturity	**Due within 1 year**	**%**	**Due within 1-5 years**	**%**	**Due after 5 years**	**%**

(In ₱ millions)	September 30, 2018					
Breakdown of Loans by Type and Maturity	**Due within 1 year**	**%**	**Due within 1-5 years**	**%**	**Due after 5 years**	**%**
Auto	2,766	23.43	86,003	87.68	194	0.44
Commercial	3,729	31.59	4,647	4.74	3,998	9.09
Home Mortgage	3,051	25.84	6,338	6.46	39,569	89.96
Others	2,260	19.14	1,094	1.12	225	0.51
Total	**11,806**	**100.00**	**98,082**	**100.00**	**43,986**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Interest Rates

As of September 30, 2018, 68.12% of the Bank's total loan portfolio was on a floating rate basis. The floating rate loans are re-priced for interest periods of typically 30 to 90 days.

The following table shows the total amount of the Bank's loans that have fixed and floating interest rates:

(In ₱ millions, except percentages)	As of December 31						As of September 30	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Fixed rate	52,306	45.02	55,494	42.95	58,562	40.02	49,060	31.88
Floating rate	63,877	54.98	73,712	57.05	87,770	59.98	104,814	68.12
Total	116,183	100.00	129,206	100.00	146,332	100.00	153,874	100.00

Borrower

The table below shows the Bank's gross loans by type of borrower.

(In P millions)	December 31						September 30	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Individual	106,172	91.38	119,258	92.30	136,543	93.31	144,003	93.59
Corporation	10,011	8.62	9,948	7.70	9,790	6.69	9,871	6.41
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**153,874**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Size

The table below shows the Bank's gross loans by principal amount.

(In ₱ millions)	December 31		September 30	
	2017	**%**	**2018**	**%**
Less than 1,000,000	81,624	55.78	85,928	55.84
1,000,001 to 2,000,000	40,584	27.73	37,979	24.68
2,000,001 to 3,000,000	10,844	7.41	9,418	6.12
More than 3,000,000	13,280	9.08	20,548	13.35
Total	**146,332**	**100.00**	**153,874**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

The BSP currently imposes a limit on the size of the Bank's financial exposure to any single person or entity or group of connected persons or entities to 25.0% of the Bank's net worth. As of September 30, 2018, the Bank has complied with the single borrower's limit for all of its loans.

Secured and Unsecured

The table below shows the Bank's secured and unsecured loans according to type of collateral.

(In ₱ millions)	December 31 (Audited)						September 30 (Unaudited)	
	2015	%	2016	%	2017	%	2018	%
Secured								
Chattel	60,271	51.88	70,111	54.26	84,277	57.59	88,959	57.81
Real Estate	29,332	25.25	29,238	22.63	31,276	21.37	33,768	21.94
Deposit hold-out	407	0.35	412	0.32	599	0.41	711	0.46
Others	363	0.31	-	-	-		4	0.01
Unsecured	25,810	22.22	29,445	22.79	30,180	20.63	30,432	19.78
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**153,874**	**100.00**

Source: PSBank
Note: Loans breakdown is gross of unearned discounts and allowance for credit losses; unsecured loans consists of commercial loans, personal loans and employee loans

Loan Administration and Loan Loss Provisioning

Pricing and Rating

Pricing of loans follows the approved mechanics in the respective Product Manuals. Upon booking of loans, the Bank rates accounts using PFRS9 compliant expected credit loss (ECL) models. These provide basis for loss provisioning. Moreover, the Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

Credit Policy and Loan Review

Credit proposals are approved at the Credit Committee level appropriate to the size and risk of each transaction in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's Executive Committee may approve deviations or exceptions, while the Board approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests ("DOSRI"), and loan restructuring. Credit delegation limits are identified, tracked and reviewed at least annually by the head of Credit and Collections Sector together with the Credit Risk Manager.

The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times. The bank maintains credit records and documents on all borrowings and capture transaction details in its loan systems. Various credit portfolio analytics, including segmented customer delinquency trending, are tracked regularly to guide management strategy and decision making. The bank conducts regular loan review through the Credit MOS (Management Operating System) with the support of the RMO. The bank examines its exposures, credit risk ratios, provisions and customer segments.

Accounts that turn delinquent are monitored via the automated collections systems. Approved collection efforts and strategies are defined in the system. Delinquent accounts are outsourced to collection agencies which get paid based on amount-collected. Restructuring of loans may be pursued in order to improve recovery of loan, and not to delay recognition of losses. Loans are subjected to impairment allowance through the Expected Credit Loss methods.

The Bank has an independent unit called Credit Supervision Unit under RMO which handles primarily the regular review of loan accounts in terms of loan classification, allowance for probable loss, restructuring, RPT and DOSRI.

The Bank employs product limits, single borrower limit, RPT limit, DOSRI limit and Metrobank Group lending limits in its exposures. The ROC oversees the system of limits to discretionary authority that the Board delegates to management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached. These limits are compliant with pertinent BSP regulations.

Expected Credit Loss (ECL) Models

In categorizing its loan portfolio, the Bank has adopted the expected credit loss (ECL) models in measuring credit impairment. This is in accordance with the provisions on adoption of PFRS 9 specified in BSP circular 1011. Under this approach, the Bank recognizes allowance for credit losses even before an objective evidence of impairment becomes apparent. These ECL models built using quantitative approaches consider past events, current conditions, and forecasts of future economic conditions. Loan accounts are categorized into 3 stages. Stage 1 consists of non-impaired exposures that have not experienced significant increase in credit risk since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 accounts. Stage 2 consists of non-impaired exposures which have experienced significant increase in credit risk since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 accounts. Lastly, exposures that show objective evidence of impairment are classified as Stage 3 and are consequently provided using lifetime ECL.

The following is a summary of the risk classification of the Bank's gross loans and allowance for probable loan losses:

(In ₱ millions)	**December 31**						**September 30,**	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Risk Classifications								
Especially mentioned	5,380	4.63	5,895	4.56	6,729	4.60	7,100	4.61
Substandard	2,520	2.17	1,883	1.46	2,285	1.56	2,210	1.44
Doubtful	1,188	1.02	1,238	0.96	1,321	0.90	959	0.62
Loss	927	0.80	1,389	1.07	1,190	0.81	1,202	0.78
Total Classified	10,015	8.62	10,405	8.05	11,525	7.88	11,471	7.45
Unclassified	106,168	91.38	118,801	91.95	134,807	92.12	142,403	92.55
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**153,874**	**100.00**
Allowance for Probable Losses								
Specific	2,939	71.64	3,125	69.92	2,958	66.00	2,998	64.99
General	1,164	28.36	1,344	30.08	1,524	34.00	1,615	35.01
Total	**4,103**	**100.00**	**4,469**	**100.00**	**4,482**	**100.00**	**4,613**	**100.00**

Note: Loans breakdown is gross of unearned discounts and allowance for credit losses

Non-Performing Loans

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses are on the basis of BSP guidelines.

Under BSP guidelines, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The following table shows the Bank's non-performing loans, non-performing assets, allowances and restructured loans:

	December 31,			**September 30,**
	2015	**2016**	**2017**	**2018**
Gross NPLs	4,397,573,101	4,531,110,557	4,770,532,360	6,079,237,829
Net NPLs	1,458,571,640	1,406,409,796	1,812,205,866	3,721,568,925
Gross Total Loan Portfolio (TLP)	118,579,227,317	132,512,493,639	148,184,807,646	155,832,186,067
Ratio of Gross NPLs to gross TLP (%)	3.71%	3.42%	3.22%	3.90%
Ratio of Net NPLs to gross TLP (%)	1.23%	1.06%	1.22%	2.39%
Real and other properties acquired (ROPOA, net of impairment & accumulated depreciation) - based on BSP formula	2,438,280,671	2,893,810,578	3,006,056,389	2,983,591,884

	December 31,			September 30,
	2015	2016	2017	2018
Non-performing assets (NPA) - based on BSP formula (Gross)	7,117,792,979	7,709,255,641	8,033,370,336	9,342,136,936
NPA as a percentage of total assets (%) * using total assets reported in the BSP Published Balance Sheet	4.23%	3.93%	3.62%	4.08%
NPA as a percentage of Gross Total Loan Portfolio (TLP) (%)	6.00%	5.82%	5.42%	5.99%
Allowance for probable loan losses (sum of general loan loss provision & specific allowance)	4,102,552,057	4,468,782,709	4,482,397,137	4,613,120,050
Allowance for probable losses (ROPA)	237,990,273	253,990,273	237,564,053	229,696,038
Allowance for probable loan losses as a percentage of total Gross NPL (%)	93.29%	98.62%	93.96%	75.88%
Total Allowance for probable losses (sum of allowance for probable loan losses & allowance for probable losses-ROPA) as a percentage of NPA (%)	60.98%	61.26%	58.75%	51.84%
Total restructured loans (gross of allowance)	633,087,101	206,268,432	189,398,901	136,869,168
Restructured loans to gross total loan portfolio (TLP)	0.53%	0.16%	0.13%	0.09%
Loans-written-off	831,783,772	837,145,324	973,339,176	391,781,193

** total assets reported in the BSP Published Balance Sheet*
Source: PSBank, based on BSP reports

The following table sets forth, as at the dates indicated, the Bank's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Bank's gross NPLs:

	December 31,						September 30,	
(In ₱ millions)	**2015**	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	2,124	48.30	2,959	65.30	3,307	69.32	14	0.23
Real estate activities	964	21.93	1,077	23.78	1,050	22.02	1,281	21.07
Wholesale and retail trade, repair of motor vehicles and motorcycles	253	5.76	150	3.32	139	2.92	145	2.39
Information and communication	6	0.13	2	0.04	2	0.05	1	0.02
Financial and insurance activities	5	0.10	23	0.52	3	0.05	2	0.03
Manufacturing	430	9.78	20	0.45	14	0.28	50	0.82
Electricity, gas, steam and air-conditioning supply	35	0.80	4	0.08	-	-	-	-
Transportation and storage	50	1.13	9	0.19	10	0.21	22	0.36
Construction	71	1.60	21	0.46	18	0.38	16	0.26
Water supply, sewerage, waste management and remediation activities	6	0.14	2	0.05	1	0.03	1	0.02
Administrative and support service activities	4	0.09	69	1.52	39	0.81	50	0.82
Accommodation and food service activities	13	0.30	13	0.30	12	0.25	20	0.33
Human health and social work activities	1	0.03	1	0.02	1	0.01	2	0.03
Education	1	0.02	9	0.19	7	0.15	3	0.05
Professional, scientific and technical activities	23	0.53	-	-	-	-	-	-
Arts, entertainment and recreation	1	0.01	-	-	-	-	3	0.05
Agriculture, forestry and fishing	12	0.28	3	0.08	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	1	0.02
Others	398	9.04	168	3.70	168	3.52	4,468	73.50
Total	**4,398**	**100.00**	**4,531**	**100.00**	**4,771**	**100.00**	**6,079**	**100.00**

FUNDING

Overview

The Bank's sources of funds are primarily coming from provided by savings, demand and short and long-term deposits. The Bank also issues LTNCDs for its long-term funding needs. Savings deposits accounted for 16.62% of the Bank's total deposits of ₱197.66 billion as of September 30, 2018 while demand deposits, time deposits and LTNCTDs accounted for 10.37%, 68.73% and 4.28% respectively. The Bank believes that its branch network is important to attract deposits from the public. The Bank also sources part of its funding requirements from the interbank market and occasionally from the BSP rediscount window. The Bank may also, from time-to-time, issue various subordinated notes to increase its funding.

Sources of Funding

The Bank has been successful in attracting and retaining its low cost deposit base. While the cost of deposits has largely been driven by interest rate movements, the average cost of deposits is also bolstered by the continued rise in the percentage of checking or demand and savings accounts ("CASA") in relation to total deposits. The Bank will continue to emphasize growth in its CASA by launching various CASA products aimed towards retail, middle market and corporate customers. The maturities of the Bank's funding portfolio enable it to achieve funding stability and liquidity while achieving its desired profile of loan and deposit maturities. The Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with a base of core liquidity.

Deposit Liabilities

The Bank offers a wide range of deposit products that primarily cater to consumer and retail customers. Deposit products include: Kiddie and Teen Savers Accounts, Instant ATM Savings, Regular Passbook Savings, Passbook with ATM, Overseas Filipino Savings, Regular Checking, Premium Checking, Prime Time Deposit, Peso Time Deposit, 1,2,and 3-Year Time Deposit, Dollar Savings, Dollar Time Deposit, Euro Savings, and Euro Time Deposit.

The following table shows the Bank's deposit liabilities according to type:

(in ₱ millions)	**31 December (audited)**			**30 September (unaudited)**
	2015	**2016**	**2017**	**2018**
Demand	12,906	15,339	19,112	20,491
Savings	22,836	27,236	30,384	32,852
Time	98,554	115,812	136,042	135,862
LTNCD	-	-	3,375	8,460
Total	**134,296**	**158,387**	**188,913**	**197,665**

Source: PSBank

As of September 30, 2018, Peso low-cost to total deposit ratio is 25.78% while total low-cost to total deposit ratio is 26.99%. The Bank's cost of deposit funds is typically at par with its competitors. The Bank lengthened the tenor of its funding liabilities by the introduction in 2001 of Prime TD for Peso Deposits.

The following table shows the Bank's deposit liabilities by currency.

(in ₱ millions)	**31 December (audited)**						**30 September (unaudited)**	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Current	**12,906**	**9.61**	**15,339**	**9.68**	**19,112**	**10.12**	**20,491**	**10.37**
Peso	12,906		15,339		19,112		20,491	
Foreign	-		-					
Savings	**22,836**	**17.00**	**27,236**	**17.20**	**30,384**	**16.08**	**32,852**	**16.62**
Peso	21,182		25,390		28,313		30,465	
Foreign	1,654		1,846		2,071		2,387	
Time	**98,554**	**73.39**	**115,812**	**73.12**	**136,042**	**72.01**	**135,862**	**68.73**
Peso	91,304		103,740		119,957		119,196	

(in ₱ millions)	31 December (audited)						30 September (unaudited)	
	2015	%	2016	%	2017	%	2018	%
Foreign	7,250		12,072		16,085		16,666	
LTNCTD	-		-		**3,375**	**1.79**	**8,460**	**4.28**
Total	**134,296**	**100.00**	**158,387**	**100.00**	**188,913**	**100.00**	**197,665**	**100.00**

Source: PSBank

As of September 30, 2018, Peso deposits comprise 90.36% of the Bank's total deposit liabilities while the balance is from dollar deposits. Although the branch network is spread over the country, three-fourths of total deposit liabilities are from Metro Manila. Large fund providers (clients with deposits of at least ₱100.00 million) are monitored by Market Risk.

Subordinated Debt

The Bank obtains funds from the issuance of unsecured non-convertible subordinated debt securities which qualify as Tier II Capital under BSP guidelines for assessing capital adequacy. As of September 30, 2018, the Bank's outstanding subordinated debt was ₱2.98 billion. The following table sets forth information with respect to subordinated debt issued by the Bank as of September 30, 2018.

Particulars	Issue Date	Maturity Date	Face Value*	Carrying Value* December 31, 2017 (audited)	Carrying Value* September 30, 2018 (unaudited)	Coupon Rate/ Step-up
PSBank-2024*	May 23, 2014	August 23, 2024	3,000	2,979	2,981	5.50% p.a. until August 23, 2019; 5Y PDST-F + 1.4438% unless earlier redeemed

Notes:
* *Recognized as qualifying capital only until December 31, 2015*
** *In Php millions*

The Bank's 2022 Peso notes qualified as capital instruments only until December 31, 2015 under the revised Basel III risk-based capital adequacy framework effective 2014. In its meeting held on July 22, 2016, the Board of Directors of Philippine Savings Bank, passed a resolution approving the exercise of the option to call on PSBank's 2022 Peso notes on February 21, 2017. The Bank received approval from the BSP to exercise its call option on the 2022 Peso notes on 13 September, 2016.

LIQUIDITY MANAGEMENT

The Bank manages its liquidity to meet financial liabilities arising from the withdrawal of deposits, repayments of deposits at maturity and working capital needs. Funds are required to create assets in the form of loans and extensions of other forms of credit, investments in securities, trade financing and capital investments. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio, the securing of ample money market lines and swap lines and the maintenance of repurchase facilities.

Liquidity risk is monitored and managed using Maximum Cumulative Outflows and funding diversification/concentration limits. A Contingency Funding Plan is likewise in place to ensure readiness for every liquidity crisis situation. The Bank's Asset and Liability Committee ("ALCO") is directly responsible for liquidity risk exposures. ALCO regularly monitors the Bank's positions and sets the appropriate fund transfer prices to effectively manage movement of funds across business activities. The Bank does not anticipate any cash flow or liquidity problems within the next 12 months, and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement. There are no known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in any material increase or decrease in the Bank's liquidity.

As of September 30, 2018, the Bank's liquid assets amounted to ₱68.3 billion, representing 29.56% of the Bank's total assets. Liquid assets include cash and other cash items, due from the BSP and from other banks, interbank loans receivable and securities purchased under repurchase agreements ("SPURA"), financial assets at fair value through profit or loss ("FVPL"), available for sale ("AFS") and held-to- maturity ("HTM") investments.

The following table sets out information with respect to the Bank's liquidity position as of the dates indicated:

In ₱ millions, except for %	**As of December 31**			**As of September 30**
	2015	**2016**	**2017**	**2018**
Liquid assets	46,150	59,492	67,977	68,311
Financial Ratios:				
Liquid assets to total assets	27.25%	30.22%	30.44%	29.56%
Liquid assets to total deposits	34.36%	37.56%	35.98%	34.56%
Net loans [(1)] to total deposits	83.60%	78.98%	75.36%	76.12%

Notes:
(1) Receivable from customers net of allowance for credit losses and undearned discounts and capitalized interest and other charges.

As of September 30, 2018, the scheduled maturity of the Bank's total loan portfolio and liquid financial investments were as follows:

In ₱ millions	**Loans**	**Liquid financial investments [(1)]**
Due within one year	11,806	22,203
Over one year	142,076	46,108

Notes:
(1) Includes financial assets at FVPL and AFS investments.

The Bank measures its liquidity risk via the Maximum Cumulative Outflows or the Liquidity Gaps Report. Separate limits have been established for both the Peso book and the U.S. Dollar book. As of September 30, 2018, the Bank was in compliance with the established limits.

ANALYSIS OF STATEMENTS OF CONDITION

September 30, 2018 (Unaudited) and December 31, 2017 (Audited)

The Bank's Total Assets as of September 30, 2018 was recorded at ₱231.09 billion, which was 3.48% better than the ₱223.32 billion level in December 2017. The significant increase in assets was due to the continued growth in its loan and investment portfolios.

Loans and Receivables, net of allowance and unearned interest and discounts representing 65.94% of total assets, stood at ₱152.37 billion. This was ₱7.41 billion higher than the December 2017 level of ₱144.96 billion. Mortgage and Auto Loans rose by 5.56% and 5.07%, respectively.

Cash and Other Cash Items increased by 5.38% to ₱ 2.74 billion as of September 30, 2018 from ₱ 2.60 billion. Due from Bangko Sentral ng Pilipinas, representing 6.20% of total assets, decreased to ₱14.33 billion from ₱15.27 billion in December 2017, while Due from other Banks increased by ₱114.67 million to ₱1.62 billion. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements as of September 30, 2018 grew by 5.86% or ₱107.98 million to ₱1.95 billion from ₱1.84 billion in December 2017.

As of September 31, 2018, Hold-to-Collect Investments representing 15.64% of total assets was recorded at ₱36.15 billion. Meanwhile, Held-to-Maturity Investments stood at ₱29.47 billion as of December 31, 2017.

On the other hand, Financial Assets at Fair Value through Other Comprehensive Income representing 4.98% of total assets amounted to ₱11.51 billion as of September 30, 2018. Available-for-Sale Investments was recorded at ₱16.93 billion as of December 31, 2017.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱5.29 million as of September 30, 2018 under PFRS 9. These investment securities represent 20.63% of total assets as of September 30, 2018.

As a result of adoption of the classification and measurement requirements of PFRS 9 effective January 01, 2018, the Bank classified debt securities held under AFS investments as of December 31, 2017 as either at amortized cost for securities belonging to portfolios managed under HTC business model or at FVOCI belonging to portfolios managed under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. On the other hand, debt securities held under HTM investments as of December 31, 2017, the Bank classified them as either HTC business model, at FVOCI or at FVTPL.

Investment in joint venture went up by 8.99% or ₱54.57 million to ₱661.74 million from ₱607.16 million in December 2017, as the Bank recognized its share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation.

On August 9, 2017, the Bank signed a Sale and Purchase Agreement ('SPA") to sell 2.0 million shares or 10.00% ownership in SMFC to GT Capital Holdings, Inc. (GT Capital), a related party, for ₱190.0 million or ₱95.0 per share. The price of the transaction was based on an independent valuation report which was subjected to a third party fairness opinion.

As a result of the sale, the Bank's ownership interest in SMFC was reduced from 40.00% to 30.00%.

Investment Properties went up to ₱4.09 billion as of September 2018 from ₱3.93 billion in December 2017 due to the foreclosure of real estate properties. Property and Equipment decreased by ₱187.56 million to ₱2.29 billion as of September 2018 due to current year's depreciation and amortization of leasehold rights.

Deferred Tax Assets went down by 13.85% or ₱198.01 million to ₱1.23 billion versus ₱1.43 billion in December 2017. Goodwill and Other Intangibles reflected a 5.02% decrease or ₱35.88 million to ₱679.05 million from ₱714.92 million in December 2017. Meanwhile, Other Assets increased to ₱1.45 billion from ₱1.22 billion in December 2017. This was mainly due to the increase in prepaid expense account.

The Bank's deposit levels, comprising 95.39% of total liabilities, improved by 4.63% or ₱8.75 billion to ₱197.66 billion from ₱188.91 billion as of December 2017. The increase came from CASA of ₱3.85 billion and LTNCTD of ₱5.08 billion.

In August 2018, the Bank successfully issued Long Term Negotiable Certificate of Time Deposits (LTNCTD) with an aggregate principal amount of ₱5.08 billion due on February 9, 2024, with fixed interest rate of 5.0% per annum.

As September 30, 2018, the total Tier II Notes of the Bank amounted to ₱2.98 billion. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements. PSBank has an issuer rating of PRS Aaa (Corp.) from Philratings. Treasurer's, Cashier's and Manager's Checks decreased to ₱1.47 billion from ₱2.21 billion in December 2017. Accrued Taxes, Interest and Other Expenses was up by ₱34.89 million to ₱1.69 billion in September 2018 from ₱1.66 billion as of December 31, 2017. Income Tax Payable as of September 2018 was at ₱79.47 million. This represents an accrual for the current quarter which is due for remittance on or before November 29, 2018. Bills Payable went down by ₱1.22 billion to ₱270.10 million as of September 2018 from ₱1.49 billion in December 2017 while Financial Liabilities at FVPL stood at ₱29.63 million. Other Liabilities was posted at ₱3.02 billion from ₱3.67 billion as of year-end 2017.

The Bank's Equity stood at ₱23.88 billion, 6.62% higher than the end-December 2017 level of ₱22.39 billion mainly due to the Net Income for the three quarters of 2018 and effect of the adoption of PFRS 9.

As of September 2018, Capital Adequacy Ratio (CAR) was at 13.79%. This is above the minimum regulatory requirement of 10%. The Bank recorded gains on 'Cumulative Translation Adjustment' under equity amounting to ₱6.06 million, versus December 2017 which recorded a ₱4.08 million loss.

December 31, 2017 and December 31, 2016

The Bank's total assets for the year ended December 31, 2017 stood at ₱223.32 billion. This was 13.45% better than the December 2016 level of ₱196.85 billion. Significant year-on-year increase was due to growth in loan portfolio and investment securities.

Loans and Receivables, net of allowance and unearned interest discounts, representing 64.91% of total assets increased by 13.95% to ₱144.96 billion from ₱127.22 billion. Auto Loans increased by ₱14.27 billion to ₱82.32 billion in 2017, from ₱ 68.41 billion last year. Mortgage Loans also climbed to ₱45.96 billion in 2017 from ₱43.39 billion in 2016.

Due from BSP representing 6.84% of total assets increased by ₱1.28 billion or 9.14% to ₱15.27 billion from ₱13.99 billion in December 2017 due to higher reserve volume in 2017 amounting to ₱13.9 billion versus ₱12.0 billion in 2016. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) declined by ₱1.41 billion or 43.40% from last year.

Available-for-Sale Investments went up by ₱3.81 billion to ₱16.93 billion from ₱13.12 billion in 2016. Held-to-Maturity (HTM) investments also rose to ₱29.47 billion from ₱23.16 billion in 2016 while Fair Value through Profit or Loss (FVPL) decreased by ₱994.56 million to ₱366.24 million.

Deferred Tax Assets rose by 9.89% to ₱1.43 billion from ₱1.30 billion in 2016 due to recognition of deferred tax benefits from the loan-loss provisioning during the year.

Investment Properties increased by 1.78% to ₱3.93 billion as of December 2017 due to higher foreclosures of real estate properties. Property and Equipment decreased by 7.02% or ₱187.16 million to ₱2.48 billion due to higher depreciation.

The Bank's deposit level comprising of 94.02% of total liabilities grew by 19.27% or ₱30.53 billion to ₱188.91 billion from ₱158.39 billion recorded in 2016. Time Deposits were higher by 17.47% or ₱20.23 billion to ₱136.04 billion. Likewise, Demand Deposits increased by 24.60% to ₱19.11 billion from ₱15.34 billion in 2016 while Savings Deposits rose by 11.56% to ₱30.38 billion.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.375 billion due on April 30, 2022 with fixed interest rate of 3.50% per annum payable quarterly.

As of December 31, 2017, Bills Payable representing Interbank Borrowing and Securities Sold under Repurchase Agreement (SSURA) amounted to ₱1.49 billion.

The Tier II Notes, net of debt issuance cost was recorded at ₱2.98 billion in December 2017, 50.15% or ₱3.0 billion lower than the 2016 year-end level of ₱5.98 billion as the Bank exercised the call option of its ₱3.0 billion Tier 2 Notes issued in 2012. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards.

Treasurer's, Cashier's and Manager's Checks increased by 25.75% to ₱2.21 billion from ₱1.76 billion last year. Other Liabilities increased to ₱3.67 billion from ₱3.34 billion.

As of December 31, 2017, the Bank's Capital stood at ₱22.39 billion, 11.76% better than the ₱20.04 billion level in 2016. Mark-to-market losses on Available-for-Sale Investments were recorded at ₱411.51 million in December 31, 2017 versus ₱ 842.91 million last year. Meanwhile, the Bank recorded Remeasurement Losses of ₱545.39 million on its Retirement Plan in 2017 due to losses on return on plan assets.

As of end of 2017, Total Capital Adequacy Ratio (CAR) was at 13.87%, this is above the minimum regulatory requirement of 10%. As of December 31, 2017, the Bank recorded a loss on its 'Cumulative Translation Adjustment' under equity amounting to ₱4.08 million from ₱1.44 million Cumulative Translation Adjustment gain last year.
Meanwhile, Return on Average Equity (ROAE) improved to 12.51% in 2017 versus 12.50% in 2016. Return on Average Assets (ROAA) also decreased to 1.26% in 2017 from 1.34% in 2016.

As of December 31, 2016 and December 31, 2015

The Bank's Total Assets for the year ended December 31, 2016 was recorded at ₱196.85 billion. This was 16.25% better than the ₱169.33 billion level in December 2015. Significant year-on-year increase was attributed to an increase in the Bank's loan portfolio and investment securities during the year.

Loans and Receivables, net of allowance and unearned interest and discounts, was 64.63% of total assets and stood at ₱127.22 billion which is higher than the December 2015 level of ₱113.87 billion. Auto Loans rose by ₱8.73 billion to ₱68.05 billion from ₱59.32 billion in the previous year. Mortgage loans climbed to ₱43.39 billion from ₱40.11 billion in 2015.

Interbank Loans Receivable and Securities Purchased under Resale Agreements was up by 29.45% to ₱3.25 billion in December 2016 from ₱2.51 billion in 2015. On the other hand, Cash and Other Cash Items was lower by 29.39% to ₱2.78 billion while Due from Other Banks declined by ₱22.48 million to ₱1.84 billion from ₱1.86 billion in December 2015. Meanwhile, Due from Bangko Sentral ng Pilipinas, representing 7.11% of total assets, increased to ₱13.99 billion from ₱11.14 billion due to higher reserve volume in 2016 amounting to ₱12.0 billion versus ₱10.6 billion in December 2015.

Available-for-Sale Investments went up by ₱4.19 billion to ₱13.12 billion from ₱8.93 billion in December 2015. Held-to-Maturity Investments amounted to ₱23.16 billion as of December 2016. Meanwhile, Financial Assets at Fair Value through Profit or Loss (FVPL) went down to ₱1.36 billion from ₱2.82 billion in December 2015. Overall, these investment accounts comprised 19.12% of the total assets.

Investment Properties went up by 15.48% to ₱3.86 billion as of December 2016 from ₱3.34 billion in December 2015 due to an increase in the number of the Bank's foreclosed mortgage properties. Property and Equipment decreased by ₱78.90 million to ₱2.67 billion as of December 2016 due to higher depreciation.

Investments in a joint venture increased by ₱36.84 million to ₱727.18 million from ₱690.33 million, as the Bank recognized its share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation.

Deferred Tax Assets was up by 8.90% to ₱1.30 billion versus ₱1.19 billion in December 2015 with the recognition of deferred tax benefits from loan loss provisioning for the year.

Moreover, Goodwill and Other Intangibles increased by 13.66% or ₱60.71 million to ₱505.17 million from ₱444.46 million in 2015 while Other Assets rose by 20.56% to ₱1.08 billion from ₱894.23 million in December 2015 as a result of higher foreclosures for chattel.

The Bank's deposit level, which comprises of 89.58% of total liabilities, increased by 17.94% to ₱158.39 billion from ₱134.30 billion in December 2015. CASA went up by 19.12% or ₱6.83 billion to ₱42.58 billion while Time deposits rose by 17.51% to ₱115.81 billion from ₱98.55 billion.

As of December 31, 2016, total Tier II Notes of the Bank amounted to ₱5.98 billion. In May 2014, the Bank issued Tier II Notes that qualified as Tier II capital under the BSP's revised risk-based capital adequacy framework in line with BASEL III standards due to its loss absorption feature. On July 28, 2016, the Bank received an issuer rating of PRS Aaa (corp.) from Philippine Rating Services Corporation (PhilRatings). An issuer rating means that the company has a very strong capacity to meet its financial commitments relative to other Philippine corporates. A PRS Aaa is the highest corporate credit rating assigned on the PRS scale.

Treasurer's, Cashier's and Manager's Checks rose to ₱1.76 billion from ₱1.35 billion in December 2015. Accrued Taxes, Interest and Other Expenses were up by ₱143.05 million to ₱1.19 billion from ₱1.05 billion. Income Tax Payable as of December 2016 was at ₱0.47 million representing accrual for the current quarter which is due for remittance to BIR on or before April 15, 2017. Bills Payable and Securities Sold under Repurchase Agreement (SSURA) went up by ₱1.60 billion to ₱6.09 billion as of December 2016 from ₱4.49 billion in December 2015 as the Bank entered into repurchase agreements to support the growth its investment portfolio. Meanwhile, Financial Liabilities at FVPL was recorded at ₱65.32 million. Other Liabilities went up by 11.08% or ₱332.94 million to ₱3.34 billion from ₱3.01 billion as of year-end 2015.

Capital funds was up at ₱20.04 billion, 4.50% higher than last year's level of ₱19.18 billion. Mark-to-market losses on Available-for-Sale Investments were recorded at ₱842.91 million in December 2016 versus mark-to-market gains of ₱0.18 million in December 2015.

Return on Average Equity (ROAE) was registered at 12.50% in December 2016 compared to the 12.74% recorded in December 2015. Return on Average Assets (ROAA) slid to 1.34% in December 2016 versus 1.49% in end-2015.

DISCUSSION OF RESULTS OF OPERATIONS

For the nine months-ended September 30, 2018 vs. September 30, 2017 (Unaudited)

As of September 30, 2018, the Bank registered a Net Income after Tax of ₱2.03 billion or 8.11% higher than the ₱1.88 billion recorded for the same period last year. The increase in net income was attributed to significantly higher net interest income.

Total Interest Income went up by ₱1.37 billion to ₱12.10 billion versus ₱10.73 billion in 2017.

Interest income on Loans and Receivables was posted at ₱10.54 billion, 14.59% higher than the ₱9.20 billion recorded during the same period last year. Interest earned from Interbank Loans Receivable and SPURA decreased to ₱49.91 million, 4.5% lower than the ₱52.28 million in 2017. Interest income from deposits with other banks went up by 71.72% to ₱2.91 million while Interest earned from deposits with BSP went down by 95.39% to ₱6.11 million. On the other hand, Interest income on Investment Securities went up to ₱1.50 billion from ₱1.34 million due to the Bank's higher investment portfolio in 2018.

Interest Expenses on deposit liabilities rose to ₱3.27 billion from ₱2.33 billion with overall rise in total deposits by 7.19% as of September 30, 2018 versus September 30, 2017. On the other hand, Interest Expense on Subordinated Notes decreased to ₱125.74 million from ₱149.09 million due to the redemption of the Bank's ₱3.0 billion Tier 2 notes issued in 2012 last February 2017.

The Bank recorded ₱42.31 million in Interest Expense on Bills Payable for the Nine months ended September 30, 2018. As of September 2018, Net Interest Income improved by 5.56% to ₱8.66 billion from ₱8.20 billion the same period last year.

Net Service Fees and Commission Income increased to ₱1.12 billion, 10.22% higher than ₱1.02 billion a year ago.

Meanwhile, Other Operating Income decreased by 3.31% or ₱34.79 million to ₱1.02 billion due to higher trading losses recorded for the nine months ended September 30, 2018. The Bank reflected a ₱98.08 million trading losses versus ₱55.05 million losses in 2017.

The Bank registered a net gain on foreclosure and sale of chattel mortgage amounting to ₱212.71 million from ₱431.51 million in 2017. For the nine months ended September 30, 2018, the Bank posted a ₱328.34 million gains on foreclosure and sale of investment properties versus ₱230.77 million a year-ago. Miscellaneous Income also went up by ₱91.34 million to ₱489.94 million.

Meanwhile, Foreign Exchange gain was posted at ₱78.34 million compared to the FX gain of ₱43.10 million recorded a year ago.
Other Operating Expenses, excluding provisions for impairment and credit losses, went up to ₱6.92 billion from ₱6.49 billion in September 2017. Compensation and Fringe Benefits was posted at ₱2.55 billion while occupancy and equipment-related costs was at ₱570.62 million. Depreciation and amortization of Bank's properties and leasehold improvements were higher at ₱477.39 million from ₱476.80 million in 2017. Meanwhile, security, messengerial and janitorial services were at ₱374.18 million. Amortization of software costs was recorded at ₱121.70 million. Miscellaneous Expenses was posted at ₱1.63 billion last year.

The Bank set aside ₱1.54 billion in provisions for impairment and credit losses.

For the nine months ended September 30, 2018, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱54.57 million from ₱45.57 million during the same period last year.

For the years ended December 31, 2017 and 2016

The Bank registered a net income after tax of ₱2.65 billion or 8.31% higher than the ₱2.45 billion recorded for the same period last year. The increase in net income was due to higher core income in 2017 versus 2016.

Total Interest Income increased by 16.42% or ₱2.05 billion, better than the ₱12.49 billion recorded last year.

Interest income on Loans and Receivables showed a 12.74% improvement or an increase of ₱1.41 billion. On the other hand, Interest Income on Investment Securities increased to ₱1.82 billion from ₱1.35 billion due to higher investment portfolios in 2017. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA declined by ₱0.49 million to ₱61.04 million from ₱61.53 million. Interest earned from deposits with BSP was higher by ₱165.50 million to ₱179.41 million while interest income from other banks also improved by 17.36% to ₱2.61 million.

Interest Expense on deposit liabilities increased by 33.39% to ₱3.21 billion with overall rise in total deposits in 2017 by 19.27%. Meanwhile, interest Expense on Tier 2 Unsecured Subordinated Notes declined to ₱191.06 million from ₱361.77 million in 2016. This was due to the redemption of the Bank's ₱3 billion Unsecured Subordinated Notes (Tier 2) notes issued in 2012 last February 2017.

The Bank recorded ₱58.95 million in Interest Expense on Bills Payable as of December 31 2017, ₱2.15 million higher compared to last year.

As of December 2017, Net Interest Income rose by 14.64% to ₱11.08 billion from ₱9.66 billion in 2016.

Net Service Fees and Commission Income increased by 21.07% to ₱1.38 billion from ₱1.14 billion in 2016.

Other Operating Income was lower in 2017 compared with previous year due to higher trading gains recorded in 2016. As a result, Other Operating Income slid by 14.55% to ₱1.43 billion. Also, the Bank registered a net trading loss of ₱65.24 million in 2017 compared to the ₱509.67 million in trading gains in 2016.

The Bank recorded a net gain on foreclosure and sale of chattel mortgage amounting to ₱584.95 million, ₱233.23 million higher compared with the ₱351.72 million during the same period last year. On the other hand, net gain on foreclosure and sale of investment properties decreased by ₱15.58 million to ₱348.81 million from ₱364.39 million in 2016.

Income on sale of property and equipment in 2017 was lower at ₱ 1.73 million versus ₱2.64 million in 2016.

Foreign Exchange gain was posted at ₱56.48 million, an improvement from ₱23.99 million in 2016. Miscellaneous Income was higher by ₱81.36 million to ₱507.51 million from ₱426.15 million in 2016.

Other Operating Expenses, excluding provision for impairment, was up by 15.06% to ₱8.77 billion from ₱7.62 billion a year ago. Compensation and Fringe Benefits was posted at ₱3.26 billion while Occupancy and equipment-related costs increased by ₱29.11 million or 4.09% to ₱740.05 million.
Depreciation and amortization of Bank's properties and leasehold improvements was recorded at ₱635.44 million from ₱ 557.65 million in 2016. Meanwhile, security, messengerial and janitorial services stood at ₱477.53 million. Amortization of intangible assets was recorded at ₱135.43 million. Miscellaneous Expenses were higher by 19.98% at ₱2.25 billion from ₱ 1.88 billion last year. Taxes and Licenses went up by 19.88% compared to last year to ₱1.27 billion.

The Bank set aside ₱2.27 billion in provisions for impairment and credit losses.

The Bank recorded its share in the net income of its investments in Sumisho Motor Finance Corporation at ₱71.84 million from ₱35.47 million in the same period last year. This was higher by 102.55% versus the same period last year.

For the years ended December 31, 2016 and 2015

The Bank's Net Income after Tax grew by 4.25% to ₱2.45 billion in 2016 from ₱2.35 billion in 2015 due to higher core and other operating income in 2016 versus 2015.
Total Interest Income increased by 13.54% or ₱1.49 billion, better than the ₱11.0 billion recorded last year.

Interest income from loans and receivables showed an 11.45% improvement or an increase of ₱1.14 billion from ₱9.93 billion in 2015. Interest income on Investment Securities rose by 85.22% to ₱1.35 billion from ₱727.77 million due to the Bank's higher investment portfolio in 2016. On the other hand, interest earned from Interbank Loans Receivable and SPURA decreased by 67.75% or ₱129.28 million to ₱61.53 million versus the ₱190.81 million in 2015. Moreover, interest earned from deposits with BSP and interest income from other banks both posted a decline of 90.52% to ₱13.91 million and 71.57% to ₱2.22 million, respectively.

Interest Expense on the Bank's deposit liabilities was higher by 11.02% to ₱2.41 billion compared to ₱2.17 billion during the same period last year due to overall rise in total deposits in 2016. On the other hand, Interest Expense on Subordinated Notes increased by ₱19.12 million from ₱342.65 million to ₱361.77 million due to the amortization of debt issuance costs related to the issuance of the Notes. The Bank also posted ₱56.80 million in Interest Expense on Bills Payable for 2016.

As of December 2016, Net Interest Income rose by 13.94% to ₱9.66 billion from ₱8.48 billion in 2015.

Net Service Fees and Commission Income decreased by ₱59.14 million from ₱1.20 billion in 2015.

Other Operating Income also posted a significant growth of 49.33% or ₱554.47 million to ₱1.68 billion. The Bank registered ₱509.67 million gains on the sale of investment securities in 2016 versus a ₱63.57 million loss in 2015.

The Bank recorded a net gain on the foreclosure and sale of investment properties amounting to ₱364.39 million, ₱106.36 million higher compared to the ₱258.03 million during the same period last year. However, net gain on foreclosure and sale of chattel properties decreased by ₱25.94 million to ₱351.72 million from ₱377.66 million in 2015.

Foreign Exchange Gain was posted at ₱23.99 million, an improvement from the ₱18.82 million in 2015. On the other hand, Miscellaneous Income was lower by ₱89.27 million from ₱515.41 million reported in the previous year.

Other Operating Expenses, excluding provision for impairment, went up by 10.05% to ₱7.62 billion from the year ago level of ₱6.93 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱2.22 billion provisions for credit loss for the year ended December 2016.

Occupancy and equipment-related costs increased by 5.84% or ₱39.21 million to ₱710.94 million as a result from higher rent expense. As of December 31, 2016, the Bank has 255 branches and 611 ATMs nationwide.

Taxes and Licenses went up by 10.13% or ₱97.34 million compared to last year due to higher documentary stamp taxes paid in 2016. Likewise, Compensation and Fringe Benefits went up by 11.82% to ₱2.92 billion. Amortization of Intangible Assets was recorded at ₱111.16 million. Miscellaneous Expenses were higher by 7.67% at ₱1.88 billion from ₱1.74 billion last year.

Security, Messengerial and Janitorial services were at ₱383.67 million while Depreciation and amortization of Bank's properties and leasehold improvements were at ₱557.65 million from
₱501.31 million in 2015.

The Bank also recorded its share in the net income of its investment in Sumisho Motor Finance Corporation (SMFC) at ₱ 35.47 million, 75.46% higher than the ₱20.21 million reflected in the same period last year.

ANALYSIS OF KEY PERFORMANCE INDICATORS

		December 31,			**September 30,**
		2015	**2016**	**2017**	**2018**
Return on Average Equity	ROAE	12.74%	12.50%	**12.51%**	12.50%
Return on Average Assets	ROAA	1.49%	1.34%	**1.26%**	1.34%
Net Interest Margin on Average Earning Assets	NIM	6.37%	6.17%	**6.10%**	6.17%
Earnings per share	EPS	₱9.79	₱10.20	**₱11.05**	₱8.45
Capital-to-Risk Assets Ratio	CAR	18.04%	14.07%	**13.87%**	14.07%
Liquidity Ratio	LR	28.72%	23.46%	**20.70%**	23.46%
Debt-Equity Ratio	DER	7.83:1	8.82:1	**8.97:1**	8.68:1
Asset-to-Equity Ratio	AER	8.83:1	9.82:1	**9.97:1**	9.68:1
Interest Rate Coverage Ratio	IRC	1.92:1	1.94:1	**1.84:1**	1.7:1

2017 vs. 2016 Comparative highlights on key performance indicators

a) Return on Average Equity (ROAE) increased from 12.50% in 2016 to 12.51% in 2017. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

b) Return on Average Assets (ROAA) decreased to 1.26% in December 2017 from 1.34% in 2016. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.

c) Net Interest Margin on Average Earning Assets (NIM) went down from 6.17% in 2016 to 6.10% in 2017. NIM is calculated by dividing the net interest income by the average earning assets.

d) Earnings per Share (EPS) improved to ₱11.05 in 2017 from ₱10.20 in 2016. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares.

e) Capital-to-Risk Assets Ratio (CAR) decreased from 14.07% to 13.87% in 2017. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

f) Liquidity Ratio (LR) decreased in 2017 at 20.70% compared to 23.46% in 2016 as excess funds were placed in higher yielding investment securities. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.

g) Debt-to-Equity Ratio (DER) increased to at 8.97:1 as of December 2017 versus 8.82:1in 2016. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.

h) Asset-to-Equity Ratio (AER) increased to 9.97:1 in 2017 versus 9.82:1 in 2016. AER is computed by dividing the total assets by total shareholder's equity.

i) Interest Rate Coverage Ratio (IRC) decreased to 1.84:1 as of December 31, 2017 from 1.94:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

2016 vs. 2015 Comparative highlights on key performance indicators

a) Return on Average Equity (ROAE) decreased from 12.74% in 2015 to 12.50% in 2016. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

b) Return on Average Assets (ROAA) decreased to 1.34% in December 2016 from 1.49% in 2015. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.

c) Net Interest Margin on Average Earning Assets (NIM) went down from 6.37% in 2015 to 6.17% in 2016. NIM is calculated by dividing the net interest income by the average earning assets.

d) Earnings per Share (EPS) improved to ₱10.20 in 2016 from ₱9.79 in 2015. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares.

e) Capital-to-Risk Assets Ratio (CAR) decreased from 18.04% to 14.07% in 2016. The Bank issued a P3.0 billion Unsecured Subordinated Notes (Tier II) in May 2014. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

f) Liquidity Ratio (LR) decreased in 2016 at 23.46% compared to 28.72% in 2015 as excess funds were placed in higher yielding investment securities. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.

g) Debt-to-Equity Ratio (DER) was at 8.82:1 as of December 2016 versus 7.83:1 in 2015. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.

h) Asset-to-Equity Ratio (AER) increased to 9.82:1 in 2016 versus 8.83:1 in 2015. AER is computed by dividing the total assets by total shareholder's equity.

i) Interest Rate Coverage Ratio (IRC) rose to 1.94:1 as of December 31, 2016 from 1.92:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

MATERIAL COMMITMENTS FOR CAPITAL EXPENDITURES

The Bank's commitments for capital expenditures will be funded out of cash flows from operations. This generally covers investments or upgrades in systems, expansion of the Bank's electronic banking channels, ATM installation, renovation or relocation of branch premises and investments made for new branches. The Bank, as of the date of this Prospectus, does not expect to utilize the proceeds from the Offer to fund the foregoing capital expenditures.

The Bank's capital expenditures for the years ended December 31, 2015, 2016, 2017 and nine month ended September 30, 2018 were ₱ 177.9 million, ₱ 269.52 million, ₱ 404.28 million and ₱88.35 million, respectively. The Bank's primary capital expenditures during those years were mainly invested in systems and the expansion and refurbishment of the branch network. The Bank also undertook technology related investments in support of its business expansion.

CONTINGENT FINANCIAL OBLIGATIONS AND OFF-BALANCE SHEET TRANSACTIONS

The Bank has outstanding commitments and contingent liabilities from the normal course of operations. The Bank does not anticipate losses that will materially affect its financial condition and results of operations as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent Peso contractual amounts:

	As of December 31,			**As of September 30,**	
In ₱ millions	**2015**	**2016**	**2017**	**2017**	**2018**
Trust department accounts	2,349	3,991	5,596	5,342	6,083
Swap forward exchange - sold	-	3,186	2,653	2,700	2,687
Forward Exchange Sold	-	-	-	330	378
Stand-by credit lines	78	84	82	81	74
Sport Foreign Exchange Contracts - sold	71	50	-	-	54
Late deposits/payment received	57	63	6	37	10
Items held for safekeeping	0	1	1	1	0
Others	0	0	1	2	0
Total	**2,556**	**7,374**	**8,339**	**8,494**	**9,285**

CAPITAL ADEQUACY

The Philippines adopted capital adequacy requirements based on the Basel II Capital Accord through the issuance of BSP Circular 538, as amended by BSP Circular No. 781. Circular No. 781 embodies the implementing guidelines of the revised Basel II standards and the reforms introduced by Basel III. As of September 30, 2018, the Bank's risk-weighted capital adequacy ratio as reported to BSP (the ratio of total qualifying capital to risk-weighted assets), was 13.79%, and the Bank's CET1 capital adequacy ratio as reported to BSP was 11.09%. Both ratios were above the capital adequacy requirements of the BSP applicable to the Bank as of September 30, 2018.

SECURITIES OFFERINGS

The Bank issues securities from time to time to raise funds and to maintain its capital adequacy ratios. The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱ 2.0 billion and ₱ 750.0 million in capital, respectively.

The Bank issued ₱3.0 billion worth of Tier 2 Unsecured Subordinated Notes in February 2012 and May 2014 with coupon rate of 5.75% and 5.50% per annum, respectively.

On December 8, 2016, the BSP authorized the Bank to issue LTNCTDs up to ₱ 10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCTDs amounting to ₱ 3.375 billion due on April 30, 2022 with fixed interest rate of 3.50% per annum payable quarterly. On July 13, 2018, the Bank received the approval of the BSP to issue Series 2 LTNCTDs of up to ₱15.0 billion through two (2) or multiple tranches over a period of one year. The first tranche was issued on August 9, 2018 and raised ₱5.0845 billion. It has a coupon rate of 5.0% per annum and will mature on February 9, 2024.

RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has several business relationships with related parties. The terms of the transactions with such parties are on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. For more information, see the section titled "Related Party Transactions".

BUSINESS

Overview

Philippine Savings Bank is a thrift bank based in the Philippines. It offers a wide range of banking and other financial products and services, including deposits, loans, treasury, digital banking services, bancassurance, credit card, and trust. It caters mainly to the retail and consumer markets. The Bank is ranked second among the country's 55 thrift banks in terms of assets as of June 30, 2018 based on data from the Bangko Sentral ng Pilipinas (''BSP''). The Bank's total assets stood at ₱231.09 billion, ₱223.32 billion and ₱196.85 billion as of September 30, 2018, December 31, 2017 and December 31, 2016, respectively. Its total equity were at ₱23.88 billion, ₱22.39 billion and ₱20.04 billion as of September 30, 2018, December 31, 2017 and December 31, 2016, respectively.

As of September 30, 2018, the Bank has a network of 250 branches nationwide. The Bank also has 580 ATMs, which are part of the Bancnet consortium. This is broken down to 263 on-site and 317 off-site locations.

The Bank is listed on the Philippine Stock Exchange (the ''PSE'') with a market capitalization of ₱20.18 billion as of September 30, 2018.

As of September 30, 2018, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were at 13.79% and 11.09%, respectively.

History

The Bank was established on June 30, 1959, primarily to engage in savings and mortgage banking. Its first head office was located in Quiapo, Manila. In 1983, Metrobank acquired majority stake in the Bank, and in 2004 further increased its shareholdings to the present level of 82.68%.

In 1991, the Bank was authorized to perform trust functions and in 1995, was granted a quasi-banking license.

On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock approved the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9). This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

The website of the Bank is www.psbank.com.ph. No information on the website should be considered or construed as part of the Offering Circular.

Despite challenges that came its way through several crises in the local, Asian and global economies, PSBank – through its prudent management, innovation and customer-centric focus – consistently delivered. From being dubbed as a friendly bank in the 1960s, PSBank underscored its primary objective of quality customer service, simplified processes, quick credit decision and innovative products through its mandate and promise: *Simple Lang, Maaasahan*.

Capital Markets Transactions

On January 27, 2006, the Bank issued ₱2.0 billion worth of Unsecured Subordinated Notes with a coupon rate of 10% per annum due 2016. The Bank exercised its Call Option in 2011.

On February 23, 2006, the Bank issued 22,437,690 common shares, with a par value of ₱10.00 per share, to cover the 1 for 8 Stock Rights issue at an Exercise Price of ₱33.50 per Offer Share. Record date was set on March 15, 2006. Proceeds from the Rights Offer were used to primarily improve the Bank's compliance with International Accounting Standards (IAS) and Capital Adequacy Ratio (CAR) and to address the proposed operational risk charges required under the Basel II.

In 2008, PSBank offered another 38,314,176 common shares by way of pre-emptive rights offering to all shareholders of record as of January 18, 2008. The Offer was 1 Rights share for every 5.27059 existing Common Shares at an exercise price of ₱52.20 per Offer Share. The net proceeds were used to strengthen the Bank's Capital Adequacy Ratio (CAR), taking into account the effect of Basel II and thereby enhanced its financial flexibility as well as for general corporate purposes including, but not limited to, lending, working capital and investment purposes.

On February 20, 2012, the Bank issued ₱3.0 billion worth of Tier 2 Unsecured Subordinated Notes with a coupon rate of 5.75% per annum, due 2022. The Bank exercised its Call Option in 2017.

The Bank issued another ₱3.0 billion worth of Tier 2 Unsecured Subordinated Notes on May 23, 2014 with a coupon rate of 5.50% per annum, due 2024 and a Call Option in 2019.

On January 30, 2017, the Bank issued ₱3.375 billion Long Term Negotiable Certificates of Time Deposit (LTNCTD) with fixed interest rate of 3.5% per annum and will mature on April 30, 2022. The net proceeds of the issuance was used to diversify the Bank's funding sources and support business expansion.

On August 9, 2018, the Bank issued its first tranche of LTNCD Series 2 and raised ₱5.0845 billion. The first tranche LTNCTD Series 2 has a coupon rate of 5.0% per annum and will mature on February 9, 2024. The net proceeds of the issuance will be used by the Bank as it further expands its consumer banking business.

Recent Developments

The Board of Directors, in its meeting held on February 22, 2018, passed a resolution approving the promotion of Senior Vice President Noli S. Gomez to Executive Vice President effective March 1, 2018.

At the Annual Stockholders' Meeting held on April 23, 2018, the stockholders resolved and approved, among others, the election of nine directors for the ensuing year, with Rosanna F. De Vera as newly-elected director in replacement of former director, Amelia B. Cabal. Subsequently, during the Organizational Meeting of the Board of Directors held on April 23, 2018, with all nine (9) directors present, the following directors were elected to their new positions, among others: (1) Vicente R. Cuna, Jr. as Vice Chairman, and (2) Jose Vicente L. Alde as President.

In its meeting held on October 15, 2018, the Board of Directors passed a resolution declaring a 7.5% Regular Cash Dividend for the third quarter of 2018 amounting to ₱180.19 million, equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of October 30, 2018 and will be paid no later than the Payment Date of November 14, 2018.

COMPETITIVE STRENGTHS

The Bank considers the following to be among its principal competitive strengths:

Majority owned by the Metrobank Group. Based on the date disclosed to regulators, PSBank is 82.68%-owned by the Metrobank Group, which is the second largest Philippine universal bank in terms of assets as of June 30, 2018. Metrobank's total assets was recorded at ₱1.79 trillion and controlled 12.00% of the Philippine universal and commercial banking system's total asset base as of September 30, 2018, according to the BSP. Metrobank believes that it was also among the top three largest Philippine bank in terms of net loans and receivables with an outstanding balance of ₱1.05 trillion, by total deposits with ₱1.32 trillion and total stockholders' equity of ₱275.50 billion. The Bank believes its financial strength contributes to its strong market position. The Bank's strong financial condition gives the Group flexibility to invest in new products, services, branches, information technology and other infrastructure required for the execution of its growth strategy. Metrobank and PSBank serve distinct core markets and coordinate on market segmentation.

Focused on the consumer market. PSBank's focus is on retail deposit taking and consumer lending to upper- and middle-income classes. Through its 250 branches, it has been able to accumulate ₱197.66 billion deposit liabilities as of September 30, 2018. The Bank has enjoyed strong loan portfolio growth over the past three years, with its total loan portfolio growing from ₱112.10 billion as of September 30, 2015 to ₱153.87 billion as of September 30, 2018, representing a three-year compound annual growth rate of 11.14 %. The Bank's loan portfolio consists mainly of consumption and real estate loans which comprised ₱114.01 billion or 88.24 %, ₱130.87 billion or 89.43 % and ₱137.92 billion or 89.63 % of the Bank's total loan portfolio as of December 31, 2016, 2017 and September 30, 2018, respectively. As of September 30, 2018, the Bank's loan portfolio was highly concentrated on other service activities, real estate activities, wholesale and retail trade, and financial and insurance activities comprising ₱97.28 billion or 63.23 %, ₱43.99 billion or 28.59 %, ₱2.74 billion or 1.78% and ₱1.95 billion or 1.27% of the Bank's total loan portfolio.

Consistent customer service and training. PSBank emphasizes providing consistent and exceptional Customer Experience (CX) at all times. CX is considered a major part of all performance evaluation reviews for both front-line and back-end support personnel. In an industry where products and services being offered seem to be homogenous, PSBank aims to set itself apart through a unique and consistent customer-driven experience in all customer touchpoints, anchored on its brand positioning --- to keep things "*Simple at Maaasahan*".

Investments in Information Technology. PSBank has been investing in technology to take advantage of business opportunities, better security, and improved operational efficiency. These investments have seen fruition across the organization, some of which are: a faster turn-around time for credit decisions; improved servicing at branches; the launch of digital platforms and services; improved uniform compliance to credit policies and better risk and profit monitoring for its loan portfolio. PSBank offers one of the fastest turn-around times for consumer loan applications in the industry --- a one day turn-around decision time for Auto Loans, one day for Home Loans covering accredited properties, and three days for Flexi/Personal Loans. It also offers one of the more robust and customer-friendly Mobile APP to enable customers to their banking via mobile phones.

STRATEGIES

The Bank's vision is to be the country's consumer and retail bank of choice. It also aims to become the country's largest and most profitable thrift bank. The Bank will do this by continuously improving on its strategic management discipline that focuses on the customer --- serving their needs by adapting to changes in their preferences and life stages; and overall, providing exceptional customer experience at every touch point. There will be heavy use of data analytics to further understand the customer and enable customization of services in the hope of increasing "share of wallet" and customer loyalty. PSBank will continue to step up its digital banking innovations by developing pioneering mobile, online and even in-branch digital services for more efficient banking transactions. It will strengthen its branch network capabilities even as it develops other customer touch points and service channels.

The bottomline objective is to always stay ahead of the profitability curve by generating more business and keeping cost of operations optimal; and likewise build a competitive advantage through greater focus and understanding of preferred market segments. These are also enabled by having a customer-centric culture within the Bank, and an organizational structure which encourages employees to be flexible and motivated contributors.

The Bank will continue to keep to its brand promise of delivering "*Simple Lang, Maasahan* (Simple and Reliable)" service at all times.

Focus on Core Business. The Bank has established a platform of sustainable growth through its core business. Although the Bank also caters to select small, medium and large businesses thru its Small and Medium Enterprise ("SME") and Large Enterprise Groups ("LEG"), the Bank has focused on households or the retail consumer as its primary target market for deposit and loan products. The growth potential of this market is anchored on projected higher domestic consumption due to increasing population and income levels.

Develop a customer-centric organization to achieve service excellence. To meet challenges in an intensely competitive market, the Bank will continue its initiative of reviewing, reorganizing and streamlining of business units to drive productivity and efficiency in the organization, and more so to pursue a customer-centric strategy. Using its customer information system coupled with a robust technology infrastructure, the Bank aims to analyze the demographics, transactions and product availments of all of its customers. Products and services are aligned with clients' interests and requirements while ensuring that standards are in place to measure the delivery of quality service.

Electronic Channels to drive accessibility and convenience. The Bank is firm in its resolve to further increase its market share in the consumer banking industry. To achieve this strategic objective, the Bank will pursue digital products and services to drive customer convenience and accessibility. It started with the enhancement of its PSBank Online and PSBank Mobile Applications. It launched its social medial platforms (Facebook, Twitter, Instagram, YouTube and Linked-In) in February 2016. Other recently introduced digital services include the "Cardless Withdrawal", "PayMe", "PSBank Mobile App with ATM Lock" – a breakthrough innovation of providing an additional layer of protection against card-initiated electronic fraud; "Queue Anywhere" – an automated lobby management system that saves clients more time with no forms to fill; and the "PSBank Business Online Buddy or BOB" – the Bank's answer to the simple "cash management" requirements of SMEs and retail customers.

Manage Capital Prudently. The Bank enhanced policies and processes on credit and collections, fraud prevention and implemented various cost-control programs and automation for improved productivity and cost efficiencies to manage the bank's capital.

AWARDS AND CITATIONS

PSBank has been consistently recognized for its efforts cutting across various banking initiatives, foremost of which is providing differentiated customer experience. In 2018 alone, it was a good harvest for PSBank:

1. 2018 Bangko Sentral ng Pilipinas Pagtugon Award --- it's 3rd after having won the same in 2015 & 2016;
2. Top performing publicly-listed company in the country by the Institute of Corporate Directors
3. 2018 CX Awards from IQPC (International Quality & Productivity Centre) which recognizes CX efforts in the Asia Pacific Region:
    a. Two (2) Silver awards for *Best Customer Experience* and *Best Customer Experience Team*
    b. Two (2) Bronze awards for *Best Social Media Strategy* and *Best Use of Mobile*
4. 53rd Philippine Anvil Awards
    a. Two (2) Silver Anvil awards for *PSBank's PayMe "Sweldo"* situational commercial and for its *2016 Annual Report*
5. 2018 PANAta Awards (from the Philippine Association of National Advertisers/PANA)
    a. Bronze Award in Brand Builder Excellence in Brand Positioning category for the Bank's "Techie" campaign
6. 16th Philippine Quill Awards
    a. Two (2) Quill award of Merit for *PSBank's PayMe "Sweldo"* situational commercial and for its 2016 Annual Report
7. 2018 World HRG Congress
    a. 2018 Global Best Employer Brand, and the Continuous Innovation in HR Strategy at Work
8. Philippines' Best Employer at the 1st Best Employer Brand Awards
9. Best Launch Strategy Award by Facebook Workplace

The harmonious relationship between the Bank and the Union throughout the years, as well as having a strong Labor-Management Council (LMC), has earned the Bank a Special Award in Enhanced Corporate Viability and a recognition as the Best LMC for Industrial Peace in the National Capital Region and finalist in the National Best LMC for Industrial Peace by no less than the Department of Labor and Employment (DOLE). These HR programs have also helped the Bank in bagging the Asia's Best Employer Brand Award in Singapore in August 2017, the Global Best Employer Brand Award in India in February 2018, and the Philippines Best Employer Brand Award in June 2018, the first local bank to have been recognized in the country, in Asia, and globally by the World HRD Congress and CHRO Asia as of date.

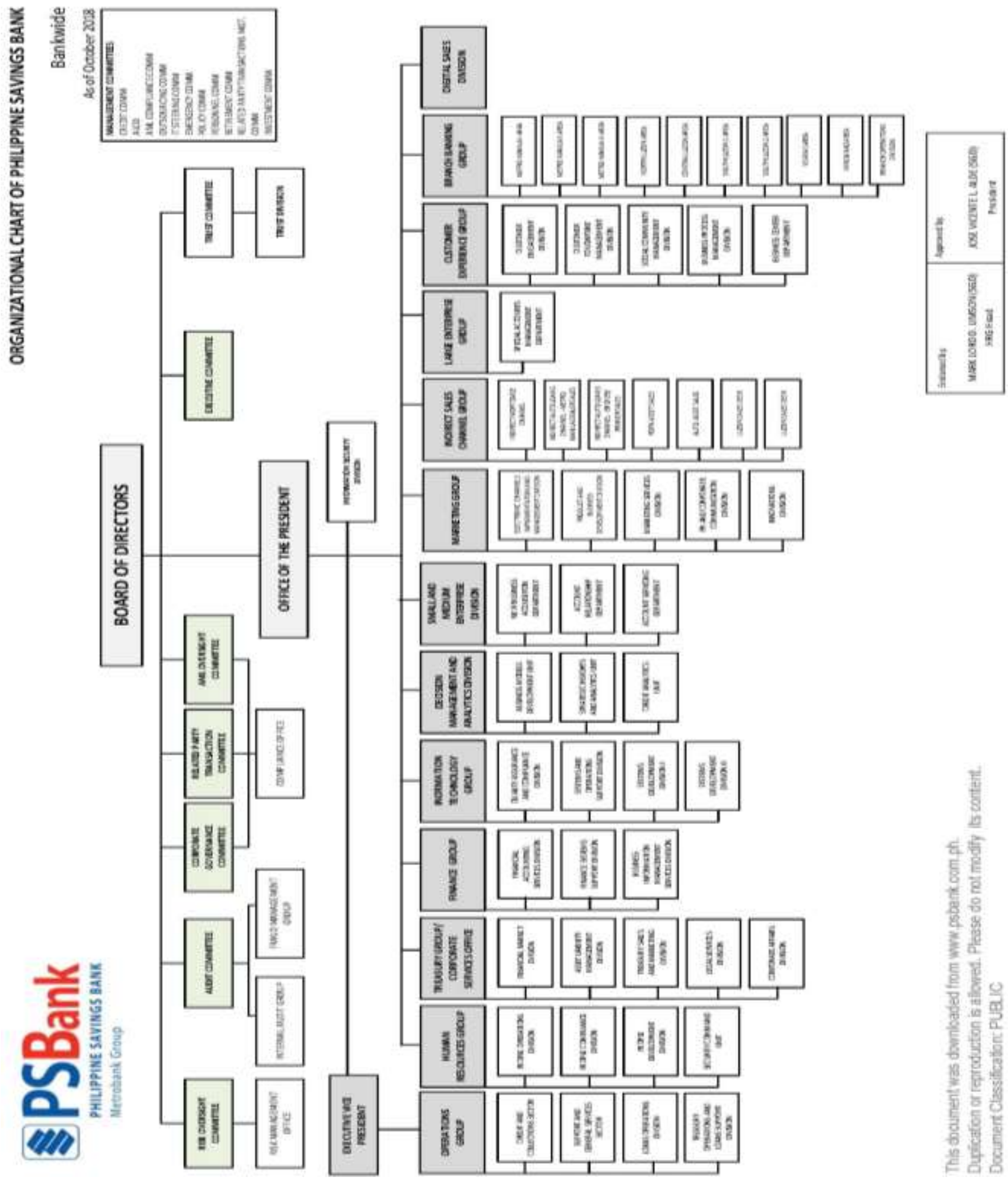
Other Awards received in the recent past are:

- Gold Stevie® Award for the innovative use of technology in the customer service category at the annual Asia-Pacific Stevie Awards for PSBank Live Chat, the first and only real-time chat service in the Philippine banking industry developed to address clients' inquiries and concerns.

- For providing exceptional end-to-end customer experience at the annual Customer Experience Awards in Singapore, 2nd Runner Up For The Best Customer Experience Award category and an Honorary Mention In The Best Customer Experience Team category.
- Mobile Banking Initiative of the Year at the Asian Banking & Finance Retail Banking Awards 2016 for PSBank Mobile Version 2.0, which featured the ATM lock, an additional layer of protection for clients against unauthorized use of their ATM card, arising from ATM loss, theft, skimming, and other forms of electronic fraud.
- Two Merit Awards in the 2015 Philippine Quill Awards for the entries: PSBank 2015 TV commercials: Project Massage and Team Huddle: Next Level Under the Marketing, Advertising, and Brand Communication category.
- PSBank, along with Metrobank, was also awarded by the Asian Banker the Auto Loan Product Of The Year In 2016 (Regional and Country Level) for being the market leader in Auto Loans business in the Philippines propelled by the synergy of the retail strategy of the two banks.
- Recognized by The Asian Banker as the 2nd strongest bank in the Philippines, its highest ranking to date, following its parent company Metrobank for the period 2016-2017. It has consistently ranked among the Top 10 in the country for six consecutive years.
- Finalist in the Philippine Stock Exchange Bell Awards for 2016 for excellence in corporate governance, the second time that the Bank was included as a finalist and was the only qualifying thrift bank among companies listed in the stock market.

ORGANIZATIONAL CHART

The figure below shows the Bank's organizational chart as of October 2018.



PRINCIPAL BUSINESS ACTIVITIES

The Bank's principal areas of business are consumer banking, corporate banking, branch banking, and treasury. The following table sets out the amounts of revenue, net of interest expense, generated by each of these businesses for nine months ended September 30, 2018.

	Nine Months ended September 30, 2018 (Unaudited)				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	4,095,314	245,841	5,372,844	2,384,752	**12,098,751**
Service fees and commission	468,999	30,258	691,124	0	**1,190,381**
Other operating income (expense)	550,578	16,775	467,958	(19,738)	**1,015,574**
Total operating income	5,114,891	292,874	6,531,926	2,365,014	**14,304,706**
Non-cash expenses					
Provision for credit and impairment losses	1,558,430	(65,313)	49,681	0	**1,542,798**
Depreciation	183,057	3,413	290,028	890	**477,388**
Amortization of other intangible assets	43,985	1,831	75,093	794	**121,703**
Total non-cash expenses (income)	1,785,472	(60,069)	414,802	1,684	**2,141,889**
Interest expense	0	0	1,373,195	2,064,761	**3,437,956**
Service fees and commission expense	28,015	1,807	41,282	0	**71,104**
Subtotal	28,015	1,807	1,414,477	2,064,761	**3,509,060**
Compensation and fringe benefits	645,605	50,615	1,828,345	23,680	**2,548,245**
Taxes and licenses	323,343	24,696	410,785	432,812	**1,191,636**
Occupancy and equipment-related costs	59,113	832	510,387	291	**570,623**
Security, messengerial and janitorial services	127,635	3,015	242,824	704	**374,178**
Miscellaneous	502,231	21,149	975,183	135,613	**1,634,176**
Subtotal	1,657,927	100,307	3,967,524	593,100	**6,318,858**
Income (loss) before share in net income of a joint venture and income tax	1,643,477	250,829	735,123	(294,531)	**2,334,898**
Share in net income of a joint venture					**54,574**
Income before income tax					**2,389,472**
Provision from income tax					**359,060**
Net income					**2,030,412**

Consumer Banking

Consumer Banking principally handles individual customer deposits and provides consumer loans, and fund transfer facilities. The Bank's consumer lending business is predominantly consumption loans and real estate loans. Net of unearned discounts, consumption loans as of September 30, 2018 have grown to ₱88.96 billion or 9.29% while real estate loans have grown by 7.51% to ₱48.96 billion as of September 30, 2018 compared to the same period last year. It is also engaged in small, medium enterprise lending as well as personal loans.

Retail deposit products include current and savings accounts ("CASA") and time deposits in peso and foreign denominated currencies such as US Dollars and Euros.

PSBank developed various sales channels to focus on diverse segments of the market. Branches focused on direct loan clients while Indirect Sales Channel focused on real estate developers, car dealers and financial agencies. Bulk of consumer loans come from these indirect channels which Indirect Sales Group had tapped and develop through the years.

PSBank had also innovated its processes through the use of mobile technology like FAST (Field Application Servicing Tool) which can encode applications even on field or in the dealer's floor.

PSBank also has online services which cater to the tech savvy individuals who want to apply in the comfort of their homes and offices.

Marketing and Customer Experience Groups had initiated direct and indirect customer retention and acquisition programs to ensure proper servicing of existing clients as well as reaching out to the market at large.

The Bank's branch network is its main distribution channel. It also partners with auto dealers, property developers as well as loan agencies for its different products. In some provincial areas, the Bank has set-up sales desks as another distribution channel for its loan products. Currently, the Bank has 18 sales desks. Credit decision-making for consumer loans utilizes a credit scoring process and is centralized in Head Office.

Corporate Banking

Corporate Banking principally handles loans and other credit facilities for small and medium enterprises ("SMEs"), corporate and institutional customers. The banking products offered include term loans, credit lines, standby letters of credit and deposit collateral loans. All loans are screened and approved by the Credit Committee.

The Bank lends across various industries with a significant portion of its loans to activities of households as employers and undifferentiated goods-and-services producing activities of households for own use; real estate; financial and insurance; and wholesale and retail trade, repair of motor vehicles and motorcycles.

The Large Enterprise Group ("LEG") is PSBank's unit responsible for booking and managing its corporate banking portfolio. A large majority of the portfolio are long term fixed yield exposures in the form of term loans / corporate notes and corporate bonds to top tier high grade corporate issuers, resulting in improved group profitability and risk profile. Booking high credit quality accounts further improves the Bank's overall portfolio quality, as its major loan products are consumer auto and residential mortgages which can deteriorate in an economic down cycle.

LEG carefully selects its loan prospects, with current preference to non-cyclical stable industries that gain immediate benefit from the country's forecasted sustainable economic growth, such as private utilities. However, with the Bank's familiarity with the residential property sector through its Mortgage Banking Division ("MBD"), LEG also has significant exposure to the real estate sector, but is careful to choose developers with diversified revenue streams, such as from commercial and office leases and residential sales. In fact, LEG's and MBD's relationships with top tier developers provides opportunities for new products, such as taking out seasoned residential installment portfolios and booking them under the MBD portfolio to further boost its volumes.

LEG's loan accounts have SME suppliers that can be referred to the SME Group for credit lines. Meanwhile, the Auto Loans Division (ALD) continues to refer performing auto dealers to LEG for Floorstock lines.

LEG has started to market potential borrowers in the next credit tier, such as to small or mid-sized conglomerates where interest rates are higher than top tier conglomerates in order to boost its volumes and profitability. LEG's approach will be tempered by a disciplined credit review of these mid-market borrowers.

As of September 30, 2018, the Bank's commercial loans total ₱12.37 billion.

Branch Banking

As of September 30, 2018, the Bank has 250 branches strategically located in key areas across the nation. Our main thrust is to increase our loan and deposit portfolios, which we will achieve thru our continuous effort to solicit new to the bank clients, coupled with our aggressive cross-selling initiatives.

The Bank owns the premises it occupies for the Head Office in Makati City and 29 of its branches. These offices/branches are all in good condition and there is no mortgage or lien on any of these properties owned by the Bank. The rest of the Bank's branch premises are under lease agreements. Terms of leases range from 5-10 years renewable under certain terms and conditions.

The following table sets out the Bank's branches and ATM information in the Philippines:

	December 31,			September 30,
	2015	**2016**	**2017**	**2018**
Number of Branches	**248**	**255**	**250**	**250**
Metro Manila	114	114	113	113
Rest of Luzon	92	98	96	96
Visayas	25	25	23	23
Mindanao	17	18	18	18
ATMs	**614**	**611**	**610**	**580**
Total	**862**	**866**	**860**	**830**

Treasury

Treasury Group is responsible for the efficient management of the Bank's financial assets. This involves management of short-term funding, intra-day liquidity and financial risk exposures. It is also responsible for the management of the Bank's Asset and Liability. The Group is composed of the following divisions; Asset and Liability Management Division, Treasury Sales and Marketing Division and Financial Markets Division.

The Asset and Liability Management (ALM) focuses more on risk analysis and medium to long-term financing needs. The ALM function covers the monitoring of the Bank's interest rate risk, liquidity risk, and foreign exchange risk. The Liquidity and Reserves management, under this division, ensures that the Bank is able to meet its current and future cash-flow obligations. This includes managing the Bank's liquidity gap which arises because of liquidity mismatch of assets and liabilities. It also ensures that the Bank is compliant with the regulatory reserve requirement of the BSP.

The Treasury Sales and Marketing Division provide stable funding sources from corporate, institutions and high net worth individuals. It obtains funds at reasonable costs, taking in consideration the funding diversification in the sources and tenor of funding in the short, medium to long-term.

The Financial Markets Division generates trading income thru proprietary trading activities of Government Securities, Top Tier Corporate Bonds, Sovereign Bonds, US Treasuries as well as Foreign Exchange trading.

The group's trading, lending and sourcing activities are subject to internal and external controls/limits to ensure best banking practice. The basis for the limit setting is the risk tolerance appetite and budget. All limits are being reviewed by the Risk Oversight Committee and endorsed to the Board for approval.

The Investment Committee oversees the Bank's investment strategies. Investments in HTC and FVOCI focus more on generating a steady stream of revenues with the least possible credit risk and capital charge. The Asset and Liability Committee ensures that the Bank has adequate liquidity while managing the Bank's spread between the interest income and interest expense.

INFORMATION TECHNOLOGY

The Bank's overall IT strategy is summarized into four (4):

- To become the premier Bank that provides quality customer service and convenience.
- To enable fast and accurate access to products and services anytime, anywhere
- To operate effectively and efficiently with no significant growth in manpower and other support services
- To support the needs of the business and operations units in automation and use of technology in their processes

INTERNAL AUDIT

Internal Audit Group (IAG) is established by the Board of Directors. Its responsibilities are defined by the Audit Committee (AuditCom) as part of their oversight function. The role of the IAG is to provide independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Bank. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes. IAG is headed by the Chief Audit Executive (CAE) who reports functionally to the Board through the Audit Committee and administratively to the President.

The CAE confirms annually to the Board the organizational independence of the internal audit activity. IAG, with strict accountability for confidentiality and safeguarding records and information, is authorized to have:

1. Full, free, and unrestricted access to all bank functions, records/documents, physical properties, and personnel pertinent to carrying out any engagement;
2. Direct and unrestricted access to senior management and the Audit Committee;
3. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the procedures and techniques required to accomplish audit objectives; and,
4. Obtain necessary assistance of personnel in other units of the Bank where they perform audits, as well as other specialized services from within or outside the Bank.

IAG remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude.

CORPORATE SOCIAL RESPONSIBILITY

Over the course of providing banking services for more than 50 years, PSBank has made sure to give back to the community it serves. In support of its advocacy of promoting the value of education, the bank has initiated a number of programs benefitting children and the youth.

To date, it has provided scholarship to 51 elementary, high school and college scholars from Chinese-Filipino schools under the PSBank Educational Assistance Program. Under the Save It Forward program, the bank also provides scholarship to 41 under-privileged and 55 visually-impaired children from World Vision and Resources for the Blind, enabling them to complete their elementary or high school education. On top of such programs, the bank also provides an annual donation to the two organizations, as well as to Chosen Children Foundation, an agency that cares for children with special needs.

PSBank, in partnership with Metrobank Foundation, Inc. (MBFI), the Rotary Club of New Manila East and the PNP, also supports the Search for the Country's Outstanding Police in Service (COPS). COPS is a recognition program honoring exemplary members of the Philippine National Police (PNP) who have worked with their communities in solving and preventing crime. Recently, the program was integrated with two other Metrobank Foundation Search programs – the Search for Outstanding Teachers and The Outstanding Philippine Soldiers, under a newly formed competition called Metrobank Foundation Outstanding Filipinos. Under this new search program, three police officers are selected as winners and conferred the title "Metrobank Foundation Fellows in Public Service". Each awardee receives a cash prize of P1.0 million, a specially designed trophy, and a medallion.

INVESTOR RELATIONS

The Bank's Investor Relations Office provides the Bank's management critical information on relevant developments in the financial markets that may be utilized by the Bank in formulating its long-and short-term plans. It also oversees all corporate communication with analysts, investors, and stockholders.

The Investor Relations Office of the Bank may be reached through Corporate Affairs Division at (632) 885-8208 local 8902 or via email at investor@psbank.com.ph.

ELECTRONIC BANKING

Part of the Bank's mission is to provide superior products and reliable top quality services responsive to the clients banking needs and to provide exceptional customer experience at every encounter.

In support of its mission, the Bank provides innovative products and services as well as alternative channels for customers to perform financial transactions anywhere, anytime, thus eliminating the need for them to visit the Bank to perform their banking transactions. Such initiatives greatly reduce over-the-counter transactions, bringing down operations expenses and allow bank personnel to focus on selling bank products and services to customers.

The main goal is to integrate the Bank's e-channels services/products in the Customer's day to day journey such as paying their bills, shopping online, paying for food & transportation, monitoring account balances & transactions and growing investments and savings.

EMPLOYEES

As of September 30, 2018, the Bank had a total of 3,155 employees, of which 1,193 were engaged in a professional management capacity and classified as bank officers, and 1,962 were classified as staff members.

	As of December 31, 2017	As of September 30, 2018
Top Executive	8	7
Senior Officers	53	52
Junior Officers	1,141	1,134
Rank and File	2,007	1,962
Total	**3,184**	**3,155**

The Bank continues to produce new officers for the branch through the Staff Professional Enhancement and Development (SPEED) program, and, head office positions through Exceptional Career Enhancement and Employee Development Program (XCEED). The Collective Bargaining Agreement (CBA) between the Bank and the PSBank Employees Union ("PSBEU") is now on its last year, with Rank and File employees receiving higher incentives, allowances and subsidies during the past three (3) years, with annual salary increases of ₱1,900.00, ₱1,500.00 and ₱1,400.00, in 2016, 2017 and 2018, respectively.

The harmonious relationship between the Bank and the Union throughout the years, as well as having a strong Labor-Management Council (LMC), has earned the Bank a Special Award in Enhanced Corporate Viability and a recognition as the Best LMC for Industrial Peace in the National Capital Region and finalist in the National Best LMC for Industrial Peace by no less than the Department of Labor and Employment (DOLE). These HR programs have also helped the Bank in bagging the Asia's Best Employer Brand Award in Singapore in August 2017, the Global Best Employer Brand Award in India in February 2018, and the Philippines Best Employer Brand Award in June 2018, the first local bank to have been recognized in the country, in Asia, and globally by the World HRD Congress and CHRO Asia as of date.

Consistent with the Bank's goal of being one of the Philippines' preferred employers, the Bank has adopted a compensation policy that it believes is competitive with industry standards in the Philippines. Salaries and benefits are reviewed periodically and adjusted to retain current employees and attract new talent. Tied to this is a competency-based performance management system that calls for the alignment of individual key results, competencies, and development plans with the Bank's overall business targets and strategy. Performance is reviewed annually and employees are rewarded based on the attainment of pre-defined objectives. The Bank currently has no plans of hiring additional employees, except where necessary to complement its commercial lending, business intelligence, product development and customer service

The Bank provides its employees with group life insurance coverage with double indemnity in case of accidental death and dismemberment in line with good business practice and in accordance with Philippine standards. Insurance premium payments for these policies are paid entirely by the Bank.

PROPERTIES

The Bank owns the premises it occupies for the Head Office and twenty-eight (28) of its branches. These offices and branches are all in good condition and there is no mortgage or lien on any of these properties owned by the Bank. Schedule of owned branch sites as of December 31, 2017 is shown in table below.

	BRANCH NAME	LOCATION
1	Head Office	PSBank Center, 777 Paseo De Roxas cor. Sedeno Sts., Makati City
2	Angeles	Miranda Ext. cor. Sadie Sts., San Nicolas, Angeles City
3	Baguio	35 Perfecto Street, Malcolm Square, Baguio City
4	Binakayan	PSBank Bldg., Tirona Highway, Binakayan, Kawit, Cavite
5	Blumentritt	1680 Blumentritt cor. Oroquieta Sts., Sta. Cruz, Manila
6	Camiling	Arellano St., near Quezon Ave., Poblacion, Camiling, Tarlac

7	Candelaria	PSBank Bldg., Rizal cor. Argao Sts., Candelaria, Quezon
8	Cebu-Jones	Osmena Blvd. cor. Sanciangco St., Cebu City, Cebu
9	Dasmarinas	PSBank Bldg., E. Aguinaldo Highway cor. Mangubat Sts., Dasmarinas, Cavite
10	Gil J. Puyat - Tindalo	G/F Skyland Plaza Condominium, Sen. Gil Puyat Ave. cor. Tindalo St., Makati City
11	J.P. Rizal	PSBank Bldg., J.P. Rizal, cor. Legaspi Sts., Makati City
12	Laoag	F.R. Castro St., Laoag City, Ilocos Norte
13	Las Pinas - Almanza	G/F PSBank Bldg. Alabang Zapote Rd., Almanza Las Pinas Metro Manila
14	Lemery	Ilustre Avenue cor. J.P. Rizal St., Lemery, Batangas
15	Lipa	Lipa City Cathedral Compound, C.M. Recto Ave cor. Soliman Sts., Lipa City
16	Los Banos	PSBank Bldg., Lopez Ave., Batong Malake, Los Banos, Laguna
17	Lucena	Quezon Ave. cor. Evangelista St. Lucena City, Quezon
18	Marikina	PSBank Bldg., 22 Bayan-Bayanan Avenue, Concepcion, Marikina City
19	Maypajo	132 A. Mabini St. near cor. Dimasalang, Maypajo, Caloocan City
20	Meycauayan	PSBank Bldg., McArthur Highway, Calvario, Meycauayan, Bulacan
21	Paniqui	Paniqui Commercial Complex, McArthur Highway Ext., Poblacion Norte, Paniqui, Tarlac
22	Pasay Taft	2336 Taft Ave., near cor. Villareal St., Pasay City
23	Quezon Boulevard	PSBank Bldg. 358 Quezon Blvd. cor. Arlegui Sts., Quiapo, Manila.
24	Roosevelt	PSBank Bldg. 348 Roosevelt Ave., San Francisco Del Monte, Quezon City
25	San Juan	5 F. Blumentritt cor. N. Domingo Sts., San Juan City
26	San Pedro	Casa Hacienda Commercial Center, A. Mabini St., San Pedro, Laguna
27	Tanauan	PSBank Bldg., Pres. Laurel Highway, Tanauan City, Batangas
28	Tarlac	PSBank Bldg., F. Tanedo St., Tarlac, Tarlac
29	Valenzuela	ARTY Subdivision, Mc Arthur Hi-way cor. J.P. Rizal St., Karuhatan, Valenzuela City

The rest of the Bank's branch premises are under lease agreements. The Bank leases the premises occupied by its branches for periods ranging from one to thirty years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱579.9 million, ₱559.9 million and ₱521.8 million in 2017, 2016 and 2015, respectively.

The Bank has no immediate plans to acquire properties in relation to its branch expansion programs.

INSURANCE

The Banks' Policy is to adequately insure all properties and other assets against potential loss caused by natural and operational risks.

Currently, there are no areas that are self-insured and insurance requirements are covered by accredited insurance companies as follows:

- **Money, Securities, Payroll and Robbery (MSPR)** covers indemnity of the Insured against loss of Money and Securities as a result or any attempt thereof occurring within the Premises or as a result of theft from the Premises or any attempt threat.
- **Comprehensive General Liability Insurance (CGLI)** covers the Third Party Legal Liabilities resulting to Bodily Injury &/or Property Damage arising out of the Assured business operations situated at ATM locations
- **Fire Insurance with Allied Perils** covers insurance for ATM/ITD Mainframe/ ITD Computer Desktop, real and other properties (auto and real estate) that are destroyed or damaged by Fire or Lightning with Allied Perils
- **Fidelity** covers any employee who commit any act/s of Fraud or Dishonesty with financial loss
- **Property Floater** covers movable property e.g. transfer of asset from one location to another location

INTELLECTUAL PROPERTY

PSBank has registered with the Intellectual Property Philippines Office in Makati City all its major brand names and trademarks, such as, "Simple Lang. Maaasahan", as well as the names of the Bank's major products and services such as "PSBank Cardless Withdrawal", "PSBank BOB", "PSBank ATM Lock", "PSBank PayMe", among others.

PSBank has not been the subject of any disputes relating to its intellectual property rights.

LEGAL PROCEEDINGS AND PERMITS AND LICENSES

The Bank in the course of its operations and in running its business has several legal cases that are filed in its behalf and against it. However, these cases will not give any material effect to its financial status nor would have any material impact in continuing its operations. These cases are part of its daily business activities and consequence of its collection efforts and business dealings with the public.

The Bank also believes that it has all material permits and licenses necessary for its business and that these are valid and subsisting as of the date of this Prospectus, as confirmed by Adarlo Caoile & Associates in its legal opinion dated November 12, 2018.

The Bank sells its products and services thru the PSBank trademarks and/or trade names.

JOINT VENTURE

Sumisho Motor Finance Corporation

Sumisho Motor Finance Corporation (SMFC) was incorporated in the Philippines on November 2009 and started commercial operations in March 2010. The primary purpose of the company is to lend to retail customers for their purchase of motorcycles in the Philippines.

Initially, SMFC is a joint venture between PSBank, PSBank Retirement Fund, Sumisho Corporation (Sumitomo) Japan and Sumitomo Philippines. PSBank and Sumitomo Japan each own 40% of Sumisho while PSBank Retirement Fund and Sumitomo Philippines each own 10%. In August 2017, PSBank and PSBank Retirement Fund signed a sale and purchase agreement to sell to GT Capital Holdings, Inc. 2 million SMFC shares from PSBank and 2 million SMFC shares from PSBank Retirement Fund or a total of 4 million SMFC common shares. The sale represented 20% of the total issued and outstanding capital stock of SMFC for a total consideration of ₱379.92 million.

As of September 2018, Sumisho has 25 branches including its head office. Its principal office is located at the 12th floor of PSBank Center.

COMPETITION

The Bank continues to rank as second in terms of assets among thrift banks and is larger in terms of total resources compared with some commercial banks. The Bank competes aggressively in the field of retail and consumer banking. Competition has become even more challenging with a growing number of players in the consumer business and aggressive marketing campaigns by competitor banks. While there are many factors beyond its control, the Bank has integrated innovation and efficiencies into its products, services and operations to sustain its growth trajectory.

Although faced with stiff competition from various financial segments and providers, PSBank is able to prominently position itself and play strongly against not only thrift banks but universal banks as well. Through the use of technology and innovative marketing tools and backed by a customer-centric culture, PSBank gained significant market share in the consumer banking space.

THE PHILIPPINE BANKING INDUSTRY

This section contains information concerning the banking industry in the Philippines, including certain financial information of certain competitors of the Bank, which is sourced from their respective public filings and which includes certain unaudited and unreviewed financials. None of the Bank or the Underwriters or any of their advisors makes any representation as to the accuracy or completeness of this information. This information has not been independently verified by the Bank or the Underwriters or any of the advisors and should not be unduly relied on.

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks and stock savings and loan associations), cooperative banks and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as of September 30, 2018, the commercial banking sector, comprising universal and commercial banks, consisted of 44 banks, of which 21 were universal banks and 23 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, 3 were government banks and 6 were branches of foreign banks. Of the 23 commercial banks, 5 were private domestic banks, 2 were subsidiaries of foreign banks and 16 were branches of foreign banks. As of September 30, 2018, the 44 universal and commercial banks had a total of 6,605 branches.

Commercial banks are organized primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of business not related to banking, and to own up to 100% of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SMEs and individuals. As of July 31, 2018, there were 55 thrift banks (including microfinance-oriented banks).

Rural banks are organized primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As of July 31, 2018, there were 481 rural and cooperative banks.

Specialized government banks are organized to serve a particular purpose. The existing specialized banks are the Development Bank of the Philippines ("DBP"), Land Bank of the Philippines ("LBP"), and AI-Amanah Islamic Investment Bank of the Philippines ("AAIIB"). DBP was organized primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. LBP primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends – the liberalization of the industry, and mergers and consolidation.

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. Republic Act No. 8791 or the General Banking Law of 2000 (the "General Banking Law") further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As of September 30, 2018, there were 22 foreign banks with branches and two foreign banks with subsidiaries in the Philippines, and as of June 30, 2018, they accounted for 6.77% of the total resources of the Philippine banking system. Under RA 10641 and BSP Circular No. 858, Series of 2014 dated November 21, 2014 which amended the relevant provisions of the Manual of Regulation for Banks (the "Manual") implementing RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The liberalization of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank, United Overseas Bank and Hua Nan Commercial Bank being granted new licenses, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 49 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalization, and to the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated February 15, 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular "the suspension of the grant of new banking licenses or the establishment of new banks under the MORB is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized starting January 1, 2018."

The following table sets out a comparison, based on publicly available data, of the five largest Philippine private domestic commercial banks in terms of assets, as of June 30, 2018:

Figures in ₱ millions, except number of branches

Name	Market Capitalization[1]	Total Equity[2]	Total Assets[2]	Loans and Receivable-net[2]	Customer deposits[2]	No. of Branches[3]
BDO Unibank, Inc.	523,929	302,728	2,738,787	1,880,688	2,253,072	1,174
Metropolitan Bank & Trust Co.	266,661	271,288	1,830,679	1,069,492	1,332,512	713
Bank of the Philippine Islands	375,054	236,511	1,635,427	1,016,126	1,301,537	690
Philippine National Bank	53,713	114,208	812,156	456,693	625,753	669
Security Bank Corp.	116,045	105,358	722,177	380,788	444,706	303

Notes:

(1) Market Capitalization as of September 30, 2018.

(2) Financial data taken from each bank's published balance sheet disclosed to the BSP as of June 30, 2018.
(3) From BSP report on number of branches per bank as of June 30, 2018.

The BSP issued Circular No. 839 Series of 2014 dated June 27, 2014 which adopts a prudential real estate stress test ("REST") limit for U/KBs, TBs on a solo and consolidated basis on their aggregate real estate exposures. The REST limit combines macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response.

The prudential REST limits which shall be complied with at all times by UBs/KBs are 6% of Common Equity Tier 1 ("CET1") capital ratio and 10% of risk based capital adequacy ratio, on a solo and consolidated basis, under the prescribed write-off rate. For TBs, the prudential REST limits which shall be complied with at all times are 6% of CET1 capital, for TBs that are subsidiaries of UBs/KBs, 6% of Tier 1 capital, for stand-alone TBs, and 10% of risk-based capital adequacy ratio for all TBs.

The Monetary Board, in its media release dated October 20, 2014, decided to increase the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalisation (₱)	Reviewed Minimum Capitalisation (₱)
Universal Banks	**4.95 billion****	
Head Office only		3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	**2.40 billion****	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	**1.00 billion****	
Cebu and Davao cities	**500 million****	
Other Areas	**250 million****	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	**100 million****	
Cebu and Davao cities	**50 million****	
Other cities	**25 million****	
1st to 4th class municipalities	**10 million****	
5th to 6th class municipalities	**5 million****	
Head Office in NCR		50 million
Head Office only		75 million
Up to 10 branches*		100 million
11 to 50 branches*		200 million
More than 50 branches*		
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		20 million

Head Office only Up to 10 branches* 11 to 50 branches* More than 50 branches*		30 million 40 million 80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities) Head Office only Up to 10 branches* 11 to 50 branches* More than 50 branches*		 10 million 15 million 20 million 40 million

** Inclusive of Head Office*

*** With no distinction for network size*

On October 29, 2014, the BSP issued Circular No. 854 to effect the foregoing amendment to the minimum capital requirement. The amendment became effective in November 2014.

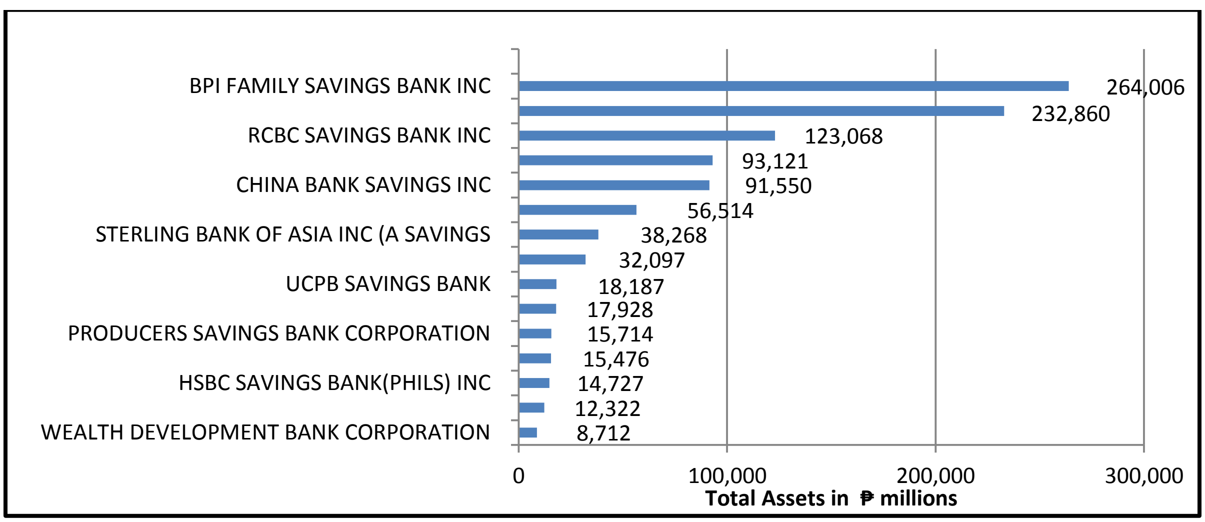
Thrift Bank Industry

The Philippine thrift banking industry is dominated by BPI Family Savings Bank ("BPI Family"), Philippine Savings Bank ("PSBank"), and RCBC Savings Bank ("RCBC Savings"), which are subsidiaries of universal banks. As of 30 June 2018, these were the top three thrift banks in terms of total assets, loans, deposit liabilities and equity. The top three thrift banks accounted for about half (49.18%) of the thrift banking sector's total assets while the top 15 accounted for 87.10%; the remaining 12.90% is accounted for by 40 other thrift banks. The table below shows the top five thrift banks in the Philippines as of 30 June 2018.

(₱ millions)	Total Assets	Total Equity	Total Loans	Total Deposits
BPI Family Savings Bank	264,006	29,151	206,740	228,232
Philippine Savings Bank	232,860	21,336	153,195	200,087
RCBC Savings Bank	123,068	12,965	87,410	105,869
Philippine Business Bank Inc	93,121	10,483	77,375	79,099
China Bank Savings	91,550	9,605	65,835	79,251

Source: BSP reports

The chart below shows the top 15 Thrift Banks in the Philippines by Total Assets as of 30 June 2018.



Competition

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalization of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On January 21, 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was fully liberalized effective January 1, 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of "top tier" banks compete for business.

As of June 30, 2018, the ten largest commercial banks (including unlisted banks such as Land Bank of the Philippines and the Development Bank of the Philippines ("DBP") account for approximately 74.89% of total assets and 75.41% of total deposits of the Philippine banking system based on published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial and consumer loans is expected. As of June 30, 2018, the ten largest commercial banks (including unlisted banks such as Land Bank of the Philippines and DBP) account for approximately 74.01% of the net customer loan portfolio of the Philippine banking system, based on published statements of condition.

Republic Act No. 10667, or the Philippine Competition Act was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the "PCC"), an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

On June 3, 2016 the PCC issued the implementing rules and regulations of the Philippine Competition Act ("IRR"). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

Violations of the Philippine Competition Act and its IRR have severe consequences. Under the Philippine Competition Act and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of one percent (1%) to five percent (5%) of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50 million but not more than ₱250 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On September 15, 2017, the PCC published the 2017 Rules of Procedure ("Rules") which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On November 23, 2017, the PCC published the 2017 Rules on Merger Procedures ("Merger Rules") which provides the procedure for the review or investigation of mergers and acquisition pursuant to the Philippine Competition Act. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from signing of definitive agreements relating to the merger.

BANKING REGULATION AND SUPERVISION

The following is a general discussion of the Philippine Banking Regulation and Supervision. It is based on the laws, regulations, and administrative rulings in force as at the date of this Offering Circular and is subject to any changes in law occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the laws, regulations, and administrative rulings of the Philippine banking industry.

General

Republic Act No. 7653 or The New Central Bank Act of 1993 (the "New Central Bank Act") and Republic Act No. 8791 or the General Banking Law of 2000 vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked or such other factors as determined by the Monetary Board.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the BSP's Manual of Regulations for Banks (the "Manual").

The Manual is the principal source of BSP rules and regulations to be complied with and observed by banks in the Philippines. The Manual contains regulations that include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant bank. Supplementing the Manual are rules and regulations promulgated in various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual and other regulations are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial institutions performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act).

Permitted Activities

A thrift bank, such as the Bank, in addition to powers provided in other laws, has the authority to perform any or all of the following services: (i) grant loans, whether secured or unsecured, (ii) invest in readily marketable bonds and other debt securities, commercial papers and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions, (iii) issue domestic letters of credit, (iv) extend credit facilities to private and government employees, (v) extend credit against the security of jewelry, precious stones and articles of similar nature, (vi) accept savings and time deposits, (vii) rediscount paper with the Land Bank of the Philippines, Development Bank of the Philippines and other government-owned or –controlled corporations, (viii) accept foreign currency deposits as provided under R.A. No. 6426, as amended, (ix) act as correspondent for other financial institutions, and (x) purchase, hold and convey real estate as specified under Sections 51 and 52 of R.A. No. 8791. Thrift Banks are also allowed to a certain extent to invest in allied (both financial and non-financial) undertakings.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small- and medium-scale industries, including venture capital companies, companies engaged in stock brokerage securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage. Non-financial allied undertakings include, warehousing companies, storage companies, safe deposit box companies, companies engaged in the management of mutual funds, insurance agencies, among others.

The total equity investments of a thrift bank in financial allied enterprises are not permitted to exceed 49.0% of the enterprise's net worth. Its equity investment in non-financial undertakings shall remain less than 50.0% of the voting shares in that enterprise, which is subject to the prior approval of the Monetary Board if the investment is in excess of 40.0%.

In addition to those functions specifically authorized by the General Banking Law and the Manual, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities, (iii) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business, (iv) act as managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts, upon prior approval of the Monetary Board and (vi) rent out safety deposit boxes.

Regulations

The Manual and various BSP regulations impose the following restrictions on thrift banks:

Minimum Capitalization

Under the Manual, Thrift banks with a Head Office in the National Capital Region (NCR) are required to have capital accounts of at least ₱500 million (for Head Office only); ₱750 million (for up to 10 branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with Head Office in all other areas outside area are required to have capital accounts of at least ₱200 million (for Head Office only); ₱300 million (for up to 10 branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches). These minimum levels of capitalization may be changed by the Monetary Board from time to time.

For the purposes of these requirements, the Manual provides that capital shall be unimpaired capital and surplus, combined capital accounts, and net worth and shall refer to the combined total of the unimpaired paid-in capital, surplus, and undivided profits, net of: (a) such unbooked valuation reserves and other capital adjustments as may be required by the BSP, (b) total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, (c) unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; (d) deferred income tax, (e) appraisal increment reserve (revaluation reserve) as a result of appreciation or increase in the book value of bank assets, (f) equity investment of a bank in another bank or enterprise (foreign or domestic) if the other bank or enterprise has a reciprocal equity investment in the investing bank, although if such bank or enterprise has reciprocal equity investment in the investing bank, the lower figure of the investment of the bank or the reciprocal investment of the other bank or enterprise should be used; and (g) in the case of rural banks, the government counterpart equity, except those arising from conversion of arrears under BSP's Rehabilitation Program.

Capital Adequacy Requirements

The Basel III BSP rules include more stringent definitions of Tier 1 capital and Tier 2 capital instruments relating to their ability to absorb losses, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios.

These reforms aim to increase the minimum quantity and quality of capital which the Bank will be obliged to maintain.

On January 15, 2013, the BSP published Circular No. 781, which prescribed the implementing guidelines on the 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. The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, will be required to be not less than 10 percent on an unconsolidated basis and consolidated basis. Banks will also be required to maintain a CET1 ratio and a Tier 1 capital ratio of 6.0 percent and 7.5 percent, respectively. A capital conversion buffer of 2.5 percent cent comprised of CET1 capital shall also apply. The reforms were implemented beginning on January 1, 2014.

On October 29, 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks ("DSIBs") under Basel III" to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks that will be identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

On October 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Leverage Ratio framework in accordance with the Basel III standards which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. Monitoring period has been set every quarter starting December 31, 2014 until December 31, 2016 but extended until December 31, 2017 per BSP Circular No. 943 issued on January 26, 2017 and further extended up to June 30, 2018 per BSP Circular No. 990 dated January 22, 2018 to take effect on July 1, 2018.

Liquidity Requirements

On March 10, 2016, the BSP issued Circular No. 905 which provides the implementing guidelines on Liquidity Coverage Ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should be no lower than 100.00%. Per BSP Circular No. 996 dated February 8, 2018, subsidiary banks and quasi-banks are required to maintain an LCR ratio of at least 100% both during observation period up to December 31, 2018 and during implementation period beginning January 1, 2019 subject to certain entailing reportorial and disclosure requirements as well as liquidity build-up plans. Subsequently, BSP Circular No. 1007 was issued on June 6, 2018 requiring banks to hold enough liquidity or stable sources of funding at a minimum ratio of Available Stable Funding (ASF) over the Required Stable Funding (RSF) of 100% for a 1-year period starting Jan. 1, 2019 after an observation period of up to Dec. 31, 2018. This NSFR, which likewise entails reporting both on a solo and consolidated basis, complements the required Liquidity Coverage Ratio (LCR) that requires banks to hold sufficient High Quality Liquid Assets (HQLAs) easily convertible to cash to service liquidity requirements over a 30-day stress period.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular No. 1004 (2018), thrift banks (including the Bank) are required to maintain regular reserves of 8.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes, 4.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 304 (2001), 7.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 824 (2014), 0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing BSP rules, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 20.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Pursuant to BSP Circular No. 425 (2004), as amended by BSP Circular No. 779 (2013), the applicable ceiling is 25.0%. As of 31 December 2011, the ceiling applicable to the Bank was 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). The total amount of loans, credit accommodations and guarantees may also be increased by an additional 25.0% for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Programme of the Philippine government duly certified by the Secretary of Socio- Economic Planning. This shall be allowed for a period of six years from 28 December 2010. Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the Manual of Regulations for Banks, total credit commitment is determined on a credit risk-weighted basis in accordance with existing regulations.

The limitations shall not apply to secured obligations of the BSP or the Republic of the Philippines, those covered by assignment of deposits maintained in the lending bank and held in the Philippines, those under letters of credit to the extent covered by margin deposits and those which the Monetary Board may from time to time prescribe as non-risk items.

Trust Regulation

The Manual contains the BSP rules governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the Manual. The Bank may, under its Articles, accept and manage trust funds and properties and carry on the business of a trust corporation.

Foreign Currency Deposit System

Foreign Currency Deposit System (FCDU) is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU. Thrift banks with a net worth or combined capital accounts of at least ₱1.0 billion if they are located in Metro Manila, and ₱250.0 million if they are located outside Metro Manila, may be authorized to operate FCDUs.

Depository banks under the foreign currency deposit and expanded foreign currency deposit system shall maintain at all times a 100% cover for their foreign currency liabilities, except for USD denominated repurchase agreements (R/P) with the BSP. Further, at least thirty percent (30%) of the cover requirement for foreign currency liabilities in the FCDU/EFCDU shall be in the form of liquid assets until December 31, 2017. Effective January 1, 2018, the liquid asset cover requirement for thrift banks, rural banks and cooperative banks shall be 30%.

Loans to DOSRI and to Subsidiaries/Affiliates

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned. Dealings with DOSRI, subsidiaries and/or affiliates shall be in the regular course of business and upon terms not less favorable to the bank than those offered to others. After due notice to the Board of Directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act.

The total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank: Provided, however, That unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed thirty percent (30%) of their respective total loans, other credit accommodations and guarantees. Except with the prior approval of the Monetary Board, the total outstanding loans, other credit accommodations and guarantees to DOSRI shall not exceed fifteen percent (15%) of the total loan portfolio of the bank or 100% of net worth whichever is lower: Provided, That in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed thirty percent (30%) of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower. These DOSRI limitations exclude loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On the other hand, the total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed ten percent (10%) of the net worth of the lending bank: Provided, That the unsecured loans, other credit accommodations and guarantees to each of said subsidiaries and affiliates shall not exceed five percent (5%) of such net worth: Provided, further, That the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed twenty percent (20%) of the net worth of the lending bank: Provided, finally, That these subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the lending bank. Likewise, this limit excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 23 June 2016, the BSP issued Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programs particularly infrastructure projects under the Philippine Development Plan / Public Investment Program (PDP/PIP) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of "related interest" and "affiliates" to maintain the prudential requirements and preempt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

Anti-Money Laundering Law

The Anti-Money Laundering Act was passed on September 29, 2001 and was amended on March 23, 2003. Under its provisions, as amended, certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, and insurance companies and/or institutions regulated by the Insurance Commission, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of P500,000.00 within one banking day.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the Anti-Money Laundering Act covered institutions and crimes. The revised implementing rules and regulations were published on the 23rd and 24th of December 2016.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- There is no underlying legal or trade obligation, purpose or economic justification;
- The customer or client is not properly identified;
- The amount involved is not commensurate with the business or financial capacity of the client;
- The transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- There is a deviation from the client's profile or past transaction;
- The transaction is related to an unlawful activity or offence under the AMLA;
- Similar or analogous transactions to the above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the Anti-Money Laundering Council (AMLC), fails to do so.

Recent developments have required the implementation of stricter measures to prevent money laundering. On 4 April 2012, the BSP issued Memorandum No. M2012-017 re: Anti- Money Laundering Risk Rating System (ARRS). which is an internal rating system used by the BSP to understand whether the risk management policies and practices as well as internal controls of banks and non-bank financial institutions to prevent money laundering and terrorist financing are in place, well disseminated and effectively implemented. The ARRS is an effective supervisory tool that undertakes to ensure that all covered institutions are assessed in a comprehensive and uniform manner, and that supervisory attention is appropriately focused on entities exhibiting inefficiencies in its board of directors and senior management, oversight and monitoring, inadequacies in their AML framework, weaknesses in internal controls and audit and defective implementation of internal policies and procedures.

Republic Acts No. 10167 and 10168 were likewise created in order to strengthen the present anti-money laundering laws of the Philippines. R.A. No. 10167 gives power to the Court of Appeals to issue a freeze order effective immediately upon verified ex parte petition by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined by the AMLA. Moreover, the AMLC is given the power to inquire into or examine any particular deposit or investment, including related accounts, with any banking institution or non-bank financial institution upon order of any competent court based on an ex parte application in cases of violations of the AMLA, when it has been established that there is probable cause that the deposits or investments are related to an unlawful activity. On the other hand, R.A. No. 10168 or the Terrorism Financing Prevention and Suppression Act of 2012 gives the AMLC, either upon its own initiative or at the request of the ATC, authority to investigate any property or funds that are in any way related to financing terrorism or acts of terrorism or property or funds of any person in relation to whom there is probable cause to believe that such person is committing or attempting or conspiring to commit or participating in or facilitating the financing of terrorism or acts of terrorism. The AMLC is also authorized to issue an ex parte freeze order of properties or funds that are related to acts of terrorism.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act no. 9160 Otherwise Known as the "Anti-Money Laundering Act of 2001", As Amended), which act expanded the AMLA covered institutions and crimes. Under R.A. No. 10365, jewelry dealers will now be required to report transactions in excess of ₱1,000,000.00. The law also required the Land Registration Authority to submit to the AMLC reports covering real estate purchases in excess of ₱500,000.00.

On 21 September 2016, the AMLC approved the 2016 Revised Implementing Rules and Regulations of the AMLA. On 15 March 2017, the BSP issued BSP Circular No. 950 Series of 2017 amending Part Eight or the Anti-Money Laundering Regulations of the Manual of Regulations for Banks and Manual of Regulations for Non-Bank Financial Institutions. Under the said circular, all covered persons, which refer to banks, non-banks, QBs, trust entities, non-stock savings and loan associations, pawnshops, foreign exchange dealers, money changers, remittance and transfer companies, electronic money issuers and other financial institutions subject to BSP supervision and/or regulation, are required to develop sound risk management to ensure that risks associated with money laundering are avoided. For this reason, senior management is required to oversee the day-to-day management of the covered person and ensure effective implementation of AML policies set by the board. Furthermore, all covered persons shall adopt an AML monitoring system that is capable of generating timely, accurate and complete reports to lessen the likelihood of any reputational and compliance risks, and to regularly apprise the board of the directors and senior management of AML compliance.

Consistent with the risk-based approach, covered persons are required to identify, understand and assess their money laundering risks, arising from customers, countries or geographic areas of operations and customers, products, services and transactions or delivery channels. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship or nature of the product, transaction or activity.

Data Privacy Act

On 15 August 2012, the Data Privacy Act was signed into law. The Data Privacy Act seeks to protect the confidentiality of "personal information", which is defined under the act as "any information whether recorded in a material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify and individual." The act mandates that personal information must be collected only for specified legitimate purposes determined and declared before, or as soon as reasonably practicable after collection, and later processed in a way compatible with such declared, specified and legitimate purpose only. The law also provides for the criteria for lawful processing of personal information, rights of the data subject and accountability for transfer of personal information, among others.

To implement the provisions of the law, the National Privacy Commission was created to monitor and ensure compliance with the international standards set for data protection. On 24 August 2016, the National Privacy Commission issued the Implementing Rules and Regulations of the Data Privacy Act.

Recent Major Regulations

Major BSP issuances so far released in 2018 are as follows:

1. BSP Circular No. 1012 re: BSP Revised Rules of Procedure on Administrative Cases Involving Directors and Officers of BSFIs – Revises the rules of procedure on administrative cases involving bank directors and officers.
2. BSP Circular No. 1011 re: Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 - Financial Instruments – Sets forth the guidelines for recording transactions and preparing financial statements and reports to the BSP, among others, in the adoption of PFRS9 effective January 1, 2018.
3. BSP Circular No. 1010 re: Additional Requirements for the Issuance of Bonds and Commercial Papers – Sets forth the new rules in the issuance of bonds/commercial papers (deposit substitutes) without need of prior BSP approval albeit subject to eligibility criteria.
4. BSP Circular No. 1009 re: Amendments to the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit – Removes "Quedan and Rural Credit Guarantee Corporation (Quedancor)" as among those qualified investees with respect to the alternative compliance of "Paid-in capital stocks in specified institutions" (retaining only BSP-accredited rural FIs and the Philippine Crop Insurance Corporation) having been abolished already and changed the term "issued" to "purchased" with respect to securities eligible as alternative compliance.
5. BSP Circular No. 1007 re: Implementing Guidelines on the Adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) – Requires banks to hold enough liquidity or stable sources of funding at a minimum ratio of Available Stable Funding (ASF) over the Required Stable Funding (RSF) of 100% for a 1-year period starting January 1, 2019 after an observation period of up to December 31, 2018. This NSFR, which likewise entails reporting both on a solo and consolidated basis, complements the required Liquidity Coverage Ratio (LCR) that requires banks to hold sufficient High Quality Liquid Assets (HQLAs) easily convertible to cash to service liquidity requirements over a 30-day stress period.
6. BSP Circular No. 1000 re: Guidelines on the Settlement of Instant Retail Payments – Sets forth the minimum requirements for the operation of a settlement mechanism for instant retail payments under the National Retail Payments System (NRPS) framework including operational and liquidity risk management measures and clarifies that DDAs maintained with the BSP for the settlement of such instant retail payments are eligible as reserves.
7. BSP Circular No. 1001 re: Credit Limits for Project Finance Exposures – Provides for a separate individual limit/Single Borrower's Limit (SBL) of 25% of the lending bank's net worth for loans and other credit accommodations granted to an entity for the purpose of project finance in line with the government's priority programs subject to certain conditions, notwithstanding that the borrowing entity is a subsidiary/affiliate of the lending bank or of another borrowing entity of the lending bank.
8. BSP Memorandum No. M-2018-012 re: Guidelines on the National Retail Payment System (NRPS) Key Principles and Specific Rules Applicable thereto – Emphasizes the following NRPS matters: 1) "bilateral" clearing arrangements (exclusive payment arrangements not passing through the clearing switch operator) are no longer allowed; 2) recipient shall not pay for electronic crediting to recipient's account and shall receive the amount in full; 3) immediate crediting by the participant-bank to the account of its client (payee) and 4) availability of electronic payment service in all delivery channels for both sending and receiving of funds.
9. BSP Memorandum No. M-2018-013 re: Disclosure of Fees on Electronic Payments Pursuant to Circular 980 – Requires all BSFIs to disclose fees related to electronic payments through an electronic bulletin board that will be maintained by the BSP including notifying BSP within 3 banking days from the end of every month or as soon as there are changes in such fees.
10. BSP Circular No. 998 re: Amendments to the Basic Security Deposit Requirements – Amends subject requirements effective March 31, 2018 by measuring government securities deposited at fair value adjusted for applicable haircuts (from book value) as well as the base amount for the basic security deposit using the total assets as of the end of the calendar quarter (from the average of their month-end balances of the immediately preceding calendar quarter). It also revises the non-monetary penalty for deficiency in the case of Trust and Other Fiduciary Accounts (TOFA) beginning with the 3rd offense to prohibition against the acceptance of new accounts and from renewing expiring trust and other fiduciary contracts up to the time the violation is corrected (from 30-60 day suspension of TO).

11. BSP Circular No. 990 re: Amendments to the Basel III Leverage Ratio Framework – Requires banks to maintain a Leverage Ratio of at least 5% beginning July 1, 2018 (which will form part of the Basel III minimum capital requirements, along with the 6% Common Equity Tier 1 Ratio, 7.5% Tier 1 Ratio and the 10.0% CAR), the entailing quarterly reportorial requirements as well as disclosure in the quarterly published Balance Sheet, Annual Report and Audited Financial Statements (current quarterly submission is under an observation period until June 30, 2018).
12. BSP Circular No. 992 re: Framework for Basic Deposit Accounts – Introduces the "Basic Deposit Account" to promote account ownership among the "unbanked" with the following key features: simplified know-your-customer (KYC) requirements; an opening amount of less than ₱100.00; no minimum maintaining balance and no dormancy charges and no reserve requirement albeit subject to the condition that balance does not exceed ₱50,000.00.
13. BSP Circular No. 996 re: Amendments to the Liquidity Coverage Ratio (LCR) Framework – Requires TBs to maintain an LCR ratio (% of *unencumbered/free* High-Quality Liquidity Assets to Total Net Cash Outflows) of at least 100% both during observation period up to December 31, 2018 and during implementation period beginning Jan. 1, 2019 subject to certain entailing reportorial and disclosure requirements as well as liquidity build-up plans, as applicable.
14. BSP Circular No. 987 re: Rationalization of Prudential Requirements on Banking Offices and Guidelines on the Establishment of Branch-lite Units – Rationalizes the current classifications of banking offices such as extension offices (EOS), other banking offices (OBOs) and micro-banking offices (MBOs) under the "Branch-lite" framework [which can offer the same banking products & services offered by branches except those suited for sophisticated clients with high risk tolerance] and simplified/made the pertinent requirements more flexible.
15. BSP Circular No. 988 re: Revised Guidelines on the Imposition of Monetary Penalties on BSP-Supervised Financial Institutions, their Directors/Trustees and/or Officers for Violations with Sanctions Falling under Section 37 of RA No. 7653 and Other Applicable Laws – Sets the range of imposable monetary penalties based on asset size for those offenses/violations not specifically provided with monetary penalties under the MORB (e.g. ₱15,000-₱30,000 per calendar per violation/offense for TBs) as well as the guidelines on appeal/request for reconsideration, collection and payment of all monetary penalties.
16. BSP Circular No. 989 re: Guidelines on the Conduct of Stress Testing Exercises – Sets the BSP's minimum expectations on the conduct of stress testing with a 2-year transition period to fully comply therewith albeit with a condition that banks should be ready to show its Plan of Actions upon request of the BSP starting June 2018.

Taxation for Banks

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 30%.

Taxable net income refers to items of income specified under Section 32 (A) of Republic Act No. 8424 or the Tax Reform Act of 1997, as amended (the "Tax Code") less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A Minimum Corporate Income Tax ("MCIT") equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular corporate income tax. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

An Improperly Accumulated Earning Tax ("IAET") equivalent to 10% of improperly accumulated taxable income of a corporation is not applicable to banks.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 30% corporate income tax. Banks may also claim interest expense as tax deduction if such expense complies with the requirements laid down in Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

The Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- an individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;

- a corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (a), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must submit a written approval from the BSP stating that the indebtedness can be written off from the banks' books of accounts at the end of the taxable year, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or Gross Receipt Tax ("GRT"), which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On June 13, 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 ("RMC 62-2016") seeking to clarify the tax treatment of GRT, which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income and should itself be subject to a GRT of either 5% or 7% depending on the provision of the Tax Code covering the type of income or activity.

Real and Other Properties Acquired ("ROPA") of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realized.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except those instruments with maturity of more than five years.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

Interbank call loans with a maturity period of not more than five days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax ("DST") except if they have a maturity of more than seven days.

On December 19, 2017, the President of the Philippines signed into law, package 1 of the Tax Reform for Acceleration and Inclusion or Republic Act No. 10963 ("TRAIN") which took effect on January 1, 2018. The TRAIN amends certain provisions of the Tax Code. The relevant changes of the TRAIN are incorporated in the section titled "Philippine Taxation" beginning on page 139 of this Prospectus.

MANAGEMENT

Board of Directors

The Board of Directors of the Bank (the "Bank's Board"), elected on April 23, 2018, is the body ultimately responsible for the management of the Bank. The Bank's Board is composed of nine (9) Directors, four (4) of whom are Independent Directors. The roles of the Chairman and President are separate and clearly defined while the Independent Directors are a strong source of independent advice and judgment. They bring considerable knowledge and experience to the Bank's Board's deliberations. Directors are elected by the shareholders for a period of one year. Generally, there are no restrictions on re-election. Under existing rules of the Philippine SEC, independent directors should serve for a maximum cumulative term of nine (9) years reckoned starting 2012. After which, the independent director shall be perpetually barred from re-election as such, but may continue to qualify for nomination and election as a non-independent/regular director. If the Bank wants to retain an independent director who has already served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Shareholders' Meeting. The Chairman has a casting vote in resolutions of the Bank's Board which must be passed by majority vote. The senior executive officers carry out the day-to-day operations of the Bank under the direction of the Bank's Board.

The following table sets for the persons who served as Directors of the Bank oas of September 30, 2018:

Name	Age	Citizenship	Position
Jose T. Pardo	79	Filipino	Chairman/ Independent Director
Arthur V. Ty	52	Filipino	Vice Chairman
Vicente R. Cuna, Jr.	56	Filipino	Vice Chairman
Jose Vicente L. Alde	52	Filipino	President/Director
Benedicto Jose R. Arcinas	61	Filipino	Independent Director
Samson C. Lim	69	Filipino	Independent Director
Eduardo A. Sahagun	61	Filipino	Independent Director
Ma. Soledad D.S. de Leon	59	Filipino	Director
Rosanna F. De Vera	50	Filipino	Director

JOSE T. PARDO, Chairman / Independent Director
Chairman since January 2003. Independent Director since May 2007. Chairman / Independent Director, Philippine Seven Corp., Philippine Stock Exchange, Securities Clearing Corporation of the Philippines, Bank of Commerce. Chairman, ECOP Council of Business Leaders, PCCI Council of Business Leaders, Philippine Business Center Inc., Independent Director, JG Summit Holdings, Inc. National Grid Corporation of the Philippines, ZNN Radio Veritas, Monte Oro Grid Resources Corporation, Araneta Hotels, Inc., League One Finance and Leasing Corporation and Del Monte Philippines, Inc. Education: BS Commerce – Accountancy, De La Salle University. MBA, First Graduate of the Harvard-DLSU Advisory Program.

ARTHUR V. TY, Vice Chairman
Vice Chairman / Director since 2001. Chairman, Metropolitan Bank and Trust Company, Metropolitan Bank (China) Ltd., GT Metro Foundation Inc., Ferum Cee, Inc., Great Mark Resources Corporation and GT Capital Holdings Inc. Chairman/ Director, Global Treasure Holdings, Inc., Grand Titan Capital Holdings, Inc. Chairman / President, Nove Ferum Holdings, Inc. and Milgen Holdings Inc., Vice Chairman / Director, First Metro Investment Corporation., Vice Chairman, Metrobank Foundation, Inc. and AXA Philippines. Director, Federal Land, Inc., President/ Director, Philippine Securities Corporation, Horizon Royale Holdings, Inc. BS Economics, University of California-Los Angeles. MBA, Columbia University.

VICENTE R. CUNA, JR., Vice Chairman
Vice Chairman since 2018, Director since 2013. Director / Senior Executive Vice President, Metropolitan Bank and Trust Company. Chairman, Orix Metro Leasing & Finance Corporation. Director/Chairman, ORIX Auto Leasing Philippines Corp., ORIX Rental Corp., OMLF International Trading Development Corp., OMLF Insurance Agency , Inc. Education: A.B Economics, De La Salle University. Pursued further studies (MBA) at the Ateneo de Manila Graduate School of Business.

JOSE VICENTE ALDE, Director / President
President since 2018. Director since April 2016. Joined the Bank in October 2007. Member, Executive, Assets and Liabilities, Credit, IT Steering, Anti-Money Laundering Compliance, Personnel and Retirement Committees. Chairman,

Sumisho Motor Finance Corporation. Former Vice President for Treasury at ABN AMRO Bank. Held various positions in Treasury and Branch Banking in BA Savings Bank. Had stints in Sales Management at Johnson & Johnson and IT at World Health Organization. Bachelor of Computer Science with honors, University of the Philippines. MBA, Asian Institute of Management.

BENEDICTO JOSE R. ARCINAS, Independent Director
Independent Director since 2012. Director and General Manager, Arcinas Freres, Inc. BS Business Economics, University of the Philippines, Diliman. Master of Science in Management (Graduation with Distinction), Arthur D. Little Management Education Institute (now Hult International Business School). Certificate Courses in Small Enterprise Management, Operations Research, Economics, Computer Programming, Harvard University, Cambridge, Massachusetts.

SAMSON C. LIM, Independent Director
Independent Director since 2008. Chairman, Blims Lifestyle Group, Collins International Trading Corporation and Francorp Philippine. Chairman Emeritus / International Relation, Philippine Franchise Association and Philippine Retailers Association. President, Canadian Tourism & Hospitality Institute. Director for Tourism, Retail and Franchise, Philippine Chamber of Commerce and Industry. BS Liberal Arts, Cum Laude, Ateneo de Manila University. Master in Business Economics, University of Asia and the Pacific. Exchange Student, Sophia University Tokyo, Japan. Special Training on International Business, Institute of International Studies and Training, Fujinomia, Japan. Top Management Program, Asian Institute of Management.

EDUARDO A. SAHAGUN, Independent Director
Independent Director since April 2017. Chairman, Edcommerce Corporation, President & CEO, Union Galvasteel Corporation, Phinma Solar Energy Corporation and Philcement Corporation. Director, Phinma Property Holdings Corporation and Union Galvasteel Corporation. BS Commerce, Major in Accounting, Holy Angel University. Master in Business Administration. Ateneo Graduate School of Business. Masters in Management Science, Arthur D. Little Management Education Institute (now Hult International Business School) Boston, USA. Senior Management Program, Senior Leadership Program, Managing Change Program, IMD, Switzerland.

MA. SOLEDAD D.S. DE LEON, Director
Director since April 2016. Chairman/ Treasurer, Casa Medica, Inc., Sodel Milling Corp. Director, St. Patrick College., Yaman Lahi Foundation, Inc. (Emilio Aguinaldo College), University Physician Services, Inc., Property Holdings, Inc., Hospital Management Services, Inc. (Medical Center Manila), The Pearl Manila (Pearl of the Orient & Seas Hotel & Recreational Resort Inc.). President/ Treasurer, Sodel Realty, Inc., Vice President/ Treasurer, Fil-Homes Realty Development Corp. Vice President, Lipa Golden Land Development, Inc., Consultant, Candelaria Rural Bank, BS in Business Administration, Major in Business Management, St. Paul College of Manila. International Management Studies, University of California, Los Angeles.

ROSANNA F. DE VERA, Director
Director since April 2018. Member, Executive and Anti-Money Laundering Oversight Committees. First Vice President, Metropolitan Bank and Trust Company. Former Vice President for Commercial Banking at Banco de Oro. Held various positions in Corporate Banking, Small Business Division and Branch Operations at PCI Bank/Equitable PCI Bank, Standard Chartered Bank and Bank of the Philippine Islands. BS Accounting, University of Santo Tomas. Pursued further studies (MBA) at the Ateneo de Manila Graduate School of Business.

The following table shows the shareholdings of each current Director in the Bank as of September 30, 2018:

Name	No. of Shares Directly Held	% to Total
Jose T. Pardo	1,852	0.00%
Arthur V. Ty	117	0.00%
Vicente R. Cuna, Jr.	100	0.00%
Jose Vicente L. Alde	200	0.00%
Rosanna F. De Vera	100	0.00%
Benedicto Jose R. Arcinas	100	0.00%
Samson C. Lim	100	0.00%
Eduardo A. Sahagun	100	0.00%
Ma. Soledad D.S. de Leon	4,000,000	1.66%

Senior Management

The members of senior management, subject to control and supervision of the Board, collectively have direct charge of all business activities of the Bank. They are responsible for the implementation of the policies set by the Board of Directors. The following is a list of the Bank's executive officers as of September 30, 2018:

Name	Age	Citizenship	Position
Jose Vicente L. Alde	52	Filipino	President
Noli S. Gomez	52	Filipino	Executive Vice President
Jose Jesus B. Custodio	58	Filipino	Senior Vice President
Perfecto Ramon Z. Dimayuga, Jr.	56	Filipino	Senior Vice President
Neil C. Estrellado	47	Filipino	Senior Vice President
Francis C. Llanera	46	Filipino	Senior Vice President
Emmanuel A. Tuazon	54	Filipino	Senior Vice President

JOSE VICENTE L. ALDE, President
Director since April 2016. Joined the Bank in October 2007 and appointed as President on April 23, 2018. The following businesses that report to him are: Branch Banking, Direct Sales Channel, Indirect Sales Channel, Asset Sales, Large Enterprises, Marketing and Customer Experience. Member, Assets and Liabilities, Credit, IT Steering, Anti-Money Laundering Compliance, Personnel and Retirement Committees. Board of Director, Metrobank Card Corp. Former Vice President for Treasury at ABN AMRO Bank. Held various positions in Treasury and Branch Banking in BA Savings Bank. Had stints in sales management at Johnson & Johnson and IT at World Health Organization. Bachelor in Computer Science with honors, University of the Philippines. Master in Business Management, Asian Institute of Management.

NOLI S. GOMEZ, Executive Vice President
Joined the Bank in October 2001. Head, Operations Group. Member, Assets and Liabilities, Policy, Personnel, IT Steering, Anti- Money Laundering Compliance, Outsourcing Oversight, Emergency and Retirement Committees. Former Chief Risk Officer and Head of the Systems and Methods, DBS Bank Phils. and Systems Management Officer, Bank of the Philippine Islands. BS Civil Engineering, Mapua Institute of Technology. Licensed Civil Engineer with Distinction.

JOSE JESUS B. CUSTODIO, Senior Vice President
Joined the Bank in December 2001. Head, Indirect Sales Channel Group. Former Head of Auto Loans- Retails Sales, Citytrust Banking Corp. Former Fleet and Floorstock Department Head, BPI Family Savings Bank. BS Business Management, Ateneo de Manila University.

PERFECTO RAMON Z. DIMAYUGA, JR., Senior Vice President
Joined the Bank in January 2006. Treasurer (effective January 1, 2017) Former Head, Finance Group. Corporate Secretary, Sumisho Motor Finance Corp. Member, Assets and Liabilities, IT Steering, Personnel, Outsourcing Oversight and Retirement Committees. Held various Treasury positions in Development Bank of Singapore (DBS) Phils., Inc., Bank of the Philippine Islands, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp. AB in Economics, Ateneo de Manila University. Master in Business Administration, University of the Philippines.

NEIL C. ESTRELLADO, Senior Vice President
Joined the Bank in March 2002. Head, Information Technology Group. Member, Outsourcing Oversight, IT Steering, Personnel and Emergency Committees. Former Project Leader, Overseas Chinese Banking Corp. Ltd. Former Lead IT Analyst, Development Bank of Singapore. Former Project Manager, DBS Philippines. Former Systems Analyst, Bank of the Philippine Islands. BS Mathematics, Ateneo de Manila University.

FRANCIS C. LLANERA, Senior Vice President
Joined the Bank in December 2007. Head, Branch Banking Group. Member, Assets and Liabilities and Anti-Money Laundering Compliance Committees. Former Credit Card Collections Head, Union Bank of the Philippines. Formerly with American International Group's Credit Risk Management. BS Commerce, University of Santo Tomas.

EMMANUEL A. TUAZON, Senior Vice President
Joined the Bank in July 2014. Head, Marketing Group. Member, Assets and Liabilities, and Personnel Committees. Former Senior Vice President and Chief Marketing Officer, Philippine National Bank. Former Vice President for Marketing, ABN

AMRO Bank, Former Vice President for Marketing and Sales, Jardine Pacific Finance. BS Mathematics, University of the Philippines.

Involvement in Legal Proceedings

The Bank is not aware of any of the following events involving or affecting the Bank having occurred during the past five years up to the date of this Prospectus that are material to an evaluation of the ability or integrity of any director, nominee for election as director, Senior Management, underwriter or controlling person of the Bank:

a. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
b. any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign;
c. being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and
d. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

Compensation of Directors and Executive Officers

Information as to the aggregate compensation during the last three fiscal years covering the Bank's executive officers and Directors as a group is as follows:

In Million Pesos	**Salary**	**Bonuses**
2017	191.72	94.13
2016	182.26	63.61
2015	142.32	50.50

The Directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from the said amounts, they have no other compensation plan or arrangement with the Bank. The executive officers receive salaries and bonuses that are included in the amounts stated above. Aside from the foregoing, they have no other compensation plan or arrangement with the Bank.

There are no warrants or options held by the Bank's officers and directors.

Corporate Governance

As part of its increasing focus on corporate governance, the Bank established a number of Board committees.

Executive Committee

As a Board-level Committee, the Executive Committee ("Excom") is empowered to approve and/or implement any or all corporate acts within the competence of the Board except those acts expressly reserved by the Philippine Corporation Code to the Board of Directors. The Excom also is the highest approving body for loan proposals or credit exposure to various counterparties. The Bank's Excom has three (3) members, all of whom are executive Directors. One (1) of the two (2) Vice Chairmen of the Board, Mr. Arthur V. Ty serves as the Committee's Chairperson.

Audit Committee

The Bank's Audit Committee ("Auditcom") is responsible for ensuring compliance of all financial reports with internal financial management and accounting standards and pre-approving all audit plans, scope and frequency. The Auditcom shall have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions. The members of the Auditcom are appointed annually by the Board of Directors. It shall be composed of at least three board members, majority of whom shall be non-executive Directors, and at least two of whom shall be independent Directors, including the Chairperson preferably with accounting and financial management experience, and one of whom shall have related audit experience commensurate with the size, complexity of operations and risk profile of the Bank. It has a Board-approved and regularly updated Audit Committee Charter which provides for the purpose, membership, structure, operations, duties and responsibilities of the Audit Committee. The Bank's Audit Committee has three (3) members, two (2) or majority of whom are independent Directors while the other member is a non-executive Director. Independent Director Mr. Eduardo A. Sahagun serves as the Committee's Chairperson.

Corporate Governance and Compensation Committee

The Corporate Governance and Compensation Committee ("CGCCom") assists the Board in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through (a) effective oversight on corporate governance practices, (b) ensuring the effectiveness and observance by the Board of corporate governance principles and guidelines, (c) providing oversight in the implementation of the Bank's Compliance System; (d) making recommendations to the Board regarding the continuing education of directors, assignment to board committees, succession plan for the senior officers, screening of candidates nominated to become directors and the remuneration policy linked to the corporate and individual performance. The CGCCom is composed of three (3) members, all of whom are independent Directors. The CGCCom is chaired by independent Director and Board Chairman Mr. Jose T. Pardo.

Trust Committee

The Bank's Trust Committee is a special committee which reports directly to the Board of Directors and is responsible in overseeing the fiduciary activities of the Bank. It acts within the sphere of authority provided for and constituted in the by-laws and/or as authorized or delegated by the Board of Directors. The Trust Committee may delegate to the trust officer or a management committee certain powers and duties but shall continue to be responsible for the oversight of all trust activities. In order to fulfill its responsibilities, the Trust Committee has established adequate reporting and monitoring procedures, keeps minutes of its activities and makes periodic reports to the Board. The Trust Committee ensures that funds and properties held by the Bank in trust or in any other fiduciary capacity are administered with the skill, care, prudence and diligence necessary. The Trust Committee also presides over the proper conduct of the trust business, reviewing periodically the business development initiatives such as staffing and delineation of responsibility/accountability, proactive development and implementation of strategies for cultivating of revenue streams and cost management, and application and monitoring of the proper performance benchmarks.

The Trust Committee is composed of five (5) members, composed of the Bank's President, Trust Officer, an independent Director, a non-executive Director and an independent professional. Independent professional Mr. Edmund A. Go serves as the Committee's Chairperson.

Risk Oversight Committee

The Risk Oversight Committee ("ROC"), as an extension of the Board, is responsible for the development and oversight of the risk management program of the Bank, including its Trust Banking Group. The ROC reviews and endorses for approval, confirmation, or notation the Board's principles, policies, strategies, processes and control frameworks pertaining to risk management as well as recommends to the Board any necessary modifications or amendments to the foregoing.

To be able to do so, its functions include identification and evaluation of risk exposures, developing risk management strategies, overseeing the implementation of the risk management plan, and revision of the plan as needed. The ROC uses these as bases in determining the effectiveness of risk management practices and risk tolerances. It subsequently recommends necessary actions to the Board for its consideration. Also, the ROC monitors compliance to approved limits and the immediate corrective actions taken whenever limits are breached.

The ROC is currently composed of three (3) members of the Board of Directors and one (1) non-voting member appointed as advisor. Two (2) or majority of its voting members are independent directors, including its Chairperson in the person of Mr. Benedicto Jose R. Arcinas.

Related Party Transactions Committee

The Related Party Transactions Committee (“RPTC”) assists the Board in ensuring that transactions with related parties (including internal group transactions) are reviewed to assess risks, are subject to appropriate restrictions to ensure that such are conducted at arm’s-length terms and that corporate or business resources of the Bank are not misappropriated or misapplied. After appropriate review, the Committee shall disclose all information and endorse to the Board with recommendations, the proposed related party transactions.

The RPTC is composed of three (3) members, two (2) or majority of whom are independent Directors while the other member is a non-executive Director. The Committee is chaired by independent Director Mr. Samson C. Lim.

Anti-Money Laundering Oversight Committee

The Bank’s Anti-Money Laundering Committee is responsible for overseeing the Bank’s Anti-Money Laundering Compliance Management to make sure that the Bank complies with the provisions of the AMLA, as amended, its revised implementing rules and regulations, and BSP regulations. The Bank’s Anti-Money Laundering Committee has the authority to cause the investigation of any matter within its terms of reference, full access to and cooperation by senior management and full discretion to invite any director or officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

The Bank’s Anti-Money Laundering Committee has three (3) members, comprised of an independent Director, a non-executive Director and an executive Director. Non-executive Director Mr. Vicente R. Cuna, Jr. is the Committee’s Chairperson.

FAMILY RELATIONSHIPS

Metrobank Group Chairman Dr. George S.K. Ty is the father of Arthur V. Ty, the Bank’s Vice Chairman.

RELATED PARTY TRANSACTIONS

The Bank, in its regular conduct of business, has entered into transactions with its related parties principally consisting of loans, sale of assets, service arrangements, leasing agreements and procurement of insurance. Transactions with related parties are made at normal market prices. For a description of the related party transactions of the Bank, see also the respective note on Related Party Transactions in the Bank's financial statements.

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral terms, as those prevailing at the time for comparable transactions with unrelated parties. These transactions did not involve more than the normal risk of collectability or present other unfavorable conditions.

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI (as discussed in BSP Circular No. 423 dated March 15, 2004, as amended). The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts:

	December 31,		**September 30,**
	2016	**2017**	**2018**
Total outstanding DOSRI accounts	₱1,734	₱1,202	₱1,737
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	1.34%	0.82%	0.00%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	0.00%	0.00%	1.13%
Percent of DOSRI accounts to total loans	0.76%	0.40%	1.13%
Percent of unsecured DOSRI accounts to total DOSRI accounts	12.63%	19.94%	13.07%
Percent of past due DOSRI accounts to total DOSRI accounts	0.00%	0.00%	0.00%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	0.00%	0.00%	0.00%

BSP Circular No. 560 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 loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As of September 30, 2018 and December 31, 2017, the total outstanding loans, other credit accommodations and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0% of the Bank's net worth, and the unsecured portion did not exceed 5.0% of such net worth and the total outstanding loans, other credit accommodations and guarantees to all such subsidiaries and affiliates represent 10.1% and 7.1%, respectively, of the Bank's net worth.

The BSP issued Circular No. 654 allows a separate individual limit to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation, i.e., a separate individual limit of 25.0% of the net worth of the lending bank/quasi-bank: provided, that the unsecured portion thereof shall not exceed 12.5% of such net worth: provided further, that these subsidiaries and affiliates are not related interests of any of the director, officer and/or stockholder of the lending bank/quasi-bank; except where such director, officer or stockholder sits in the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank. As of September 30, 2018 and December 31, 2017, the Bank had no outstanding loans, other credit accommodations and guarantees to subsidiaries and affiliates engaged in energy and power generation.

Total interest income on the DOSRI loans in December 31, 2016 and 2017 and September 30, 2018 amounted to ₱26.6 million, ₱5.8 million and ₱4.4 million, respectively.

The year-end balances as of December 31, 2017 and September 30, 2018 in respect of subsidiaries included in the Bank's financial statements are as follows:

(Amounts in millions)	**December 31, 2017**	**September 30, 2018**
Loans and receivables	₱10.2	₱7.5
Deposit liabilities	₱1,612.7	₱1,415.0

The income and expenses for the years ended December 31, 2017 and September 30, 2018 in respect of subsidiaries included in the Bank's financial statements are as follows (amounts in millions):

(Amounts in millions)	**December 31, 2017**	**September 30, 2018**
Interest income	₱3.4	₱23.7
Interest expense	35.4	7.8

The effects of the foregoing transactions are shown under the appropriate accounts in the Bank's financial statements.

Other significant related party transactions of the Bank are discussed in Note 31 to the Bank's audited financial statements as of and for the years ended December 31, 2016 and 2017.

PRINCIPAL SHAREHOLDERS

The following table sets out the 20 largest shareholders of the Bank as of September 30, 2018:

	NAME OF STOCKHOLDER	NUMBER OF SHARES	% OF OWNERSHIP
1	Metropolitan Bank & Trust Co. (1)	198,629,513	82.6753%
2	Dolor, Danilo L.	12,610,891	5.2490%
3	Dolor, Erlinda L.	7,605,832	3.1658%
4	De Leon, Maria Soledad S.	4,000,000	1.6649%
5	De Leon, Gian Carlo S.	2,741,378	1.1410%
6	De Leon, Leonard Frederick S.	2,591,754	1.0815%
7	PCD Nominee Corp (FIL)(2)	2,586,432	1.0788%
8	De Leon, Alvin Benjamin S.	2,437,887	1.0147%
9	De Leon, Kevin Anthony S.	2,407,964	1.0023%
10	PCD Nominee Corp (Non-FIL)	1,616,352	0.6728%
11	Go, James (c/o Mr. Olayer)	298,823	0.1244%
12	Chua, Gabriel	100,337	0.0418%
13	Chua, Josephine T.	81,056	0.0337%
14	Que, Liong H.	68,062	0.0283%
15	Choa, Johnny K.	64,843	0.0270%
16	Choa, Victoria K.	61,875	0.0258%
17	Ty, Alejandro	57,345	0.0239%
18	Cheng, Berck Y.	45,000	0.0187%
19	Sy, Victor Gan	40,975	0.0171%
20	Perez, Ma. Georgina V.	39,866	0.0166%
	Subtotal	**238,098,087**	**99.1033%**
	Others	2,154,404	0.5967%
	Total	**240,252,491**	**100.0000%**

Notes:
(1)Includes 45,203,536 shares and 17 shares lodged with PCD Nominee Corp.
(2)Net of 45,203,536 shares owned by Metropolitan Bank & Trust Company and 17 shares owned by Arthur Ty

As of September 30, 2018, the Bank had 1,469 shareholders of record and 240,252,491 Common Shares outstanding.

As of September 30, 2018, Metrobank held approximately 82.68% of the shareholding of the Bank.

Security Ownership of Record and Beneficial Owners

Title of Class	Name, Address or Record Owner/Beneficial Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	Number of Shares Held	Percentage
Common	**PCD Nominee Corp. (non-Filipino)**	Various	Various	1,616,352	0.67%
	PCD Nominee Corp. (Filipino)(2) G/F MSE Bldg. 6767 Ayala Ave, Makati	Various	Filipino	2,591,754	1.08%
Common	**Dolor, Danilo L.**	Dolor, Danilo L.	Filipino	12,610,891	5.25%
Common	**Metropolitan Bank & Trust Company(1)** Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati, 1200	Metropolitan Bank & Trust Company	Filipino	198,629,513	82.68%

Notes:
(1) Includes 45,203,536 shares lodged with PCD Nominee Corp;
(2) Net of 45,203,536 shares owned by Metropolitan Bank & Trust Company and 17 shares owned by Arthur Ty.

PCD Nominee Corporation, now known as Philippine Depository & Trust Corporation ("PDTC") is the registered owner of the shares in the books of the Bank's stock transfer agent, Metrobank – Trust Banking Group. The beneficial owners of such shares are PCD's participants, who hold the shares on their behalf or on behalf of their clients. The participants have the power to decide how the PCD shares are to be voted.

Security Ownership of Management

The following table sets out the record and beneficial owners known to the Bank as of September 30, 2018:

NAME OF STOCKHOLDER	POSITION/OWNERSHIP	NUMBER OF SHARES
Pardo, Jose T.	Chairman	1,852
Ty, Arthur Vy **	Vice-chairman	117
Cuna, Jr., Vicente R.	Vice-chairman	100
Alde, Jose Vicente L.	President	200
De Leon, Maria Soledad S.	Director	4,000,000
De Vera, Rosanna F.	Director	100
Lim, Samie Co	Director	100
Arcinas, Benedicto Jose R.	Director	100
Sahagun, Eduardo A.	Director	100
Metropolitan Bank & Trust Co. *	With more than 10% ownership	198,629,513
PCD nominee corp. (Filipino) ***	With more than 10% ownership	2,591,754

Notes:
* *Includes 42,203,536 shares lodged with PCD Nominee Corp.*
** *Includes 17 shares lodged with PCD Nominee Corp.*
*** *Net of 45,203,536 shares owned by Metrobank and 17 shares owned by Arthur Ty*

Voting trust holders of 5% or more

The Bank is not aware of shareholders holding any Voting Trust Agreement of 5.0% or more or any such similar agreement.

Change in control of the registrant since beginning of last fiscal year

There has been no change in the control of the Bank since the beginning of its last fiscal year.

RISK MANAGEMENT

Responsibility for managing risks rests on every employee of the Bank. The Bank's Board and senior management are actively involved in planning, approving, reviewing, and assessing risks through various committees. The parameters they set govern all their risk-taking activities. In 2017, the Bank revisited its risk governance framework in order to meet the standards set forth under BSP Circular No. 971 on Guidelines on Risk Governance.

The Bank effected the necessary adjustments to its credit risk management systems and processes in transition to the Philippine Financial Reporting Standards 9 (PFRS 9) as well as the Amended Rules on Past Due and Non-Performing Loans per BSP Circular No. 941, both effective 01 January 2018. Credit risk management was likewise strengthened in preparation for the implementation of expected credit loss models which will allow the Bank to shift from the incurred loss methods for calculating allowance for losses to forward-looking loss provisioning. Further, credit scoring models were updated to optimize returns by growing profitable lending segments and exploring new markets whilst mitigating the risks. In relation to the classification and measurement of financial assets as required by PFRS9, the Bank's business models were also enhanced to realign with the Bank's strategic business objectives and risk appetite.

The Bank enhanced its operational risk monitoring and controls by expanding its risk incident and loss data collection methods and by redefining its loss thresholds in line with the requirements of BSP Circular No. 900 on Guidelines on Operational Risk Management effective February 2018. It also introduced and added Social Media Risk Management policies and procedures as an integral part of its operational risk management system pursuant to BSP Circular No. 949 on Guidelines on Social Media Risk Management.

Finally, initiatives were also launched in the latter part of 2017 to fully comply with the new Guidelines on Liquidity Risk Management per BSP Circular No. 981 and Enhanced Guidelines on Information Security Management per BSP Circular No. 982 which will take effect in September 2018 and December 2018, respectively.

Risk Management Structure

The Board of Directors takes the lead in all major initiatives. It approves broad risk management strategies and policies, and ensures that these are consistent with the Bank's overall objectives.

The Risk Oversight Committee (ROC) is comprised of at least three members of the Board, the majority of whom are independent directors including its Chairperson. They possess expertise and knowledge of the Bank's risk exposures, which enable them to develop appropriate strategies for preventing or minimizing the impact of losses.

The Board may also appoint non-Directors to the ROC as part of the Metrobank Group's risk oversight measures. However, only Bank Directors shall be considered as voting members of the ROC. Nonvoting members are appointed in an advisory capacity.

Overall responsibility for the Bank's risk management process rests with the ROC. It formulates policies and strategies to identify, measure, manage and limit the Bank's risks. The ROC ensures that the system of limits approved by the Board remains effective. It also makes certain that limits are observed and that immediate corrective actions are taken whenever needed. The Risk Management Office (RMO), together with the President, various committees and management, support the ROC in the fulfillment of its duties and responsibilities.

RMO is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the Board through the ROC.

The RMO supports the ROC in carrying out its responsibilities by:

- Analyzing, communicating, implementing and maintaining the risk management policies approved by the ROC and the Board;
- Spearheading the regular review of the Bank's risk management policies and elevating recommendations that enhance the risk management process to the ROC and the Board, for their approval; and,

- Ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported, and understood by risk takers, management, and the Board. It analyzes limit exceptions and recommends enhancements to the limits structure.

Risk Management is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel III capital adequacy framework and based on the Bank's internal capital adequacy assessment on an ongoing basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with Board-approved policies on risk tolerance and appetite as well as the effectiveness of the corresponding risk mitigation measures; and,
- reporting on a regular basis to Senior Management and the Board the results of assessment and monitoring.

LIQUIDITY RISK

Liquidity risk is defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they become due.

The Group manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning.

Specifically for the Bank, it utilizes a diverse range of sources of funds. To ensure that funding requirements are met, the Bank manages its liquidity risk by holding sufficient liquid assets of appropriate quality. Deposits with banks are made on a short-term basis.

The Treasury Group estimates its cash flow needs based on its actual contractual obligations under normal and extraordinary circumstances. RMO generates Maximum Cumulative Outflow ("MCO") reports on a daily basis to estimate short- and long-term net cash flows of the bank under business-as-usual and stress parameters.

CREDIT RISK

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and Risk Management Office (RMO). These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are within the Bank's overall risk appetite and meet the Board-approved credit risk thresholds. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.
The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of September 30, 2018, the maximum credit exposure to any borrower amounted to ₱1.9 billion, before taking into account any collateral or other credit enhancement.

In 2017, the Bank effected the necessary adjustments to its credit risk management systems and processes in transition to the Philippine Financial Reporting Standards 9 (PFRS 9) as well as the Amended Rules on Past Due and Non-Performing Loans per BSP Circular No. 941, both effective 01 January 2018. Credit risk management was likewise strengthened in preparation for the implementation of expected credit loss models which will allow the Bank to shift from the incurred loss methods for calculating allowance for losses to forward-looking loss provisioning. Further, credit scoring models were updated to optimize returns by growing profitable lending segments and exploring new markets whilst mitigating the risks.

Market Risk

This covers the areas of trading, interest rate, and liquidity risks. Trading market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments. Interest rate risk arises from movements in interest rates. Liquidity risk is the inability to meet obligations when they fall due without incurring unacceptable losses.

The Bank's market risk policies and implementing guidelines are regularly reviewed by the Assets & Liabilities Committee (ALCO), ROC and the Board to ensure that these are up-to-date and in line with changes in the economy, environment and regulations.

The ROC and the Board set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in. The Bank utilizes various measurement and monitoring tools to ensure risk-taking activities are managed within instituted market risk parameters.

Trading Market Risk

The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily.

The Bank uses Value-at-Risk (VaR) to measure the extent of market risk exposure arising from these portfolios. VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model is based on a historical simulation methodology with a one-day holding period and a 99% confidence level.

The Bank also performs back testing to validate the VaR model, and stress testing to determine the impact of extreme market movements on the Bank's portfolios. It has established position limits for its trading portfolios and closely monitors its daily profit and loss against loss triggers and stop-loss limits.

To a certain extent, the Bank also carries foreign exchange (FX) risk. It is the Bank's policy to maintain exposures within approved position, stop loss, loss trigger, VaR limits and to remain within regulatory guidelines. The Bank also uses VaR to measure market risk arising from its FX exposure.

Structural Interest Rate Risk

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between repricing assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses the sensitivity gap model to estimate its Earnings-At-Risk (EAR) should interest rates move against the Bank's interest rate profile. The Bank's EAR limits are based on a percentage of the Bank's projected earnings and capital for the year. The Bank also performs stress-testing analysis to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve.

The ALCO is responsible for managing PSBank's structural interest rate exposure. Its goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. RMO and ROC review and oversee its interest rate risks.

FOREIGN CURRENCY RISK

Foreign exchange risk is the probability of loss to earnings or capital arising from changes in foreign exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities. The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines.

Liquidity Risk

In managing its liquidity position, the Bank ensures that it has more than adequate funds to meet its maturing obligations. The Bank uses the Maximum Cumulative Outflow (MCO) Model to measure liquidity risk arising from the mismatches of its assets and liabilities.

The Bank administers stress testing to assess its funding needs and strategies under different conditions. Stress testing enables the Bank to gauge its capacity to withstand both temporary and long-term liquidity disruptions.

The Liquidity Contingency Funding Plan (LCFP) helps the Bank anticipate how to manage a liquidity crisis under various stress scenarios. Liquidity limits for normal and stress conditions cap the projected outflows on a cumulative and per tenor basis.

The Bank also uses the Liquidity Coverage Ratio (LCR) to ensure that is has sufficient High Quality Liquid Assets to cover its net outflow within a 30 day period.

ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

The tables below set forth the Bank's structural liquidity gap position as of September 30, 2018 (the maturity profile of financial instruments and gross-settled derivatives based on contractual undiscounted cash flows). The analysis is based on the remaining period from the end of the reporting period to the contractual maturity date, or if earlier, the expected date the asset will be realized on the earliest period in which the Bank can be required to pay its liabilities.

Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. To mitigate these, the Bank constantly strives to maintain a strong "control culture," prudent use of technology and effective internal control system, which are key factors towards continuous self-improvement under a "no-surprise" operating environment.

The Bank's Board-approved bankwide organizational chart clearly establishes areas of management responsibility, accountability and reporting lines for all its senior officers. Operational risk management policies and frameworks are continuously reviewed and updated, subject to ROC and Board approvals to ensure that they remain relevant and effective.

The Bank's products and operating manuals, policies and procedures spell out internal controls implemented by its business and operating support units. Its Internal Audit Group (IAG) provides independent reasonable assurance on control adequacy and compliance with these manuals. The Bank continually identifies and assesses operational risks across the organization and develops controls to mitigate and manage them as part of continuing efforts to enhance its Operational Risk Management Framework. We perform this vis-a-vis the Board-approved operational loss thresholds and benchmarks.

To ensure that the Bank manages all operational risks adequately, specialized functions are engaged in risk management. These include Information Technology and Quality Assurance, Information Security, Financial Control, Legal, Compliance, Human Resources and Security Command. IAG regularly reports to the Board's Audit Committee on the effectiveness of internal controls.

The Bank likewise has a Business Continuity Plan and a Disaster Recovery Program that are reviewed and tested annually on a per segment and bankwide basis to ensure their effectiveness in case of business disruptions, system failures and disasters.

Technology Risk

Technology risk is the risk to earnings or capital arising from deficiencies in systems design, implementation, maintenance of systems or equipment and the failure to establish adequate security measures, contingency plans, testing and auditing standards.

To provide simpler, faster, more convenient and secured banking services to its growing clientele and to avail of an advanced management information system that enables the Bank to make fast and well-informed business decisions, it continually invests in Information Technology by venturing into core business process automations, key system enhancements, and information security solutions.

Given this heavily automated operating environment, the Bank makes sure that it continuously identifies and quantifies risks to the greatest extent possible and establishes standards and controls to manage technology-associated risks through effective planning, proper implementation, periodic measurement and monitoring of performance.

Legal Risk

Legal risk is the potential loss due to nonexistent, incomplete, incorrect, and unenforceable documentation that the Bank uses to protect and enforce its rights under contracts and obligations.

A legal review process, which its Legal Services Division performs, is the primary control mechanism for this type of risk to ensure that the Bank's contracts and documentation adequately protects its interests and complies with applicable legal and regulatory requirements.

Regulatory Risk

Regulatory Risk, also known as Compliance Risk, covers the potential loss from non-compliance with laws, rules and regulations, policies and procedures, and ethical standards.

The Bank recognizes that compliance risk can diminish its reputation, reduce its franchise value, limit its business opportunities, and reduce its potential for expansion. Thus, the Bank, guided by its Compliance Office, continuously promotes a culture of compliance.

Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper resolution of conflicts, and slow response to industry changes.

Strategic risk can influence the Bank's long-term goals, business strategies, and resources. Thus, the Bank utilizes both tangible and intangible resources to carry out its business strategies. These include communication channels, operating systems, delivery networks, and managerial capacities and capabilities.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or manage existing relationships. The risk may expose the Bank to litigation, financial loss, or a decline in customer base.

All employees are responsible for building the Bank's reputation and exercising an abundance of caution when dealing with customers and communities.

Recent Fraud Cases or Money Laundering Cases

There have been no significant fraud nor any known money laundering cases recently encountered.

Involvement in Certain Legal Proceedings

Several suits and claims relating to the Bank's banking and lending operations and labor-related cases remain unsettled. In the opinion of the management, these suits and claims, if decided adversely, will not involve sums having material effect on the financial statements.

Corporate Governance

The Bank has a strong commitment to excellence in corporate governance. The Bank continually strives for high standards and pursues new approaches that ensure greater transparency and integrity in what it does. The Bank's Corporate Governance Manual (CGM) serves as a valuable guide and reference in its implementation of corporate governance rules and regulations of both the BSP and the SEC. In 2017, the Bank updated its CGM twice to align with the new corporate governance standards per SEC's new Code of Corporate Governance for Publicly Listed Companies (PLCs) per SEC Memorandum Circular No. 19 s2016 and, later on, with the Enhanced Corporate Governance Guidelines for BSP-Supervised Financial Institutions per BSP Circular No. 969.

Governance culture

The Bank sees its compliance with applicable laws, rules and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. The Bank always aims to continually build the trust and confidence of its stakeholders by running its business in a prudent and sound manner, being fair and transparent in all its dealings, providing reliable and better service in response to the ever-growing expectations of its customers, and working with integrity and accountability.

Core governance policies

The policies and guidelines embodied in the Bank's annually updated Corporate Governance Manual, as posted in its website, www.psbank.com.ph, and in its intranet site, InfoChannel, for the guidance of all its stakeholders, primarily revolve around the following three basic values that the Bank observes.

Fairness

The Bank sees to it that all its dealings with counterparties and other stakeholders are fairly conducted. The Bank ensures that all such dealings, especially with its related parties, are made in the regular course of its business, and upon terms not less favorable to us than those offered to others. Its Board-level Related Party Transactions Committee (RPTC), entirely composed of non-executive directors, and Management-level Related Party Transactions Management Committee (RPTMC) help ensure that its transactions with related parties are conducted at arm's length, and that its resources are not misappropriated, in accordance with its Board-approved Related Party Transactions (RPT) policy and its specific guidelines and handling procedures, vis-à-vis set transaction materiality thresholds and exposure limits.

The Bank's transaction materiality thresholds for RPTs were set on a per transaction type basis considering the high-end of their historical ticket sizes, their nature, and the Bank's risk appetite. These thresholds are applied on a per single transaction basis for one-time/non-recurring transactions or the aggregate amount of multiple transactions expected in a year's time for some arrangements with recurring/continuing transactions. Except for certain transactions with DOSRIs requiring prior approval of the Board of Directors under existing BSP rules regardless of their amounts, RPTs amounting within said thresholds are subject to the review and approval of the Management-level RPTMC and endorsement of the Board-level RPTC for the Board of Directors' confirmation. On the other hand, those beyond such thresholds are considered "material" and shall pass through the Board-level RPTC for review and endorsement for the Board of Directors' approval prior to their consummation and then Stockholders' confirmation in the Annual Stockholders' Meeting.

The Bank's RPT policy likewise requires our directors and officers with personal interest in the Bank's transaction (e.g. they themselves or any of their close family members acting as the Bank's counterparty) to inhibit/abstain from the discussion, approval and management of such transaction except in order to provide material information to the RPTC/Board about the transaction. Provisions against conflict of interest situations are likewise stipulated in the Bank's Board-approved "Code of Conduct" such as the prohibition of self-dealing transactions.

The Bank also ensures that all its stockholders are treated equally and without discrimination by preserving all stockholders' rights and protecting its minority stockholders' interests including the latter's right to nominate candidates to its Board of Directors.

Integrity and Accountability
The Bank upholds at all times the value of honesty as a best policy. The Bank believes that its reputation precedes it in the business of trust and confidence. The Bank continues to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that the Bank must follow in all its business dealings and relationships.

Code of Conduct

The Bank's Code of Conduct includes provisions on:

- Disciplinary process;
- General policies to establish a professional working environment and secure a favorable reputation for the Bank;
- Corrective measures for unacceptable behavior or failure to comply with its rules, such as on Financial Consumer Protection and on Anti-Money Laundering/Terrorism Financing, policies and procedures;
- Schedule of penalties for attendance and punctuality, attire requirements, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Insider Trading
Under the Bank's Policy Against Insider Trading, reporting insiders are required to disclose their and their associates' initial beneficial ownership in PSBank shares and any changes thereof within two trading days after their election/ appointment in office and from date of said changes, respectively. They are likewise prohibited from selling or buying PSBank shares during "blackout periods," i.e., upon obtaining material non-public information up to two trading days after such information is disclosed. The Bank did not have any trading transactions with its reporting insiders and/or their associates in 2017.

Whistle-blowing
In addition, the Bank is also bound by a "whistle-blowing" policy that requires all employees to immediately report to their Group Heads, directly to the Human Resources Group Head, or to the Chief Audit Executive/ Internal Audit Group Head for investigation purposes, any noted impropriety or malpractice committed by a co-employee/s. Concealment or non-reporting is considered as an impropriety or malpractice in itself. The policy likewise requires the due protection of informants, i.e., employees reporting such incidents in good faith, from any form of harassment. Thus, it considers any attempt to determine their identities as a breach of confidentiality subject to disciplinary sanctions.

Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT)
The Bank subscribes to and adopts the country's policy to protect the: (1) integrity and confidentiality of accounts and to ensure that it shall not be used as a money laundering/terrorism financing site and/or conduit for the proceeds of unlawful activities; and (2) life, liberty and property from acts of terrorism by condemning such acts and those who support and finance it as a crime against the Filipino people, against humanity and against the law of nations.

The Bank ensures that it executes transactions with its customers in accordance with the AML/CFT policy guidelines, procedures, tools, and controls set forth in its regularly updated Money Laundering and Terrorism Financing Prevention Program (MLTFPP). The Bank's MLTFPP, as posted in its intranet site for the guidance of all its implementing personnel, primarily revolves around the basic AML/CFT controls required under existing AML/CFT laws, rules and regulations, namely:

1. Know Your Customer (KYC) & Know Your Employee (KYE);
2. Ongoing Monitoring of Customers & their Transactions;
3. Covered and Suspicious Transactions Reporting;

4. Records Keeping & Retention; and ,
5. Employee Training & Continuing Education.

In 2017, the Bank's MLTFPP was updated in order to align with the Amended AML rules & regulations per BSP Circular No. 950 and to incorporate the Rules on the Imposition of Administrative Sanctions under Republic Act No. 9160 per Anti-Money Laundering Council (AMLC) Resolution No. 46 s2017, among other revisions. Compliance with the requirements of this updated MLTFPP is continuously monitored by our Board-designated AML Compliance Officer (AMLCO) under the Compliance Office as lead implementer.

Transparency and Open Communication

The Bank abides by various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE) as a publicly listed company. The Bank ensures that it is transparent to its shareholders by posting the latest public disclosures on the Investor Relations section of its website and in its press releases. In compliance with SEC Memorandum Circular No. 11 s2014, the Bank regularly updates its website since 2014 to include all required disclosures in accordance with the SEC-prescribed web template for its stakeholders to readily check its corporate governance practices.

The Bank also maintains an open communication line and uses feedback from its stakeholders to develop better policies, products and services. The Bank likewise accommodates requests for information pertaining to the management of the Bank, stockholders rights, or any other Bank-related matters, while remaining mindful of disclosure limitations under existing laws on bank deposits secrecy and data privacy.

Financial Consumer Protection

With customers at the forefront of the Bank's priorities and in compliance with BSP Circular No. 857 (BSP Regulations on Financial Consumer Protection), the Bank's corporate governance system/ culture includes a Financial Consumer Protection (FCP) Framework to ensure that consumer protection standards and practices are duly observed and embedded in its business operations. The Board of Directors, jointly with the Senior Management, is ultimately responsible in establishing an effective oversight over the Bank's consumer protection programs as well as in ensuring that consumer protection practices are embedded in the Bank's business operations. As part of the Bank's corporate-wide risk management system spearheaded by its Risk Management Office (RMO), an FCP Risk Management System (FCPRMS) is instituted to identify, measure, monitor, and control consumer protection risks (both risks to the financial consumers and the Bank) inherent in the Bank's operations.

Board Oversight

Board of Directors

The Board of Directors sets the Corporate Governance tone in the organization by ensuring adherence to its principles and standards. It is accountable to its stakeholders in running the Bank in a prudent and sound manner. It is primarily responsible for approving and overseeing the implementation of its strategic objectives, risk strategy, corporate governance and corporate values.

There are a total of nine (9) directors in its Board, four (4) of whom are independent directors while (3) three are executive directors and (2) two are non-executive directors. They are all qualified business professionals with the required expertise and experience in directing the Bank's strategic path. These directors were selected based on their qualifications (i.e. integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience) without discrimination on gender, age and ethnic/political/religious/cultural backgrounds.

In accordance with the Bank's By-Laws, directors are elected by the vote of the holders of common stock of the Bank in accordance with Section 24 of the Corporation Code and other pertinent applicable laws. Any stockholder may submit nominations for directorial positions to the Corporate Governance Committee. The Committee then screens the qualifications of the nominees in accordance with screening policies & procedures and parameters including alignment with the Bank's strategic directions in order to come up with a Final List of Candidates. Only nominees whose names appear in the said list are considered for election as directors at the annual meeting of the stockholders.

The Bank has consistently maintained the presence of independent directors who provide independent judgment, outside experience and objectivity. Of the nine-seat Board, four are independent directors, including its Board Chairman. This is more than the required minimum number of independent directors. The Bank does not have any director holding more than five board seats in other publicly listed companies. The Bank's Board Chairman provides active leadership by ensuring that the Board and its various committees function effectively, including maintaining a relationship of trust among Board members. The Chairman also ensures that its Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest, and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interest of its Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to its Board's decision-making process. They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to the Bank.

All new members of the Board of Directors are furnished with a copy of their duties and responsibilities and are provided with a comprehensive training on corporate governance, as part of the BSP's requirements in confirming elected bank directors. Together with the Bank's principal officers, its directors attended in 2017 an annual refresher program on Corporate Governance (pursuant to SEC Memorandum Circular No. 20 s2013), including Anti-Money Laundering (AML), as conducted by the Institute of Corporate Governance (ICD), a SEC-accredited training provider.

The Board has access to its Corporate Secretary who manages the flow of information to the Board prior to the meetings. The Office of the Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. It administers, attends and prepares minutes of board meetings and ensures that notices required under the By-Laws are given to all directors and stockholders.

Board and Board Committee Meetings

In 2017, the Bank's Board had 12 regular meetings, in addition to the annual stockholders and organizational meetings. The Bank's directors recorded a 95% attendance rate.

Board Committees

A number of Board-level committees were created to aid the Board in its various tasks to ensure efficiency and provide greater focus. Four of these committees are in charge of governance oversight functions, as follows:

Corporate Governance Committee
The Corporate Governance Committee is tasked to assist the Board in fulfilling its duties and responsibilities and monitoring its adherence to the corporate governance principles and guidelines set forth in its Corporate Governance Manual, including the functions formerly assigned to the Nomination Committee and Compensation & Remuneration Committee which were both dissolved and integrated to this committee in 2017. It also oversees the development and effective implementation of the Bank's compliance system. The Committee is composed of three (3) Directors, all of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by its Compliance Office (CO).

Risk Oversight Committee (ROC)
The Risk Oversight Committee is responsible for the development and oversight of the Bank's risk management program. The Committee is currently composed of three members of the Board of Directors and one non-voting member appointed as advisor. Two or majority of its voting members are independent directors, including its Chairperson. The ROC members possess a range of expertise and adequate knowledge of the Bank's risk exposures, which is needed to develop appropriate strategies for preventing or minimizing losses. The Committee meets monthly and is supported by the Risk Management Office (RMO).

AML Oversight Committee
The AML Oversight Committee is tasked to assist the Board in fulfilling its oversight responsibility over the Bank's compliance management. It ensures that the Bank complies with the provisions of the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRRs) and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism. This committee is composed of

three Directors – an executive director, an independent director and a non-executive director as the Chairperson. The committee meets monthly and is supported by the Compliance Office (CO).

Audit Committee
The Audit Committee is designated to provide independent oversight for the Bank's financial reporting process, corporate governance, system of internal control and risk management, internal and external audit functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations and Code of Conduct. It is composed of three non-executive Directors, two or majority of whom are independent, including the committee chairperson. These members have auditing, accounting or related financial management expertise or experience commensurate with the size, complexity of operations and risk profile of the Bank. The Committee meets monthly and as needed; and is supported by its Internal Audit Group (IAG).

Other Board-level committees are as follows:

Executive Committee
The Executive Committee is tasked to regularly review and approve credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. The Committee is composed of three (3) Executive Directors including the President, and the Credit & Collections Sector Head.

Related Party Transactions Committee
The Relater Party Transactions Committee is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The Committee is composed of three non-executive Directors, two or majority of whom are independent directors, including the committee chairperson. The Committee meets monthly and is also supported by the Compliance Office (CO).

Trust Committee
The Trust Committee is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. It is composed of five members: the President, the non-voting Trust Officer, a non-executive director, an independent director, and an independent professional who is the committee chairperson. The Committee meets quarterly and is supported by the Trust Division.

Senior Management
The Bank's Senior Management Team, headed by its President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage its day-to-day operations and business affairs. They exercise good governance by ensuring that line managers under their respective areas of responsibility execute their activities in a manner consistent with Board-approved policies and procedures. These should be aligned with applicable laws, rules and regulations as well as standards of good practice.

Management Committees

To achieve efficiency and provide greater focus for its Senior Management in overseeing key areas of banking operations, various Management-level committees were also created, as follows:

- The Assets and Liabilities Committee (ALCO) is tasked to manage the Bank's assets and liabilities consistent with its liquidity, capital adequacy, growth, risk tolerance and appetite and profitability goals.
- The Credit Committee (CRECOM) is tasked to regularly review and approve credit proposals within the authority and limits provided by the Board.
- Anti-Money Laundering Compliance Committee (AMLCC) is designated by the Board to receive, evaluate, and decide whether or not a Suspicious Transaction Report (STR) and/ or Report on Crimes and Losses (RCL) shall be filed with the Anti-Money Laundering Council Secretariat (AMLCS) and/or with the BSP for cases or incidents reported or elevated by various business or operating units of the Bank. It also provides support to the Bank's Compliance Office in terms of AML policy review/ development, and in addressing AML deficiencies/adverse findings.
- Outsourcing Oversight Committee (OOC) is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals in accordance with the Bank's Board-approved risk-based Outsourcing Policy Guidelines pursuant to existing BSP rules and regulations on outsourcing.

- IT Steering Committee (ITSC) is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing its Board-approved Information Technology Risk Management System (ITRMS).
- Emergency Committee (EMCOM) is tasked to manage and monitor the effective implementation of its Business Continuity Plan (BCP). It aims to provide the Bank with the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.
- Policy Committee (POLCOM) is tasked to resolve policy- related issues which require escalation or cross-functional discussion for resolution.
- Personnel Committee (PERCOM) is tasked to assist Senior Management in evaluating the performance and career growth/advancement of the Bank's employees, deciding on employee offenses/administrative cases and in maintaining personnel policies and procedures including the Bank's Code of Conduct.
- Retirement Committee (RETCOM) is exclusively tasked to administer its Gratuity and Retirement Benefit Plan.
- The Related Party Transactions Management Committee (RPTMC) is tasked to assist the Board-level RPTC and the Board of Directors in ensuring that transactions with related parties, with respect to those considered as "non-material" (i.e., within the set transaction materiality thresholds) are conducted at arm's length.
- The Investment Committee (IC) is a new committee created in 2017 that is tasked to establish investment guidelines and oversee the investment activities of the Bank. It monitors and reports the overall investment results and reviews compliance with investment objectives and guidelines.

Governance Vanguards

The Bank's compliance, risk management and internal audit functions are the forerunners in its relentless drive to promote and uphold the noblest tenets and highest standards of good corporate governance across all its business operations.

Compliance

Ensuring the Bank's compliance with applicable laws, rules and regulations, as a minimum requirement, is a collective duty and team effort. It begins with its Board and Senior Management at the top and down the line to the various business and operating units in accordance with its Board- approved compliance system. The design and implementation of this program is administered and annually updated by the Compliance Office, led by the Chief Compliance Officer (CCO) who directly reports to the Corporate Governance Committee and to the Board.

The Bank's Compliance Program adopts a three-pronged, risk-based approach to effectively manage its business risks and ensure compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk the business/operating units are inherently exposed relative to the number and magnitude or severity of pertinent requirements applicable to them.

This three-pronged strategy is structured to be operated by three key players namely:

1. The line units as the first line of defense being the business risk owners and managers;
2. Compliance Office (CO) as the second line of defense as the business risk overseers; and,
3. Internal Audit Group (IAG) as the third line of defense as the independent assurance provider.

Aside from monitoring and controlling compliance risk, the Chief Compliance Officer (CCO) also tracks the Bank's adherence with its Corporate Governance Manual which is aligned with the SEC's Revised Code of Corporate Governance for Publicly Listed Companies, and embodies all CG-related rules and regulations of the BSP. Cases of non-compliance are required to be reported to the Board Chairman who ensures due process and determines appropriate sanctions. The Bank fully and continually complies with the requirements of said Corporate Governance Manual.

The Bank's Compliance Office continually strives to maintain its strong compliance culture amidst the ever-dynamic banking regulatory landscape. It proactively identifies, assesses, and addresses emerging compliance issues, vigorously promotes continuing education through formal/informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fosters good corporate governance culture by benchmarking against industry best practices and standards.

Internal Audit

Internal Audit Group (IAG) is established by the Board of Directors. Its responsibilities are defined by the Audit Committee (AuditCom) as part of their oversight function. The role of the IAG is to provide independent, objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the Bank. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes. IAG is headed by the Chief Audit Executive (CAE) who reports functionally to the Board through the Audit Committee and administratively to the President.

The CAE confirms annually to the Board the organizational independence of the internal audit activity. IAG, with strict accountability for confidentiality and safeguarding records and information, is authorized to have:

1. Full, free, and unrestricted access to all bank functions, records/documents, physical properties, and personnel pertinent to carrying out any engagement;
2. Direct and unrestricted access to senior management and the Audit Committee;
3. Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the procedures and techniques required to accomplish audit objectives;
4. Obtain necessary assistance of personnel in other units of the Bank where they perform audits, as well as other specialized services from within or outside the Bank.

IAG remains free from interference by any element in the organization, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of an independent and objective mental attitude.

Governance Evaluation

Every year, our Board, individual Directors, their respective oversight committees, and all other Board-level committees, as well as the President and all Management-level committees conduct annual self-rating exercises on their performance through the use of scorecards. This aims to gauge their effectiveness and determine areas of improvement vis-à-vis set performance standards that are consistent with the Bank's strategic objectives and business plans designed to continuously create value to all our stakeholders. Items subject to rating are the pertinent standards, as well as their duties and responsibilities, under a 3-point rating scale, to wit: "3"-Meets Standards (MS), "2"-Needs Improvement (NI), and "1"-Not Observed (NO), with an enjoinder to provide suggestions on how to address the deficiencies/ improve performance on items rated either "1" or "2". The scorecard results are reviewed by our Corporate Governance Committee and reported to our Board of Directors. Beginning 2018, this annual performance rating exercises will be expanded to also include that of the Chairman of the Board, the Chief Risk Officer, the Chief Audit Executive, the Chief Compliance Officer and of the entire Bank.

MARKET PRICE OF THE BANK'S STOCK

The Bank's Common Shares are traded on the PSE under the symbol "PSB".

The following table sets out, for the periods indicated, the highest and lowest sales prices for the Bank's Common Shares as reported on the PSE:

In ₱	**High**	**Low**
2018		
1st quarter	89.50	85.05
2nd quarter	87.90	81.00
3rd quarter	88.50	80.00
2017		
1st quarter	91.00	87.00
2nd quarter	90.50	86.50
3rd quarter	92.00	87.65
4th quarter	90.00	87.00
2016		
1st quarter	104.00	95.00
2nd quarter	107.00	98.10
3rd quarter	106.00	95.75
4th quarter	101.00	90.00
2015		
1st quarter	104.20	95.00
2nd quarter	95.50	92.00
3rd quarter	104.00	85.00
4th quarter	108.10	100.00

On December 13, 2018, the closing price of the Bank's Common Shares on the PSE was ₱72.50 per Common Share.

On November 28, 2018 the PSE approved the listing of the Rights Shares on the PSE subject to the fulfilment of certain conditions.

THE PHILIPPINE STOCK MARKET

The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Bank, the Underwriters or any of their respective subsidiaries, affiliates or advisors in connection with sale of the Rights Shares.

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulatory, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated in 1992 by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked.

While the PSE maintains two trading floors, one in Makati City and the other in Pasig City, these floors are linked by an automated trading system, which integrates all bids, and ask quotations from the bourses.

In June 1998, the Philippine SEC granted the PSE "Self-Regulatory Organization" status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. The PSE has an authorized capital stock of ₱120 million, of which ₱73.5 million was subscribed and fully paid-up as of September 30, 2017. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1 per share. In addition, a trading right evidenced by a "Trading Participant Certificate" was immediately conferred on each member-broker allowing the use of the PSE's trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE's Main Board or the Small, Medium and Emerging Board. Recently, the PSE issued Rules on Exchange Traded Funds ("ETF") which provides for the listing of ETFs on an ETF Board separate from the PSE's existing boards. Previously, the PSE allowed listing on the First Board, Second Board or the Small, Medium and Enterprises Board. With the issuance by the PSE of its Memorandum No. CN-No. 2013-0023 dated June 6, 2013, revisions to the PSE Listing Rules were made, among which changes are the removal of the Second Board listing and the requirement that lock-up rules be embodied in the articles of the incorporation of the Issuer. Each index represents the numerical average of the prices of component stocks. The PSE has an index, referred to as the PHISIX, which as of the date thereof reflects the price movements of selected stocks listed on the PSE, based on traded prices of stocks from the various sectors. The PSE shifted from full market capitalization to free float market capitalization effective as of April 3, 2006 simultaneous with the migration to the free float index and the renaming of the PHISIX to PSEi. The PSEi is composed of 30 selected stocks listed on the PSE. In July 2010, the PSE's new trading system, now known as PSE Trade, was launched. In June 2015, the PSE Trade system was replaced by PSE Trade XTS.

With the increasing calls for good corporate governance, the PSE has adopted an online daily disclosure system to improve the transparency of listed companies and to protect the investing public. In December 2013, the PSE replaced its online disclosure System ("OdiSy") with a new disclosure system, the PSE Electronic Disclosure Generation Technology ("EDGE"). EDGE was acquired from the Korea Exchange and is a fully automated system, equipped with a variety of features to (i) further standardize the disclosure reporting process of listed companies on the PSE, (ii) improve investors' disclosure searching and viewing experience and (iii) enhance overall issuer transparency in the market.

In January 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City, which currently houses the unified trading floors in Makati City and Pasig City.

On March 22, 2018, the PSE completed a stock rights offering of 11,500,000 Common Shares which were offered at the price of ₱252.00 per share, or a total of ₱2,898,000,000. The proceeds of the stock rights offering will be used to fund the acquisition of PDS and capital expenditure requirements of the PSE. As of the date of this Prospectus, the PSE has an authorized capital stock of ₱120 million, of which 85,025,692 shares are issued. Out of this total, 84,925,686 shares are outstanding, and 100,006 are treasury shares.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices.

The table below sets out movements in the composite index from 2005 to 2017 and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

Year	Composite Index at Closing	Number of Listed Companies	Aggregate Market Capitalization (₱ Bn)	Combined Value of Turnover (₱ Bn)
2005	2,096.0	237	5,948.4	383.5
2006	2,982.5	240	7,172.8	572.6
2007	3,621.6	244	7,978.5	1,338.3
2008	1,872.9	246	4,069.2	763.9
2009	3,052.7	248	6,029.1	994.2
2010	4,201.1	253	8,866.1	1,207.4
2011	4,372.0	253	8,697.0	1,422.6
2012	5,812.7	254	10,930.1	1,771.7
2013	5,889.8	257	11,931.3	2,546.2
2014	7,230.6	263	14,251.7	2,130.1
2015	6,952.1	265	13,465.2	2,151.4
2016	7,629.7	268	14,438.8	1,929.5
2017	8,558.4	267	17,538.1	1,958.4

Source: PSE and PSE Annual Reports.

Trading

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading day). Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 pm and ends at 3:30 pm for the afternoon session, with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for the Company's Shares is 10 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.

- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

NON-RESIDENT TRANSACTIONS

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

SETTLEMENT

The Securities Clearing Corporation of the Philippines ("SCCP") is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for: (1) synchronizing the settlement of funds and the transfer of securities through delivery versus payment, as well as clearing and settlement of transactions of clearing members, who are also PSE Trading Participants; (2) guaranteeing the settlement of trades in the event of a PSE Trading Participant's default through the implementation of its "Fails Management System" and administration of the Clearing and Trade Guaranty Fund, and; (3) performance of risk management and monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the eight existing Settlement Banks of SCCP which are Banco De Oro Unibank, Inc. ("BDO Unibank"), Rizal Commercial Banking Corporation ("RCBC"), Metropolitan Bank & Trust Company ("Metrobank"), Deutsche Bank ("DB"), Union Bank of the Philippines ("Unionbank"), The Hongkong and Shanghai Banking Corporation Limited ("HSBC"), Maybank Philippines, Inc. ("Maybank") and Asia United Bank Corporation ("AUB"). Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement ("CCCS") system in May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets "buy" and "sell" transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

SCRIPLESS TRADING

In 1995, the PDTC, was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, RCBC, Metrobank, DB, Unionbank, HSBC, Maybank and AUB.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation ("PCD Nominee"), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. "Immobilization" is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares to PCD Nominee will be recorded in the Issuer's registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant's aggregate holdings, in the PDTC system, and with respect to each beneficial owner's holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must execute the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedure of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are generally on the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of the shares in the issuing corporations' books. In the depository set-up, shares are simply immobilized, wherein customers' certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee's name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company's transfer agents' books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current "de facto" custodianship role.

AMENDED RULE ON LODGMENT OF SECURITIES

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III, Part A of the PSE's Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;
- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Commission in the case of a listing by way of introduction;

- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof as follows:

"For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee Corp. but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date."

"On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer's registry as of confirmation date."

ISSUANCE OF STOCK CERTIFICATES FOR CERTIFICATED SHARES

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

FOREIGN EXCHANGE CONTROLSAND FOREIGN INVESTMENT REGULATIONS

Registration of Foreign Investments and Exchange Controls

Under current BSP regulations, an investment in Philippine securities (such as the Rights Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and the remittance of dividends, profits and earnings derived from such Shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance is sourced outside the Philippine banking system, registration is not required. The application for registration may be done directly with the BSP or through a custodian bank duly designated by the foreign investor. A custodian bank may be a universal bank, commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (1) purchase invoice, subscription agreement and/or proof of listing on the PSE (for new/additional issues/stock rights); (2) original certificate of inward remittance of foreign exchange and its conversion into Pesos through an authorized agent bank in the prescribed format; and (3) Authority to Disclose in the prescribed format.

Upon registration of the investment with the BSP, proceeds of divestments, or dividends of registered investments may be repatriated or remitted or remittable immediately and in full with foreign exchange sourced from the Philippine banking system, net of applicable tax, without need of BSP approval. Remittance is permitted upon presentation of: (1) the BSP registration document; (2) the cash dividends notice from the PSE and the PCD printout of cash dividend payment or computation of interest earned; (3) copy of the corporate secretary's sworn statement on the board resolution covering the dividend declaration; and (4) detailed computation of the amount applied for in the format prescribed by the BSP. Pending reinvestment or registration, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor's custodian bank.

The foregoing is subject to the power of the BSP, through the Monetary Board and with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee when an exchange crisis is imminent, or in times of national emergency. Furthermore, there can be no assurance that BSP foreign exchange regulations will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in any Rights Shares shall be the responsibility of the foreign investor.

Foreign Ownership Controls

Under Republic Act No. 8791 or the General Banking Law, as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40% of the voting stock. The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

On July 15, 2014, Republic Act No. 10641 or An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721 ("RA 10641") became law. Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. In relation thereto, and pursuant to Monetary Board Resolution No. 1794 dated November 6, 2014 which provided for the implementing rules and regulations of RA 10641, the BSP issued on November 21, 2014 Circular No. 858, accordingly amending the relevant provisions of the Manual of Regulations for Banks. However, RA 10641 did not entirely eliminate the foreign ownership controls under the General Banking Law. While qualified foreign banks may own up to 100% of voting shares in a universal bank, other foreign individuals or non-bank corporations are still subject to the 40% foreign ownership limitation under the General Banking Law.

The Philippine Constitution and related statutes also set forth restrictions on foreign ownership of companies that own land in the Philippines.

In connection with the ownership of private land, Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines, at least 60% of whose capital is owned by such citizens.

Memorandum Circular No. 8, Series of 2013 of the Philippine Securities and Exchange Commission (SEC) dated May 20, 2013, provided guidelines (the "Guidelines") on compliance with the Filipino-Foreign ownership requirements under the Philippine Constitution and other existing laws by corporations engaged in nationalized or partly nationalized activities (the "Nationalized Corporations"). The Guidelines provide that for purposes of determining compliance with the foreign equity restrictions in Nationalized Corporations, the required percentage of Filipino ownership shall be applied to both (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors.

Considering the foregoing, foreign ownership in the Bank is limited to a maximum of 40% of the Bank's outstanding capital stock. Accordingly, the Bank shall disallow the issuance or the transfer of Common Shares to persons other than Philippine Nationals and shall not record transfers in the Bank's books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership discussed above.

Compliance with the required ownership by Philippine Nationals of a corporation is to be determined on the basis of outstanding capital stock whether fully paid or not.

DESCRIPTION OF COMMON SHARES

The following is general information relating to the Bank's capital stock but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of the Bank's amended articles of incorporation and amended by-laws.

Share Capital

As of the date of this Prospectus, the Bank has an authorized capital stock of ₱4,250,000,000 divided into 425,000,000 Common Shares with a par value of ₱10.00 per share. As of September 30, 2018, the Bank had 240,252,491 Common Shares outstanding. Upon the completion of the Offer, the Bank will have 383,109,416 outstanding Common Shares.

Voting Rights of Common Shares

Each Common Share entitles the holder to one vote.

At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the transfer books for such meeting.

In accordance with Section 24 of the Corporation Code, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by him as of the relevant record date for as many persons as there are directors to be elected and for whose election he has a right to vote, or to cumulate his votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number his shares shall equal or by distributing such votes on the same principle among any number of candidates as the stockholder shall see fit.

Dividend Rights of Common Shares

The Bank is allowed to declare dividends out of its unrestricted retained earnings at such times and in such percentages based on the recommendation of the Board of Directors. Such recommendation will take into consideration factors such as debt service requirements, the implementation of business plans, operating expenses, budgets, funding for new investments, appropriate reserves and working capital, among other things.

The Board of Directors is authorized to declare dividends. A cash dividend declaration does not require any further approval from the shareholders. A stock dividend declaration requires the further approval of shareholders holding or representing not less than two-thirds of the Bank's outstanding capital stock. The Corporation Code defines the term "outstanding capital stock" to mean the "total shares of stock issued to subscribers or stockholders, whether or not fully or partially paid (as long as there is a binding subscription agreement), except treasury shares". Such shareholders' approval may be given at a general or special meeting duly called for such purpose. See "Dividends and Dividend Policy" on page 58 of this Prospectus.

Rights of Common Shares to Assets of the Bank

Each holder of a Common Share is entitled to a pro rata share in the assets of the Bank available for distribution to the shareholders in the event of dissolution, liquidation and winding up.

Other Features and Characteristics of Common Shares

The Common Shares are neither convertible nor subject to redemption. All of the Bank's issued Common Shares are fully paid and non-assessable and are free and clear of all liens, claims and encumbrances. All documentary stamp taxes due on the issuance of all issued Common Shares have been fully paid.

Restrictions on Transfer of Shares

The Bank may not allow the issuance or the transfer of Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law. See discussions on "Risk Factors and "Description of the Common Shares Restriction on Foreign Ownership" on pages 20 and 136, respectively.

Pre-emptive Rights

The Corporation Code confers pre-emptive rights on shareholders of a Philippine corporation, which entitle them to subscribe to all issues or other disposition of shares of any class by the corporation in proportion to their respective shareholdings, subject to certain exceptions. A Philippine corporation may provide for the exclusion of these pre-emptive rights in its articles of incorporation.

The amended articles of incorporation of the Bank does not provide for the denial of pre-emptive rights of shareholders. In the absence of such denial, the common shares have pre-emptive rights as provided in the Corporation Code.

Appraisal Rights

Under Philippine law, shareholders dissenting from the following corporate actions may demand payment of the fair value of their shares in certain circumstances:

- in case any amendment to the corporation's articles of incorporation has the effect of changing and restricting the rights of any stockholder or class of shares, or of authorizing preferences in any respect superior to those of outstanding shares of any class;
- in case of any sale, lease, exchange, transfer, mortgage or other disposition of all or substantially all of the corporate property or assets;
- in case of merger or consolidation;
- in case the corporation decides to invest its funds in another corporation or business or for any purpose other than the primary purpose; and,
- in case of extension or shortening of the term of corporate existence.

In any of these circumstances, the dissenting shareholder may require the corporation to purchase its shares at a fair value, which, in default of agreement, is determined by three (3) disinterested persons, one of whom shall be named by the shareholder, one by the corporation, and the third by the two thus chosen. Regional Trial Courts will, in the event of a dispute, determine any questions about whether a dissenting shareholder is entitled to this right of appraisal. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of such shares. No payment shall be made to any dissenting shareholder unless the corporation has unrestricted retained earnings sufficient to support the purchase of the shares of the dissenting shareholders.

Restriction on Foreign Ownership

Under the General Banking Law (R.A. No. 8791) (the "General Banking Law"), as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40% of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to only up to 40% of the voting stock. The percentage of foreign-owned voting stocks in a bank shall be determined by the citizenship of the individual or corporate stockholders in that bank. The citizenship of the corporation which is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation.

Since the aggregate foreign ownership in the Bank is limited to a maximum of 40% of its voting stock, the Bank cannot allow the issuance or the transfer of Shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law.

Further, the Philippine Constitution limits ownership of land in the Philippines to Filipino citizens or to corporations the outstanding capital stock of which is at least 60% owned by Philippine Nationals. Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Tenth Regular Foreign Investment Negative List, provide that certain activities are nationalized or partly nationalized, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly nationalized and thus, companies that own land may only have a maximum of 40% foreign equity.

These restrictions may adversely affect the liquidity and market price of the Shares to the extent that international investors are not permitted to purchase Shares in normal secondary transactions.

Stock Transfer Agent

The Bank's share register is maintained at the principal office of the Bank's stock transfer agent, Metrobank –Trust Banking Group.

Change in Control

There are no existing provisions in the amended articles of incorporation or the amended by-laws of the Bank which will delay, defer or in any manner prevent a change in control of the Bank.

PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the investment in the Bank. The following discussion is based on the laws, regulations, rulings, income tax treaties, administrative practices and judicial decisions in effect as of the date of this Prospectus and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. The following discussion does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the Common Shares.

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates. This discussion does not provide information regarding the tax aspects of acquiring, owning, holding or disposing of the shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequence in light of particular situations of acquiring, owning, holding and disposing of the shares in such other jurisdictions.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF LOCAL AND NATIONAL TAX LAWS

As used herein, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof. A "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen thereof. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a non-resident alien engaged in trade or business in the Philippines; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a non-resident alien not engaged in trade or business in the Philippines. A "domestic corporation" is created or organized under the laws of the Philippines; a "resident foreign corporation" is a non-Philippine corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business in the Philippines.

Corporate Income Tax

A domestic corporation is subject to a tax of 30% of its taxable income (gross income less allowable deductions) from all sources within and outside the Philippines except, among other things, (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 15% of such income.
A minimum corporate income tax of 2% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary corporate income tax.
Nevertheless, any excess of the minimum corporate income tax over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Furthermore, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation, which suffers losses on account of a prolonged labor dispute, or because of *force majeure*, or because of legitimate business reverses.

Tax on Dividends

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10%. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a final withholding tax at 20% of the gross amount, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under tax treaties executed between the Philippines and the country of residence or domicile of such non-resident foreign individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by resident foreign corporations are not subject to tax while those received by non-resident foreign corporations are subject to withholding tax at the rate of 30%.

The 30% final withholding tax rate for inter-corporate cash and/or property dividends paid by a domestic corporation to a non-resident foreign corporation may be reduced depending on the country of domicile of the non-resident foreign corporation if it has an existing tax treaty with the Philippines. A country with a tax treaty may have a reduced preferential tax rate, generally 25% depending on the provisions of the corresponding tax treaties. On the other hand, a country without a tax treaty may be reduced to 15% if (i) the country in which the non-resident foreign corporation is domiciled imposes no tax on foreign-sourced dividends or (ii) if the country of domicile of the non-resident foreign corporation allows a credit equivalent to 15% for taxes deemed to have been paid in the Philippines.

Stock dividends distributed *pro rata* to any holder of shares of stock are not subject to Philippine income tax. However, if the proportionate interests of the stockholders are changed, dividends received are taxable as ordinary income in the year paid or accrued. The sale, exchange or disposition of shares received as stock dividends by the holder is subject to either the capital gains or stock transaction tax.

Philippine tax authorities have prescribed certain procedures, through an administrative issuance, for availment of tax treaty relief. The Bank shall withhold taxes at a reduced rate on dividends to be paid to a non-resident holder, if such non-resident holder provides the Bank with the duly accomplished Certificate of Residence for Tax Treaty Relief ("CORTT") in the form prescribed by the BIR or the prescribed certificate of residency of the country of residence together with CORTT form. The CORTT Form is made up of two parts: Part I states the applicable tax treaty, information of income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payer, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor. The CORTT Form shall serve as proof of residency of the nonresidents. Residency is a minimum requirement for the availment of preferential tax treaty rates or tax exemption under all effective tax treaties of the Philippines. Failure to submit a CORTT Form to the withholding agent/income payor would mean that the nonresident is not claiming any tax treaty relief and therefore such income be subject to the normal rate provided under the Tax Code.

If the regular tax rate is withheld by the Bank instead of the reduced rates applicable under a treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

Taxation on Sale, Exchange or Disposition of Shares

Capital gains tax

Net capital gains realized by a resident or non-resident other than a dealer in securities during each taxable year from the sale, exchange or disposition of shares of stock in a Philippine corporation listed at and effected outside of the facilities of the local stock exchange, are subject to 15% final tax.

On 31 January 2018, the BIR issued Revenue Regulations No. 11-2018, which requires buyers to withhold the 15% final tax on the net capital gains realized by a resident or non-resident alien or a domestic corporation other than a dealer in securities.

Gains from the sale or disposition of shares in a Philippine corporation may be exempt from capital gains tax or subject to a preferential rate under a tax treaty. An application for tax treaty relief must be filed (and approved) by the Philippine tax authorities in order to obtain such exemption under a tax treaty. A prospective investor should consult its own tax adviser with respect to the applicable rates under the relevant tax treaty.

The transfer of shares shall not be recorded in the books of the Bank unless the BIR certifies that the capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR in respect of the capital gains tax or other conditions have been met.

Taxes on transfer of shares listed and traded at the local stock exchange
A sale, barter, exchange or other disposition of shares of stock listed at and effected through the facilities of the PSE by a resident or a non-resident holder, other than a dealer in securities, is subject to a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in cash of the shares of stock sold, bartered, exchanged or otherwise disposed, unless an applicable treaty exempts such sale from the said tax. The stock transaction tax is classified as a percentage tax and is paid in lieu of capital gains tax. In addition, a value added tax of 12% is imposed on the commission earned by the PSE-registered broker who facilitated the sale, barter, exchange or disposition through the PSE, and is generally passed on to the client.

On November 7, 2012, the BIR issued Revenue Regulations No. 16-2012 which provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the Minimum Public Ownership requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. It also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

On December 31, 2012, the Philippine SEC began imposing a trading suspension for a period of not more than six months, on shares of a listed company that has not complied with the Rule on Minimum Public Ownership which requires listed companies to maintain a minimum percentage of listed securities held by the public at ten percent of the listed companies' issued and outstanding shares at all times. On December 1, 2017, the Philippine SEC, through Memorandum Circular No. 13, raised the Minimum Public Ownership requirement to 20% for any company applying for registration of its shares of stock for the purpose of conducting an initial public offering. Companies which do not comply with the Minimum Public Ownership requirement after the lapse of the trading suspension shall be automatically delisted. The sale of such listed company's shares during the trading suspension or such delisted company may be effected only outside the trading system of the PSE and shall be subject to capital gains tax and documentary stamp tax. Furthermore, if the fair market value of the shares of stock sold is greater than the consideration or the selling price, the amount by which the fair market value of the shares exceeds the selling price shall be deemed a gift that is subject to donor's tax under Section 100 of the Tax Code, unless the sale, exchange, or other transfer of property made in the ordinary course of business.

Documentary Stamp Tax
The original issue of shares is subject to documentary stamp tax of ₱2.00 for each ₱200.00, or a fractional part thereof, of the par value of the shares issued. The transfer of shares is subject to a documentary stamp tax of ₱1.50 for each ₱200.00, or a fractional part thereof of the par value of the shares transferred. However, the sale, barter or exchange of shares of stock listed and traded through the local stock exchange shall not be subject to documentary stamp tax under Republic Act No. 9648 which exempts the sale, barter or exchange of shares of stock listed and traded through the local stock exchange from the documentary stamp tax, retroactive to March 20, 2009.

Estate and Gift Taxes
The transfer of shares of stock upon the death of an individual holder to his heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine taxes at a fixed rate of 6% of the net estate.

Individual and corporate holders, whether or not citizens or residents of the Philippines, who transfer shares of stock by way of gift or donation are liable to pay Philippine donors' tax at the fixed rate of 6% based on the total gifts in excess of ₱250,000 exempt gifts made during the calendar year, whether the donor is a stranger or not.

Estate and donors' taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock: (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

Taxation outside the Philippines
Shares of stock in a domestic corporation are considered under Philippine law as situated in the Philippines and the gain derived from their sale is entirely from Philippine sources; hence such gain is subject to Philippine income tax and capital gains tax and the transfer of such shares by gift (donation) or succession is subject to the donors' or estate taxes, each as described above.

The tax treatment of a non-resident holder of shares of stock in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax consideration on non-resident holders of shares of stock under laws other than those of the Philippines.

LEGAL MATTERS

Certain Philippine legal matters in connection with the Offer have been passed upon for the Bank by Picazo Buyco Tan Fider & Santos, Manila, Philippines, the independent legal counsel of the Bank, and for the Underwriters by Angara Abello Concepcion Regala & Cruz, Manila, Philippines.

The aforesaid counsels have no shareholdings in the Bank, or any right, whether legally enforceable or not, to nominate persons or to subscribe to the securities of the Bank, in accordance with the standards or independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The aforesaid legal counsels have not acted and will not act as promoter, underwriter, voting trustee, officer or employee of the Bank.

INDEPENDENT AUDITORS

The financial statements of the Group and of the Bank as of December 31, 2015, 2016 and 2017 and for each of the three years in the period ended December 31, 2015, 2016 and 2017 were audited by SyCip Gorres Velayo & Co., a member firm of Ernst & Young, independent auditors, as stated in their report appearing herein.

The unaudited interim condensed financial statements of the Bank as of September 30, 2018 and for the nine months ended September 30, 2017 were not reviewed by SGV.

Philippine Savings Bank

Unaudited Interim Financial Statements
As of September 30, 2018

And for the nine-month periods ended
September 30, 2018 and 2017

(With Comparative Audited Statement of Condition
as of December 31, 2017)

PHILIPPINE SAVINGS BANK

Annex 1

UNAUDITED INTERIM STATEMENTS OF CONDITION

(With Comparative Audited Figures as at December 31, 2017)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and Other Cash Items	**₱2,736,594,300**	₱2,596,872,801
Due from Bangko Sentral ng Pilipinas	**14,334,085,640**	15,265,387,772
Due from Other Banks	**1,623,161,006**	1,508,489,309
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**1,950,000,000**	1,842,023,049
Financial Assets at Fair Value Through Profit or Loss (Notes 2, 3 and 5)	**5,293,448**	366,235,689
Available-for-Sale Investments (Notes 2, 3 and 5)	**–**	16,925,485,941
Financial Assets at Fair Value Through Other Comprehensive Income (Notes 2, 3 and 5)	**11,510,143,687**	–
Held-to-Maturity Investments (Notes 2, 3 and 5)	–	29,473,724,384
Hold-to-Collect (Notes 2, 3 and 5)	**36,151,618,808**	–
Loans and Receivables (Notes 2, 3 and 6)	**152,371,787,847**	144,964,513,221
Investment in a Joint Venture	**661,736,400**	607,162,821
Property and Equipment (Note 7)	**2,292,452,715**	2,480,012,354
Investment Properties (Note 8)	**4,091,945,824**	3,930,317,479
Deferred Tax Assets (Note 2)	**1,231,321,805**	1,429,327,369
Goodwill and Intangible Assets	**679,045,733**	714,924,056
Other Assets (Note 9)	**1,451,592,535**	1,219,566,379
	₱231,090,779,748	₱223,324,042,624
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱20,491,030,582**	₱19,112,561,892
Savings	**32,851,690,243**	30,383,783,001
Time	**135,861,937,936**	136,042,056,714
Long-term Negotiable Certificates of Deposits	**8,459,500,000**	3,375,000,000
	197,664,158,761	188,913,401,607
Bills Payable (Note 10)	**270,100,000**	1,492,418,518
Subordinated Notes	**2,980,990,380**	2,978,997,695
Treasurer's, Cashier's and Manager's Checks	**1,471,648,009**	2,213,869,703
Accrued Taxes, Interest and Other Expenses (Note 11)	**1,693,316,812**	1,658,423,304
Income Tax Payable	**79,473,761**	375,277
Financial Liabilities at Fair Value Through Profit or Loss (Note 5)	**29,630,801**	–
Other Liabilities (Note 12)	**3,024,736,476**	3,673,232,353
	207,214,055,000	200,930,718,457

(Forward)

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Equity		
Common Stock	**₱2,402,524,910**	₱2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves	**1,035,402,901**	1,035,402,901
Surplus (Note 2)	**18,916,790,502**	17,097,046,504
Net Unrealized Loss on Available-for-Sale Investments (Note 2 and 5)	**–**	(411,510,218)
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income (Note 2 and 5)	**(757,988,512)**	–
Remeasurement Losses on Retirement Plan	**(545,392,541)**	(545,392,541)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**1,245,144**	1,245,144
Cumulative Translation Adjustment	**6,058,838**	(4,076,039)
	23,876,724,748	22,393,324,167
	₱231,090,779,748	₱223,324,042,624

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK **Annex 2**

UNAUDITED INTERIM STATEMENTS OF INCOME

	For the quarter ended September 30 (July to September)		For the nine months ended September 30 (January to September)	
	2018	2017	**2018**	2017
INTEREST INCOME				
Loans and receivables	**₱3,624,967,694**	₱3,183,921,019	**₱10,544,135,057**	₱9,201,809,433
Hold-to-collect investments (Note 5)	**364,961,858**	–	**1,065,747,018**	–
Financial assets at fair value through other comprehensive income (Note 5)	**132,066,678**	–	**420,853,955**	–
Interbank loans receivable and securities purchased under resale agreements	**22,790,369**	10,008,299	**49,909,491**	52,282,492
Financial assets at fair value through profit or loss (Note 5)	**510,991**	7,432,167	**9,088,348**	44,052,460
Due from Bangko Sentral ng Pilipinas	**977,431**	87,020,417	**6,106,806**	132,584,491
Due from other banks	**874,005**	590,910	**2,910,698**	1,695,008
Held-to-maturity investments (Note 5)	**–**	304,989,206	**–**	857,310,511
Available-for-sale investments (Note 5)	**–**	158,481,106	**–**	438,666,963
	4,147,149,026	3,752,443,124	**12,098,751,373**	10,728,401,358
INTEREST EXPENSE				
Deposit liabilities	**1,289,097,975**	865,497,005	**3,269,906,677**	2,328,673,562
Subordinated notes	**41,923,527**	41,985,409	**125,742,684**	149,087,353
Bills payable	**3,325,556**	17,675,941	**42,306,996**	46,134,551
	1,334,347,058	925,158,355	**3,437,956,357**	2,523,895,466
NET INTEREST INCOME	**2,812,801,968**	2,827,284,769	**8,660,795,016**	8,204,505,892
Service fees and commission income	**397,594,001**	355,578,114	**1,190,380,659**	1,086,893,031
Service fees and commission expense	**25,692,644**	24,680,149	**71,103,797**	71,397,541
NET SERVICE FEES AND COMMISSION INCOME	**371,901,357**	330,897,965	**1,119,276,862**	1,015,495,490
OTHER OPERATING INCOME (CHARGES)				
Trading and securities losses - net	**(6,614,197)**	33,439,559	**(98,078,314)**	(55,049,518)
Gain on foreclosure and sale of investment properties - net	**159,503,047**	57,980,654	**328,338,071**	230,772,851
Gain on foreclosure and sale of chattel mortgage properties - net	**(17,083,336)**	197,071,786	**212,713,417**	431,505,383
Foreign exchange gain - net	**20,970,011**	17,551,790	**78,340,606**	43,102,006

(Forward)

	For the quarter ended September 30 (July to September)		For the nine months ended September 30 (January to September)	
	2018	2017	**2018**	2017
Gain on sale of property and equipment	**₱4,234,712**	₱1,397,270	**₱4,321,203**	₱1,438,270
Miscellaneous	**138,518,670**	132,701,448	**489,938,796**	398,596,819
	299,528,907	440,142,507	**1,015,573,779**	1,050,365,811
TOTAL OPERATING INCOME	**3,484,232,232**	3,598,325,241	**10,795,645,657**	10,270,367,193
OTHER EXPENSES				
Compensation and fringe benefits	**864,895,357**	821,630,057	**2,548,244,699**	2,387,352,291
Provision for credit and impairment losses	**434,914,687**	572,629,175	**1,542,797,924**	1,727,855,266
Taxes and licenses	**407,744,417**	331,767,630	**1,191,636,320**	991,111,494
Occupancy and equipment-related costs	**188,521,466**	184,383,224	**570,623,452**	554,242,931
Depreciation (Note 7)	**157,631,843**	163,009,910	**477,387,762**	476,801,433
Security, messengerial and janitorial services	**114,690,986**	125,288,503	**374,178,491**	353,466,244
Amortization of intangible assets	**39,477,096**	34,441,756	**121,702,754**	97,606,879
Miscellaneous (Note 14)	**546,544,165**	574,155,842	**1,634,175,974**	1,632,028,904
	2,754,420,017	2,807,306,097	**8,460,747,376**	8,220,465,442
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**729,812,215**	791,019,143	**2,334,898,281**	2,049,901,751
SHARE IN NET INCOME OF A JOINT VENTURE	**18,533,815**	19,471,192	**54,573,580**	45,572,679
INCOME BEFORE INCOME TAX	**748,346,030**	810,490,335	**2,389,471,861**	2,095,474,430
PROVISION FOR (BENEFIT FROM) INCOME TAX	**71,256,946**	112,122,345	**359,060,156**	217,457,514
NET INCOME	**₱677,089,084**	₱698,367,990	**₱2,030,411,705**	₱1,878,016,916
Basic/Diluted Earnings Per Share	**₱2.82**	₱2.91	**₱8.45**	₱7.82

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK **Annex 3**

UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the quarter ended September 30 (July to September)		For the nine months ended September 30 (January to September)	
	2018	2017	**2018**	2017
NET INCOME	**₱677,089,084**	₱698,367,990	**₱2,030,411,705**	₱1,878,016,916
OTHER COMPREHENSIVE INCOME (LOSSES)				
Items that recycle to profit or loss in subsequent periods:				
Net unrealized gain from available-for-sale investments (Note 5)	–	83,542,713	–	527,965,296
Net unrealized loss from financial assets at fair value through other comprehensive income (Note 5)	**15,877,146**	–	**(686,653,115)**	–
Cumulative translation adjustment	**3,578,201**	1,183,793	**10,134,877**	1,942,977
Item that does not recycle to profit or loss in subsequent periods:				
Net unrealized loss from financial assets at fair value through other comprehensive income (Note 5)	–	–	**(2,188,665)**	–
	19,455,347	84,726,505	**(678,706,903)**	529,908,273
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱696,544,431**	₱783,094,495	**₱ 1,351,704,802**	₱2,407,925,189

See accompanying Notes to Unaudited Interim Financial Statements.

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income/ Available-For-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at December 31, 2017 (audited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,097,046,504**	**(₱411,510,218)**	**(₱545,392,541)**	**₱1,245,144**	**(₱4,076,039)**	**₱22,393,324,167**
Effect of the adoption of PFRS 9	–	–	–	**329,900,396**	**342,363,486**	–	–	–	**672,263,882**
Balance at January 1, 2018, as restated	**2,402,524,910**	**2,818,083,506**	**1,035,402,901**	**17,426,946,900**	**(69,146,732)**	**(545,392,541)**	**1,245,144**	**(4,076,039)**	**23,065,588,049**
Total comprehensive income (loss) for the year	–	–	–	**2,030,411,705**	**(688,841,780)**	–	–	**10,134,877**	**1,351,704,802**
Cash dividends (Note 18)	–	–	–	**(540,568,103)**	–	–	–	–	**(540,568,103)**
Balance at September 30, 2018 (unaudited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱18,916,790,502**	**(₱757,988,512)**	**(₱545,392,541)**	**₱1,245,144**	**₱6,058,838**	**₱23,876,724,748**
Balance at January 1, 2017 (Unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196
Total comprehensive income for the year	–	–	–	1,878,016,916	527,965,296	–	–	1,942,977	2,407,925,189
Cash dividends (Note 18)	–	–	–	(540,568,104)	–	–	–	–	(540,568,104)
Balance at September 30, 2017 (unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱16,500,961,245	(₱314,943,068)	(₱541,701,193)	₱1,443,599	₱3,384,965	₱21,905,029,281

See accompanying Notes to Unaudited Interim Financial Statements.

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱2,389,471,861**	₱2,095,474,430
Adjustments to reconcile income before income tax to net cash provided by (used in) operations:		
Amortization of discount on available-for-sale and held-to-maturity investments	**–**	(18,382,507)
Amortization of premium on financial assets at fair value through other comprehensive income and hold-to-collect investments	**329,900,396**	–
Provision for credit and impairment losses	**1,542,797,924**	1,727,855,266
Depreciation (Note 7)	**477,387,762**	476,801,433
Gain on foreclosure and sale of:		
Chattel mortgage properties (Note 9)	**(212,713,417)**	(431,505,383)
Investment properties (Note 8)	**(328,338,071)**	(230,772,851)
Amortization of:		
Intangible assets	**121,702,754**	97,606,879
Debt issuance costs	**1,992,685**	(3,026,903,122)
Realized loss on sale of available-for-sale investments (Note 5)	**–**	50,269,826
Realized gain on sale of financial assets at fair value through other comprehensive income (Note 5)	**(81,067,979)**	–
Share in net income of a joint venture	**(54,573,580)**	(45,572,679)
Unrealized trading gain on financial assets at fair value through profit or loss (Note 5)	**(7,066,667)**	(17,709,991)
Gain on sale of property and equipment	**(4,321,203)**	(1,438,270)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**397,639,709**	772,028,899
Loans and receivables	**(11,057,479,585)**	(16,402,014,140)
Other assets	**(286,301,379)**	(155,092,098)
Increase (decrease) in:		
Deposit liabilities	**8,755,698,554**	26,012,375,559
Bills payable	**140,103**	–
Accrued taxes, interest and other expenses	**34,908,217**	217,279,993
Treasurer's, cashier's and manager's checks	**(742,221,694)**	(222,813,075)
Other liabilities	**(648,455,568)**	(353,565,177)
Cash generated from (used in) operations	**629,100,822**	10,543,922,992
Income taxes paid	**(81,956,108)**	(223,658,419)
Net cash provided by (used in) operating activities	**547,144,714**	10,320,264,573
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Available-for-sale investments	**–**	(3,550,577,672)
Financial assets at Fair value through other comprehensive income	**(9,061,972,252)**	–
Held-to-maturity investments	**–**	(6,197,544,014)
Hold-to-collect investments	**(6,674,105,244)**	–

(Forward)

	Nine Months Ended September 30	
	2018	**2017**
Property and equipment	**(₱122,698,846)**	(₱190,687,331)
Other intangible assets	**(85,824,431)**	-
Proceeds from sale of:		
Available-for-sale investments	**–**	1,030,567,326
Financial assets at fair value through other comprehensive income	**14,212,941,928**	–
Chattel mortgage properties	**1,858,578,643**	2,112,739,901
Investment properties	**490,433,435**	771,261,052
Property and equipment	**29,285,385**	17,434,688
Other intangible assets	–	(89,409,164)
Investments in a joint venture	–	193,456,239
Increase (Decrease) in interbank loans receivables	**–**	(4,127,094)
Net cash used in investing activities	**646,638,618**	(5,906,886,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of subordinated notes	**–**	(3,001,910,905)
Availments of bills payable	**270,029,949**	78,821,239,833
Settlement of bills payable	**(1,492,418,517)**	(75,864,730,469)
Dividends paid	**(540,568,105)**	(540,568,105)
Net cash provided by (used in) financing activities	**(1,762,956,673)**	(585,969,646)
Effect of exchange rate differences	**241,356**	59,841
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(568,931,985)**	3,827,468,699
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**2,596,872,801**	2,778,009,185
Due from Bangko Sentral ng Pilipinas	**15,265,387,772**	13,986,784,696
Due from other banks	**1,508,489,309**	1,838,630,022
Interbank loans receivable and securities purchased under resale agreements	**1,842,023,049**	3,254,311,599
	21,212,772,931	21,857,735,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**2,736,594,300**	2,291,471,561
Due from Bangko Sentral ng Pilipinas	**14,334,085,640**	21,482,104,677
Due from other banks	**1,623,161,006**	1,461,627,963
Interbank loans receivable and securities purchased under resale agreements	**1,950,000,000**	450,000,000
	₱20,643,840,946	25,685,204,201
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱4,551,826,959**	₱5,673,397,947
Interest received	**18,362,017,683**	12,535,168,205

See accompanying Notes to Unaudited Interim Financial Statements.

NOTES TO UNAUDITED INTERIM FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of September 30, 2018, the Bank had a total of 250 branches and 580 ATMs which consist of 263 onsite ATMs and 317 offsite ATMs nationwide.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of September 30, 2018, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) of the Bank.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim financial statements for the nine month periods ended September, 2018 and 2017 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Bank's annual audited financial statements as at December 31, 2017.

The accompanying unaudited interim financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVTPL) investments, available-for-sale (AFS) investments and financial assets measured at fair value through other comprehensive income (FVOCI) that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying unaudited interim financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso. The financial statements of these units are combined after eliminating inter-unit accounts.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Seasonality or Cyclicality of Interim Operations
Seasonality or cyclicality of interim operations is not applicable to the Bank's type of business.

Summary of Significant Accounting Policies
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as FVOCI/AFS and financial assets at FVTPL, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of the audited annual financial statements as of and for the year ended December 31, 2017 except for the adoption of new standards and amendments effective as of January 1, 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Bank applies PFRS 9 (2014), *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*. As required by PAS 34, the nature and effect of these changes are disclosed below.

PFRS 9 *Financial Instruments*
The Bank has adopted PFRS 9 effective January 1, 2018. This was applied retrospectively for which adjustments have been made at the beginning balance of the annual reporting period to reflect PFRS 9 changes at the date of initial adoption. PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9.

The Bank adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

<u>Financial Instruments – Classification and Measurement</u>
Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss; and
- financial assets measured at fair value through profit or loss.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments that do not pass this test are automatically classified at FVTPL.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model
The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel. The risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest Income' in the interim statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the unaudited interim statement of income.

Financial assets at fair value through other comprehensive income (FVOCI)
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Bank may also make an irrevocable election to measure at FVOCI on initial recognition with investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 9. Amounts recognized in OCI are not subsequently transferred to interim statement of income. However, the Bank may transfer the cumulative gain or loss within equity upon adoption date. Dividends on such investments are recognized in interim statements of income, unless the dividend clearly represents recovery of part of the cost of the investment.

Dividends are recognized in interim statements of income only when:
- the Bank's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Bank; and
- the amount of the dividend can be measured reliably.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the interim statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Bank may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Bank, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and all the gains and losses from disposal of debt instruments classified as FVOCI and investment securities at amortized cost.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 13, *Business Combinations*.

Reclassifications of financial instruments
The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated.

Impairment of Financial Assets
PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Incurred loss versus expected credit loss methodology
The application of ECL will significantly change the Bank's credit loss methodology and models.
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for an equivalent of a consecutive period of 180 days and has exhibited a satisfactory track record.

Credit risk at initial recognition
The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays
The Bank incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are incorporated in the ECL.

Hedge Accounting
The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Bank has assessed that the adoption of these amendments will not have any impact in the 2018 financial statements.

The Bank chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:

- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7, *Financial Instruments: Disclosures* will be retained for the periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual period that includes the date of initial application will be recognized in the opening Surplus or other component of equity, as appropriate.
- As comparative information is not restated, the Bank is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements.*

The impact of PFRS 9 adoption in the statement of condition as of January 1, 2018 is as follows:

	Increase (Decrease)
Assets	
Financial assets at FVTPL	₱1,173,070,399
Financial assets at FVOCI	12,151,053,847
Hold-to-collect investments (HTC)	33,443,649,555
Available-for-sale investments (AFS)	(16,925,485,941)
Held-to-maturity investments (HTM)	(29,473,724,384)
Loans and receivables	469,097,615
Deferred tax assets	(141,385,883)
	₱696,275,208

	Increase (Decrease)
Equity	
Surplus	₱353,911,722
Net unrealized losses on AFS investments	411,510,218
Net unrealized losses on financial assets at FVOCI	(69,146,732)
	₱696,275,208

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

Measurement category	Impairment allowance under PAS 39	Transition adjustment	Impairment allowance under PFRS 9
Receivables from customers	₱3,975,499,553	(₱326,988,266)	₱3,648,511,287
Other receivables*	671,458,562	(142,109,349)	529,349,213
	₱4,646,958,115	(₱469,097,615)	₱4,177,860,500

**Other receivables include accounts receivables, accrued interest receivables, sales contract receivables and bills purchased*

The impact on the Bank's surplus and other equity upon adoption of PFRS 9 are as follows:

Net unrealized market losses	
Opening balance under PAS 39	(₱411,510,218)
Reclassification from AFS investments to investment securities at amortized cost	299,816,341
Reclassification from HTM investments to financial assets at FVOCI	44,735,810
Derecognition of allowance for impairment losses on AFS equity securities	(2,188,665)
Opening balance under PFRS 9	(₱69,146,732)

Surplus	
Opening balance under PAS 39	₱17,097,046,504
Reclassification from financial assets at FVTPL to hold-to-collect investments	24,011,325
ECL adjustment	329,900,397
Opening balance under PFRS 9	₱17,450,958,226

The Bank has applied its existing governance framework to ensure appropriate controls and validations are in place over key processes and judgments implementing PFRS 9.

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

The Bank applied PFRS 15 on its revenue arrangements (e.g., service charges, trust fees and commissions) that are scoped in the new standard. In addition, the recognition and measurement requirement in PFRS 15 also apply to gains and losses on disposals of nonfinancial assets (such as items of property and equipment and intangible assets), when the disposal is not in the ordinary course of business. The Bank has assessed that the effect of these changes is immaterial.

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

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

The amendments are not applicable to the Bank since it does not have share-based payment transactions.

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

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Bank since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that

is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The Bank has assessed that the effect of these amendments is immaterial.

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

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

3. Fair Value Measurement

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted FVOCI/AFS equity securities - Fair values are based on quoted prices published in markets. *Unquoted FVOCI/AFS equity securities* - The club shares and preferred shares classified as financial assets at FVOCI were valued using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value.

Derivative instruments (included under FVTPL) – The Bank's derivative instruments pertain to foreign exchange contracts. These are valued using valuation techniques using market observable inputs including foreign exchange rates. Discounted cash flow model is applied. This valuation model discounts each cash flow of the derivatives at a rate that is dependent on the tenor of the cash flow.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable and bills purchased - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes, long-term negotiable certificates of time deposits (LTNCTDs) and time deposits- Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Investment properties
Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the hierarchy described for determining and disclosing the fair value of financial instruments by valuation technique (in thousands):

	September 30, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
Government securities	**₱31**	**₱31**	**₱–**	**₱–**	**₱31**
Derivative assets - foreign exchange swaps	**5,262**	–	**5,262**	–	**5,262**
FVOCI investments					
Government debt securities	**7,199,222**	**7,199,222**	–	–	**7,199,222**
Private debt securities	**4,300,096**	**4,300,096**	–	–	**4,300,096**
Equity securities	**9,013**	**163**	**8,850**	–	**9,013**
	₱11,513,624	**₱11,499,512**	**₱14,112**	**₱–**	**₱11,513,624**
Liabilities measured at fair value:					
Financial Liabilities					
FVTPL investments	**₱29,631**	**₱–**	**₱29,631**	**₱–**	**₱29,631**

	September 30, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which fair values are disclosed:					
Financial Assets					
Investments at amortized cost					
Government	**₱32,517,868**	**₱28,614,734**	**₱–**	**₱–**	**₱28,614,734**
Private	**3,633,751**	**3,448,153**	**–**	**–**	**3,448,153**
Loans and receivables					
Receivables from customers					
Consumption loans	**86,689,322**	**–**	**–**	**99,285,673**	**99,285,673**
Real estate loans	**48,620,712**	**–**	**–**	**48,136,719**	**48,136,719**
Commercial loans	**12,259,468**	**–**	**–**	**12,462,113**	**12,462,113**
Personal loans	**2,890,086**	**–**	**–**	**3,474,194**	**3,474,194**
Other receivables					
Sales contract receivable	**44,863**	**–**	**–**	**78,323**	**78,323**
Other assets					
Security deposits	**186,190**	**–**	**–**	**257,319**	**257,319**
Non-Financial Assets					
Investment properties	**4,091,946**	**–**	**–**	**4,618,361**	**4,618,361**
	₱190,934,206	**₱32,062,887**	**₱–**	**₱168,312,702**	**₱200,375,589**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	**₱135,861,938**	**₱–**	**₱–**	**₱140,307,319**	**₱140,307,319**
LTNCTDs	**8,459,500**	**–**	**–**	**7,607,620**	**7,607,620**
Subordinated notes	**2,980,990**	**–**	**–**	**2,221,569**	**2,221,569**
Bills payable	**270,100**	**–**	**–**	**270,100**	**270,100**
	₱147,572,528	**₱–**	**₱–**	**₱150,406,608**	**₱150,406,608**

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
Held-for-trading (HFT) - government securities	₱293,076	₱293,076	₱–	₱–	₱293,076
Derivative assets - foreign exchange swaps	73,160	–	73,160	–	73,160
AFS investments					
Government debt securities	10,762,411	10,260,902	501,509	–	10,762,411
Private debt securities	6,153,072	6,153,072	–	–	6,153,072
Equity securities *	7,703	163	8,760	–	8,923
	₱17,289,422	₱16,707,213	₱583,429	₱–	₱17,290,642
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	₱25,460,778	₱24,634,062	₱–	₱–	₱24,634,062
Private	4,012,946	4,046,020	–	–	4,046,020
Loans and receivables					
Receivables from customers					
Consumption loans	82,319,091	–	–	93,632,312	93,632,312
Real estate loans	45,961,973	–	–	45,844,118	45,844,118
Commercial loans	11,185,778	–	–	12,070,479	12,070,479
Personal loans	2,899,960	–	–	3,383,787	3,383,787
Sales contract receivable	72,892	–	–	107,448	107,448
Security deposits	179,436	–	–	288,467	288,467
Non-Financial Assets					
Investment properties	3,930,317	–	–	4,939,141	4,939,141
	₱176,023,171	₱28,680,082	₱–	₱160,265,752	₱189,945,834

(Forward)

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱136,042,057	₱–	₱–	₱137,797,790	₱137,797,790
Deposit liabilities – LTNCTD	3,375,000	–	–	3,198,056	3,198,056
Subordinated notes	2,978,998	–	–	3,046,819	3,046,819
Bills payable	1,492,419	–	–	1,492,419	1,492,419
	₱143,888,474	₱–	₱–	₱145,535,084	₱145,535,084

**Gross of allowance for impairment losses of ₱2,188,665.*

There have been no transfers between levels in September 30, 2018 and December 31, 2017.

As of September 30, 2018 and December 31, 2017, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

4. Financial Risk Management Policies and Objectives

Compared with December 31, 2017, there have been no changes in the financial risk exposures that materially affect the financial statements of the Bank as of September 30, 2018. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Risk Management Framework
Organization risk management structure continues to be a top-down organization, with the Board of Directors (BOD) at the helm of all major initiatives. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the Risk Oversight Committee (ROC).

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

The BOD is also supported by other Board and management-level committees such as the Corporate Governance, Audit, Executive, Credit, Assets and Liabilities Committees, to name a few.

a. *Credit risk*
Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and Risk Management Office (RMO). These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of September 30, 2018 and December 31, 2017, the maximum credit exposure to any borrower amounted to ₱1.9 billion, before taking into account any collateral or other credit enhancement.

In 2017, the Bank effected the necessary adjustments to its credit risk management systems and processes in transition to the PFRS 9 as well as the Amended Rules on Past Due and Non-Performing Loans per BSP Circular No. 941, both effective January 1, 2018. Credit risk management was likewise strengthened in preparation for the implementation of expected credit loss models which will allow the Bank to shift from the incurred loss methods for calculating allowance for losses to forward-looking loss provisioning. Further, credit scoring models were updated to optimize returns by growing profitable lending segments and exploring new markets whilst mitigating the risks.

b. *Market risk*

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure.

VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260-day rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Non-trading activities
<u>Interest Rate Risk</u>
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year and capital. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EAR and stress testing reports are prepared on a monthly basis.

<u>Foreign Currency Risk</u>
Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period.

c. *Liquidity Risk*
The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

5. Investment Securities

<u>*Financial Assets at Fair Value through Profit or Loss*</u>
Financial assets at FVTPL consist of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities	**₱31,002**	₱293,076,128
Derivative instruments	**5,262,446**	73,159,561
	₱5,293,448	₱366,235,689

As of September 30, 2018 and December 31, 2017, the Bank has financial liabilities at FVTPL amounting to ₱29.6 million and nil, respectively.

Net movements of derivative instruments are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	**₱73,159,561**	(₱64,817,467)
Fair value changes during the year	**20,320,697**	244,579,043
Settled transactions	**(117,848,613)**	(106,602,015)
Balance at end of period	**(₱24,368,355)**	₱73,159,561

Financial Assets at Fair Value through Other Comprehensive Income/Available-for-Sale Investments
Financial assets at FVOCI/AFS investments consist of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - AFS		
Government	**₱–**	₱10,762,411,432
Private	**–**	6,153,071,645
Debt securities - FVOCI		
Government	**7,199,222,012**	–
Private	**4,300,096,310**	–
Equity securities - AFS	**–**	12,191,529
Equity securities - FVOCI	**10,825,365**	–
	₱11,510,143,687	₱16,927,674,606
Less allowance for impairment losses	**–**	2,188,665
	₱11,510,143,687	₱16,925,485,941

Movements in the net unrealized loss on AFS investments follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year (audited)	**(₱411,510,218)**	(₱842,908,364)
Effect of the adoption of PFRS 9	**342,363,486**	–
Balance at beginning of year, as restated	**(69,146,732)**	(₱842,908,364)
Loss from sale of AFS investments realized in profit or loss	**–**	49,756,366
Loss from sale of financial assets at FVOCI realized in profit or loss	**81,067,979**	–
Changes in fair values of AFS investments	**–**	381,641,780
Changes in fair values of financial assets at FVOCI	**(769,909,759)**	–
	(688,841,780)	431,398,146
Balance at end of year	**(₱757,988,512)**	(₱411,510,218)

Hold-to-Collect/Held-to-Maturity Investments
Hold-to-Collect/HTM investments consist of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - HTM		
Government	**₱–**	₱25,460,777,587
Private	**–**	4,012,946,797
Debt securities - HTC		
Government	**32,517,868,144**	–
Private	**3,633,750,664**	–
	₱36,151,618,808	₱29,473,724,384

As of September 30, 2018 and December 31, 2017, the carrying value of hold-to-collect investments/HTM investments in the form of government bonds pledged by the Bank as collateral for bills payable amounted to nil and ₱1.0 billion, respectively.

Interest income on investment securities consists of:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Interest income recognized using EIR		
Hold-to-collect investments	**₱1,065,747,018**	₱–
Financial assets at FVOCI	**420,853,955**	–
HTM investments	**–**	857,310,511
AFS investments	**–**	438,666,963
	1,486,600,973	1,295,977,474
Interest income recognized using nominal interest rates		
Financial assets at FVTPL	**9,088,348**	44,052,460
	9,088,348	44,052,460
	₱1,495,689,321	₱1,340,029,934

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 4.00% to 8.13% and 2.13% to 8.13% for the nine months ended September 30, 2018 and 2017, respectively, while foreign currency-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 3.00% to 9.50% and 3.70% to 9.50% for the nine months ended September 30, 2018 and 2017, respectively.

Effective interest rates on financial assets at FVOCI/AFS investments for the nine months ended September 30, 2018 and 2017 range from 3.05% to 9.96% and 3.79% to 4.20%, respectively.

On the other hand, peso-denominated HTC/HTM investments bear effective interest rates ranging from 3.43% to 5.61% and 3.38% to 5.61% for the nine months ended September 30, 2018 and 2017, respectively, while foreign currency-denominated investment securities at amortized cost/HTM investments bear effective interest rates ranging from 3.00% to 4.88% and 2.46% to 4.96% for the nine months ended September 30, 2018 and 2017, respectively.

Trading and securities losses - net on investment securities consist of:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
FVTPL investments		
Realized	**(₱24,077,002)**	(₱22,489,682)
Unrealized market valuation gain (loss)	**7,066,667**	17,709,991
	(17,010,335)	(4,779,691)
AFS investments	**–**	(50,269,827)
Financial assets at FVOCI	**(81,067,979)**	–
	(₱98,078,314)	(₱55,049,518)

6. **Loans and Receivables**

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Receivables from customers		
Consumption loans	**₱88,962,936,964**	₱84,276,599,224
Real estate loans	**48,957,096,311**	46,594,075,046
Commercial loans	**12,373,128,985**	11,975,704,903
Personal loans	**3,581,080,810**	3,486,068,122
	153,874,243,070	146,332,447,295
Less unearned discounts	**130,332**	145,142
	153,874,112,738	146,332,302,153
Other receivables		
Accrued interest receivable	**1,906,868,422**	1,911,372,461
Accounts receivable	**841,930,704**	1,250,586,507
Sales contract receivables	**78,699,523**	106,727,770
Bills purchased	**8,073,330**	10,482,445
	156,709,684,717	149,611,471,336
Less allowance for credit losses	**4,337,896,870**	4,646,958,115
	₱152,371,787,847	₱144,964,513,221

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

Receivables from customers earned interest income at an effective interest rate ranging from 8.76% to 9.46%, and 9.19% to 9.36% for the nine months ended September 30, 2018 and 2017, respectively.

Interest income on loans and receivables consists of:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Receivables from customers		
Consumption loans	**₱6,388,796,462**	₱5,580,110,006
Real estate loans	**2,552,870,225**	2,442,445,274
Personal loans	**1,033,532,558**	610,872,880
Commercial loans	**563,526,885**	561,865,559
Other receivables		
Sales contract receivables	**5,408,927**	6,515,714
	₱10,544,135,057	₱9,201,809,433

7. Property and Equipment

The composition of and movements in this account follow:

	September 30, 2018 (Unaudited)				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,126,593,369**	**₱2,721,454,277**	**₱976,140,270**	**₱5,800,631,592**
Acquisitions	**–**	**2,290,804**	**111,027,076**	**9,380,966**	**122,698,846**
Disposals	**–**	**–**	**(20,447,037)**	**–**	**(20,447,037)**
Reclassification/transfer	**–**	**–**	**–**	**120,869,347**	**120,869,347**
Balance as at September 30, 2018	**976,443,676**	**1,128,884,173**	**2,812,034,316**	**1,106,390,583**	**6,023,752,748**
Accumulated Depreciation					
Balance at beginning of year	**–**	**416,470,260**	**2,185,390,898**	**718,758,080**	**3,320,619,238**
Depreciation	**–**	**28,983,511**	**184,298,137**	**72,012,655**	**285,294,303**
Disposals	**–**	**–**	**(16,778,448)**	**–**	**(16,778,448)**
Reclassifications/transfer	**–**	**166,259**	**17,223,585**	**124,775,096**	**142,164,940**
Balance as at September 30, 2018	**–**	**445,620,030**	**2,370,134,172**	**915,545,831**	**3,731,300,033**
Net Book Value	**₱976,443,676**	**₱ 683,264,143**	**₱ 441,900,144**	**₱ 190,844,752**	**₱ 2,292,452,715**

	December 31, 2017 (Audited)				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,125,080,642	₱2,599,237,687	₱910,425,844	₱5,611,187,849
Acquisitions	–	1,512,727	159,892,831	65,714,426	227,119,984
Disposals	–	–	(37,676,241)	–	(37,676,241)
Balance at end of year	976,443,676	1,126,593,369	2,721,454,277	976,140,270	5,800,631,592
Accumulated Depreciation					
Balance at beginning of year	–	380,990,516	1,937,538,765	625,488,113	2,944,017,394
Depreciation	–	35,479,744	263,138,807	93,270,131	391,888,682
Disposals	–	–	(33,766,144)	–	(33,766,144)
Reclassifications/transfer	–	–	18,479,470	(164)	18,479,306
Balance at end of year	–	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Net Book Value	₱976,443,676	₱710,123,109	₱536,063,379	₱257,382,190	₱2,480,012,354

The details of depreciation under the unaudited interim statements of income follow:

	Nine months ended September 30	
	2018	2017
Property and equipment	**₱285,294,303**	₱296,067,225
Investment properties (Note 8)	**75,294,572**	70,268,262
Chattel mortgage properties (Note 9)	**116,798,887**	110,465,946
	₱477,387,762	₱476,801,433

8. **Investment Properties**

The composition of and movements in this account follow:

	September 30, 2018 (Unaudited)		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,626,841,652**	**₱2,930,621,176**	**₱4,557,462,828**
Additions	**497,634,749**	**151,262,969**	**648,897,718**
Disposals	**(157,468,354)**	**(283,030,317)**	**(440,498,671)**
Balance as at September 30, 2108	**1,967,008,047**	**2,798,853,828**	**4,765,861,875**
Accumulated Depreciation			
Balance at beginning of year	–	**397,625,717**	**397,625,717**
Depreciation	–	**75,294,572**	**75,294,572**
Disposals	–	**(41,510,135)**	**(41,510,135)**
Balance as at September 30, 2018	–	**431,410,154**	**431,410,154**
Allowance for Impairment Losses			
Balance at beginning of year	**166,817,379**	**62,702,253**	**229,519,632**
Provisions (reversals) for the nine months ended	**11,254,059**	**11,960,811**	**23,214,870**
Disposals	**(1,842,723)**	**(8,385,882)**	**(10,228,605)**
Reclassifications/transfer	**(93,441,004)**	**93,441,004**	–
Balance as at September 30, 2018	**82,787,711**	**159,718,186**	**242,505,897**
Net Book Value	**₱1,884,220,336**	**₱2,207,725,488**	**₱4,091,945,824**

	December 31, 2017 (Audited)		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,738,547,376	₱2,742,910,089	₱4,481,457,465
Additions	263,873,034	604,407,391	868,280,425
Disposals	(375,578,758)	(416,696,304)	(792,275,062)
Balance at end of year	1,626,841,652	2,930,621,176	4,557,462,828
Accumulated Depreciation			
Balance at beginning of year	–	366,374,975	366,374,975
Depreciation	–	93,249,037	93,249,037
Disposals	–	(61,998,295)	(61,998,295)
Balance at end of year	–	397,625,717	397,625,717
Allowance for Impairment Losses			
Balance at beginning of year	181,407,122	71,967,060	253,374,182
Provisions for the year	–	(1,201,346)	(1,201,346)
Disposals	(14,589,743)	(8,063,461)	(22,653,204)
Reclassifications/transfer	–	–	–
Balance at end of year	166,817,379	62,702,253	229,519,632
Net Book Value	₱1,460,024,273	₱2,470,293,206	₱3,930,317,479

The details of the net book value of investment properties follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Real estate properties acquired in settlement of loans and receivables	**₱3,996,831,978**	₱3,832,340,181
Bank premises leased to third parties and held for capital appreciation	**95,113,846**	97,977,298
	₱4,091,945,824	₱3,930,317,479

As of September 30, 2018 and December 31, 2017, the aggregate fair value of investment properties amounted to ₱4.6 billion and ₱4.9 billion, respectively. Fair value of the properties was determined using Sales Comparison Approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱226.7 million and ₱212.5 million for the nine months ended September 30, 2018 and 2017, respectively. The Bank realized gain amounting to ₱101.7 million and ₱18.3 million on sale of investment properties for the nine months ended September 30, 2018 and 2017, respectively.

9. Other Assets

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Chattel mortgage properties – net	**₱658,572,895**	₱712,848,255
Prepayments	**325,792,584**	139,556,053
Security deposits	**186,190,424**	179,996,425
Documentary stamps on hand	**127,874,578**	103,123,771
Creditable withholding tax	**52,122,461**	6,675,985
Stationeries and supplies on hand	**42,983,512**	41,788,037
Sundry debits	**42,159,601**	23,766,185
RCOCI	**14,254,087**	10,349,423
Others	**1,642,393**	1,462,245
	₱1,451,592,535	₱1,219,566,379

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

The movements in chattel mortgage properties-net follow:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost		
Balance at beginning of period	**₱806,325,646**	₱683,799,123
Additions	**1,988,341,115**	2,577,163,081
Disposals	**(2,045,852,184)**	(2,454,636,558)
Balance at the end of period	**748,814,577**	806,325,646
Accumulated Depreciation		
Balance at beginning of period	**93,217,346**	76,086,898
Depreciation	**116,798,887**	150,298,384
Disposals	**(120,072,828)**	(133,167,936)
Balance at the end of period	**89,943,405**	93,217,346
Allowance for Impairment Losses		
Balance at beginning of period	**260,045**	616,090
Provision	**1,406,545**	–
Disposals	**(1,368,313)**	(356,045)
Balance at end of period	**298,277**	260,045
Net Book Value	**₱658,572,895**	₱712,848,255

Gain on foreclosure of chattel mortgage properties amounted to ₱278.5 million and ₱547.5 million for the nine months ended September 30, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱65.8 million and ₱116.0 million for the nine months ended September 30, 2018 and 2017, respectively.

10. Bills Payable

This account consists of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Securities sold under repurchase agreements (SSURA)	**₱–**	₱1,492,418,518
Interbank borrowings	**270,100,000**	–
	₱270,100,000	₱1,492,418,518

Interest expense on bills payable for the nine months ended September 30, 2018 and 2017 amounted to ₱42.3 million and ₱46.1 million, respectively.

11. Accrued Taxes, Interest and Other Expenses

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Accrued interest payable	**₱549,483,178**	₱539,659,048
Accrued other taxes and licenses payable	**237,054,617**	121,804,006
Accrued other expenses payable	**906,779,017**	996,960,250
	₱1,693,316,812	₱1,658,423,304

Accrued other expenses payable consist of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Litigation	**₱263,705,874**	₱209,942,489
Compensation and fringe benefits	**208,401,316**	141,725,665
Lease payable	**195,302,271**	188,338,698
Advertising	**73,964,857**	68,640,771
Information technology	**56,648,287**	37,731,731
Security, messengerial and janitorial	**49,224,440**	76,800,392
ATM maintenance	**10,575,874**	15,568,755
Telephone	**7,700,133**	7,562,631
Membership, fees & dues	**5,161,321**	4,993,929
Professional and consultancy fees	**3,806,495**	2,830,174
Insurance	**2,072,116**	193,075,730
Miscellaneous	**30,216,033**	49,749,285
	₱906,779,017	₱996,960,250

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

12. Other Liabilities

This account consists of:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Accounts payable	**₱1,824,125,648**	₱2,080,276,358
Sundry credits	**417,832,072**	207,190,555
Net retirement liability	**293,551,843**	515,852,989
Other credits	**184,070,768**	698,347,392
Withholding taxes payable	**120,657,788**	94,051,921
Due to the Treasurer of the Philippines	**17,189,565**	16,959,070
SSS, Medicare, ECP and HDMF premium payable	**9,587,588**	9,122,722
Bills purchased – contra	**8,073,330**	10,482,445
Miscellaneous	**149,647,874**	40,948,901
	₱3,024,736,476	₱3,673,232,353

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱19.1 million and ₱18.2 million as of September 30, 2018 and December 31, 2017, respectively.

13. Miscellaneous Income

This account consists of:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Recovery of charged-off assets	**₱237,563,816**	₱252,684,085
Insurance commission income	**121,635,933**	93,634,314
Rental income	**37,429,965**	38,578,864
Others	**93,309,082**	13,699,556
	₱489,938,796	₱398,596,819

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include gain from property and equipment, income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

14. Interest Expense on Deposit Liabilities and Miscellaneous Expenses

Interest expense on deposit liabilities consists of:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
Time	**₱2,877,890,602**	₱2,021,968,876
Demand	**145,846,502**	121,339,724
Savings	**114,032,439**	102,302,407
LTNCTDs	**132,137,134**	83,062,555
	₱3,269,906,677	₱2,328,673,562

Miscellaneous Expenses consists of:

Insurance	**₱440,992,126**	₱470,430,973
Litigation	**240,892,186**	220,998,601
Information technology	**240,662,386**	222,055,838
Fines, penalties and other charges	**170,718,981**	105,239,831
Communications	**144,590,005**	124,158,983
Repairs and maintenance	**98,422,709**	110,383,444
Transportation and traveling	**72,348,783**	79,805,790
Advertising	**53,022,507**	119,996,415
Supervision and examination fees	**51,673,180**	41,150,968
Stationery and supplies	**52,427,890**	44,011,538
Management and professional fees	**18,852,402**	21,986,401
Training and seminars	**10,109,951**	16,129,988
Banking activities expenses	**8,200,615**	4,817,240
Rewards and incentives	**5,018,427**	6,405,107
Meeting allowance	**4,956,452**	4,141,702
Membership fees and dues	**4,474,934**	2,501,188
Entertainment, amusement and recreation (EAR)	**1,670,497**	2,276,939
Donations and charitable contributions	**6,705,000**	10,184,000
Others	**8,436,943**	25,353,958
	₱1,634,175,974	₱1,632,028,904

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱297.6 million and ₱271.1 million for the nine months ended September 30, 2018 and 2017, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees.

15. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e. 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total fair value of the retirement fund as of September 30, 2018 and December 31, 2017 amounted to ₱2.2 billion and ₱1.9 billion, respectively.

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees as of September 30, 2018 and December 31, 2017:

		September 30, 2018 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Investment in Money Market Fund*	**₱52,894,188**	
	Income from Unit Investment Trust Fund (UITF)		**₱683,775**
	Savings deposit	**234,950**	
	Interest income		**5,971**
First Metro ETF	Equity investment	**19,544,327**	

*Includes fair value gains of ₱0.3 million

Related Party	Nature of Transaction	December 31, 2017 (Audited) Elements of Transaction Statement of Condition	 Statement of Income
Philippine Savings Bank	Savings Deposit	₱684	
	Investment in Money Market Fund*	66,781,376	
	Loss on sale of equity securities		₱10,040,000
	Income from Unit Investment Trust Fund (UITF)		880,008
	Interest income		7,867
First Metro ETF	Equity investment	9,349,047	

*Includes fair value gains of ₱0.2 million

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Short-term employee benefits	**₱204,657,012**	₱176,804,884
Post-employment pension benefits	**29,937,643**	7,858,066
	₱234,594,655	₱184,662,950

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱12.9 million and ₱11.8 million for the nine months ended September 30, 2018 and 2017, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
		September 30, 2018 (Unaudited)	
Significant Investor			
Interbank loans receivable		**₱50,000**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**₱28,200,000**		
Maturities	**28,150,000**		
Due from other banks	**531,778**	**1,444,523**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	**(5,270)**	**12,831**	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	**–**	**781**	Security deposits on lease contracts
Miscellaneous liabilities	**–**	**6,242**	Advance payments of security deposits
Accrued other expense payable	**–**	**56,648**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**4,362**	**–**	Income on deposits and interbank loans receivables
Rental income	**17,482**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**14,322**	**–**	Income received from ATM service fees, rental and utilities
Information technology expense	**142,921**	**–**	Payment of information technology expenses
Trading and security loss	**(4,625)**	**–**	Loss from securities transactions
Securities transactions			
Outright purchases	**2,124,120**	**–**	Outright purchase of FVTPL, FVOCI and HTC investments
Outright sales	**1,181,759**	**–**	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	**–**	**661,736**	Capital investment in SMFC
Accounts receivable	**804**	**2,784**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**3,859**	**17,179**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Rental income	**10,425**	**–**	Income from leasing agreements
Share in net income of a joint venture	**54,574**	**–**	30% share in net income of SMFC
Interest expense	**149**	**–**	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		**500,000**	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	**168,705,000**	**–**	
Maturities	**168,655,000**	**–**	
Receivable from customers		**7,500**	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	**3,121**	**–**	
Maturities	**5,862**	**–**	
Miscellaneous assets	**–**	**1,433**	Three months advance security deposits
Accounts receivable	**1,496**	**3,966**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Accrued interest receivable		**19**	Peso-denominated lending which earn 2.50% fixed daily
Prepaid expense	**–**	**2,027**	Payment for various policy renewals
Deposit liabilities	**(197,674)**	**1,415,013**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	**–**	**21,705**	Various personal and car insurance payable
Miscellaneous liabilities	**–**	**3,530**	Advance payment of security deposits from various tenants
Interest income	**23,704**	**–**	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**16**	**–**	Loss from securities transactions
Rental income	**11,994**	**–**	Income from leasing agreements with various lease terms
Bank commission	**2,562**	**–**	Commission income on ATM service fees
Miscellaneous income	**15,258**	**–**	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**27,817**	**–**	Payment of insurance premium
Interest expense	**7,838**	**–**	Interest on deposit liabilities and bills payable
Rent expense	**3,101**	**–**	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**100,000**	**–**	Outright purchase of FVTPL and FVOCI investments
Outright sales	**50,000**	**–**	Outright sale of FVTPL and FVOCI investments
Key Personnel			
Receivables from customers	**–**	**12,632**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**2,852**	**–**	
Maturities	**3,289**	**–**	
Interest income	**768**	**–**	Interest income from loans

	December 31, 2017 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	₱19,970,000	₱–	
Maturities	19,970,000	–	
Due from other banks	(540,032)	912,745	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	10,802	17,651	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 3 days
Deposits/placements	1,285,000	–	
Withdrawals/maturities	1,285,000	–	
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	–	37,732	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	2,494	–	Income on deposits and interbank loans receivables
Rental income	18,384	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	7,502	–	Income received from ATM service fees, rental and utilities
Information technology expense	95,662	–	Payment of information technology expenses
Trading and security loss	(3,898)	–	Loss from securities transactions
Interest expense	256	–	Interest expense on bills payable
Securities transactions			
Outright purchases	8,493,345	–	Outright purchase of FVPL, AFS and HTM investments
Outright sales	4,920,695	–	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	–	607,163	Capital investment in SMFC after sale of 10% ownership to GT Capital Inc.
Accounts receivable	1,466	1,980	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	934	13,321	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	(2,975)	–	Payment of security deposits
Rental income	11,619	–	Income from leasing agreements
Share in net income of a joint venture	71,837	–	40.00% (January to July) and 30% (August to December) share in net income of SMFC
Interest expense	75	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable	–	500,000	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	59,900,000	–	
Maturities	59,400,000	–	
Receivable from customers		10,241	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	3,723	–	
Maturities	2,817		
Miscellaneous assets	–	1,390	Three months advance security deposits
Accounts receivable	16	2,470	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense	–	4,125	Payment for various policy renewals
Deposit liabilities	5,073,694	1,612,687	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable			Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	4,750,000	–	
Withdrawals/maturities	4,750,000	–	
Accounts payable	–	2,617	Various personal and car insurance payable
Miscellaneous liabilities	–	3,169	Advance payment of security deposits from various tenants
Interest income	3,445	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	2,836	–	Loss from securities transactions
Rental income	13,690	–	Income from leasing agreements with various lease terms
Bank commission	1,396	–	Commission income on ATM service fees
Miscellaneous income	13,107	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%

(Forward)

	December 31, 2017 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Insurance expense	₱79,790	₱–	Payment of insurance premium
Interest expense	35,350	–	Interest on deposit liabilities and bills payable
Rent expense	1,025	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	2,065,340	–	Outright purchase of FVPL and AFS investments
Outright sales	1,000,000	–	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers	–	13,069	Unsecured, no impairment, with annual fixed interest
Placements	2,815	–	rates of 6.00% and maturities ranging from 2 to 10 years
Maturities	3,554	–	
Interest income	973	–	Interest income from loans

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and are subject of prior Board approval and entail BSP reportorial requirements. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective unencumbered deposits and book value of their paid-in capital contribution in the lending Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

As of September 30, 2018 and December 31, 2017, the Bank's credit exposures to DOSRI are within the said regulatory limits:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total outstanding DOSRI accounts	**₱1,736,971,425**	₱1,201,916,069
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.13%**	0.82%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**13.07%**	19.94%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

Total interest income from DOSRI loans amounted to ₱4.3 million and ₱5.8 million in September 30, 2018 and December 31, 2017, respectively.

16. Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

Material Off-Balance Sheet Transactions, Arrangements and Obligations

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trust department accounts	**₱6,082,561,253**	₱5,596,171,367
Swap forward exchange - sold	**2,686,599,169**	2,653,256,032
Forward Exchange Sold	**378,140,000**	–
Stand-by credit lines	**74,054,053**	81,664,196
Spot Foreign Exchange Contracts - sold	**54,020,000**	–
Late deposits/payments received	**9,521,669**	5,625,757
Items held for safekeeping	**279,814**	1,298,438
Others	**304,342**	519,297

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

17. **Subsequent Events**

The Board of Directors of the Bank in its meeting held on October 15, 2018 passed a resolution approving the following:

- Declaration of a 7.5% Regular Cash Dividend for the third quarter of 2018 amounting to ₱180.19 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of October 30, 2018 and will be paid no later than the Payment Date of November 14, 2018.
- Approval of Stock Rights Offering SRO by way of issuance of up to a maximum of 184,747,509 common shares which is equivalent to the remaining unissued portion of the authorized capital stock or approximately ₱8.0 billion in fresh capital. This was noted by the BSP with the issuance of a letter of no objection to the Rights Issue on October 19, 2018. The SRO issuance shall be further subject to other regulatory approvals as well as market and other conditions.

18. **Other Disclosures**

a) There are no unusual items of asset, liability, equity, net income or cash flow.

b) No material items of changes were noted in the comparison of actual results with estimated amounts.

c) Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

On October 9, 2015, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB, otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior

BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration until receipt of cash dividends from the investee.

The Bank's stock price closed at ₱84.00 per share as of September 30, 2018.

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
July 28, 2015	0.75	180,189,368.3	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368.3	–	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368.3	–	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368.3	–	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368.3	–	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368.3	–	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368.3	–	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	–	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	–	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	–	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	–	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	–	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	–	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	–	October 30, 2018	November 14, 2018

d) The following table presents information used to calculate basic EPS:

	Nine months ended September 30	
	2018 (Unaudited)	2017 (Unaudited)
a. Net income	**₱2,030,411,705**	₱1,878,016,916
b. Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491
c. Basic/Diluted EPS (a/b)	**₱8.45**	₱7.82

As of September 30, 2018 and 2017, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

e) No unregistered securities were sold or offered for sale by the Bank as of September 30, 2018.

f) Segment revenue and result of business segments are found in subsequent tables.

g) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

PHILIPPINE SAVINGS BANK **Annex 7**

UNAUDITED SCHEDULE OF FINANCIAL PERFORMANCE INDICATORS

	September 30 2018	September 30 2017
PROFITABILITY RATIOS		
Return on Assets		
Net Income * / Average Total Resources	**1.19%**	1.20%
Return on Equity		
Net Income * / Average Stockholders' Equity	**11.70%**	11.94%
Net Interest Margin		
Net Interest Income / Average Earning Assets	**6.01%**	6.02%
Cost to Income Ratio		
Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes / Net Interest Income + Operating Income	**64.32%**	63.47%
SOLVENCY RATIOS		
Debt to Equity Ratio		
Total Liabilities / Total Stockholders' Equity	**8.68:1**	9.14:1
Asset-to-Equity Ratio		
Total Assets / Total Stockholders' Equity	**9.68:1**	10.14:1
Interest Rate Coverage Ratio		
Earnings Before Interest and Taxes / Interest Expense	**1.70:1**	1.83:1
LIQUIDITY RATIOS		
Liquidity Ratio		
Current Assets / Current Liabilities	**20.89%**	26.95%
Loans to Deposit Ratio		
Gross Loans / Total Deposits	**77.85%**	77.18%
Capital Adequacy Ratio		
Total Qualifying Capital / Total Risk-Weighted Assets	**13.79%**	14.19%

*Computed based on annualized net income

PHILIPPINE SAVINGS BANK

Annex 8

BUSINESS SEGMENT INFORMATION

(In thousands)

	Nine Months ended September 30, 2018 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,095,314	₱245,841	₱5,372,844	₱2,384,752	₱12,098,751
Service fees and commission	468,999	30,258	691,124	–	1,190,381
Other operating income (expense)	550,578	16,775	467,958	(19,738)	1,015,573
Total operating income	5,114,891	292,874	6,531,926	2,365,014	14,304,705
Non-cash expenses					
Provision for credit and impairment losses	1,558,430	(65,313)	49,681	–	1,542,798
Depreciation	183,057	3,413	290,028	890	477,388
Amortization of other intangible assets	43,985	1,831	75,093	794	121,703
Total non-cash expenses (income)	1,785,472	(60,069)	414,802	1,684	2,141,889
Interest expense	–	–	1,373,195	2,064,761	3,437,956
Service fees and commission expense	28,015	1,807	41,282	–	71,104
Subtotal	28,015	1,807	1,414,477	2,064,761	3,509,060
Compensation and fringe benefits	645,605	50,615	1,828,345	23,680	2,548,245
Taxes and licenses	323,343	24,696	410,785	432,812	1,191,636
Occupancy and equipment-related costs	59,113	832	510,387	291	570,623
Security, messengerial and janitorial services	127,635	3,015	242,824	704	374,178
Miscellaneous	502,231	21,149	975,183	135,613	1,634,176
Subtotal	1,657,927	100,307	3,967,524	593,100	6,318,858
Income (loss) before share in net income of a joint venture and income tax	₱1,643,477	₱250,829	₱735,123	(₱294,531)	2,334,898
Share in net income of a joint venture					54,574
Income before income tax					2,389,472
Provision from income tax					359,060
Net income					₱2,030,412
Segment assets	₱122,020,321	₱7,951,300	₱44,664,328	₱54,561,774	₱229,197,723
Investments in a joint venture					661,735
Deferred tax assets					1,231,322
Total assets					₱231,090,780
Segment liabilities	₱1,588,936	₱91,583	₱129,372,698	₱76,160,838	₱207,214,055

PHILIPPINE SAVINGS BANK Annex 8

BUSINESS SEGMENT INFORMATION
(In thousands)

	Nine Months ended September 30, 2017 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱3,641,610	₱176,443	₱4,782,812	₱2,127,536	₱10,728,401
Service fees and commission	437,113	22,482	627,298	–	1,086,893
Other operating income (expense)	692,932	9,683	359,699	(11,948)	1,050,366
Total operating income	4,771,655	208,608	5,769,809	2,115,588	12,865,660
Non-cash expenses					
Depreciation and amortization	175,561	4,402	296,122	716	476,801
Provision for credit and impairment losses	1,666,291	(72,544)	134,108	-	1,727,855
Amortization of other intangible assets	36,354	1,936	58,746	571	97,607
Total non-cash expenses (income)	1,878,206	(66,206)	488,976	1,287	2,302,263
Interest expense	–	–	1,230,210	1,293,685	2,523,895
Service fees and commission expense	28,714	1,477	41,207	–	71,398
Subtotal	28,714	1,477	1,271,417	1,293,685	2,595,293
Compensation and fringe benefits	587,541	47,008	1,732,194	20,609	2,387,352
Taxes and licenses	307,432	23,206	335,099	325,375	991,112
Occupancy and equipment-related costs	49,156	777	504,156	154	554,243
Security, messengerial and janitorial services	82,311	3,241	266,900	1,014	353,466
Miscellaneous	509,383	28,253	972,774	121,619	1,632,029
Subtotal	1,535,823	102,485	3,811,123	468,771	5,918,202
Income (loss) before share in net income of a joint venture and income tax	₱1,328,912	₱170,852	₱198,293	₱351,845	2,049,902
Share in net income of a joint venture					45,573
Income before income tax					2,095,475
Provision from income tax					217,458
Net income					₱1,878,017
Segment assets	₱109,150,772	₱8,258,105	₱43,855,158	₱58,856,555	₱220,120,590
Investments in a joint venture					580,737
Deferred tax assets					1,407,651
Total assets					₱222,108,978
Segment liabilities	₱1,438,739	₱98,726	₱117,240,896	₱81,425,586	₱200,203,947

PHILIPPINE SAVINGS BANK — Annex 8

BUSINESS SEGMENT INFORMATION
(In thousands)

	Year ended December 31, 2017 (Audited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,811,338	₱321,494	₱6,777,057	₱2,633,888	₱14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income (expense)	898,009	15,705	529,289	(8,754)	1,434,249
Total operating income	6,270,783	377,681	8,174,630	2,625,134	17,448,228
Non-cash expenses					
Provision for credit and impairment losses	2,111,031	(36,167)	195,315	–	2,270,179
Depreciation	242,252	5,852	386,310	1,022	635,436
Amortization of other intangible assets	50,347	2,638	81,673	774	135,432
Total non-cash expenses (income)	2,403,630	(27,677)	663,298	1,796	3,041,047
Interest expense	–	–	1,653,833	1,810,844	3,464,677
Service fees and commission expense	36,060	2,600	55,768	–	94,428
Subtotal	36,060	2,600	1,709,601	1,810,844	3,559,105
Compensation and fringe benefits	802,955	63,842	2,365,493	28,316	3,260,606
Taxes and licenses	410,454	31,874	438,575	388,005	1,268,908
Occupancy and equipment-related costs	68,023	1,022	670,795	211	740,051
Security, messengerial and janitorial services	115,856	4,649	355,784	1,244	477,533
Miscellaneous	709,485	37,715	1,336,751	167,383	2,251,334
Subtotal	2,106,773	139,102	5,167,398	585,159	7,998,432
Income before share in net income of a joint venture and income tax	₱1,724,320	₱263,656	₱634,333	₱227,335	₱2,849,644
Share in net income of a joint venture					71,837
Income before income tax					2,921,481
Provision from income tax					267,062
Net income					2,654,419
Segment assets	₱113,797,984	₱8,297,700	₱39,017,294	₱60,174,574	₱221,287,552
Investments in a joint venture					607,163
Deferred tax assets					1,429,327
Total assets					₱223,324,042
Segment liabilities	₱1,123,077	₱77,620	₱119,740,151	₱79,989,870	₱200,930,718

PHILIPPINE SAVINGS BANK

Annex 9

UNAUDITED AGING OF RECEIVABLES

As of September 30, 2018

	TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE & ITEMS IN LITIGATION	PAST DUE 90 Days or Less	PAST DUE 91-180 Days	PAST DUE 181 Days to 1 Year	PAST DUE More Than 1 Year	ITEMS IN LITIGATION
Trade Receivables								
Loans and Discounts	₱153,532,758,013	₱143,354,214,842	₱ 10,178,543,171	₱2,286,981,710	₱1,268,739,938	₱648,995,164	₱4,849,792,384	₱1,124,033,975
Agri / Agrarian Reform Loans	204,615,889	180,400,171	24,215,718	8,790,601	141,841	-	13,990,468	1,292,808
Bills Purchased	8,073,330	8,073,330	-					
Restructured Loans	136,869,168	50,554,842	86,314,326	78,413,965	973,602	2,315,704	1,968,251	2,642,804
Total Trade Receivables	153,882,316,400	143,593,243,185	10,289,073,215	2,374,186,276	1,269,855,381	651,310,868	4,865,751,103	1,127,969,587
Less : Allowance For Probable Losses	3,422,597,990		-					
Other Deferred Credits	130,332		-					
Net Trade Receivable	150,459,588,078	143,593,243,185	10,289,073,215	2,374,186,276	1,269,855,381	651,310,868	4,865,751,103	1,127,969,587
Non-Trade Receivables								
Accounts Receivables	841,930,704	330,206,536	511,724,168	1,241,766	9,357,980	9,240,477	487,169,206	4,714,739
Accrued Interest Receivables	1,906,868,422	1,563,025,694	343,842,728	64,921,307	44,815,011	56,800,764	69,736,019	107,569,627
Total Non-Trade Receivable	2,748,799,126	1,893,232,230	855,566,896	66,163,073	54,172,991	66,041,241	556,905,225	112,284,366
Less : Allowance for Probable Losses	881,462,776		-					
Net Non-Trade Receivable	1,867,336,350	1,893,232,230	855,566,896	66,163,073	54,172,991	66,041,241	556,905,225	112,284,366
Sales Contract Receivable	78,699,523	29,088,338	49,611,185	37,392,241	571,073	957,568	6,876,432	3,813,871
Less : Allowance for Probable Losses	33,836,104		-					
Net Sales Contract Receivable	44,863,419	29,088,338	49,611,185	37,392,241	571,073	957,568	6,876,432	3,813,871
Net Receivables	₱ 152,371,787,847	₱ 145,515,563,753	₱11,194,251,296	₱2,477,741,590	₱ 1,324,599,445	₱718,309,677	₱ 5,429,532,760	₱ 1,244,067,824

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

A. Analysis of Statements of Condition

September 30, 2018 (Unaudited) and December 31, 2017 (Audited)

The Bank's Total Assets as of September 30, 2018 was recorded at ₱231.09 billion this was 3.48% better than the ₱223.32 billion level in December 2017. The significant increase in assets was due to the continued growth in its loan and investment portfolios.

Loans and Receivables, net of allowance and unearned interest and discounts representing 65.94% of total assets, stood at ₱152.37 billion. This was ₱7.41 billion higher than the December 2017 level of ₱144.96 billion. Mortgage and Auto Loans rose by 5.56% and 5.07%, respectively.

Cash and Other Cash Items was higher by 5.38% to ₱ 2.74 billion as of September 30, 2018 from ₱2.60 billion. Due from Bangko Sentral ng Pilipinas, representing 6.20% of total assets slightly decreased to ₱14.33 billion from ₱15.27 billion in December 2017 while Due from other Banks increased by ₱114.67 million to ₱1.62 billion. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements as of September 30, 2018 grew by 5.86% or ₱107.98 million to ₱1.95 billion from ₱1.84 billion in December 2017.

As of September 30, 2018, Hold-to-Collect Investments representing 15.64% of total assets was recorded at ₱36.15 billion. Meanwhile, Held-to-Maturity Investments stood at ₱29.47 billion as of December 31, 2017.

On the other hand, Financial Assets at Fair Value through Other Comprehensive Income representing 4.98% of total assets amounted to ₱11.51 billion as of September 30, 2018. Available-for-Sale Investments was recorded at ₱16.93 billion as of December 31, 2017.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱5.29 million as of September 30, 2018 under PFRS 9.

These investment securities represent 20.63% of total assets as of September 30, 2018.

As a result of adoption of the classification and measurement requirements of PFRS 9 effective January 01, 2018, the Bank classified debt securities held under AFS investments as of December 31, 2017 as either at amortized cost for securities belonging to portfolios managed under HTC business model or at FVOCI belonging to portfolios managed under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. On the other hand, debt securities held under HTM investments as of December 31, 2017, the Bank classified them as either HTC business model, at FVOCI or at FVTPL.

Investment in joint venture went up by 8.99% or ₱54.57 million to ₱661.74 million from ₱607.16 million in December 2017, as the Bank recognized its share in the net earnings of Sumisho Motor Finance Corporation (SMFC), a joint venture between PSBank and Sumitomo Corporation.

On August 9, 2017, the Bank signed a Sale and Purchase Agreement (‘SPA”) to sell 2.0 million shares or 10.00% ownership in SMFC to GT Capital Holdings, Inc. (GT Capital), a related party, for ₱190.0 million or ₱95.0 per share. The price of the transaction was based on an independent valuation report which was subjected to a third party fairness opinion.

As a result of the sale, the Bank’s ownership interest in SMFC was reduced from 40.00% to 30.00%.

Investment Properties went up to ₱4.09 billion as of September 2018 from ₱3.93 billion in December 2017 due to the foreclosure of real estate properties. Property and Equipment decreased by ₱187.56 million to ₱2.29 billion as of September 2018 due to current year’s depreciation and amortization of leasehold rights.

Deferred Tax Asset went down by 13.85% or ₱198.01 million to ₱1.23 billion versus ₱1.43 billion in December 2017. Goodwill and Other Intangibles reflected 5.02% decrease or ₱35.88 million to ₱679.05 million from ₱714.92 million in December 2017. Meanwhile, Other Assets increased to ₱1.45 billion from the ₱1.22 billion level in December 2017. This was mainly due to the increase in prepaid expense account.

The Bank’s deposit level, comprising 95.39% of total liabilities, improved by 4.63% or ₱8.75 billion to ₱197.66 billion from ₱188.91 billion as of December 2017. The increase came from CASA of ₱3.85 billion and LTNCTD of ₱5.08 billion.

In August 2018, the Bank successfully issued Long Term Negotiable Certificate of Time Deposits (LTNCTD) with an aggregate principal amount of ₱5.08 billion due on February 9, 2024, with fixed interest rate of 5.0% per annum.

As September 30, 2018, the total Tier II Notes of the Bank amounted to ₱2.98 billion. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP’s revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements. PSBank has an issuer rating of PRS Aaa (corp.) from Philratings.

Treasurer’s, Cashier’s and Manager’s Checks decreased to ₱1.47 billion from ₱2.21 billion in December 2017. Accrued Taxes, Interest and Other Expenses was up by ₱34.89 million to ₱1.69 billion in September 2018 from ₱1.66 billion as of December 31, 2017. Income Tax Payable as of September 2018 was at ₱79.47 million. This represents an accrual for the current quarter which is due for remittance on or before November 29, 2018. Bills Payable went down by ₱1.22 billion to ₱270.10 million as of September 2018 from ₱1.49 billion in December 2017 while Financial Liabilities at FVPL stood at ₱29.63 million. Other Liabilities was posted at ₱3.02 billion from ₱3.67 billion as of year-end 2017.

The Bank’s Equity stood at ₱23.88 billion, 6.62% higher than the end-December 2017 level of ₱22.39 billion mainly due to the Net Income for the three quarters of 2018 and effect of the adoption of PFRS 9.

As of September 2018, Capital Adequacy Ratio (CAR) was at 13.79%. This is above the minimum regulatory requirement of 10%. The Bank recorded gains on ‘Cumulative Translation Adjustment’ under equity amounting to ₱6.06 million, versus December 2017 of ₱4.08 million loss.

B. Discussion of Results of Operations

For the nine months-ended September 30, 2018 vs. September 30, 2017 (Unaudited)

As of September 30, 2018, the Bank registered a Net Income after Tax of ₱2.03 billion or 8.11% higher than the ₱1.88 billion recorded for the same period last year. The increase in net income was attributed to significantly higher net interest income.

Total Interest Income went up by ₱1.37 billion to ₱12.10 billion versus ₱10.73 billion in 2017.

Interest income on Loans and Receivables was posted at ₱10.54 billion, 14.59% higher than the ₱9.20 billion recorded during the same period last year. Interest earned from Interbank Loans Receivable and SPURA decreased to ₱49.91 million, 4.5% lower than the ₱52.28 million in 2017. Interest income from deposits with other banks went up by 71.72% to ₱2.91 million while Interest earned from deposits with BSP went down by 95.39% to ₱6.11 million. On the other hand, Interest income on Investment Securities went up to ₱1.50 billion from ₱1.34 million due to the Bank's higher investment portfolio in 2018.

Interest Expenses on deposit liabilities rose to ₱3.27 billion from ₱2.33 billion with overall rise in total deposits by 7.19% as of September 30, 2018 versus September 30, 2017. On the other hand, Interest Expense on Subordinated Notes decreased to ₱125.74 million from ₱149.09 million due to the redemption of the Bank's ₱3.0 billion Tier 2 notes issued in 2012 last February 2017.

The Bank recorded ₱42.31 million in Interest Expense on Bills Payable for the nine months ended September 30, 2018.

As of September 2018, Net Interest Income improved by 5.56% to ₱8.66 billion from ₱8.20 billion the same period last year.

Net Service Fees and Commission Income increased to ₱1.12 billion, 10.22% higher than ₱1.02 billion a year ago.

Meanwhile, Other Operating Income decreased by 3.31% or ₱34.79 million to ₱1.02 billion due to higher trading losses recorded for the nine months ended September 30, 2018. The Bank reflected a ₱98.08 million trading losses versus ₱55.05 million losses in 2017.

The Bank registered a net gain on foreclosure and sale of chattel mortgage amounting to ₱212.71 million in 2018 from ₱431.51 million in 2017. For the nine months ended September 30, 2018, the Bank posted a ₱328.34 million gains on foreclosure and sale of investment properties versus ₱230.77 million a year-ago. Miscellaneous Income also went up by ₱91.34 million to ₱489.94 million.

Meanwhile, Foreign Exchange gain was posted at ₱78.34 million compared to the FX gain of ₱43.10 million recorded a year ago.

Other Operating Expenses, excluding provisions for impairment and credit losses, went up to ₱6.92 billion from ₱6.49 billion in September 2017. Compensation and Fringe Benefits was posted at ₱2.55 billion while occupancy and equipment-related costs was at ₱570.62 million. Depreciation and amortization of Bank's properties and leasehold improvements were higher at ₱477.39 million from

₱476.80 million in 2017. Meanwhile, security, messengerial and janitorial services were at ₱374.18 million. Amortization of software costs was recorded at ₱121.70 million. Miscellaneous Expenses was posted at ₱1.63 billion last year.

The Bank set aside ₱1.54 billion in provisions for impairment and credit losses.

For the nine months ended September 30, 2018, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱54.57 million from ₱45.57 million during the same period last year.

For the quarter-ended September 30, 2018 vs. September 30, 2017 (Unaudited)

The Bank reported a net income after tax of ₱677.09 million for the quarter ended September 30, 2018, ₱21.28 million lower than the ₱698.37 million recorded for the same quarter last year. The decrease was attributed to the lower net interest income.

Total Interest Income for the third quarter of 2018 was reflected at ₱4.15 billion, 10.52% higher than ₱3.75 billion recorded for the same quarter last year. Meanwhile, Total Interest Expense was up to ₱1.33 billion from ₱925.16 million due to the growth in deposit liabilities year-on-year. Net Interest Income was posted at ₱2.81 billion for the quarter.

Interest income on Loans and Receivables was better by 13.85% to ₱3.62 billion compared to the ₱3.18 billion during the same period last year. Interest earned from Interbank Loans and SPURA improved by ₱12.78 million to ₱22.79 million from ₱10.01 million while Interest earned from Investment Securities improved by ₱26.64 million to ₱497.54 million. Meanwhile, Interest earned from deposit with BSP was lower by ₱86.04 million, 98.88% lower than the ₱87.02 million level during the third quarter of 2017. Interest income from placements with other banks was reflected at ₱0.87 million versus ₱0.59 million last year.

Meanwhile, Other Operating Income slid to ₱299.53 million from ₱440.14 million recorded during the third quarter of 2017.

The Bank registered a net loss on foreclosure and sale of chattel mortgage amounting to ₱17.08 million from net gain of ₱197.07 million in 2017. For the three months ended September 30, 2018, the Bank posted a ₱159.50 million gains on foreclosure and sale of investment properties versus ₱57.98 million a year-ago. Miscellaneous Income also went up by ₱138.52 million to ₱132.70 million.

Meanwhile, Foreign Exchange gain was posted at ₱20.97 million compared to the FX gain of ₱17.55 million recorded a year ago.

Total Operating Expenses, excluding provisions for impairment, registered an increase of ₱84.83 million to ₱2.32 billion from ₱2.23 billion in 2017. The Bank set aside additional provisions for credit losses of ₱434.91 million during the third quarter of 2018.

Compensation and fringe benefits rose by 5.27% to ₱864.90 million from ₱821.63 million in 2017. Taxes and licenses went up to ₱407.74 million from ₱331.77. Occupancy and equipment-related costs were also higher by 2.24% or ₱4.14 million to ₱188.52 million versus ₱184.38 million during the third quarter of 2017. Security, messengerial and janitorial services decreased to ₱114.69 million from a year ago level of ₱125.29 million. Amortization of software costs also increased by 14.62% to ₱39.48 million from ₱34.44 million in 2017. Miscellaneous Expense was lower at ₱546.54 million compared to ₱574.16 million in September 2017.

For the three months, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱18.53 million from ₱19.47 million during the same period last year.

Analysis of Key Performance Indicators

The following ratios measure the financial performance of the Bank:

		September 2018	September 2017	December 31 2017
		(Unaudited)		(Audited)
Return on Average Equity*	ROAE	**11.70%**	**11.94%**	12.51%
Return on Average Assets*	ROAA	**1.19%**	**1.20%**	1.26%
Net Interest Margin on Average Earning Assets	NIM	**6.01%**	**6.02%**	6.10%
Earnings per share	EPS	**₱8.45**	**₱7.82**	₱11.05
Capital-to-Risk Assets Ratio	CAR	**13.79%**	**14.19%**	13.87%
Liquidity Ratio	LR	**20.89%**	**26.95%**	20.70%
Debt-Equity Ratio	DER	**8.68:1**	**9.14:1**	8.97:1
Asset-to-Equity Ratio	AER	**9.68:1**	**10.14:1**	9.97:1
Interest Rate Coverage Ratio	IRCR	**1.70:1**	**1.83:1**	1.84:1

** computed based on annualized/normalized net income*

September 2018 vs. September 2017 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) in September 30, 2018 decreased to 11.70% from 11.94% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) decreased to 1.19% from 1.20% in September 2017. ROAA is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) was lower at 6.01% in September 2018 versus 6.02% in the same period last year. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) was higher at ₱8.45 for the period ended September 30, 2018 compared to the ₱7.82 reported during the same period last year. EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) declined to 13.79% in September 2018 versus 14.19% in September 2017. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) was lower at 20.89% in September 2018 from 26.95% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) went down at 8.68:1 from 9.14:1 in September 2017. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) declined to 9.68:1 from 10.14:1 last year. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down to 1.70:1 this year from 1.83:1 in September 2017. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

C. Key Variables and Other Qualitative and Quantitative Factors

Liquidity

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2018.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

Material Commitments for Capital Expenditures

The Bank's capital expenditure target in 2018 includes projected expenses for new off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses.

Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Philippine Savings Bank

Financial Statements
December 31, 2017 and 2016
and for the Years Ended December 31, 2017,
2016 and 2015

and

Independent Auditor's Report

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SyCip Gorres Velayo & Co.
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Fax: (632) 819 0872
ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition as at December 31, 2017 and 2016 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for 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 Bank as at December 31, 2017 and 2016, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2017, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Adequacy of allowance for credit losses on loans and receivables

The Bank's loans and receivables consist of consumer loans and corporate loans. The appropriateness of the allowance for credit losses on these loans and receivables is a key area of judgment for management. The Bank determines the provisions for credit losses on an individual basis for individually significant loans and receivables, and collectively for loans and receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors. These include the financial condition of the counterparty, estimated future cash flows, observable market prices and estimated net selling prices of the collateral. The use of assumptions could produce significantly different estimates of provisions for credit losses.

The disclosures in relation to the allowance for credit losses are included in Notes 3 and 15 of the financial statements.

Audit Response

We obtained an understanding of the Bank's impairment calculation process, including the source of the underlying data and supporting systems, and performed tests over relevant controls. For provisions for credit losses calculated on an individual basis, we selected a sample of impaired loans and obtained an understanding of the borrower's business and financial capacity. We also tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower including payments made subsequent to year-end, agreeing the value of the collateral to the appraisal reports, checking whether the discount rate represents the original effective interest rate (EIR) or the current EIR of the loan, and re-performing the impairment calculation.

For provisions for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates, recovery rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Bank's records and subsidiary ledgers, checking the delinquency age buckets of the loans, loan grades and loan groupings, and re-performing the calculation of the provisions for credit losses.

Recoverability of deferred tax assets

The analysis of the recoverability of deferred tax assets is significant to our audit because the assessment process is complex and judgmental. It is also based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Bank.

The disclosures in relation to deferred income taxes are included in Notes 3 and 27 of the financial statements.

Audit Response

We obtained an understanding of the Bank's deferred income tax calculation process, including the applicable tax regulations. We reviewed management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Bank. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

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

Our opinion on the 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 the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the 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.

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Miguel U. Ballelos, Jr.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2016,
February 15, 2016, valid until February 14, 2019
PTR No. 6621218, January 9, 2018, Makati City

February 22, 2018

BUREAU OF INTERN... REVENUE
LARGE TAXPAYERS
Date APR 12 2018
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Securities and Exchange Commission
Electronic Records Management Division
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PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31	
	2017	2016
ASSETS		
Cash and Other Cash Items	**₱2,596,872,801**	₱2,778,009,185
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,265,387,772**	13,986,784,696
Due from Other Banks (Note 29)	**1,508,489,309**	1,838,630,022
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**1,842,023,049**	3,254,311,599
Fair Value Through Profit or Loss Investments (Note 8)	**366,235,689**	1,360,792,147
Available-for-Sale Investments (Note 8)	**16,925,485,941**	13,115,812,858
Held-to-Maturity Investments (Note 8)	**29,473,724,384**	23,156,886,629
Loans and Receivables (Note 9)	**144,964,513,221**	127,221,847,151
Investment in a Joint Venture (Notes 10 and 29)	**607,162,821**	727,176,484
Property and Equipment (Note 11)	**2,480,012,354**	2,667,170,455
Investment Properties (Note 12)	**3,930,317,479**	3,861,708,308
Deferred Tax Assets (Note 27)	**1,429,327,369**	1,300,724,234
Goodwill and Intangible Assets (Note 13)	**714,924,056**	505,165,868
Other Assets (Note 14)	**1,219,566,379**	1,078,083,056
	₱223,324,042,624	₱196,853,102,692
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱19,112,561,892**	₱15,339,143,653
Savings	**30,383,783,001**	27,236,228,764
Time	**136,042,056,714**	115,811,946,185
Long-term Negotiable Certificates of Deposits	**3,375,000,000**	–
	188,913,401,607	158,387,318,602
Bills Payable (Note 17)	**1,492,418,518**	6,093,796,533
Subordinated Notes (Note 17)	**2,978,997,695**	5,975,732,110
Treasurer's, Cashier's and Manager's Checks	**2,213,869,703**	1,760,505,822
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,658,423,304**	1,193,816,372
Financial Liabilities at FVPL (Note 8)	**–**	65,316,678
Income Tax Payable	**375,277**	466,880
Other Liabilities (Note 19)	**3,673,232,353**	3,338,477,499
	200,930,718,457	176,815,430,496
Equity		
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves (Note 30)	**1,035,402,901**	1,035,275,317
Surplus (Note 21)	**17,097,046,504**	15,163,512,433
Net Unrealized Loss on Available-for-Sale Investments (Note 8)	**(411,510,218)**	(842,908,364)
Remeasurement Losses on Retirement Plan (Note 24)	**(545,392,541)**	(541,701,193)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**1,245,144**	1,443,599
Cumulative Translation Adjustment	**(4,076,039)**	1,441,988
	22,393,324,167	20,037,672,196
	₱223,324,042,624	₱196,853,102,692

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS
Date APR 12 2018
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PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2017	2016	2015
INTEREST INCOME			
Loans and receivables (Note 9)	**₱12,477,133,237**	₱11,066,862,854	₱9,929,658,464
Investment securities (Note 8)	**1,823,591,316**	1,347,949,127	727,768,591
Due from Bangko Sentral ng Pilipinas	**179,406,826**	13,905,374	146,667,295
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**61,037,150**	61,530,255	190,814,354
Due from other banks	**2,608,271**	2,222,421	7,818,217
	14,543,776,800	12,492,470,031	11,002,726,921
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**3,214,665,720**	2,409,979,204	2,170,741,412
Subordinated notes (Note 17)	**191,058,261**	361,766,713	342,650,259
Bills payable (Note 17)	**58,953,437**	56,801,997	7,388,984
	3,464,677,418	2,828,547,914	2,520,780,655
NET INTEREST INCOME	**11,079,099,382**	9,663,922,117	8,481,946,266
Service fees and commission income (Note 22)	**1,470,202,440**	1,226,015,157	1,293,699,761
Service fees and commission expense (Note 22)	**94,428,291**	89,667,951	98,207,711
NET SERVICE FEES AND COMMISSION INCOME	**1,375,774,149**	1,136,347,206	1,195,492,050
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of chattel mortgage properties - net (Note 14)	**584,947,874**	351,721,775	377,657,511
Gain on foreclosure and sale of investment properties - net (Note 12)	**348,813,362**	364,392,867	258,030,111
Foreign exchange gain - net	**56,483,920**	23,992,498	18,823,668
Gain on sale of property and equipment (Note 11)	**1,731,001**	2,639,304	17,739,663
Trading and securities gains (losses) - net (Note 8)	**(65,237,826)**	509,665,576	(63,569,750)
Miscellaneous (Notes 12, 23 and 25)	**507,510,359**	426,147,878	515,413,451
	1,434,248,690	1,678,559,898	1,124,094,654
TOTAL OPERATING INCOME	**13,889,122,221**	12,478,829,221	10,801,532,970
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**3,260,605,852**	2,922,900,798	2,613,867,706
Provision for credit and impairment losses (Note 15)	**2,270,178,805**	2,222,503,257	1,588,298,396
Taxes and licenses	**1,268,907,979**	1,058,437,943	961,093,132
Occupancy and equipment-related costs (Note 25)	**740,050,501**	710,941,317	671,728,902
Depreciation (Note 11)	**635,436,103**	557,648,750	501,311,146
Security, messengerial and janitorial services	**477,533,030**	383,670,587	334,030,017
Amortization of intangible assets (Note 13)	**135,432,343**	111,160,451	100,224,715
Miscellaneous (Notes 12 and 26)	**2,251,333,506**	1,876,476,264	1,742,754,431
	11,039,478,119	9,843,739,367	8,513,308,445
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**2,849,644,102**	2,635,089,854	2,288,224,525
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	**71,836,533**	35,466,690	20,213,935
INCOME BEFORE INCOME TAX	**2,921,480,635**	2,670,556,544	2,308,438,460
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**394,082,636**	295,879,413	351,871,466
Deferred	**(127,021,129)**	(76,166,179)	(394,333,106)
	267,061,507	219,713,234	(42,461,640)
NET INCOME	**₱2,654,419,128**	₱2,450,843,310	₱2,350,900,100
Basic/Diluted Earnings Per Share (Note 28)	**₱11.05**	₱10.20	₱9.79

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2017	2016	2015
NET INCOME	**₱2,654,419,128**	₱2,450,843,310	₱2,350,900,100
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gain (loss) from AFS investments (Note 8)	**431,398,146**	(843,088,139)	(26,420,688)
Cumulative translation adjustment	**(5,518,027)**	44,573,963	(1,475,493)
	425,880,119	(798,514,176)	(27,896,181)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement losses on retirement plan (Note 24)	**(5,273,354)**	(100,471,688)	(227,153,249)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**(198,455)**	1,375,957	1,513,370
Income tax effect (Note 27)	**1,582,006**	30,141,506	68,145,975
	(3,889,803)	(68,954,225)	(157,493,904)
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**421,990,316**	(867,468,401)	(185,390,085)
TOTAL COMPREHENSIVE INCOME (LOSS), NET OF TAX	**₱3,076,409,444**	₱1,583,374,909	₱2,165,510,015

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture (Note 10)	Cumulative Translation Adjustment	Total
Balance at January 1, 2017	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱15,163,512,433**	**(₱842,908,364)**	**(₱541,701,193)**	**₱1,443,599**	**₱1,441,988**	**₱20,037,672,196**
Total comprehensive income (loss) for the year	–	–	–	**2,654,419,128**	**431,398,146**	**(3,691,348)**	**(198,455)**	**(5,518,027)**	**3,076,409,444**
Cash dividends (Note 21)	–	–	–	**(720,757,473)**	–	–	–	–	**(720,757,473)**
Appropriation of surplus to trust business (Note 30)	–	–	**127,584**	**(127,584)**	–	–	–	–	–
Balance at December 31, 2017	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,097,046,504**	**(₱411,510,218)**	**(₱545,392,541)**	**₱1,245,144**	**(₱4,076,039)**	**₱22,393,324,167**
Balance at January 1, 2016	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱13,433,426,596	₱179,775	(₱471,371,011)	₱67,642	(₱43,131,975)	₱19,175,054,760
Total comprehensive income (loss) for the year	–	–	–	2,450,843,310	(843,088,139)	(70,330,182)	1,375,957	44,573,963	1,583,374,909
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Balance at December 31, 2016	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196
Balance at January 1, 2015	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱11,803,283,969	₱26,600,463	(₱312,363,737)	(₱1,445,728)	(₱41,656,482)	₱17,730,302,218
Total comprehensive income (loss) for the year	–	–	–	2,350,900,100	(26,420,688)	(159,007,274)	1,513,370	(1,475,493)	2,165,510,015
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Balance at December 31, 2015	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱13,433,426,596	₱179,775	(₱471,371,011)	₱67,642	(₱43,131,975)	₱19,175,054,760

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,921,480,635**	₱2,670,556,544	₱2,308,438,460
Adjustments to reconcile income before income tax to net cash used in operations:			
Provision for credit and impairment losses (Note 15)	**2,270,178,805**	2,222,503,257	1,588,298,396
Amortization of premium (discount) on available-for-sale investments	**345,911,497**	(490,197,593)	2,024,746,125
Depreciation (Note 11)	**635,436,103**	557,648,750	501,311,146
Gain on foreclosure and sale of:			
Chattel mortgage properties (Note 14)	**(584,947,873)**	(351,721,775)	(377,657,511)
Investment properties (Note 12)	**(348,813,361)**	(364,392,867)	(258,030,111)
Amortization of:			
Intangible assets (Note 13)	**135,432,343**	111,160,451	100,224,715
Debt issuance costs (Note 17)	**3,265,585**	23,680,529	5,150,260
Realized loss (gain) on sale of available-for-sale investments (Note 8)	**49,756,366**	(456,628,139)	(36,343,321)
Unrealized trading (gain) loss on fair value through profit or loss investments (Note 8)	**(12,181,153)**	(9,808,773)	24,171,844
Share in net income of a joint venture (Note 10)	**(71,836,533)**	(35,466,690)	(20,213,935)
Loss on sale of a joint venture	**2,052,642**	–	–
Gain on sale of property and equipment (Note 11)	**(1,731,001)**	(2,639,304)	(17,739,663)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**941,420,934**	1,538,682,890	(2,566,807,850)
Loans and receivables	**(22,428,511,076)**	(17,801,956,529)	(21,526,724,867)
Other assets	**(35,731,437)**	(31,545,443)	73,185,939
Increase (decrease) in:			
Deposit liabilities	**30,523,557,488**	24,091,609,813	17,768,068,631
Accrued taxes, interest and other expenses	**464,596,545**	143,049,544	(77,668,853)
Treasurer's, cashier's and manager's checks	**453,363,881**	411,884,412	94,839,692
Other liabilities	**329,104,407**	232,467,904	(57,443,347)
Cash generated from (used in) operations	**15,591,804,797**	12,458,886,981	(450,194,250)
Income taxes paid	**(394,158,858)**	(303,467,934)	(350,950,721)
Net cash provided by (used in) operating activities	**15,197,645,939**	12,155,419,047	(801,144,971)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Available-for-sale investments	**(9,380,635,227)**	(40,630,855,364)	(13,996,913,431)
Held-to-maturity investments	**(6,917,136,761)**	(8,051,001,534)	(15,183,881,903)
Property and equipment (Note 11)	**(227,119,984)**	(319,030,433)	(639,489,221)
Other intangible assets (Note 13)	**(345,190,531)**	(171,866,198)	(175,544,810)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**5,879,947,979**	36,425,024,948	11,056,542,556
Chattel mortgage properties (Note 14)	**2,146,956,711**	1,564,228,669	1,378,234,489
Held to maturity investments (Note 8)	**324,545,000**	–	–
Investment properties (Note 12)	**784,512,544**	520,225,812	437,934,888
Property and equipment (Note 11)	**24,120,404**	32,128,996	39,834,213
Investment in a joint venture (Note 10)	**189,960,000**	–	–
Decrease (increase) in interbank loans receivable (Note 7)	**–**	–	1,386,320,000
Net cash used in investing activities	**(7,520,039,865)**	(10,631,145,104)	(15,696,963,219)

(Forward)

	Years Ended December 31		
	2017	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES			
Settlement of subordinated notes (Note 17)	**(₱3,000,000,000)**	₱–	₱–
Settlement of bills payable	**(4,601,585,608)**	(126,096,897,354)	(15,326,746,786)
Dividends paid (Note 21)	**(720,757,473)**	(720,757,473)	(897,647,381)
Availments of bills payable	**–**	127,696,110,553	19,821,347,358
Net cash provided (used in) by financing activities	**(8,322,343,081)**	878,455,726	3,596,953,191
Effect of exchange rate differences	**(225,564)**	1,713,236	(73,834)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(644,962,571)**	2,404,442,905	(12,901,228,833)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**2,778,009,185**	3,934,496,578	4,174,756,446
Due from Bangko Sentral ng Pilipinas (Note 16)	**13,986,784,696**	11,143,781,766	23,997,102,406
Due from other banks	**1,838,630,022**	1,861,110,141	3,382,662,578
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**3,254,311,599**	2,513,904,112	800,000,000
	21,857,735,502	19,453,292,597	32,354,521,430
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**2,596,872,801**	2,778,009,185	3,934,496,578
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,265,387,772**	13,986,784,696	11,143,781,766
Due from other banks	**1,508,489,309**	1,838,630,022	1,861,110,141
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**1,842,023,049**	3,254,311,599	2,513,904,112
	₱21,212,772,931	₱21,857,735,502	₱19,453,292,597
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱5,012,646,483**	₱2,772,406,654	₱2,483,813,667
Interest received	**10,936,013,646**	11,911,931,701	12,478,341,350

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2017 and 2016, the Bank had 250 and 255 branches, respectively. In 2017, the Bank had 346 Automated Tellering Machines (ATMs) in Metro Manila and 264 in provincial locations, bringing its total number of ATMs to 610 as of December 31, 2017.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2017 and 2016, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) of the Bank.

2. Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVPL) investments, available-for-sale (AFS) investments, and derivative financial instruments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforeceable right of offset if the right is not contingent on a future event, and is legally enforeceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The Bank applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank. Except for these standards and amended PFRS which were adopted as of January 1, 2017, the accounting policies adopted are consistent with those of previous financial year.

Amendments

PFRS 12, *Disclosure of Interests in Other Entities – Clarification on the disclosure requirements on the investments in other entities.*
The amendments clarify that the disclosure requirements apply to an entity’s interest in a subsidiary, a joint venture or an associate that is classified as held for sale. The amendment is applied retrospectively.

PAS 7, *Disclosure Initiative*
This requires entities to provide disclosure about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes such as foreign exchange gains and losses. The Bank has provided the required information in the Note 32 to financial statements. As allowed under the transition provisions of the standard, the Bank did not present comparative information for the year ended December 31, 2016.

PAS 12, *Recognition of Deferred Tax Assets for Unrealized Losses – Clarification on the accounting for deferred tax assets on debt instruments measured at fair value.*
This requires entities to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Entities should

determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than carrying amount.

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVPL investments, AFS investments and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of condition date.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading
Other financial assets or financial liabilities held for trading (HFT) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

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

Derivatives
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2017 and 2016, derivatives consist of foreign exchange swaps, forwards and Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk weighted assets and improve the capital adequacy ratio of the Bank.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains (losses) - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as other operating income under ‘Miscellaneous’ when the right of the payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for credit and impairment losses’ in the statement of income and removed from ‘Net unrealized gain (loss) from AFS investments’ in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank’s management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in ‘Interest income on investment securities’ in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under ‘Provision for credit and impairment losses’. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the two preceding financial years.

Loans and receivables
This accounting policy relates to the Bank’s ‘Due from Bangko Sentral ng Pilipinas (BSP)’, ‘Due from Other Banks’, ‘Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)’, ‘Loans and Receivables’, ‘Security Deposits’, ‘Returned Checks and Other Cash Items (RCOCI)’, and ‘Shortages’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises ‘Deposit Liabilities’,‘Bills Payable’, ‘Subordinated Notes’,‘Treasurer’s, Cashier’s and Manager’s Checks’, ‘Accrued Interest Payable’, ‘Accrued Other Expenses’, ‘Accounts Payable’, ‘Bills Purchased-Contra’, ‘Other credits’, ‘Due to BSP’, ‘Dividends Payable’, ‘Due to the Treasurer of the Philippines’, ‘Deposits for Keys-Safety Deposit Boxes (SDB)’, and ‘Overages’, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the

exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

<u>Derecognition of Financial Assets and Liabilities</u>
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

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

<u>Repurchase and Reverse Repurchase Agreements</u>
Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in

the statement of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell (SPURA) at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Reclassification of Financial Assets
The Bank may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, HTM financial assets or Loans and Receivables categories.

A financial asset that is reclassified out of the HFT category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on the asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method.

If the asset is subsequently determined to be impaired, the amount recorded in the OCI is recycled to the statement of income.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as HTM, it shall be reclassified as AFS and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

There was no reclassification of financial assets in 2017 and 2016.

Impairment of Financial Assets
The Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganization; and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery of charged-off assets' under 'Miscellaneous income' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

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

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The details of allowance for credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 15.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

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

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as longer than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Bank's investment in a joint venture represents its 30.00% and 40.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2017 and 2016, respectively.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method.
Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income (loss) of a joint venture'in the statement of income.

Upon loss of significant influence over the joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years depending on the type of assets
Leasehold improvements	5 years or the term of the related leases, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties

Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Intangible Assets

The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible assets'.

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

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

Branch licenses

Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs

Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

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

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statement of income.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

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

Common Stock
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital Paid in Excess of Par Value' in the statement of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms and payment excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS and financial instruments designated at FVPL, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as ‘Interest income’.

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

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of properties is recognized upon completion of the earning process when the significant risks and rewards of ownership of the goods have passed to the buyer and the collectibility of the sales price is reasonably assured.

Trading and securities gains (losses) - net
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of financial instruments at FVPL. It also includes gains and losses realized from sale of AFS financial assets.

Realized gains and losses on disposals of financial instruments at FVPL are calculated using weighted average method. It represents the difference between an instrument’s initial carrying amount and disposal amount.

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

Dividend income
Dividend income is recognized when the Bank’s right to receive payment is established, which is generally when shareholders approve the dividend.

Other income
Income from sale of service is recognized when services are rendered.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual

reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as ‘Interest expense’.

Contingent Liabilities and Contingent Assets

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

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes

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

Current tax

Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

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

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2017 and 2016, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Segment Reporting

The Bank’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank’s assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

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

Subsequent Events

Post year-end events that provide additional information about the Bank’s position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2018

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

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

  The amendments are not applicable to the Bank since it does not have share-based payment transactions.

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

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Bank since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

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

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

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

New Standards

PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement*, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Bank plans to adopt the new standard on the mandatory effective date and will not restate comparative information. The Bank has performed an assessment of the population of financial instruments impacted by the classification and measurement requirements of PFRS 9 and has developed impairment methodologies to support the calculation of expected credit losses (ECL) for qualified credit exposures.

a. Classification and Measurement
   PFRS 9 requires that the Bank classifies debt instruments based on the contractual cash flow characteristics of the assets and the business model for managing those assets. These factors determine whether the financial assets are measured at amortized cost, fair value through other comprehensive income (FVOCI), or fair value through profit or loss (FVTPL).

   As a result of the application of the classification and measurement requirements of PFRS 9, debt securities currently held as AFS investments under PAS 39 are expected to be classified as either at amortized cost for securities belonging to portfolios managed under a "hold-to-collect" (HTC) business model or at FVOCI with recycling to profit or loss for securities belonging to portfolios managed under a "hold-to-collect-and-sell" business model. The Bank expects to reclassify more debt securities currently held as AFS investments to amortized cost than to FVOCI. Loans and other receivables are expected to be managed under an "HTC" business model and thus qualify for amortized cost measurement.

Investments in unquoted equity shares currently carried at cost under PAS 39 are expected to be measured at FVTPL. Quoted equity shares currently held as AFS investments can be measured at FVTPL, which will increase volatility in profit or loss, except for certain AFS investments that will be designated as FVOCI with no recycling to profit or loss.

b. Impairment
PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Incurred loss versus expected credit loss methodology
The application of ECL will significantly change the Bank's credit loss methodology and models. ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days and has exhibited a satisfactory track record.

Credit risk at initial recognition
The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays
The Bank incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank has determined that the financial and operational aspects of the ECL methodologies under PFRS 9 will have an impact to the 2018 financial statements.

c. Hedge Accounting
The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Bank has assessed that the adoption of these amendments will not have any impact in the 2018 financial statements.

The Bank has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 9. The Bank is continuously refining its internal controls and processes which are relevant in the proper implementation of the PFRS 9.

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

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Bank is currently assessing the impact of adopting PFRS 15.

Effective beginning on or after January 1, 2019

New Standards

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs. The Bank is currently assessing the impact of adopting PFRS 16.

Amendments

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
Philippine Interpretation IFRIC 23 addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:
- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Bank is currently assessing the impact of adopting this interpretation.

Impact of TRAIN on the Bank's 2017 financial statements:
- "Republic Act (RA) No. 10963 of the Tax Reform for Accelaration and inclusion Act (TRAIN) was signed into law on December 19, 2017 and took effect January 01, 2018, making the new tax law enacted as of the reporting date. Although the TRAIN changes existing tax law and includes several provisions that will generally affect business on a prospective basis, the management assessed that the same will not have any significant impact on the financial statement balances as of the reporting date."

<u>*Deferred effectivity*</u>

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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.

Judgments

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

(a) *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(b) *Classification of HTM investments*

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

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, for provisions calculated on an individual basis, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including the assessment of the financial condition of the counterparty, and estimated net selling prices of collateral, and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate (Note 5).

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance take into consideration historical loss rates, recovery rates and net flow rates.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(b) *Impairment of non-financial assets*

Investment properties and chattel mortgage properties
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank’s investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

Investment in a joint venture
The Bank assesses impairment on its investment in a joint venture whenever events or changes in circumstances indicate that the carrying amount of said asset may not be recoverable. Among others, the factors that the Bank considers important which could trigger an impairment review on its investment in a joint venture include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes (i.e., technological, market, economic, or legal environment in which the joint venture operates with an adverse effect on the joint venture have taken place during the period, or will take place in the near future).

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use. As of December 31, 2017 and 2016, the carrying values of the Bank's investment in a joint venture amounted to ₱607.2 million and ₱727.2 million, respectively (Note 10).

(c) *Present value of retirement obligation*
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation are disclosed in Note 24.

As of December 31, 2017 and 2016 the net pension liability of the Bank amounted to ₱515.9 million and ₱748.8 million, respectively (Note 24).

(d) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast, tax strategies and expected future market or economic conditions.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Net deferred tax assets as of December 31, 2017 and 2016 amounted to ₱1.4 billion and ₱1.3 billion, respectively (Note 27).

(e) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (Note 31).

4. **Fair Value Measurement**

Financial Instruments

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.
Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans. The discount rates used range from 6.00% to 30.00% in 2017 and 2016.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for subordinated notes are 5.22% in 2017 and ranges from 5.63% to 5.89% in 2016. The discount rates used for time deposits range from 0.25% to 1.75% in 2017 and 2016, respectively.

The inputs used in the fair value measurement based on Level 2 are as follows:

Derivative assets and liabilities - fair values are calculated by reference to the prevailing spot exchange rate as of statement of condition date.

Government securities - interpolated rates based on market rates of benchmark securities as of statement of condition date.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

Non-financial Asset

Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱293,076	₱293,076	₱–	₱–	₱293,076
Derivative assets - foreign exchange swaps	73,160	–	73,160	–	73,160
AFS investments					
Government debt securities	10,762,411	10,260,902	501,509	–	10,762,411
Private debt securities	6,153,072	6,153,072	–	–	6,153,072
Quoted equity securities	7,703	163	8,760	–	8,923
	₱17,289,422	₱16,707,213	₱583,429	₱–	₱17,290,642
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	₱25,460,778	₱24,634,062	₱–	₱–	₱24,634,062
Private	4,012,946	4,046,020	–	–	4,046,020
Loans and receivables					
Receivables from customers					
Consumption loans	82,319,091	–	–	93,632,312	93,632,312
Real estate loans	45,961,973	–	–	45,844,118	45,844,118
Commercial loans	11,185,778	–	–	12,070,479	12,070,479
Personal loans	2,899,960	–	–	3,383,787	3,383,787
Sales contract receivable	72,892	–	–	107,448	107,448
Security deposits	179,436	–	–	288,467	288,467
Non-Financial Assets					
Investment properties	3,930,317	–	–	4,939,141	4,939,141
	₱176,023,171	₱28,680,082	₱-	₱160,265,752	₱189,945,834
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱136,042,057	₱–	₱–	₱137,797,790	₱137,797,790
Deposit liabilities – LTNCD	3,375,000	–	–	3,198,056	3,198,056
Subordinated notes	2,978,998	–	–	3,046,819	3,046,819
Bills payable	1,492,419	–	–	1,492,419	1,492,419
	₱143,888,474	₱–	₱–	₱145,535,084	₱145,535,084

	December 31, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱1,360,293	₱1,360,293	₱–	₱–	₱1,360,293
Derivative assets - foreign exchange swaps	499	–	499	–	499
AFS investments					
Government debt securities	8,462,431	7,860,775	601,656	–	8,462,431
Private debt securities	4,645,669	4,645,669	–	–	4,645,669
Quoted equity securities	5,393	163	6,450	–	6,613
	₱14,474,285	₱13,866,900	₱608,605	₱–	₱14,476,505
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	₱20,046,355	₱14,700,636	₱3,121,158	₱–	₱17,821,794
Private	3,110,532	4,671,187	–	–	4,671,187
Loans and receivables					
Receivables from customers					
Consumption loans	68,049,723	–	–	77,057,592	77,057,592
Real estate loans	43,394,060	–	–	43,727,872	43,727,872
Commercial loans	10,724,488	–	–	11,602,071	11,602,071
Personal loans	2,923,628	–	–	3,471,046	3,471,046
Sales contract receivable	117,814	–	–	154,520	154,520
Security deposits	178,331	–	–	168,120	168,120
Non-Financial Assets					
Investment properties	3,861,708	–	–	4,675,355	4,675,355
	₱152,406,639	₱19,371,823	₱3,121,158	₱140,856,576	₱163,349,557
Liabilities measured at fair value:					
Financial Liabilities					
Derivative liabilities - foreign exchange swaps	₱65,317	₱–	₱65,317	₱–	₱65,317
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱115,811,946	₱–	₱–	₱115,519,377	₱115,519,377
Subordinated notes	5,975,732	–	–	6,000,716	6,000,716
Bills Payable	6,093,797	–	–	6,093,797	6,093,797
	₱127,881,475	₱–	₱–	₱127,613,890	₱127,613,890

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

As of December 31, 2017 and 2016, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank’s ROP warrants, as evidenced by the unavailability of quoted market prices.

5. **Financial Risk Management Policies and Objectives**

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:
- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;

- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI), and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility

The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management
The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2017, the Bank effected the necessary adjustments to its credit risk management systems and processes in transition to the Philippine Financial Reporting Standards 9 (PFRS 9) as well as the Amended Rules on Past Due and Non-Performing Loans per BSP Circular No. 941, both effective 01 January 2018. Credit risk management was likewise strengthened in preparation for the implementation of expected credit loss models which will allow the Bank to shift from the incurred loss methods for calculating allowance for losses to forward-looking loss provisioning. Further, credit scoring models were updated to optimize returns by growing profitable lending segments and exploring new markets whilst mitigating the risks.

Maximum Exposure to Credit Risk
The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2017			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,508,489**	**₱2,841,821**	**₱–**	**₱1,508,489**
SPURA	**1,842,023**	**577,932**	**–**	**1,842,023**
Receivables from customers				
Consumption loans	**82,319,091**	**102,691,262**	**21,424**	**82,297,667**
Real estate loans	**45,961,973**	**52,201,023**	**5,526,038**	**40,435,935**
Commercial loans	**11,185,778**	**13,138,025**	**2,716,368**	**8,469,410**
Other receivables				
Accrued interest receivable	**1,741,516**	**3,644,411**	**732,020**	**1,009,496**
Sales contract receivable	**72,892**	**104,882**	**46,235**	**26,657**
Total credit exposure	**₱144,631,762**	**₱175,199,356**	**₱9,042,085**	**₱135,589,677**

	2016			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,838,630	₱788,154	₱1,054,476	₱788,154
SPURA	3,254,312	4,686,901	–	3,254,312
Receivables from customers				
Consumption loans	68,049,723	75,053,312	2,019,025	66,030,698
Real estate loans	43,394,060	49,133,794	5,354,204	38,039,856
Commercial loans	10,724,488	4,622,362	7,450,673	3,273,815
Other receivables				
Accrued interest receivable	1,614,842	1,527,477	87,365	1,527,477
Sales contract receivable	117,814	307,004	1,325	116,489
Total credit exposure	₱128,993,869	₱136,119,004	₱15,967,068	₱113,030,801

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. Generally, collateral is not held over loans and advances to banks except for SPURA. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2017 and 2016.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2017 and 2016, the maximum credit exposure to any borrower amounted to ₱1.9 billion, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2017				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱129,574,601**	**₱18,612,324**	**₱46,755,443**	**₱273,268**	**₱195,215,636**
Visayas	**9,422,015**	**1,106**	**–**	**–**	**9,423,121**
Mindanao	**10,614,855**	**2,470**	**–**	**–**	**10,617,325**
	149,611,471	**18,615,900**	**46,755,443**	**273,268**	**215,256,082**
Less allowance for credit and impairment losses	**4,646,958**	**–**	**–**	**–**	**4,646,958**
Total	**₱144,964,513**	**₱18,615,900**	**₱46,755,443**	**₱273,268**	**₱210,609,124**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱114,457,713	₱19,023,728	₱37,625,779	₱273,614	₱171,380,834
Visayas	8,125,298	23,421	–	–	8,148,719
Mindanao	9,401,569	32,577	–	–	9,434,146
	131,984,580	19,079,726	37,625,779	273,614	188,963,699
Less allowance for credit and impairment losses	4,762,733	–	–	–	4,762,733
Total	₱127,221,847	₱19,079,726	₱37,625,779	₱273,614	₱184,200,966

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2017 and 2016 (in thousands):

	2017				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱90,543,668**	**₱–**	**₱–**	**₱–**	**₱90,543,668**
Financial and insurance activities	**4,068,627**	**18,615,900**	**46,755,443**	**191,162**	**69,631,132**
Real estate activities	**42,251,639**	**–**	**–**	**–**	**42,251,639**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,421,117**	**–**	**–**	**–**	**2,421,117**
Electricity, gas, steam and air-conditioning supply	**1,749,765**	**–**	**–**	**–**	**1,749,765**
Administrative and support service activities	**996,493**	**–**	**–**	**–**	**996,493**
Transportation and storage	**963,123**	**–**	**–**	**–**	**963,123**
Construction	**801,242**	**–**	**–**	**56,000**	**857,242**
Manufacturing	**644,735**	**–**	**–**	**–**	**644,735**
Information and communication	**592,890**	**–**	**–**	**–**	**592,890**
Accommodation and food service activities	**372,653**	**–**	**–**	**–**	**372,653**
Human health and social work activities	**326,297**	**–**	**–**	**–**	**326,297**
Water supply, sewage, waste management and remediation activities	**237,078**	**–**	**–**	**–**	**237,078**
Education	**198,609**	**–**	**–**	**–**	**198,609**
Professional, scientific and technical services	**137,853**	**–**	**–**	**–**	**137,853**

(Forward)

	2017				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Arts, entertainment and recreation	**₱85,099**	**₱–**	**₱–**	**₱–**	**₱85,099**
Agricultural, forestry and fishing	**25,302**	**–**	**–**	**–**	**25,302**
Mining and quarrying	**7,230**	**–**	**–**	**–**	**7,230**
Other service activities	**3,188,051**	**–**	**–**	**26,106**	**3,214,157**
	149,611,471	**18,615,900**	**46,755,443**	**273,268**	**215,256,082**
Less allowance for credit and impairment losses	**4,646,958**	**–**	**–**	**–**	**4,646,958**
Total	**₱144,964,513**	**₱18,615,900**	**₱46,755,443**	**₱273,268**	**₱210,609,124**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2016				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱76,644,704	₱–	₱–	₱–	₱76,644,704
Financial and insurance activities	3,506,711	19,079,726	37,625,779	189,954	60,402,170
Real estate activities	39,499,089	–	–	–	39,499,089
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,021,531	–	–	–	2,021,531
Electricity, gas, steam and air-conditioning supply	1,571,669	–	–	–	1,571,669
Information and communication	1,513,811	–	–	–	1,513,811
Administrative and support service activities	1,176,719	–	–	–	1,176,719
Accommodation and food service activities	709,800	–	–	–	709,800
Manufacturing	547,418	–	–	–	547,418
Construction	427,755	–	–	56,000	483,755
Human health and social work activities	356,752	–	–	–	356,752
Transportation and storage	326,725	–	–	–	326,725
Water supply, sewage, waste management and remediation activities	289,700	–	–	–	289,700
Education	203,247	–	–	–	203,247
Professional, scientific and technical services	81,247	–	–	–	81,247
Arts, entertainment and recreation	37,165	–	–	–	37,165
Agricultural, forestry and fishing	20,321	–	–	–	20,321
Mining and quarrying	4,514	–	–	–	4,514
Other service activities	3,045,702	–	–	27,660	3,073,362
	131,984,580	19,079,726	37,625,779	273,614	188,963,699
Less allowance for credit and impairment losses	4,762,733	–	–	–	4,762,733
Total	₱127,221,847	₱19,079,726	₱37,625,779	₱273,614	₱184,200,966

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

<u>Credit Quality</u>
Description of the loan grades for loans, receivables and stand-by credit lines:

Master Loan Classifications
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved loan classifications which utilize the credit scoring results, credit experience and qualitative assessments.

Neither Past Due nor Individually Impaired
The Bank classifies those accounts under current status having the following master loan classification grades:

High Grade (Master Loan Classification 1 - 4)
1 - Excellent
This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong
This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Loan Especially Mentioned rating (rating=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Substandard rating (rating=8) at worst.

Standard Grade (Master Loan Classification 5 - 7)
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful rating (rating=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss rating (rating=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (Master Loan Classification 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The tables below show the credit quality per class of financial assets under loans and receivables (in thousands)*:

	2017						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
Loans and advances to banks							
Due from BSP	**₱15,265,388**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,265,388**
Due from other banks	**–**	**1,508,489**	**–**	**–**	**–**	**–**	**1,508,489**
Interbank loans receivable and SPURA	**–**	**1,842,023**	**–**	**–**	**–**	**–**	**1,842,023**
Receivables from customers							
Consumption loans	**72,426,514**	**218,182**	**19,887**	**–**	**11,611,871**	**–**	**84,276,454**
Real estate loans	**40,436,431**	**690,957**	**124,237**	**–**	**4,311,333**	**1,031,117**	**46,594,075**
Commercial loans	**10,867,915**	**565,472**	**216,548**	**–**	**180,164**	**145,606**	**11,975,705**
Personal loans	**2,822,044**	**62,340**	**57,011**	**–**	**544,674**	**–**	**3,486,069**
Other receivables							
Accrued interest receivable	**881,262**	**680,976**	**4,693**	**–**	**296,242**	**48,199**	**1,911,372**
Accounts receivable	**723,178**	**99**	**198**	**–**	**341,973**	**185,139**	**1,250,587**
Sales contract receivable	**86,935**	**483**	**93**	**–**	**19,218**	**–**	**106,729**
Bills purchased	**–**	**–**	**–**	**10,482**	**–**	**–**	**10,482**
Other assets							
Security deposits	**–**	**–**	**–**	**179,996**	**–**	**–**	**179,996**
RCOCI	**–**	**–**	**–**	**10,349**	**–**	**–**	**10,349**
Shortages	**–**	**–**	**–**	**1,012**	**–**	**–**	**1,012**
Total	**₱143,509,667**	**₱5,569,021**	**₱422,667**	**₱201,839**	**₱17,305,475**	**₱1,410,061**	**₱168,418,730**

*Shown gross of allowance for credit and impairment losses, net of unearned discount

	2016						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱13,986,785	₱–	₱–	₱–	₱–	₱–	₱13,986,785
Due from other banks	–	1,838,630	–	–	–	–	1,838,630
Interbank loans receivable and SPURA	3,254,312	–	–	–	–	–	3,254,312
Receivables from customers							
Consumption loans	54,186,784	–	5,282,592	–	10,630,050	–	70,099,426
Real estate loans	33,239,048	4,778,346	458,589	–	4,375,855	1,047,721	43,899,559
Commercial loans	10,575,097	478,928	199,136	–	180,377	172,246	11,605,784
Personal loans	1,979,545	880,638	93,212	–	636,243	–	3,589,638
Other receivables							
Accrued interest receivable	1,109,075	252,348	42,217	–	269,821	100,007	1,773,468
Accounts receivable	301,282	2,719	71	–	312,557	184,652	801,281
Sales contract receivable	112,841	12,571	–	–	26,238	–	151,650
Bills purchased	–	–	–	63,774	–	–	63,774
Other assets							
Security deposits	–	–	–	178,331	–	–	178,331
RCOCI	–	–	–	10,316	–	–	10,316
Shortages	–	–	–	1,307	–	–	1,307
Total	₱118,744,769	₱8,244,180	₱6,075,817	₱253,728	₱16,431,141	₱1,504,626	₱151,254,261

*Shown gross of allowance for credit and impairment losses, net of unearned discount

External Ratings
In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the rating of Moody's Investors Service (Moody's rating) as follows:

Credit Quality	**External Rating**									
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

The tables below show the credit quality per class of investment securities (in thousands)*:

	2017						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL							
HFT - government securities	**₱293,076**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱293,076**
Derivative asset	**–**	**73,160**	**–**	**–**	**–**	**–**	**73,160**
AFS investments							
Government debt securities	**10,762,411**	**–**	**–**	**–**	**–**	**–**	**10,762,411**
Private debt securities	**3,777,708**	**2,375,363**	**–**	**–**	**–**	**–**	**6,153,071**
Quoted equity securities	**–**	**–**	**–**	**8,923**	**–**	**–**	**8,923**
Unquoted equity securities	**–**	**–**	**–**	**3,269**	**–**	**–**	**3,269**
HTM investments							
Government debt securities	**25,460,778**	**–**	**–**	**–**	**–**	**–**	**25,460,778**
Private debt securities	**2,606,038**	**1,406,909**	**–**	**–**	**–**	**–**	**4,012,947**
Total	**₱42,900,011**	**₱3,855,432**	**₱–**	**₱12,192**	**₱–**	**₱–**	**₱46,767,635**

*Shown gross of allowance for credit and impairment losses

	2016						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL							
HFT - government securities	₱1,360,293	₱–	₱–	₱–	₱–	₱–	₱1,360,293
Derivative asset	–	499	–	–	–	–	499
AFS investments							
Government debt securities	8,462,431	–	–	–	–	–	8,462,431
Private debt securities	2,358,046	2,287,623	–	–	–	–	4,645,669
Quoted equity securities	–	–	–	6,613	–	–	6,613
Unquoted equity securities	–	–	–	3,289	–	–	3,289
HTM investments							
Government debt securities	20,046,355	–	–	–	–	–	20,046,355
Private debt securities	516,161	2,594,371	–	–	–	–	3,110,532
Total	₱32,743,286	₱4,882,493	₱–	₱9,902	₱–	₱–	₱37,635,681

*Shown gross of allowance for credit and impairment losses

Impairment Assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow methodology to compute for impairment loss. Accounts subjected to specific impairment and that are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances

Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant or are found to be not individually impaired. Impairment losses are estimated by taking into consideration the historical losses using a lookback period of five years on the portfolio and the expected receipts and recoveries once impaired. The Bank is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Bank to ensure alignment with the Bank's overall policy.

The Bank uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The method applies to consumer loans, as well as salary and home equity loans granted to employees of the Bank. For commercial loans, the Bank uses Historical Loss Rate method in determining the credit loss rate based on the actual historical loss experienced by the Bank on each specific industry type.

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets
The succeeding tables show the total aggregate amount of gross past due but not individually impaired loans and receivables per delinquency bucket. PFRS defines that a financial asset is past duen when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2017					
	Past Due but not Individually Impaired					
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**Over 180 days**	**Total**
Loans and receivables						
Receivables from customers						
Consumption loans	**₱5,460,605**	**₱2,435,353**	**₱1,176,061**	**₱1,291,281**	**₱1,248,571**	**₱11,611,871**
Real estate loans	**2,867,064**	**1,003,026**	**338,875**	**55,809**	**46,559**	**4,311,333**
Commercial loans	**140,750**	**16,268**	**15,540**	**–**	**7,606**	**180,164**
Personal loans	**124,835**	**29,533**	**19,024**	**45,412**	**325,870**	**544,674**
Other receivables						
Accrued interest receivable	**106,760**	**57,664**	**33,829**	**42,008**	**55,981**	**296,242**
Accounts receivable	**5,522**	**7,919**	**9,905**	**311,571**	**7,056**	**341,973**
Sales contract receivable	**3,083**	**4,180**	**–**	**2,719**	**9,236**	**19,218**
Total	**₱8,708,619**	**₱3,553,943**	**₱1,593,234**	**₱1,748,800**	**₱1,700,879**	**₱17,305,475**

*Shown gross of allowance for impairment and credit losses

	2016					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱4,999,504	₱2,345,627	₱1,078,386	₱1,147,048	₱1,059,485	₱10,630,050
Real estate loans	2,880,797	984,062	304,272	156,228	50,496	4,375,855
Commercial loans	59,469	59,569	46,461	3,476	11,402	180,377
Personal loans	124,461	30,575	23,010	53,238	404,959	636,243
Other receivables						
Accrued interest receivable	97,288	54,234	30,435	37,565	50,299	269,821
Accounts receivable	8,863	4,472	6,910	247,637	44,675	312,557
Sales contract receivable	7,755	2,653	5,170	2,208	8,452	26,238
Total	₱8,178,137	₱3,481,192	₱1,494,644	₱1,647,400	₱1,629,768	₱16,431,141

*Shown gross of allowance for impairment and credit losses

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated fixed income securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2017[1]		December 31, 2016	
	Peso	**USD**	Peso	USD
Year-end	**8,644**	**0**	4	9,817
Average	**9,328**	**9,108**	15,643	8,912
High	**30,309**	**39,341**	45,741	24,889
Low	**3**	**466**	3	–

[1]*Using METRISK Historical Simulation VaR*

Non-trading activities

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The table below demonstrate the sensitivity equity. Equity sensitivity was computed by calculating mark-to-market changes of AFS debt instruments, assuming a parallel shift in the yield curve.

	2017		2016	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(53,429,706)**	+10	(33,918,897)
USD	**+10**	**(61,335,975)**	+10	(61,686,169)
Currency				
PHP	**-10**	**54,019,588**	-10	46,027,531
USD	**-10**	**62,192,804**	-10	62,421,587

The impact on the Bank’s equity excludes the impact on transactions affecting the statement of income.

Foreign Currency Risk
Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank’s policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank’s VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2017[1]	2016[1]
As of year-end	**₱1,140**	₱176
Average	**883**	752
High	**1,302**	1,249
Low	**175**	18

[1]*Using METRISK Historical Simulation VaR*

The table below summarizes the Bank’s exposure to foreign exchange risk as of December 31, 2017 and 2016. Included in the table are the Bank’s assets and liabilities at carrying amounts (in thousands):

	2017	2016
Assets		
Cash	**$3**	$82
Due from other banks	**381**	1,728
FVPL investments	**–**	10
AFS investments	**–**	56,160
Total assets	**384**	57,980
Liabilities		
Deposit liabilities		
Savings	**56**	62
Time	**43**	52
Financial liabilities at FVPL	**–**	1,314
Other liabilities	**290**	11
Total liabilities	**389**	1,439
Net exposure	**($5)**	$56,541

c. Liquidity Risk

The Bank’s policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank’s objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets
Analysis of equity and debt securities at FVPL and AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2017							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Assets								
FVPL								
HFT - government securities	**₱306**	**₱–**	**₱–**	**₱–**	**₱–**	**₱306**	**₱–**	**₱306**
Derivatives	**–**	**–**	**73**	**–**	**–**	**73**	**–**	**73**
AFS investments								
Government securities	**–**	**110**	**192**	**147**	**422**	**871**	**21,782**	**22,653**
Quoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**8**	**8**
Unquoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
HTM investments								
Government bonds	**–**	**227**	**347**	**196**	**766**	**1,536**	**39,290**	**40,826**
Loans and receivables								
Loans and advances to banks								
Due from BSP	**15,265**	**–**	**–**	**–**	**–**	**15,265**	**–**	**15,265**
Due from other banks	**1,508**	**–**	**–**	**–**	**–**	**1,508**	**–**	**1,508**
Interbank loans receivable and SPURA	**–**	**1,842**	**–**	**–**	**–**	**1,842**	**–**	**1,842**
Receivables from customers								
Consumption loans	**121**	**1,117**	**2,332**	**3,749**	**8,378**	**15,697**	**114,129**	**129,826**
Real estate loans	**111**	**385**	**945**	**1,582**	**3,434**	**6,457**	**75,848**	**82,305**
Commercial loans	**575**	**463**	**1,367**	**716**	**1,260**	**4,381**	**10,918**	**15,299**
Personal loans	**1,046**	**172**	**341**	**532**	**1,378**	**3,469**	**1,661**	**5,130**

(Forward)

	2017							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Other receivables								
Accrued interest receivable	₱36	₱20	₱19	₱33	₱75	₱183	₱1,729	₱1,912
Accounts receivable	4	721	5	9	490	1,229	21	1,250
Sales contract receivable	5	1	1	2	6	15	124	139
Other assets								
Security deposits	–	–	–	–	–	–	–	–
RCOCI	10	–	–	–	–	10	–	10
Shortages	179	–	–	–	–	179	–	179
	₱19,166	₱5,058	₱5,622	₱6,966	₱16,209	₱53,021	₱265,511	₱318,532
Financial Liabilities								
Deposit liabilities								
Demand	₱19,113	₱–	₱–	₱–	₱–	₱19,113	₱–	₱19,113
Savings	30,384	–	–	–	–	30,384	–	30,384
Time	–	13,556	50,086	20,331	31,039	115,012	24,674	139,686
LTNCD	–	30	–	30	58	118	3,759	3,877
	49,497	13,586	50,086	20,361	31,097	164,627	28,433	193,060
Bills payable	–	1,497	–	–	–	1,497	–	1,497
Subordinated notes	–	–	41	41	83	165	3,990	4,155
Treasurer's, cashier's and manager's checks	2,214					2,214		2,214
Accrued interest payable	–	–	518	22	–	540	–	540
Accrued other expenses payable	1,119	–	–	–	–	1,119	–	1,119
Other liabilities								
Accounts payable	2,080	–	–	–	–	2,080	–	2,080
Other credits	–	–	–	–	–	–	1,146	1,146
Bills purchased - contra	10	–	–	–	–	10	–	10
Due to the Treasurer of the Philippines	–	–	–	–	–	–	17	17
Deposit for keys	1	–	–	–	–	1	–	1
Overages	6	–	–	–	–	6	–	6
	₱54,927	₱15,083	₱50,645	₱20,424	₱31,180	₱172,259	₱33,586	₱205,845

	2016							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL								
HFT - government securities	₱64	₱609	₱710	₱–	₱–	₱1,383	₱–	₱1,383
Derivatives	–	–	1	–	–	1	–	1
AFS investments								
Government securities	5	4	7	45	157	218	13,083	13,301
Private debt securities	–	–	26	28	93	147	5,798	5,945
Quoted equity securities	–	–	–	–	–	–	7	7
Unquoted equity securities	–	–	–	–	–	–	3	3
HTM investments								
Government bonds	–	30	24	85	400	539	24,998	25,537
Private bonds	–	1	6	39	395	441	2,965	3,406
Loans and receivables								
Loans and advances to banks								
Due from BSP	13,987	–	–	–	–	13,987	–	13,987
Due from other banks	1,839	–	–	–	–	1,839	–	1,839
Interbank loans receivable and SPURA	1	–	–	–	–	1	–	1
Receivables from customers								
Consumption loans	119	2,024	4,254	6,611	14,451	27,459	60,024	87,483
Real estate loans	136	647	1,539	2,379	5,317	10,018	55,570	65,588
Commercial loans	419	801	607	437	778	3,042	11,920	14,962
Personal loans	637	154	357	595	1,699	3,442	604	4,046
Other receivables								
Accrued interest receivable	1,422	–	187	47	46	1,702	71	1,773
Accounts receivable	801	–	–	–	–	801	–	801
Sales contract receivable	4	3	7	11	21	46	140	186
Other assets								
Security deposits	–	4	1	5	15	25	154	179
RCOCI	10	–	–	–	–	10	–	10
Shortages	1	–	–	–	–	1	–	1
	₱19,445	₱4,277	₱7,726	₱10,282	₱23,372	₱65,102	₱175,337	₱240,439

(Forward)

	2016							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱15,339	₱–	₱–	₱–	₱–	₱15,339	₱–	₱15,339
Savings	27,236	–	–	–	–	27,236	–	27,236
Time	56	69,176	17,573	7,700	4,815	99,320	16,511	115,831
	₱42,631	₱69,176	₱17,573	₱7,700	₱4,815	₱141,895	₱16,511	₱158,406
Derivative Liability	–	33	32	–	–	65	–	65
Bills payable	–	4,698	1,401	–	–	6,099	–	6,099
Subordinated notes	–	3,066	–	41	82	3,189	4,114	7,303
Treasurer's, cashier's and manager's checks	1,761	–	–	–	–	1,761	–	1,761
Accrued interest payable	–	2	171	37	–	210	–	210
Accrued other expenses payable	–	851	–	–	–	851	–	851
Other liabilities								
Accounts payable	–	1,594	–	–	–	1,594	–	1,594
Other credits	–	–	–	–	–	–	592	592
Bills purchased - contra	–	64	–	–	–	64	–	64
Due to the Treasurer of the Philippines	12	–	–	–	–	12	–	12
Deposit for keys	1	–	–	–	–	1	–	1
Overages	5	–	–	–	–	5	–	5
	₱44,410	₱79,484	₱19,177	₱7,778	₱4,897	₱155,746	₱21,217	₱176,963

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking -principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2017, 2016 and 2015 follows (in thousands):

	2017				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱4,811,338**	**₱321,494**	**₱6,777,057**	**₱2,633,888**	**₱14,543,777**
Service fees and commission	**561,436**	**40,482**	**868,284**	**–**	**1,470,202**
Other operating income	**898,009**	**15,705**	**529,289**	**(8,754)**	**1,434,249**
Total operating income	**6,270,783**	**377,681**	**8,174,630**	**2,625,134**	**17,448,228**
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	**2,111,031**	**(36,167)**	**195,315**	**–**	**2,270,179**
Depreciation	**242,252**	**5,852**	**386,310**	**1,022**	**635,436**
Amortization of other intangible assets	**50,347**	**2,638**	**81,673**	**774**	**135,432**
Total non-cash expenses	**2,403,630**	**(27,677)**	**663,298**	**1,796**	**3,041,047**
Interest expense	**–**	**–**	**1,653,833**	**1,810,844**	**3,464,677**
Service fees and commission expense	**36,060**	**2,600**	**55,768**	**–**	**94,428**
Subtotal	**36,060**	**2,600**	**1,709,601**	**1,810,844**	**3,559,105**
Compensation and fringe benefits	**802,955**	**63,842**	**2,365,493**	**28,316**	**3,260,606**
Taxes and licenses	**410,454**	**31,874**	**438,575**	**388,005**	**1,268,908**
Occupancy and equipment-related costs	**68,023**	**1,022**	**670,795**	**211**	**740,051**
Security, messengerial and janitorial services	**115,856**	**4,649**	**355,784**	**1,244**	**477,533**
Miscellaneous	**709,485**	**37,715**	**1,336,751**	**167,383**	**2,251,334**
Subtotal	**2,106,773**	**139,102**	**5,167,398**	**585,159**	**7,998,432**
Income before share in net income of a joint venture and income tax	**₱1,724,320**	**₱263,656**	**₱634,333**	**₱227,335**	**₱2,849,644**
Share in net income of a joint venture					**71,837**
Income before income tax					**2,921,481**
Provision for income tax					**267,062**
Net income					**2,654,419**
Segment assets	**₱113,797,984**	**₱8,297,700**	**₱39,017,294**	**₱60,174,574**	**₱221,287,552**
Investment in a joint venture					**607,163**
Deferred tax assets					**1,429,327**
Total assets					**223,324,042**
Segment liabilities	**₱1,123,077**	**₱77,620**	**₱119,740,151**	**₱79,989,870**	**₱200,930,718**

	2016				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,202,897	₱293,441	₱5,895,983	₱2,100,149	₱12,492,470
Service fees and commission	480,075	31,697	714,243	–	1,226,015
Other operating income	595,208	17,873	531,821	533,658	1,678,560
Total operating income	5,278,180	343,011	7,142,047	2,633,807	15,397,045
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	3,209,361	(390,094)	(596,764)	–	2,222,503
Depreciation	185,943	5,839	365,680	187	557,649
Amortization of other intangible assets	40,057	2,327	68,521	255	111,160
Total non-cash expenses	3,435,361	(381,928)	(162,563)	442	2,891,312
Interest expense	–	–	1,606,743	1,221,805	2,828,548
Service fees and commission expense	35,112	2,318	52,238	–	89,668
Subtotal	35,112	2,318	1,658,981	1,221,805	2,918,216
Compensation and fringe benefits	721,231	56,789	2,127,091	17,790	2,922,901
Taxes and licenses	335,734	23,487	426,654	272,563	1,058,438
Occupancy and equipment-related costs	67,678	1,449	641,813	2	710,942
Security, messengerial and janitorial services	79,717	2,627	300,718	609	383,671
Miscellaneous	564,947	31,680	1,181,358	98,491	1,876,476
Subtotal	1,769,307	116,032	4,677,634	389,455	6,952,428

(Forward)

	2016				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Income before share in net income of a joint venture and income tax	₱38,400	₱606,589	₱967,995	₱1,022,105	2,635,089
Share in net income of a joint venture					35,467
Income before income tax					2,670,556
Provision for income tax					219,713
Net income					₱2,450,843
Segment assets	₱94,193,769	₱8,891,632	₱39,281,097	₱52,458,705	₱194,825,203
Investment in a joint venture					727,176
Deferred tax assets					1,300,724
Total assets					₱196,853,103
Segment liabilities	₱1,365,551	₱110,204	₱108,983,331	₱66,356,344	₱176,815,430

	2015				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,424,517	₱433,460	₱6,646,711	₱1,498,039	₱11,002,727
Service fees and commission	341,653	38,519	913,528	–	1,293,700
Other operating income	361,645	31,979	775,216	(44,746)	1,124,094
Total operating income	3,127,815	503,958	8,335,455	1,453,293	13,420,521
Non-cash expenses					
Provision for credit and impairment losses	534,730	34,988	1,015,294	3,286	1,588,298
Depreciation	94,839	6,189	400,103	180	501,311
Amortization of other intangible assets	23,423	2,784	73,779	239	100,225
Total non-cash expenses	652,992	43,961	1,489,176	3,705	2,189,834
Interest expense	–	–	1,476,307	1,044,474	2,520,781
Service fees and commission expense	25,936	2,924	69,348	–	98,208
Subtotal	25,936	2,924	1,545,655	1,044,474	2,618,989
Compensation and fringe benefits	434,632	53,123	2,111,648	14,465	2,613,868
Taxes and licenses	163,728	19,347	512,614	265,404	961,093
Occupancy and equipment-related costs	34,129	1,609	635,915	76	671,729
Security, messengerial and janitorial services	46,943	3,235	283,232	620	334,030
Miscellaneous	279,418	35,962	1,343,991	83,383	1,742,754
Subtotal	958,850	113,276	4,887,400	363,948	6,323,474
Income before share in net income of a joint venture and income tax	1,490,037	343,797	413,224	41,166	2,288,224
Share in net income of a joint venture					20,214
Income before income tax					2,308,438
Benefit from income tax					42,462
Net income					₱2,350,900
Segment assets	₱82,181,033	₱8,438,387	₱36,990,937	₱39,836,139	₱167,446,496
Investment in a joint venture					690,334
Deferred tax assets					1,194,417
Total assets					₱169,331,247
Segment liabilities	₱1,201,661	₱86,172	₱97,009,484	₱51,858,875	₱150,156,192

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2017	2016
Interbank loans receivable	**₱1,263,772,319**	₱–
SPURA	**578,250,730**	3,254,311,599
	₱1,842,023,049	₱3,254,311,599

Interbank loans receivable (IBCL) represents short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days. As of December 31, 2017, outstanding balance of IBCL consists of both foreign currency-denominated and peso-denominated receivables amounting to ₱763.8 million and ₱500.0 million, respectively.

SPURA are lending to counterparties collateralized by government securities ranging from one to four days. As of December 31, 2017 and 2016, fair value of government securities held as collateral amounted to ₱577.9 million and ₱4.7 billion, respectively. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

SPURA of the Bank bears annual interest rate of 3.00% in 2017 and ranges from 3.00% to 4.00% in 2016, while peso-denominated interbank loans of the Bank bear annual interest rate ranging from 2.50% to 3.30% in 2017 and 3.00% in 2016, respectively. Foreign currency-denominated interbank loans bear annual interest rates ranging from 1.00% to 1.25% in 2017. The Bank has no peso and foreign currency-denominated interbank loans as of December 31, 2016.

Interest income on SPURA and interbank loans receivable are as follows:

	2017	2016	2015
SPURA	**₱49,238,898**	₱56,735,116	₱162,099,556
Interbank loans receivable	**11,798,252**	4,795,139	28,714,798
	₱61,037,150	₱61,530,255	₱190,814,354

8. Investment Securities

Fair Value Through Profit or Loss Investments
FVPL consist of the following:

	2017	2016
HFT securities	**₱293,076,128**	₱1,360,292,936
Derivatives	**73,159,561**	499,211
	₱366,235,689	₱1,360,792,147

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

In 2017 and 2016, the Bank entered into foreign currency swaps and forwards. As of December 31, 2017 and 2016, foreign currency swaps had net positive and net negative fair value of ₱73.2 million and ₱64.8 million, respectively. As of December 31, 2017 and 2016, the aggregate notional amounts of the outstanding foreign currency swaps amounted to $53.1 million and $64.1 million, respectively.

Net movements in fair value changes of derivative instruments are as follows:

	2017	2016
Balance at beginning of year	**(₱64,817,467)**	₱–
Fair value changes during the year	**244,579,043**	(300,386,787)
Settled transactions	**(106,602,015)**	235,569,320
Balance at end of year	**₱73,159,561**	(₱64,817,467)

As of December 31, 2017 and 2016, the Bank has outstanding ROP paired warrants amounting to \$1.9 million which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As a result of the sale of its paired bonds in 2013, the Bank is holding ROP warrants without paired instruments and with on active market. As of December 31, 2017 and 2016, the Bank determined the market value of its warrants to be zero.

Available-for-Sale Investments
AFS investments consist of the following:

	2017	2016
Debt securities		
Government (Notes 29 and 30)	**₱10,762,411,432**	₱8,462,431,246
Private	**6,153,071,645**	4,645,668,747
Equity securities		
Quoted	**8,922,987**	6,612,987
Unquoted	**3,268,542**	3,288,543
	16,927,674,606	13,118,001,523
Less allowance for impairment losses (Note 15)	**2,188,665**	2,188,665
	₱16,925,485,941	₱13,115,812,858

Movements in the net unrealized gain (loss) on AFS investments follow:

	2017	2016
Balance at beginning of year	**(₱842,908,364)**	₱179,775
Loss (gain) from sale of AFS investments realized in profit or loss	**49,756,366**	(456,628,139)
Changes in fair values of AFS investments	**381,641,780**	(386,460,000)
	431,398,146	(843,088,139)
Balance at end of year	**(₱411,510,218)**	(₱842,908,364)

As of December 31, 2017 and 2016, included in AFS investments are National Food Authority bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱50.2 million and ₱51.8 million, respectively (Note 29).

As of December 31, 2017 and 2016, the Bank deposited AFS investments in the form of government bonds with total carrying value of ₱64.5 million and ₱49.7 million in compliance with trust regulations, respectively (Note 30).

As of December 31, 2017, the carrying value of AFS investments in the form of government bonds pledged as collateral for its bills payable amounted to ₱751.8 million (Note 17).

Held-to-Maturity Investments

HTM investments consist of the following:

	2017	2016
Debt securities		
Government	**₱25,460,777,587**	₱20,046,354,933
Private	**4,012,946,797**	3,110,531,696
	₱29,473,724,384	₱23,156,886,629

As of December 31, 2017 and 2016, the carrying value of HTM Investments in the form of government bonds pledged by the Bank as collateral for bills payable amounted to ₱1.0 billion and ₱4.7 billion, respectively (Note 17).

Interest income on investment securities consists of:

	2017	2016	2015
HTM investments	**₱1,165,451,432**	₱776,516,116	₱375,698,086
AFS investments	**607,568,926**	486,761,874	266,464,510
FVPL investments	**50,570,958**	84,671,137	85,605,995
	₱1,823,591,316	₱1,347,949,127	₱727,768,591

Peso-denominated AFS investments bear nominal annual interest rates ranging from 2.13% to 9.50% in 2017, 2.13% to 8.13% in 2016 and 1.63% to 9.13% in 2015 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 3.70% to 9.50% in 2017, 1.63% to 10.63% in 2016, and 2.50% to 10.63% in 2015.

Effective interest rates on AFS investments as of December 31, 2017, 2016, and 2015 range from 2.69% to 6.15%, 1.58% to 8.14% and 2.20% to 6.75%, respectively.

On the other hand, peso-denominated HTM investments bear effective interest rates ranging from 3.70% to 5.61% in 2017, 3.44% to 4.77% in 2016 and 2015, while foreign currency-denominated HTM investments bear effective interest rates ranging from 2.46% to 4.96%, 2.75% to 4.78%, 3.15% to 4.09% in 2017, 2016 and 2015, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2017	2016	2015
FVPL investments (Note 29)			
Realized	**(₱27,662,614)**	₱43,228,664	(₱75,741,227)
Unrealized market valuation gain (loss)	**12,181,154**	9,808,773	(24,171,844)
	(15,481,460)	53,037,437	(99,913,071)
AFS investments (Note 29)	**(49,756,366)**	456,628,139	36,343,321
	(₱65,237,826)	₱509,665,576	(₱63,569,750)

9. Loans and Receivables

This account consists of:

	2017	2016
Receivables from customers		
Consumption loans	**₱84,276,599,224**	₱70,110,905,877
Real estate loans	**46,594,075,046**	43,899,559,143
Commercial loans	**11,975,704,903**	11,605,784,470
Personal loans (Note 29)	**3,486,068,122**	3,589,638,459
	146,332,447,295	129,205,887,949
Less unearned discounts	**145,142**	11,479,526
	146,332,302,153	129,194,408,423
Other receivables		
Accrued interest receivable	**1,911,372,461**	1,773,467,620
Accounts receivable (Note 29)	**1,250,586,507**	801,280,736
Sales contract receivables	**106,727,770**	151,649,979
Bills purchased (Note 19)	**10,482,445**	63,773,615
	149,611,471,336	131,984,580,373
Less allowance for credit losses (Note 15)	**4,646,958,115**	4,762,733,222
	₱144,964,513,221	₱127,221,847,151

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of December 31, 2017, 2016 and 2015, 40.02%, 42.95% and 45.02%, respectively, of the total receivables from customers are subject to periodic interest repricing with average effective interest rates of 14.06%, 13.78% and 13.39% in 2017, 2016 and 2015. Remaining receivables earn average annual fixed interest rates of 14.81%, 15.06% and 15.10% in 2017, 2016 and 2015, respectively.

Receivables from customers earned interest income at an effective interest rate ranging from 8.94% to 9.17%, 8.55% to 9.70%, and 8.56% to 10.16% for the periods ending December 31, 2017, 2016 and 2015, respectively.

Interest income on loans and receivables consists of:

	2017	2016	2015
Receivables from customers			
Consumption loans	**₱7,624,465,526**	₱6,326,845,090	₱5,273,970,259
Real estate loans	**3,273,928,199**	3,149,014,794	2,889,904,587
Personal loans (Note 29)	**820,957,546**	838,015,354	881,020,749
Commercial loans	**749,518,594**	741,347,084	868,764,738
Other receivables			
Sales contract receivables	**8,263,372**	11,640,532	15,998,131
	₱12,477,133,237	₱11,066,862,854	₱9,929,658,464

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱58.1 million, ₱71.7 million and ₱92.1 million in 2017, 2016 and 2015, respectively.

Interest income from restructured loans amounted to ₱11.0 million, ₱34.4 million and ₱54.7 million in 2017, 2016 and 2015, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses, excluding Bills Purchased) as to secured and unsecured and as to type of security follows:

	2017	**%**	2016	%
Secured by:				
Chattel	**₱84,276,599,224**	**57.59**	₱70,110,905,877	54.26
Real estate	**31,276,232,123**	**21.37**	29,237,515,082	22.63
Deposit hold-out	**599,229,388**	**0.41**	412,128,144	0.32
Others	**–**	**0.00**	9,526	0.00
	116,152,060,735	**79.37**	99,760,558,629	77.21
Unsecured	**30,180,386,560**	**20.63**	29,445,329,320	22.79
	₱146,332,447,295	**100.00**	₱129,205,887,949	100.00

Details of NPLs follow:

	2017	2016
Secured	**₱3,357,179,140**	₱3,367,352,853
Unsecured	**1,413,353,220**	1,163,757,704
	₱4,770,532,360	₱4,531,110,557

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for thirty (30) days or more after due date if payable in lumpsum or after they have become past due in accordance with the following schedule, in which case, the total outstanding balance thereof shall be considered non-performing:

Mode of Payment	Number of Installments in arrears
Monthly	Three (3)
Quarterly	One (1)
Semestral	One (1)
Annual	One (1)

Provided, however, that when the total amount of arrearages reaches twenty percent (20.00%) of the total outstanding balance of the loans and receivables, the total outstanding balance of the loans and receivables shall be considered as past due, regardless of the number of installments in arrears.

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

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

All items in litigation shall be considered non-performing.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2017	2016
Total NPLs	**₱4,770,532,360**	₱4,531,110,557
NPLs fully covered by allowance for credit losses	**967,848,231**	1,011,362,190
	₱3,802,684,129	₱3,519,748,367

Restructured loans as of December 31, 2017 and 2016 amounted to ₱157.7 million and ₱186.8 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱1.2 billion and ₱3.7 billion as of December 31, 2017 and 2016, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses, excluding Bills Purchased):

	2017	**%**	2016	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱89,619,513,953**	**61.24**	₱75,920,078,811	58.76
Real estate activities	**41,988,414,397**	**28.69**	39,133,764,415	30.29
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,406,750,036**	**1.64**	2,008,807,243	1.55
Financial and insurance activities	**2,076,032,590**	**1.42**	2,241,354,851	1.73
Electricity, gas, steam and air-conditioning supply	**1,729,067,501**	**1.18**	1,555,364,752	1.20
Administrative and support service activities	**988,927,513**	**0.68**	1,168,225,729	0.90
Transportation and storage	**955,988,018**	**0.65**	706,406,196	0.55
Construction	**794,540,357**	**0.54**	419,201,856	0.32
Manufacturing	**641,017,094**	**0.44**	544,063,882	0.42
Information and communication	**591,624,626**	**0.40**	1,510,721,131	1.17
Accommodation and food service activities	**369,461,368**	**0.25**	320,287,158	0.25
Human health and social work activities	**321,458,626**	**0.22**	351,327,898	0.27
Water supply, sewerage, waste management and remediation activities	**233,548,432**	**0.16**	285,743,840	0.22
Education	**196,750,868**	**0.13**	201,105,384	0.16
Professional, scientific and technical activities	**137,424,796**	**0.09**	81,018,814	0.06
Arts, entertainment and recreation	**84,598,346**	**0.06**	36,956,995	0.03
Agriculture, forestry and fishing	**24,481,568**	**0.04**	19,554,970	0.02
Mining and quarrying	**7,206,617**	**0.01**	4,513,747	0.00
Others	**3,165,640,589**	**2.16**	2,697,390,277	2.10
	₱146,332,447,295	**100.00**	₱129,205,887,949	100.00

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.

10. Investment in a Joint Venture

On August 9, 2017, the Bank signed a Sale and Purchase Agreement ("SPA") to sell 2.0 million shares or 10.00% ownership in SMFC to GT Capital Holdings, Inc. (GT Capital), a related party, for ₱190.0 million or ₱95.0 per share. The price of the transaction was based on an independent valuation report which was subjected to a third party fairness opinion.

As a result of the sale, the Bank's ownership interest in SMFC was reduced from 40.00% to 30.00%. Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all the terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC's relevant activities.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles. As of December 31, 2017 and 2016, the Bank's Investment in a Joint Venture amounted to ₱607.2 million and ₱727.2 million, respectively.

The following table illustrates the summarized financial information of SMFC (in thousands):

	2017	2016
Current assets	**₱3,415,192**	₱2,481,689
Non-current assets	**118,675**	125,057
Current liabilities	**(1,485,946)**	(179,881)
Non-current liabilities	**(24,045)**	(608,924)
Net assets	**₱2,023,876**	₱1,817,941

	2017	2016	2015
Revenues	**₱818,915**	₱661,242	₱449,887
Costs and expenses	**524,426**	539,530	379,678
	294,489	121,712	70,209
Provision for income tax	**89,062**	35,687	19,674
Net income	**205,427**	86,025	50,535
Other comprehensive income	**541**	3,440	3,783
Total comprehensive income	**₱205,968**	₱89,465	₱54,318

Movement in this account follows (in thousands):

	2017	2016
Balance at beginning of year	**₱727,176**	₱690,334
Carrying value of investment sold	**(192,012)**	–
Share in net income (Note 29)	**71,837**	35,466
Share in unrealized gain on remeasurement of retirement liability	**162**	1,376
Ending balance	**₱607,163**	₱727,176

Cost of the investment as of December 31, 2017 and 2016 amounted to ₱600.0 million and ₱800.0 million, respectively.

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2017 and 2016. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Movement in Equity in Remeasurement Gains on Retirement Plan of a Joint Venture is as follows:

Share in unrealized gain on remeasurement of retirement liability	₱162,445
Reclassification of OCI to profit or loss due to sale of shares in joint venture	(360,900)
Total	(₱198,455)

11. Property and Equipment

The composition of and movements in this account follow:

	2017				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,125,080,642**	**₱2,599,237,687**	**₱910,425,844**	**₱5,611,187,849**
Acquisitions	**–**	**1,512,727**	**159,892,831**	**65,714,426**	**227,119,984**
Disposals	**–**	**–**	**(37,676,241)**	**–**	**(37,676,241)**
Balance at end of year	**976,443,676**	**1,126,593,369**	**2,721,454,277**	**976,140,270**	**5,800,631,592**
Accumulated Depreciation					
Balance at beginning of year	**–**	**380,990,516**	**1,937,538,765**	**625,488,113**	**2,944,017,394**
Depreciation	**–**	**35,479,744**	**263,138,807**	**93,270,131**	**391,888,682**
Disposals	**–**	**–**	**(33,766,144)**	**–**	**(33,766,144)**
Reclassifications/transfer	**–**	**–**	**18,479,470**	**(164)**	**18,479,306**
Balance at end of year	**–**	**416,470,260**	**2,185,390,898**	**718,758,080**	**3,320,619,238**
Net Book Value	**₱976,443,676**	**₱710,123,109**	**₱536,063,379**	**₱257,382,190**	**₱2,480,012,354**

	2016				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,090,198,998	₱2,392,877,414	₱877,422,384	₱5,336,942,472
Acquisitions	–	35,590,621	247,293,337	36,146,475	319,030,433
Disposals	–	(708,977)	(40,933,064)	(3,143,015)	(44,785,056)
Balance at end of year	976,443,676	1,125,080,642	2,599,237,687	910,425,844	5,611,187,849
Accumulated Depreciation					
Balance at beginning of year	–	346,201,515	1,695,505,804	549,160,782	2,590,868,101
Depreciation	–	34,789,001	256,555,570	77,100,086	368,444,657
Disposals	–	–	(29,168,860)	(772,755)	(29,941,615)
Reclassifications/transfer	–	–	14,646,251	–	14,646,251
Balance at end of year	–	380,990,516	1,937,538,765	625,488,113	2,944,017,394
Net Book Value	₱976,443,676	₱744,090,126	₱661,698,922	₱284,937,731	₱2,667,170,455

Gain on sale of property and equipment amounted to ₱1.7 million, ₱2.6 million and ₱17.7 million in 2017, 2016 and 2015, respectively.

The details of depreciation under the statements of income follow:

	2017	2016	2015
Property and equipment	**₱391,888,682**	₱368,444,657	₱340,827,746
Investment properties (Note 12)	**93,249,037**	85,649,120	73,873,201
Chattel mortgage properties (Note 14)	**150,298,384**	103,554,973	86,610,199
	₱635,436,103	₱557,648,750	₱501,311,146

As of December 31, 2017 and 2016, property and equipment of the Bank with gross carrying amounts of ₱1.5 billion and ₱1.4 billion, respectively, are fully depreciated but are still being used.

12. Investment Properties

The composition of and movements in this account follow:

		2017	
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,738,547,376**	**₱2,742,910,089**	**₱4,481,457,465**
Additions (Note 32)	**263,873,034**	**604,407,391**	**868,280,425**
Disposals	**(375,578,758)**	**(416,696,304)**	**(792,275,062)**
Balance at end of year	**1,626,841,652**	**2,930,621,176**	**4,557,462,828**
Accumulated Depreciation			
Balance at beginning of year	**–**	**366,374,975**	**366,374,975**
Depreciation (Note 11)	**–**	**93,249,037**	**93,249,037**
Disposals		**(61,998,295)**	**(61,998,295)**
Balance at end of year	**–**	**397,625,717**	**397,625,717**
Allowance for Impairment Losses			
Balance at beginning of year	**181,407,122**	**71,967,060**	**253,374,182**
Provisions (reversals) for the year (Note 15)	**–**	**(1,201,346)**	**(1,201,346)**
Disposals	**(14,589,743)**	**(8,063,461)**	**(22,653,204)**
Balance at end of year	**166,817,379**	**62,702,253**	**229,519,632**
Net Book Value	**₱1,460,024,273**	**₱2,470,293,206**	**₱3,930,317,479**

		2016	
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,572,972,787	₱2,327,005,675	₱3,899,978,462
Additions (Note 32)	409,768,437	715,620,863	1,125,389,300
Disposals	(244,193,848)	(299,716,449)	(543,910,297)
Balance at end of year	1,738,547,376	2,742,910,089	4,481,457,465
Accumulated Depreciation			
Balance at beginning of year	–	318,449,867	318,449,867
Depreciation (Note 11)	–	85,649,120	85,649,120
Disposals	–	(37,724,012)	(37,724,012)
Balance at end of year	–	366,374,975	366,374,975
Allowance for Impairment Losses			
Balance at beginning of year	181,407,122	55,967,060	237,374,182
Provisions for the year (Note 15)	–	16,000,000	16,000,000
Balance at end of year	181,407,122	71,967,060	253,374,182
Net Book Value	₱1,557,140,254	₱2,304,568,054	₱3,861,708,308

The details of the net book value of investment properties follow:

	2017	2016
Real estate properties acquired in settlement of loans and receivables	**₱3,832,340,181**	₱3,759,902,584
Bank premises leased to third parties and held for capital appreciation	**97,977,298**	101,805,724
	₱3,930,317,479	₱3,861,708,308

As of December 31, 2017 and 2016, the aggregate fair value of investment properties amounted to ₱4.9 billion and ₱4.7 billion, respectively. Fair value of the properties was determined using Sales Comparison Approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱271.9 million, ₱350.4 million and ₱258.7 million in 2017, 2016 and 2015, respectively. The Bank realized gain on sale of investment properties amounting to ₱76.9 million and ₱14.0 million in 2017 and 2016, respectively, and a loss on sale amounting to ₱0.7 million in 2015.

Rental income on investment properties included in miscellaneous income amounted to ₱48.7 million, ₱53.8 million and ₱53.0 million in 2017, 2016 and 2015, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense) amounted to ₱20.5 million, ₱18.8 million and ₱15.7 million in 2017, 2016 and 2015, respectively (Note 26).

13. Goodwill and Intangible Assets

This account consists of:

	2017	2016
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**624,241,981**	414,483,793
Branch licenses	**37,123,737**	37,123,737
	661,365,718	451,607,530
	₱714,924,056	₱505,165,868

The movements in intangible assets follow:

	2017		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱414,483,793**	**₱37,123,737**	**₱451,607,530**
Additions	**345,190,531**	**–**	**345,190,531**
Amortization	**(135,432,343)**	**–**	**(135,432,343)**
Balance at end of year	**₱624,241,981**	**₱37,123,737**	**₱661,365,718**

	2016		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱355,178,046	₱35,723,737	₱390,901,783
Additions	170,466,198	1,400,000	171,866,198
Amortization	(111,160,451)	–	(111,160,451)
Balance at end of year	₱414,483,793	₱37,123,737	₱451,607,530

14. **Other Assets**

This account consists of:

	2017	2016
Chattel mortgage properties - net	**₱712,848,255**	₱607,096,135
Security deposits (Note 29)	**179,996,425**	178,330,923
Prepayments	**139,556,053**	186,996,554
Documentary stamps on hand	**103,123,771**	42,298,499
Stationeries and supplies on hand	**41,788,037**	25,762,082
Sundry debits	**23,766,185**	21,699,387
RCOCI	**10,349,423**	10,315,608
Creditable withholding tax	**6,675,985**	1,130,340
Others	**1,462,245**	4,453,528
	₱1,219,566,379	₱1,078,083,056

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

The movements in chattel mortgage properties - net follow:

	2017	2016
Cost		
Balance at beginning of year	**₱683,799,123**	₱526,167,582
Additions (Note 32)	**2,577,163,081**	1,925,310,853
Disposals	**(2,454,636,558)**	(1,767,679,312)
Balance at the end of year	**806,325,646**	683,799,123
Accumulated Depreciation		
Balance at beginning of year	**76,086,898**	69,266,942
Depreciation (Note 11)	**150,298,384**	103,554,973
Disposals	**(133,167,936)**	(96,735,017)
Balance at the end of year	**93,217,346**	76,086,898
Allowance for Impairment Losses		
Balance at beginning of year (Note 15)	**616,090**	616,090
Disposals	**(356,045)**	–
Balance at end of year	**260,045**	616,090
Net Book Value	**₱712,848,255**	₱607,096,135

Gain on foreclosure of chattel mortgage properties amounted to ₱759.1 million, ₱458.4 million and ₱432.6 million in 2017, 2016 and 2015, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱174.2 million, ₱106.7 million, and ₱54.9 million in 2017, 2016 and 2015, respectively.

15. Allowance for Credit and Impairment Losses

	2017					
	AFS Investments – Equity Securities (Note 8)		**Loans and Receivables** (Note 9)	**Investment Properties** (Note 12)	**Other Assets** (Note 14)	
	Quoted	**Unquoted**				**Total**
Balance at beginning of year	**₱1,220,000**	**₱968,665**	**₱4,762,733,222**	**₱253,374,182**	**₱616,090**	**₱5,018,912,159**
Provision (reversal) for credit a and impairment losses	**–**	**–**	**2,271,380,151**	**(1,201,346)**	**–**	**2,270,178,805**
Reversal of allowance on assets sold/settled	**–**	**–**	**(1,413,816,082)**	**(22,653,204)**	**(356,045)**	**(1,436,825,331)**
Accounts written off	**–**	**–**	**(973,339,176)**	**–**	**–**	**(973,339,176)**
Balance at end of year	**₱1,220,000**	**₱968,665**	**₱4,646,958,115**	**₱229,519,632**	**₱260,045**	**₱4,878,926,457**

	2016					
	AFS Investments – Equity Securities (Note 8)		Loans and Receivables (Note 9)	Investment Properties (Note 12)	Other Assets (Note 14)	
	Quoted	Unquoted				Total
Balance at beginning of year	₱1,220,000	₱968,665	₱4,625,202,276	₱237,374,182	₱616,090	₱4,865,381,213
Provision for credit and impairment losses	–	–	2,206,503,257	16,000,000	–	2,222,503,257
Reversal of allowance on assets sold/settled	–	–	(1,231,826,987)	–	–	(1,231,826,987)
Accounts written off	–	–	(837,145,324)	–	–	(837,145,324)
Balance at end of year	₱1,220,000	₱968,665	₱4,762,733,222	₱253,374,182	₱616,090	₱5,018,912,159

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows (in thousands):

	2017								
	Receivables from Customers				**Other Receivables**				
	Consumption	**Real Estate**	**Commercial**	**Personal**	**Accrued Interest Receivable**	**Accounts Receivable**	**Sales Contract Receivable**	**Bills Purchased**	**Total**
Balance at beginning of year	**₱2,049,703**	**₱505,499**	**₱881,296**	**₱666,010**	**₱158,626**	**₱466,460**	**₱33,836**	**₱1,303**	**₱4,762,733**
Provisions for the year charged against profit or loss	**1,950,817**	**126,603**	**(91,369)**	**227,854**	**57,398**	**77**	**–**	**–**	**2,271,380**
Reversal of allowance	**(1,413,816)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,413,816)**
Amounts written off	**(629,341)**	**–**	**–**	**(297,756)**	**(46,168)**	**(74)**	**–**	**–**	**(973,339)**
Balance at end of year	**₱1,957,363**	**₱632,102**	**₱789,927**	**₱596,108**	**₱169,856**	**₱466,463**	**₱33,836**	**₱1,303**	**4,646,958**
Individual impairment	**₱–**	**₱487,884**	**₱103,431**	**₱–**	**₱48,199**	**₱185,139**	**₱–**	**₱–**	**₱824,653**
Collective impairment	**1,957,363**	**144,218**	**686,496**	**596,108**	**121,657**	**281,324**	**33,836**	**1,303**	**3,822,305**
	₱1,957,363	**₱632,102**	**₱789,927**	**₱596,108**	**169,856**	**₱466,463**	**₱33,836**	**₱1,303**	**4,646,958**
Gross amount of loans individually impaired, before deducting any individual impairment allowance	**₱–**	**₱1,031,117**	**₱145,606**	**₱–**	**₱48,199**	**₱185,139**	**₱–**	**₱–**	**₱1,410,061**

	2016								
	Receivables from Customers				Other Receivables				
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Bills Purchased	Total
Balance at beginning of year	₱779,300	₱571,894	₱1,784,455	₱606,227	₱381,765	₱466,422	₱33,836	₱1,303	₱4,625,202
Provisions for the year charged against profit or loss	3,140,534	(66,395)	(903,159)	226,828	(191,391)	86	–	–	2,206,503
Reversal of allowance	(1,231,827)	–	–	–	–	–	–	–	(1,231,827)
Amounts written off	(638,304)	–	–	(167,045)	(31,748)	(48)	–	–	(837,145)
Balance at end of year	₱2,049,703	₱505,499	₱881,296	₱666,010	₱158,626	₱466,460	₱33,836	₱1,303	₱4,762,733
Individual impairment	₱–	₱459,093	₱105,041	₱–	₱100,007	₱184,652	₱–	₱–	₱848,793
Collective impairment	2,049,703	46,406	776,255	666,010	58,619	281,808	33,836	1,303	3,913,940
	₱2,049,703	₱505,499	₱881,296	₱666,010	₱158,626	₱466,460	₱33,836	₱1,303	₱4,762,733
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱–	₱1,047,721	₱172,246	₱–	₱100,007	₱184,652	₱–	₱–	₱1,504,626

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2017	2016	2015
Time (Note 29)	**₱2,792,840,772**	₱2,158,092,448	₱1,964,893,142
Demand (Note 29)	**167,111,638**	131,686,232	107,321,034
Savings	**138,804,756**	120,200,524	98,527,236
LTNCD	**115,908,554**	–	–
	₱3,214,665,720	₱2,409,979,204	₱2,170,741,412

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 6.00% in 2017 and 0.25% to 9.00% in 2016 and 0.25% to 10.50% in 2015, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.50% to 2.00% in 2017, 0.01% to 2.13% in 2016 and 0.13% to 6.00% in 2015. Effective interest rates on deposit liabilities range from 0.25% to 1.75% as of December 31, 2017 and 2016, and from 1.50% to 2.00% as of December 31, 2015.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to reserves equivalent to 8.00%. As of December 31, 2017 and 2016, the Bank is in compliance with such regulations. As of December 31, 2017 and 2016, Due from BSP amounting to ₱13.9 billion and ₱12.0 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and due April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

For the period ended December 31, 2017, the interest expense related to the LTNCDs is ₱115.9 million.

17. **Bills Payable and Subordinated Notes**

<u>Bills Payable</u>
This account consists of the following:

	2017	2016
Securities sold under repurchase agreements (SSURA)	**₱1,492,418,518**	₱3,856,396,533
Interbank borrowings	–	2,237,400,000
	₱1,492,418,518	₱6,093,796,533

Bills payable – SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 5 to 33 days. Details of securities pledged under Bills payable – SSURA as of December 31, 2017 and 2016 are as follows:

	December 31, 2017		
Collateral Pledge	**Face Value**	**Carrying Value**	**Fair Value**
HTM Investments (Note 8)	**₱748,950,000**	**₱1,010,100,200**	**₱1,009,137,727**
AFS Investments (Note 8)	**439,300,000**	**751,808,493**	**751,808,493**

	December 31, 2016		
Collateral Pledge	Face Value	Carrying Value	Fair Value
HTM Investments (Note 8)	₱3,247,163,480	₱4,740,757,004	₱4,686,900,717

Peso-denominated interbank borrowings of the Bank bear annual interest is 2.50% in 2017, and ranging from 2.50% to 2.56% in 2016 and 2015. Foreign currency-denominated interbank borrowings bear annual interest ranging from 1.00% to 1.55%, 0.88% to 1.94%, and 0.55% to 1.25% in 2017, 2016, and 2015, respectively. Annual interest rate on dollar-denominated SSURA ranges from 1.05% to 1.75%, 0.25% to 1.65%, and 0.50% to 1.25% in 2017, 2016, and 2015, respectively.

Interest expense on bills payable in 2017, 2016 and 2015 amounted to ₱59.0 million, ₱56.8 million and ₱7.4 million, respectively.

Subordinated Notes

This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**2017**	2016
February 20, 2022	3,000,000,000	**₱–**	₱2,999,264,700
August 23, 2024	3,000,000,000	**2,978,997,695**	2,976,467,410
	6,000,000,000	**₱2,978,997,695**	₱5,975,732,110

Unamortized debt issuance costs on these notes amounted to ₱21.0 million and ₱24.3 million as of December 31, 2017 and 2016, respectively.

5.75%, ₱3.0 Billion Unsecured Subordinated Notes

On December 29, 2011, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due 2022 (the Notes) and issued them on February 20, 2012 with an interest rate of 5.75%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.75% per annum from and including February 20, 2012 but excluding February 20, 2022. The interest shall be payable quarterly in arrears at the end of each interest period on every 20th of May, August, November and February of each year, commencing on February 20, 2012 until the maturity date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part at a redemption price equal to 100.00% of the principal amount together with the accrued and unpaid interest upon at least thirty (30) days notice prior to call option date, which is the Banking Day immediately following the fifth anniversary of the issue date of the Notes or February 21, 2017.

e. The Bank may, but is not obliged to, redeem the Notes, in whole but not in part, at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Bank with the Regulations and prevailing requirements for the granting by the BSP of its consent therefore, including (i) the capital adequacy ratio of the Bank is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Bank; and (iii) a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Bank. Call Option Amount shall be based on the Issue Price of the Note plus accrued but unpaid interest thereon up to but excluding the Call Option Date.

   On July 22, 2016, the Board of Directors approved the Bank’s option to call the Tier 2 Notes issued in 2012 on its fifth year anniversary or on February 21, 2017. The request of the Bank to exercise the same was approved by the BSP on September 13, 2016. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2022.

   The Bank sent a notice on the call option to its public trustee, Development Bank of the Philippines, with a copy to its registrar and paying agent Standard Chartered Bank on January 12, 2017. Each of the noteholders also received individual notices no less than 30 business days nor more than 45 days prior to the Call Option date. The Bank has likewise published the notice of Call Option in two newspapers of general circulation within Metro Manila for two consecutive weeks prior to February 21, 2017. The notice included the Call Option Date, Call Option Amount and the manner in which the call will be effected.

<u>5.50%, ₱3.0 Billion Unsecured Subordinated Notes</u>
On April 14, 2014, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due August 23, 2024 (the Notes) and issued them on May 23, 2014 with an interest rate of 5.50%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days prior notice to August 23, 2019, the Call Option Date. Interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Bank and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions set out in the "Terms and Conditions of the Notes - Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down", when the Bank or its parent company is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Bank or its parent company to continue business or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Bank in writing that it has determined that a: i) Write-Down of the Notes and other capital instruments of the Bank is necessary because, without such write-down, the Bank would become non-viable, ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Bank would become non-viable, or iii) write-down of the Notes and other capital instruments of the Bank is necessary, because, as a result of the closure of the Bank, the latter has become non-viable;

e. Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to regulations, the Bank shall have the option but not the obligation, upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: i) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with Regulations and prevailing requirements for the granting by the BSP of its consent, ii) prior to the stated maturity and on any Interest Payment Date at par plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank or iii) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Bank of its option for early redemption, shall be for its own account. Call Option Amount shall be based on the principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.

As of December 31, 2017 and 2016, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

Interest expense incurred on these notes amounted to ₱191.1 million, ₱361.8 million and ₱342.7 million in 2017, 2016 and 2015, respectively, net of amortization of deferred financing cost amounting to ₱3.3 million, ₱23.7 million and ₱5.2 million, respectively.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2017	2016
Accrued interest payable	**₱539,659,048**	₱209,657,954
Accrued other taxes and licenses payable	**121,804,006**	132,890,355
Accrued other expenses payable (Note 29)	**996,960,250**	851,268,063
	₱1,658,423,304	₱1,193,816,372

Accrued other expenses payable consist of:

	2017	2016
Litigation	**₱209,942,489**	₱145,925,051
Insurance (Note 29)	**193,075,730**	153,566,866
Lease payable	**188,338,698**	177,998,246
Compensation and fringe benefits	**141,725,665**	121,462,104
Security, messengerial and janitorial	**76,800,392**	54,428,863
Advertising	**68,640,771**	82,806,040
Information technology (Note 29)	**37,731,731**	57,590,058
ATM maintenance	**15,568,755**	11,967,068
Telephone	**7,562,631**	5,700,133
Membership, fees & dues	**4,993,929**	3,817,488
Professional and consultancy fees	**2,830,174**	5,422,558
Miscellaneous	**49,749,285**	30,583,588
	₱996,960,250	₱851,268,063

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2017	2016
Accounts payable (Note 29)	**₱2,080,276,358**	₱1,594,254,450
Other credits	**698,347,392**	592,403,220
Net retirement liability (Note 24)	**515,852,989**	748,843,368
Sundry credits	**207,190,555**	191,460,186
Withholding taxes payable	**94,051,921**	73,091,847
Due to the Treasurer of the Philippines	**16,959,070**	12,229,687
Bills purchased - contra (Note 9)	**10,482,445**	63,773,615
SSS, Medicare, ECP and HDMF premium payable	**9,122,722**	8,757,223
Miscellaneous (Note 29)	**40,948,901**	53,663,903
	₱3,673,232,353	₱3,338,477,499

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱18.2 million and ₱27.3 million as of December 31, 2017 and 2016, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2017			2016		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,596,873**	**₱–**	**₱2,596,873**	₱2,778,009	₱–	₱2,778,009
Due from BSP (Note 16)	**15,265,388**	**–**	**15,265,388**	13,986,785	–	13,986,785
Due from other banks (Note 16)	**1,508,489**	**–**	**1,508,489**	1,838,630	–	1,838,630
Interbank loans receivable and SPURA (Note 7)	**1,842,023**	**–**	**1,842,023**	3,254,312	–	3,254,312
FVPL investments (Note 8)	**366,236**		**366,236**	1,360,792	–	1,360,792
AFS investments - gross (Note 8)	**565,979**	**16,361,696**	**16,927,675**	39,805	13,078,197	13,118,002
HTM investments (Note 8)	**–**	**29,473,724**	**29,473,724**	329,768	22,827,119	23,156,887
Loans and receivables - gross (Note 9)	**14,576,182**	**135,035,434**	**149,611,616**	12,821,739	119,174,321	131,996,060
Other assets - gross* (Note 14)	**–**	**191,358**	**191,358**	36,475	153,479	189,954
	36,721,170	**181,062,212**	**217,783,382**	36,446,315	155,233,116	191,679,431
Nonfinancial Assets						
Investment in a joint venture	**–**	**607,163**	**607,163**	–	727,176	727,176
Property and equipment - gross (Note 11)	**–**	**5,800,632**	**5,800,632**	–	5,611,188	5,611,188
Investment properties - gross (Note 12)	**–**	**4,557,463**	**4,557,463**	–	4,481,457	4,481,457
Deferred tax assets	**–**	**1,429,327**	**1,429,327**	–	1,300,724	1,300,724
Goodwill and intangible assets	**–**	**714,924**	**714,924**	–	505,166	505,166
Other assets - gross**	**315,324**	**806,362**	**1,121,686**	281,033	683,799	964,832
	315,324	**13,915,871**	**14,231,195**	281,033	13,309,510	13,590,543
Less:Allowance for credit and impairment losses (Note 15)			**4,878,926**			5,018,912
Accumulated depreciation (Notes 11, 12 and 14)			**3,811,463**			3,386,479
Unearned discounts (Note 9)			**145**			11,480
			8,690,534			8,416,871
	₱37,036,494	**₱194,978,083**	**₱223,324,043**	₱36,727,348	₱168,542,626	₱196,853,103

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2017			2016		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱170,432,096**	**₱18,481,306**	**₱188,913,402**	₱141,892,398	₱16,494,921	₱158,387,319
Bills payable	**1,492,419**	**–**	**1,492,419**	6,093,797	–	6,093,797
Subordinated notes	**–**	**2,978,998**	**2,978,998**	2,999,265	2,976,467	5,975,732
Derivatives at negative fair value	**–**	**–**	**–**	65,317	–	65,317
Treasurer's, cashier's and manager's checks	**2,213,870**	**–**	**2,213,870**	1,760,506	–	1,760,506
Accrued other expenses payable (Note 18)	**996,960**	**–**	**996,960**	851,268	–	851,268
Accrued interest payable (Note 18)	**539,659**	**–**	**539,659**	209,658	–	209,658
Other liabilities (Note 19)						
Accounts payable	**2,080,276**	**–**	**2,080,276**	1,594,254	–	1,594,254
Other credits	**698,347**	**–**	**698,347**	592,403	–	592,403
Bills purchased - contra	**10,482**	**–**	**10,482**	63,774	–	63,774
Due to the treasurer of the Philippines	**16,959**	**–**	**16,959**	12,230	–	12,230
Deposits for keys – SDB	**806**	**–**	**806**	₱823	₱–	₱823
Others*	**5,585**	**–**	**5,585**	4,702	–	4,702
	₱178,487,459	**₱21,460,304**	**₱199,947,763**	156,140,395	19,471,388	175,611,783
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**₱121,804**	**₱–**	**₱121,804**	₱132,890	₱–	₱132,890
Income tax payable	**375**	**–**	**375**	467	–	467
Withholding taxes payable (Note 19)	**94,052**	**–**	**94,052**	73,092	–	73,092
Other liabilities (Note 19)**	**250,871**	**515,853**	**766,724**	248,354	748,844	997,198
	467,102	**515,853**	**982,955**	454,803	748,844	1,203,647
	₱178,954,561	**₱21,976,157**	**₱200,930,718**	₱156,595,198	₱20,220,232	₱176,815,430

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

The Bank's capital stock consists of:

	2017		2016	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**	425,000,000	₱4,250,000,000
Issued and outstanding				
Balance at beginning and end of year (Note 28)	**240,252,491**	**₱2,402,524,910**	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2017 and 2016, the total number of stockholders is 1,483 and 1,507, respectively.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
January 22, 2015	0.75	180,189,368.3	March 3, 2015	March 30, 2015	April 17, 2015
April 28, 2015	0.75	180,189,368.3	June 5, 2015	July 14, 2015	July 28, 2015
July 28, 2015	0.75	180,189,368.3	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368.3	–	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368.3	–	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368.3	–	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368.3	–	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368.3	–	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368.3	–	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	–	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	–	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	–	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	–	February 02, 2018	February 19, 2018

On October 9, 2015, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB, otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

- On March 2, 2005, the Bank's BOD approved an amendment to the Bank's Dividend Policy which provides for an annual regular cash dividend of 6.00% of the par value of the total capital stock payable quarterly at the rate of 1.50% or ₱0.15 per share payable not later than March 31, June 30, September 30 and December 31 of each year.

- On February 29, 2012, the Bank's BOD approved a further amendment to the Bank's Dividend Policy to provide for an annual regular cash dividend of 30.00% of the par value of the total capital stock, payable quarterly at the rate of 7.50% or ₱0.75 per share payable not later than March 31, June 30, September 30 and December 31 of each year.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2017	2016
Tier 1 capital	**₱20,898**	₱18,768
Tier 2 capital	**4,346**	4,168
Gross qualifying capital	**25,244**	22,936
Less required deductions	**3,583**	3,281
Total qualifying capital	**21,661**	19,655
Risk weighted assets	**₱156,140**	₱139,738
Tier 1 capital adequacy ratio	**11.09%**	11.08%
Capital adequacy ratio	**13.87%**	14.07%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, and cumulative translation adjustment. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred income tax (net of allowance for impairment, if any) and goodwill. In 2013, deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital in accordance with Basel II standards.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2017 and 2016, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538, respectively.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the parent company. Per BSP Circular 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2017	2016	2015
Return on average equity	**12.51%**	12.50%	12.74%
Return on average assets	**1.26%**	1.34%	1.49%
Net interest margin on average earning assets	**6.10%**	6.17%	6.37%
Liquidity ratio	**20.70%**	23.46%	28.72%
Debt-to-equity ratio	**8.97:1**	8.82:1	7.83:1
Asset-to-equity ratio	**9.97:1**	9.82:1	8.83:1
Interest rate coverage ratio	**1.84:1**	1.94:1	1.92:1

22. Net Service Fees and Commission Income

This account consists of:

	2017	2016	2015
Service Fees and Commission Income			
Credit-related fees and commissions	**₱1,002,687,070**	₱731,435,587	₱757,297,871
Deposit-related and other fees received	**441,197,668**	473,979,270	521,122,916
Trust fees	**26,317,702**	20,600,300	15,278,974
	1,470,202,440	1,226,015,157	1,293,699,761
Service Fees and Commission Expense			
Commissions	**₱83,211,656**	83,156,492	89,801,141
Brokerage	**11,216,635**	6,511,459	8,406,570
	94,428,291	89,667,951	98,207,711
Net Service Fees and Commission Income	**₱1,375,774,149**	₱1,136,347,206	₱1,195,492,050

23. Miscellaneous Income

This account consists of:

	2017	2016	2015
Recovery of charged-off assets	**₱325,476,107**	₱296,241,762	₱284,561,719
Insurance commission income	**113,868,238**	63,948,168	42,103,916
Rental income (Notes 12 and 25)	**50,137,646**	55,505,274	54,876,077
Others	**18,028,368**	10,452,674	133,871,739
	₱507,510,359	₱426,147,878	₱515,413,451

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the Board of Directors of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2017.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2017	2016
Current service cost	**₱217,415,312**	₱194,358,002
Net interest cost	**30,210,252**	40,071,574
	₱247,625,564	₱234,429,576

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	2017											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2017	**Current service cost**	**Net Interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2017**
Present value of defined benefit obligation	**₱2,222,652**	**₱217,415**	**₱114,127**	**₱331,542**	**(₱88,676)**	**₱–**	**₱87,389**	**(₱48,863)**	**(₱88,493)**	**(₱49,967)**	**₱–**	**₱2,415,551**
Fair value of plan assets	**(1,473,809)**	**–**	**(83,917)**	**(83,917)**	**88,676**	**55,241**	**–**	**–**	**–**	**55,241**	**(485,889)**	**(1,899,698)**
Net defined benefit liability	**₱748,843**	**₱217,415**	**₱30,210**	**₱247,625**	**₱–**	**₱55,241**	**₱87,389**	**(₱48,863)**	**(₱88,493)**	**₱5,274**	**(485,889)**	**₱515,853**

	2016											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2016
Present value of defined benefit obligation	₱1,990,815	₱194,358	₱97,314	₱291,672	(₱65,706)	₱–	₱69,380	₱–	(₱63,509)	₱5,871	₱–	₱2,222,652
Fair value of plan assets	(1,190,983)	–	(57,242)	(57,242)	65,706	94,601	–	–	–	94,601	(385,891)	(1,473,809)
Net defined benefit liability	₱799,832	₱194,358	₱40,072	₱234,430	₱–	₱94,601	₱69,380	₱–	(₱63,509)	₱100,472	(₱385,891)	₱748,843

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱413.5 million to its noncontributory defined benefit plan in 2018.

The fair values of plan assets by each class as at the statements of condition date are as follows:

	2017	2016
Cash and cash equivalents		
Special deposit account	**₱554,889,479**	₱582,003,365
Certificate of time deposit (Note 29)	**–**	92,000,000
Investment in other debt securities	**1,240,305,685**	531,057,496
Investment in equity securities	**26,368,915**	223,986,236
Unit Investment Trust Fund	**66,781,376**	58,850,839
Other assets	**12,961,335**	5,833,021
	1,901,306,790	1,493,730,957
Other liabilities	**1,608,492**	19,922,568
	₱1,899,698,298	₱1,473,808,389

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2017 and 2016 are shown below:

	2017	2016
Discount rate	**5.73%**	5.31%
Turnover rate	**5.00%**	6.00%
Future salary increases	**5.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2017		December 31, 2016	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(193,153,254)**	+1.00%	(190,815,355)
	-1.00%	**223,084,719**	-1.00%	221,306,014
Turnover rate	**+1.00%**	**(10,645,594)**	+1.00%	(20,387,630)
	-1.00%	**10,953,731**	-1.00%	20,980,032
Future salary increase rate	**+1.00%**	**238,335,111**	+1.00%	238,629,209
	-1.00%	**(209,707,814)**	-1.00%	(208,964,328)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2017	2016
Less than one year	**₱260,863,815**	₱146,739,063
More than one year to five years	**728,232,134**	660,937,425
More than five years to 10 years	**1,673,064,174**	1,364,613,210
More than 10 years to 15 years	**1,991,238,250**	2,014,243,913
More than 15 years to 20 years	**2,001,828,082**	1,954,212,513
More than 20 years	**4,280,297,426**	4,095,907,866

The average duration of the expected benefit payments at the statement of condition date is 16.1 years.

25. Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱579.9 million, ₱559.9 million and ₱521.8 million in 2017, 2016 and 2015, respectively, are shown under 'Occupancy and equipment-related costs' in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2017	2016
Within one year	**₱361,756,475**	₱370,406,271
After one year but not more than five years	**1,078,413,962**	1,152,216,591
More than five years	**461,169,886**	607,663,809
	₱1,901,340,323	₱2,130,286,671

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2017 and 2016, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱48.7 million, ₱53.8 million, and ₱53.0 million in 2017, 2016 and 2015, respectively are shown under 'Miscellaneous income' in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2017	2016
Within one year	**₱54,489,372**	₱48,424,870
After one year but not more than five years	**64,053,882**	40,876,011
	₱118,543,254	₱89,300,881

26. Miscellaneous Expenses

This account consists of:

	2017	2016	2015
Insurance	**₱646,175,766**	₱531,430,943	₱477,751,230
Litigation	**311,326,367**	231,158,922	275,455,140
Information technology	**300,919,189**	342,296,763	272,182,604
Fines, penalties and other charges	**193,083,359**	18,411,698	14,432,007
Communications	**171,980,030**	154,193,467	159,129,969
Repairs and maintenance	**145,685,402**	139,952,788	159,398,625
Advertising	**134,701,913**	102,412,588	64,934,029
Transportation and traveling	**108,019,662**	115,592,190	107,011,983
Stationery and supplies	**61,923,426**	58,283,090	63,978,794
Supervision and examination fees	**59,666,717**	49,247,092	52,911,508

(Forward)

	2017	2016	2015
Management and professional fees	**₱29,477,993**	₱23,062,585	₱25,993,577
Training and seminars	**19,158,180**	18,007,677	9,332,858
Donations and charitable contributions	**11,391,445**	10,920,000	3,912,468
Banking activities expenses	**9,032,636**	8,004,469	9,472,020
Meeting allowance	**6,731,295**	4,074,588	4,675,555
Rewards and incentives	**6,595,774**	3,181,297	4,522,624
Membership fees and dues	**3,508,422**	5,816,084	5,046,531
Entertainment, amusement and recreation (EAR) (Note 27)	**3,492,739**	3,407,845	3,563,703
Others	**28,463,191**	57,022,178	29,049,206
	₱2,251,333,506	₱1,876,476,264	₱1,742,754,431

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱368.2 million, ₱289.5 million, and ₱245.2 million in 2017, 2016 and 2015, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱10.8 million, ₱10.6 million and ₱10.5 million in 2017, 2016 and 2015, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2017 and 2016.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for (benefit from) income tax consists of:

	2017	2016	2015
Current:			
Final tax	**₱259,181,580**	₱148,514,787	₱158,241,185
RCIT	**134,901,056**	147,364,626	193,630,281
	394,082,636	295,879,413	351,871,466
Deferred	**(127,021,129)**	(76,166,179)	(394,333,106)
	₱267,061,507	₱219,713,234	(₱42,461,640)

Net deferred tax assets consist of the following tax effects:

	2017	2016
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,414,817,274**	₱1,317,650,642
Net pension liability	**154,755,897**	224,653,010
Difference between book base and tax base of investment property	**104,430,509**	96,203,815
Accrued rent	**57,352,453**	53,399,474
Unamortized pension cost contribution	**122,630,722**	65,821,218
	1,853,986,855	1,757,728,159
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(353,705,501)**	(353,141,383)
Accretion of interest on impaired loans	**(12,349,848)**	(30,002,072)
Unrealized foreign exchange gains	**(58,604,137)**	(73,860,470)
	(424,659,486)	(457,003,925)
	₱1,429,327,369	₱1,300,724,234

As of December 31, 2017 and 2016, the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱48.9 million and ₱188.0 million, respectively. Income tax effect recognized in OCI amounted to ₱1.6 million, ₱30.1 million and ₱68.1 million in 2017, 2016 and 2015, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2017	2016	2015
Statutory income tax	**₱876,444**	₱801,167	₱692,532
Tax effect of:			
Tax-paid and tax-exempt income	**(688,672)**	(677,956)	(540,388)
Nondeductible expenses	**365,298**	336,301	272,409
FCDU income	**(97,955)**	(206,632)	(19,132)
Others	**(188,053)**	(33,167)	(447,882)
Effective income tax	**₱267,062**	₱219,713	(₱42,461)

28. **Earnings Per Share**

The following table presents information used to calculate basic EPS:

	2017	2016	2015
a. Net income	**₱2,654,419,128**	₱2,450,843,310	₱2,350,900,100
b. Weighted average number of common shares for basic earnings per share	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**11.05**	10.20	9.79

As of December 31, 2017, 2016 and 2015, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e. 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2017 and 2016 amounted to ₱1.9 billion and ₱1.5 billion, respectively. The details of the assets of the fund as of December 31, 2017 and 2016 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2017 and 2016:

		2017	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱684**	
	Investment in Money Market Fund*	**66,781,376**	
	Loss on sale of equity securities		**₱10,040,000**
	Income from Unit Investment Trust Fund (UITF)		**880,008**
	Interest income		**7,867**
First Metro ETF	Equity investment	**9,349,047**	

*Includes fair value gains of ₱0.2 million

		2016	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Investment in Money Market Fund*	₱58,850,839	
	Deposits in Bank	3,365	
	Gain on sale of equity securities		₱246,455,484
	Dividends earned		6,901,211
	Interest income		7,309
	Income from Unit Investment Trust Fund (UITF)		1,179,402
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱0.2 million

Transactions relating to the Bank’s retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank’s capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2017	2016
Short-term employee benefits	**₱253,953,306**	₱250,805,503
Post-employment pension benefits	**7,858,066**	6,356,856
	₱261,811,372	₱257,162,359

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱19.3 million, ₱16.7 million, and ₱16.9 million in 2017, 2016 and 2015, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**₱19,970,000**	**₱–**	
Maturities	**19,970,000**	**–**	
Due from other banks	**(540,032)**	**912,745**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	**10,802**	**17,651**	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	**–**	**781**	Security deposits on lease contracts
Bills payable		**–**	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 3 days
Deposits/placements	**1,285,000**	**–**	
Withdrawals/maturities	**1,285,000**	**–**	
Miscellaneous liabilities	**–**	**6,242**	Advance payments of security deposits
Accrued other expense payable	**–**	**37,732**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**2,494**	**–**	Income on deposits and interbank loans receivables
Rental income	**18,384**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**7,502**	**–**	Income received from ATM service fees, rental and utilities
Information technology expense	**95,662**	**–**	Payment of information technology expenses
Trading and security loss	**(3,898)**	**–**	Loss from securities transactions
Interest expense	**256**	**–**	Interest expense on bills payable

(Forward)

		December 31, 2017	
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Securities transactions			
Outright purchases	**₱8,493,345**	–	Outright purchase of FVPL, AFS and HTM investments
Outright sales	**4,920,695**	–	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	–	**₱607,163**	Capital investment in SMFC after sale of 10% ownership to GT Capital Inc.
Accounts receivable	**1,466**	**1,980**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**934**	**13,321**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscelleneous liabilities	**(2,975)**	–	Payment of security deposits
Rental income	**11,619**	–	Income from leasing agreements
Share in net income of a joint venture	**71,837**	–	40.00% (January to July) and 30% (August to December) share in net income of SMFC
Interest expense	**75**	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable	–	**500,000**	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	**59,900,000**	–	
Maturities	**59,400,000**	–	
Receivable from customers		**10,241**	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	**3,723**	–	
Maturities	**2,817**		
Miscellaneous assets	–	**1,390**	Three months advance security deposits
Accounts receivable	**16**	**2,470**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense		**4,125**	Payment for various policy renewals
Deposit liabilities	**5,073,694**	**1,612,687**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable			Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	**4,750,000**	–	
Withdrawals/maturities	**4,750,000**	–	
Accounts payable	–	**2,617**	Various personal and car insurance payable
Miscellaneous liabilities	–	**3,169**	Advance payment of security deposits from various tenants
Interest income	**3,445**	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**2,836**	–	Loss from securities transactions
Rental income	**13,690**	–	Income from leasing agreements with various lease terms
Bank commission	**1,396**	–	Commission income on ATM service fees
Miscellaneous income	**13,107**	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**79,790**	–	Payment of insurance premium
Interest expense	**35,350**	–	Interest on deposit liabilities and bills payable
Rent expense	**1,025**	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**2,065,340**	–	Outright purchase of FVPL and AFS investments
Outright sales	**1,000,000**	–	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers	–	**₱13,069**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**₱2,815**	–	
Maturities	**3,554**	–	
Interest income	**973**	–	Interest income from loans

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			December 31, 2016
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	₱26,450,000	₱–	
Maturities	26,450,000	–	
Due from other banks	418,071	1,452,777	Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 5.00% secured by government securities amounting to ₱788,154
Accounts receivable	216	6,849	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	14,526,000		
Withdrawals/maturities	14,526,000		
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	–	57,590	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	4,077	–	Income on deposits and interbank loans receivables
Rental income	24,775	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	6,022	–	Income received from ATM service fees, rental and utilities
Information technology expense	263,263	–	Payment of information technology expenses
Trading and security loss	6,937	–	Loss from securities transactions
Interest expense	2,144	–	Interest expense on bills payable
Securities transactions		–	
Outright purchases	6,374,152		Outright purchase of FVPL, AFS and HTM investments
Outright sales	2,611,040		Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture		727,176	Capital investment in SMFC
Accounts receivable	(38)	514	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	7,318	12,387	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	2,975	Advance payment of security deposits
Rental income	11,460	–	Income from leasing agreements
Share in net income of a joint venture	35,467	–	40.00% share in net income of SMFC
Interest expense	47	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	11,800,000		
Maturities	11,800,000		
Receivable from customers		12,252	Loans granted bear interest ranging from 7.00% to 19.14% with maturities ranging from 1 to 2 years; Secured - ₱12,252
Placements	14,715		
Maturities	383,987		
Miscellaneous assets		1,390	Three months advance security deposits
Accounts receivable	621	2,454	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense		8,600	Payment for various policy renewals
Deposit liabilities	2,494,936	6,686,381	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable		900,000	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	10,630,000		
Withdrawals/maturities	9,730,000		
Accrued other expense payable		3,231	Outstanding group life insurance payable
Accounts payable		174	Various personal and car insurance payable
Miscellaneous liabilities		3,169	Advance payment of security deposits from various tenants
Interest income	1,251	–	Income on receivables from customers and interbank loans receivables
Trading and securities gain	2,590	–	Gain from securities transactions
Rental income	12,967	–	Income from leasing agreements with various lease terms
Bank commission	4,629	–	Commission income on ATM service fees
Miscellaneous income	1,020	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%

(Forward)

			December 31, 2016
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Insurance expense	₱53,946	₱–	Payment of insurance premium
Interest expense	179,408	–	Interest on deposit liabilities and bills payable
Rent expense	3,410	–	Payment of rent expense to various lessors
Securities transactions		–	
Outright purchases	650,000		Outright purchase of FVPL and AFS investments
Outright sales	650,000		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		₱13,808	Unsecured, no impairment, with annual fixed interest
Placements	₱2,528		rates of 6.00% and maturities ranging from 2 to 10 years
Maturities	559		
Interest income	814		Interest income from loans

Regulatory Reporting

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2017 and 2016, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2017 and 2016:

	2017	2016
Total outstanding DOSRI accounts	**₱1,201,916,069**	₱1,734,454,266
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**0.82%**	1.34%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**19.94%**	12.63%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

Total interest income from DOSRI loans amounted to ₱5.8 million, ₱26.6 million, ₱44.7 million in 2017, 2016 and 2015, respectively.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2017 and 2016, the Bank deposited government securities with carrying value of ₱64.5 million and ₱49.7 million in compliance with trust regulations, respectively (Note 8).

In 2017, the Bank transferred from surplus to surplus reserve the amount of ₱0.1 million, which corresponds to 10.00% of the net income realized from the Bank's Trust Department in compliance with existing banking regulations.

During 2016, the Bank did not appropriate any surplus reserve resulting from the operations of the Bank's Trust Department since it is still in a net loss position. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its trust business may be charged against surplus.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2017	2016
Trust department accounts (Note 30)	**₱5,596,171,367**	₱3,991,172,047
Swap forward exchange - sold	**2,653,256,032**	3,185,627,487
Stand-by credit lines	**81,664,196**	83,660,385
Late deposits/payments received	**5,625,757**	62,929,377
Items held for safekeeping	**1,298,438**	695,408
Spot foreign exchange contracts - sold	–	49,720,000
Others	**519,297**	472,843

Also, several suits and claims, in behalf or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2017	2016	2015
Additions to chattel mortgage in settlement of loans (Note 14)	**₱2,577,163,081**	₱1,925,310,853	₱1,598,334,363
Additions to investment properties in settlement of loans (Note 12)	**868,280,425**	1,125,389,300	923,843,570
Change in net unrealized gain/ loss on AFS investments (Note 8)	**381,641,780**	(386,460,000)	9,922,633
Cumulative translation adjustment	**(5,292,411)**	(42,860,727)	1,401,659

The table below provides for the changes in liabilities arising from financing activities (in millions):

	Subordinated Notes	**Bills Payable**	**Total Liabilities from Financing Activities**
January 1, 2017	**₱5,976**	**₱6,094**	**₱12,070**
Cash flows from settlement	**(3,000)**	**(4,602)**	**(7,602)**
Foreign exchange movement	**–**	**–**	**–**
Others	**3**	**–**	**3**
December 31, 2017	**₱2,979**	**₱1,492**	**₱4,471**

Others include amortization of subordinated notes and declaration of dividends.

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2017

Financial assets recognized at the end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria [d]**		**Net exposure [c-d] [e]**
				Financial instruments	**Fair value of financial collateral**	
Derivative Assets (Note 8)	**₱2,723,211,637**	**₱2,650,052,076**	**₱73,159,561**	**₱–**	**₱–**	**₱73,159,561**
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	**578,250,730**	**–**	**578,250,730**	**–**	**577,931,536**	**319,194**

December 31, 2016						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments [d]	Fair value of financial collateral	Net exposure [c-d] [e]
Derivative Assets (Note 8)	₱499,211	₱–	₱499,211	₱65,316,678	₱–	₱–
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	3,254,311,599	–	3,254,311,599	–	4,686,900,717	–

Financial liabilities

December 31, 2017						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Financial instruments [d]**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
Securities Sold Under Repurchase Agreements* (SSURA) (Note 17)	**₱1,492,418,518**	**₱–**	**₱1,492,418,518**	**₱–**	**₱1,205,795,357**	**₱286,623,160**

** Included in 'Bills Payable' in the Statement of Condition*

December 31, 2016						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments [d]	Fair value of financial collateral	Net exposure [c-d] [e]
Derivative Liabilities	₱65,316,678	₱–	₱65,316,678	₱499,211	₱–	₱64,817,467
Securities Sold Under Repurchase Agreements* (SSURA) (Note 17)	3,856,396,533	–	3,856,396,533	–	4,686,900,717	–

34. Subsequent Events

Cash Dividend Declaration

On January 18, 2018, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2017 amounting to ₱180.19 million or ₱0.75 per share (Note 21).

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed by the Audit Committee on January 25, 2018 and approved by the BOD in its meeting on February 22, 2018.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2017, taxes and licenses of the Bank consist of:

Gross receipts tax	₱655,407,895
Documentary stamps tax	534,245,710
Local taxes	72,187,567
Fringe benefit tax	7,044,313
Others	22,494
	₱1,268,907,979

Withholding Taxes
Details of total remittances of withholding taxes in 2017 are as follows:

Withholding taxes on compensation and benefits	₱554,116,959
Final withholding taxes	489,445,015
Expanded withholding taxes	99,945,753
	₱1,143,507,727

The Bank has no ongoing tax assessment as of December 31, 2017.

Philippine Savings Bank

Financial Statements
December 31, 2016 and 2015
and for the Years Ended December 31, 2016,
2015 and 2014

and

Independent Auditor's Report

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SyCip Gorres Velayo & Co.
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1226 Makati City
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ey.com/ph

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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition as at December 31, 2016 and 2015 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2016, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and 2015, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2016 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Adequacy of allowance for credit losses on loans and receivables

The Bank's loans and receivables consist of consumer loans and corporate loans. The appropriateness of the allowance for credit losses on these loans and receivables is a key area of judgment for management. The Bank determines the allowance for credit losses on an individual basis for individually significant loans and receivables, and collectively for loans and receivables that are not individually significant. The identification of impairment and the determination of the recoverable amount are inherently uncertain processes involving various assumptions and factors. These include the financial condition of the counterparty, estimated future cash flows, and observable market prices and estimated net selling prices of the collateral. The use of assumptions could produce significantly different estimates of allowance for credit losses. The disclosures in relation to the allowance for credit losses are included in Notes 3 and 15 of the financial statements.

Audit Response

We obtained an understanding of the Bank's impairment calculation process, including the source of the underlying data and supporting systems, and performed tests over relevant controls. For allowance for credit losses calculated on an individual basis, we selected a sample of impaired loans and obtained an understanding of the borrower's business and financial capacity. We also tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses. This was done by assessing whether the forecasted cash flows are based on the borrower's current financial condition, checking the payment history of the borrower including payments made subsequent to yearend, agreeing the value of the collateral to the appraisal reports, checking whether the discount rate represents the original effective interest rate (EIR) or the current EIR of the loan, and re-performing the impairment calculation.

For allowance for credit losses calculated on a collective basis, we tested the underlying models and the inputs to those models, such as historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of loss rates and net flow rates to the Bank's records and subsidiary ledgers, checking the delinquency age buckets of the loans, loan grades and loan groupings, and re-performing the calculation of the allowance for credit losses.

Recoverability of deferred tax assets

The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental. It is also based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Bank. The disclosures in relation to deferred income taxes are included in Notes 3 and 27 of the financial statements.

Audit Response

We obtained an understanding of the Bank's deferred income tax calculation process, including the applicable tax regulations. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated the management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Bank. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2016, but does not include the financial statements and our auditor's report thereon. The SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2016 are expected to be made available to us after the date of this auditor's 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 the financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Miguel U. Ballelos, Jr.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016 valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2016,
February 15, 2016, valid until February 15, 2019
PTR No. 5908668, January 3, 2017, valid until December 31, 2017
Makati City

February 23, 2017

LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION
Date APR 10 2017 TSIS
MELINA PRISCA S. RANJO

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31 2016	2015
ASSETS		
Cash and Other Cash Items	**₱2,778,009,185**	₱3,934,496,578
Due from Bangko Sentral ng Pilipinas (Note 16)	**13,986,784,696**	11,143,781,766
Due from Other Banks (Note 29)	**1,838,630,022**	1,861,110,141
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**3,254,311,599**	2,513,904,112
Fair Value Through Profit or Loss Investments (Note 8)	**1,360,792,147**	2,821,437,211
Available-for-Sale Investments (Note 8)	**13,115,812,858**	8,928,662,491
Held-to-Maturity Investments (Note 8)	**23,156,886,629**	14,946,668,457
Loans and Receivables (Note 9)	**127,221,847,151**	113,867,515,442
Investment in a Joint Venture (Notes 10 and 29)	**727,176,484**	690,333,838
Property and Equipment (Note 11)	**2,667,170,455**	2,746,074,371
Investment Properties (Note 12)	**3,861,708,308**	3,344,154,413
Deferred Tax Assets (Note 27)	**1,300,724,234**	1,194,416,550
Goodwill and Intangible Assets (Note 13)	**505,165,868**	444,460,121
Other Assets (Note 14)	**1,078,083,056**	894,231,737
	₱196,853,102,692	₱169,331,247,228
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱15,339,143,653**	₱12,906,567,074
Savings	**27,236,228,764**	22,835,987,240
Time	**115,811,946,185**	98,553,753,813
	158,387,318,602	134,296,308,127
Bills Payable (Note 17)	**6,093,796,533**	4,494,845,747
Subordinated Notes (Note 17)	**5,975,732,110**	5,952,051,581
Treasurer's, Cashier's and Manager's Checks	**1,760,505,822**	1,348,621,410
Accrued Taxes, Interest and Other Expenses (Note 18)	**1,193,816,372**	1,050,769,312
Financial Liabilities at FVPL (Note 8)	**65,316,678**	–
Income Tax Payable	**466,880**	8,055,422
Other Liabilities (Note 19)	**3,338,477,499**	3,005,540,869
	176,815,430,496	150,156,192,468
Equity		
Common Stock (Note 21)	**2,402,524,910**	2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves (Note 30)	**1,035,275,317**	1,035,275,317
Surplus (Note 21)	**15,163,512,433**	13,433,426,596
Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	**(842,908,364)**	179,775
Remeasurement Losses on Retirement Plan (Note 24)	**(541,701,193)**	(471,371,011)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**1,443,599**	67,642
Cumulative Translation Adjustment	**1,441,988**	(43,131,975)
	20,037,672,196	19,175,054,760
	₱196,853,102,692	₱169,331,247,228

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK

STATEMENTS OF INCOME

	Years Ended December 31		
	2016	2015	2014
INTEREST INCOME			
Loans and receivables (Note 9)	**₱11,066,862,854**	₱9,929,658,464	₱8,814,815,985
Investment securities (Note 8)	**1,347,949,127**	727,768,591	363,963,140
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**61,530,255**	190,814,354	858,982,128
Due from Bangko Sentral ng Pilipinas	**13,905,374**	146,667,295	57,292,813
Due from other banks	**2,222,421**	7,818,217	18,355,744
	12,492,470,031	11,002,726,921	10,113,409,810
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**2,409,979,204**	2,170,741,412	2,115,632,785
Subordinated notes (Note 17)	**361,766,713**	342,650,259	276,587,317
Bills payable (Note 17)	**56,801,997**	7,388,984	10,807,483
	2,828,547,914	2,520,780,655	2,403,027,585
NET INTEREST INCOME	**9,663,922,117**	8,481,946,266	7,710,382,225
Service fees and commission income (Note 22)	**1,226,015,157**	1,293,699,761	1,151,818,925
Service fees and commission expense (Note 22)	**89,667,951**	98,207,711	73,928,520
NET SERVICE FEES AND COMMISSION INCOME	**1,136,347,206**	1,195,492,050	1,077,890,405
OTHER OPERATING INCOME (CHARGES)			
Trading and securities gains (losses) - net (Note 8)	**509,665,576**	(63,569,750)	209,952,831
Gain on foreclosure and sale of investment properties - net (Note 12)	**364,392,867**	258,030,111	298,854,312
Gain on foreclosure and sale of chattel mortgage properties - net (Note 14)	**351,721,775**	377,657,511	316,813,642
Foreign exchange gain - net	**23,992,498**	18,823,668	7,813,164
Gain on sale of property and equipment (Note 11)	**2,639,304**	17,739,663	45,013,382
Gain on sale of investment in an associate (Note 10)	**–**	–	558,663,928
Miscellaneous (Notes 12, 23 and 25)	**426,147,878**	515,413,451	343,567,618
	1,678,559,898	1,124,094,654	1,780,678,877
TOTAL OPERATING INCOME	**12,478,829,221**	10,801,532,970	10,568,951,507
OTHER EXPENSES			
Compensation and fringe benefits (Note 24)	**2,922,900,798**	2,613,867,706	2,395,951,076
Provision for credit and impairment losses (Note 15)	**2,222,503,257**	1,588,298,396	1,743,821,080
Taxes and licenses	**1,058,437,943**	961,093,132	1,061,593,720
Occupancy and equipment-related costs (Note 25)	**710,941,317**	671,728,902	627,737,333
Depreciation (Note 11)	**557,648,750**	501,311,146	504,628,955
Security, messengerial and janitorial services	**383,670,587**	334,030,017	287,079,453
Amortization of intangible assets (Note 13)	**111,160,451**	100,224,715	82,368,321
Miscellaneous (Notes 12 and 26)	**1,876,476,264**	1,742,754,431	1,646,584,153
	9,843,739,367	8,513,308,445	8,349,764,091
INCOME BEFORE SHARE IN NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE AND INCOME TAX	**2,635,089,854**	2,288,224,525	2,219,187,416
SHARE IN NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE (Note 10)	**35,466,690**	20,213,935	76,956,073
INCOME BEFORE INCOME TAX	**2,670,556,544**	2,308,438,460	2,296,143,489
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**295,879,413**	351,871,466	408,948,263
Deferred	**(76,166,179)**	(394,333,106)	(431,481,389)
	219,713,234	(42,461,640)	(22,533,126)
NET INCOME	**₱2,450,843,310**	₱2,350,900,100	₱2,318,676,615
Basic/Diluted Earnings Per Share (Note 28)	**₱10.20**	₱9.79	₱9.65

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2016	2015	2014
NET INCOME	**₱2,450,843,310**	₱2,350,900,100	₱2,318,676,615
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Net unrealized gain (loss) from AFS investments (Note 8)	**(843,088,139)**	(26,420,688)	4,310,948
Equity in net unrealized loss on available-for-sale investments of an associate	**–**	–	(25,000)
Equity in cash flow hedge reserve of an associate	**–**	–	335,158
Cumulative translation adjustment	**44,573,963**	(1,475,493)	(561,527)
	(798,514,176)	(27,896,181)	4,059,579
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement losses on retirement plan (Note 24)	**(100,471,688)**	(227,153,249)	(191,122,777)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**1,375,957**	1,513,370	(966,038)
Income tax effect	**30,141,506**	68,145,975	57,336,833
	(68,954,225)	(157,493,904)	(134,751,982)
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	**(867,468,401)**	(185,390,085)	(130,692,403)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱1,583,374,909**	₱2,165,510,015	₱2,187,984,212

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK

STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Net Unrealized Gain (Loss) on Available-for-Sale Investments of an Associate	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture (Note 10)	Equity in Cash Flow Hedge Reserve of an Associate	Cumulative Translation Adjustment	Total
Balance at January 1, 2016	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱13,433,426,596**	**₱179,775**	**(₱471,371,011)**	**₱–**	**₱67,642**	**₱–**	**(₱43,131,975)**	**₱19,175,054,760**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**2,450,843,310**	**(843,088,139)**	**(70,330,182)**	**–**	**1,375,957**	**–**	**44,573,963**	**1,583,374,909**
Cash dividends (Note 21)	**–**	**–**	**–**	**(720,757,473)**	**–**	**–**	**–**	**–**	**–**	**–**	**(720,757,473)**
Balance at December 31, 2016	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,275,317**	**₱15,163,512,433**	**(₱842,908,364)**	**(₱541,701,193)**	**₱–**	**₱1,443,599**	**₱–**	**₱1,441,988**	**₱20,037,672,196**
Balance at January 1, 2015	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱11,803,283,969	₱26,600,463	(₱312,363,737)	₱–	(₱1,445,728)	₱–	(₱41,656,482)	₱17,730,302,218
Total comprehensive income (loss) for the year	–	–	–	2,350,900,100	(26,420,688)	(159,007,274)	–	1,513,370	–	(1,475,493)	2,165,510,015
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	–	–	(720,757,473)
Balance at December 31, 2015	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱13,433,426,596	₱179,775	(₱471,371,011)	₱–	₱67,642	₱–	(₱43,131,975)	₱19,175,054,760
Balance at January 1, 2014	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱10,205,364,827	₱22,289,515	(₱178,577,793)	₱25,000	(₱479,690)	(₱335,158)	(₱41,094,955)	₱16,263,075,479
Total comprehensive income (loss) for the year	–	–	–	2,318,676,615	4,310,948	(133,785,944)	(25,000)	(966,038)	335,158	(561,527)	2,187,984,212
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	–	–	(720,757,473)
Balance at December 31, 2014	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱11,803,283,969	₱26,600,463	(₱312,363,737)	₱–	(₱1,445,728)	₱–	(₱41,656,482)	₱17,730,302,218

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,670,556,544**	₱2,308,438,460	₱2,296,143,489
Adjustments to reconcile income before income tax to net cash used in operations:			
Provision for credit and impairment losses (Note 15)	**2,222,503,257**	1,588,298,396	1,743,821,080
Amortization of premium (discount) on available-for-sale and held-to-maturity investments	**(490,197,593)**	2,024,746,125	(118,028,620)
Depreciation (Note 11)	**557,648,750**	501,311,146	504,628,955
Gain on foreclosure and sale of:			
Chattel mortgage properties (Note 14)	**(351,721,775)**	(377,657,511)	(316,813,642)
Investment properties (Note 12)	**(364,392,867)**	(258,030,111)	(298,854,312)
Amortization of:			
Intangible assets (Note 13)	**111,160,451**	100,224,715	82,368,321
Debt issuance costs (Note 17)	**23,680,529**	5,150,260	3,963,190
Realized gain on sale of available-for-sale investments (Note 8)	**(456,628,139)**	(36,343,321)	(99,084,970)
Unrealized trading (gain) loss on fair value through profit or loss investments (Note 8)	**(9,808,773)**	24,171,844	1,108,328
Share in net income of an associate and a joint venture (Note 10)	**(35,466,690)**	(20,213,935)	(76,956,073)
Gain on sale of property and equipment (Note 11)	**(2,639,304)**	(17,739,663)	(45,013,382)
Gain on sale of investment in an associate (Note 10)	**–**	–	(558,663,928)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**1,538,682,890**	(2,566,807,850)	(95,418,879)
Loans and receivables	**(17,801,956,529)**	(21,526,724,867)	(16,072,062,154)
Other assets	**(31,545,443)**	73,185,939	(171,483,937)
Increase (decrease) in:			
Deposit liabilities	**24,091,609,813**	17,768,068,631	10,008,975,239
Accrued taxes, interest and other expenses	**143,049,544**	(77,668,853)	21,703,285
Treasurer's, cashier's and manager's checks	**411,884,412**	94,839,692	143,264,488
Other liabilities	**232,467,904**	(57,443,347)	582,183,755
Cash generated from (used in) operations	**12,458,886,981**	(450,194,250)	(2,464,219,767)
Income taxes paid	**(303,467,934)**	(350,950,721)	(401,945,925)
Net cash provided by (used in) operating activities	**12,155,419,047**	(801,144,971)	(2,866,165,692)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Available-for-sale investments	**(40,630,855,364)**	(13,996,913,431)	(3,247,058,476)
Held-to-maturity investments	**(8,051,001,534)**	(15,183,881,903)	(1,683,973,367)
Property and equipment (Note 11)	**(319,030,433)**	(639,489,221)	(458,939,120)
Other intangible assets (Note 13)	**(171,866,198)**	(175,544,810)	(158,676,293)
Proceeds from sale of:			
Available-for-sale investments (Note 8)	**36,425,024,948**	11,056,542,556	3,034,958,920
Chattel mortgage properties (Note 14)	**1,564,228,669**	1,378,234,489	1,235,235,293
Investment properties (Note 12)	**520,225,812**	437,934,888	478,248,446
Property and equipment (Note 11)	**32,128,996**	39,834,213	89,695,109
Investment in an associate (Note 10)	**–**	–	1,312,500,000
Decrease (increase) in interbank loans receivable (Note 7)	**–**	1,386,320,000	(1,386,320,000)
Net cash used in investing activities	**(10,631,145,104)**	(15,696,963,219)	(784,329,488)

(Forward)

	Years Ended December 31		
	2016	2015	2014
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable (Note 17)	**₱127,696,110,553**	₱19,821,347,358	₱97,720,000,000
Settlement of bills payable (Note 17)	**(126,096,897,354)**	(15,326,746,786)	(97,720,000,000)
Dividends paid (Note 21)	**(720,757,473)**	(897,647,381)	(542,898,772)
Issuance of subordinated notes (Note 17)	**–**	–	2,970,572,107
Net cash provided by financing activities	**878,455,726**	3,596,953,191	2,427,673,335
Effect of exchange rate differences	**1,713,236**	(73,834)	(154,493)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,404,442,905**	(12,901,228,833)	(1,222,976,338)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**3,934,496,578**	4,174,756,446	3,157,499,370
Due from Bangko Sentral ng Pilipinas (Note 16)	**11,143,781,766**	23,997,102,406	7,401,657,444
Due from other banks	**1,861,110,141**	3,382,662,578	8,491,340,954
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**2,513,904,112**	800,000,000	14,527,000,000
	19,453,292,597	32,354,521,430	33,577,497,768
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**2,778,009,185**	3,934,496,578	4,174,756,446
Due from Bangko Sentral ng Pilipinas (Note 16)	**13,986,784,696**	11,143,781,766	23,997,102,406
Due from other banks	**1,838,630,022**	1,861,110,141	3,382,662,578
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**3,254,311,599**	2,513,904,112	800,000,000
	₱21,857,735,502	₱19,453,292,597	₱32,354,521,430

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱2,772,406,654**	₱2,483,813,667	₱2,423,202,798
Interest received	**11,911,931,701**	12,478,341,350	9,808,205,933

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2016 and 2015, the Bank had 255 and 248 branches, respectively. In 2016, the Bank had 349 Automated Tellering Machines (ATMs) in Metro Manila and 262 in provincial locations, bringing its total number of ATMs to 611 as of December 31, 2016 from 614 as of December 31, 2015.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the board of directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

On April 27, 2010, by majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock approved the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9). This was approved by the SEC on August 26, 2010.

On March 24, 2014, the BOD approved Article III of Articles of Incorporation to specify its principal address from Makati City to PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City 1226. The Amended Articles of Incorporation was approved by the SEC on December 22, 2014.

As of December 31, 2016 and 2015, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) and seventy-six percent (76%) of the Bank, respectively.

2. Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared under the historical cost basis except for fair value through profit or loss (FVPL) investments, available-for-sale (AFS) investments, and derivative financial instruments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The accompanying financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

Statement of Compliance
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforeceable right of offset if the right is not contingent on a future event, and is legally enforeceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the following new accounting pronouncements starting January 1, 2016. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

- Amendments to PFRS 10, PFRS 12 and Philippine Accounting Standard (PAS) 28, *Investment Entities: Applying the Consolidation Exception*
- Amendments to PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations*
- PFRS 14, *Regulatory Deferral Accounts*
- Amendments to PAS 1, *Disclosure Initiative*
- Amendments to PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- Amendments to PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- Amendments to PAS 27, *Equity Method in Separate Financial Statements*
- Annual Improvements to PFRSs 2012 - 2014 Cycle
    - Amendment to PFRS 5, *Changes in Methods of Disposal*
    - Amendment to PFRS 7, *Servicing Contracts*
    - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
    - Amendment to PAS 19, *Discount Rate: Regional Market Issue*

- Amendment to PAS 34, *Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in Philippine Peso, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in Philippine Peso based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (the Philippine Peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVPL investments, AFS investments and derivatives, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

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

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

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

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank’s cash requirements as allowed by the BSP.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivatives are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: FVPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVPL and other financial liabilities at amortized cost. The classification of financial instruments at initial recognition depends on their purpose and characteristics and the management's intention in acquiring them. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every statement of condition date.

Financial assets and financial liabilities at FVPL
Financial assets and financial liabilities at FVPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments held-for-trading
Other financial assets or financial liabilities held for trading (HFT) are recorded in the statement of condition at fair value. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

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

Derivatives
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statement of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2016 and 2015, derivatives consist of foreign exchange swaps and Republic of the Philippines (ROP) paired warrants acquired to manage the Bank's foreign currency risk, lower the risk weighted assets and improve the capital adequacy ratio of the Bank.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as ‘Trading and securities gains (losses) - net’ in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statement of income as other operating income under ‘Miscellaneous’ when the right of the payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for credit and impairment losses’ in the statement of income and removed from ‘Net unrealized gain (loss) from AFS investments’ in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank’s management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in ‘Interest income on investment securities’ in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under ‘Provision for credit and impairment losses’. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the two preceding financial years.

Loans and receivables
This accounting policy relates to the Bank’s ‘Due from Bangko Sentral ng Pilipinas (BSP)’, ‘Due from Other Banks’, ‘Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA)’, ‘Loans and Receivables’, ‘Security Deposits’, ‘Returned Checks and Other Cash Items (RCOCI)’, and ‘Shortages’. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVPL;
- those that the Bank, upon initial recognition, designates as AFS; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

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

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVPL and comprises ‘Deposit Liabilities’,‘Bills Payable’, ‘Subordinated Notes’,‘Treasurer’s, Cashier’s and Manager’s Checks’, ‘Accrued Interest Payable’, ‘Accrued

Other Expenses', 'Accounts Payable', 'Bills Purchased-Contra', 'Other credits', 'Due to BSP', 'Dividends Payable', 'Due to the Treasurer of the Philippines', 'Deposits for Keys-Safety Deposit Boxes (SDB)', and 'Overages', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Derecognition of Financial Assets and Liabilities

Financial assets

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

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

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

Repurchase and Reverse Repurchase Agreements
Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell (SPURA) at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

Reclassification of Financial Assets
The Bank may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, HTM financial assets or Loans and Receivables categories.

A financial asset that is reclassified out of the HFT category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on the asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method.

If the asset is subsequently determined to be impaired, the amount recorded in the OCI is recycled to the statement of income.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as HTM, it shall be reclassified as AFS and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

There was no reclassification of financial assets in 2016 and 2015.

Impairment of Financial Assets
The Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganization; and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost
For financial assets carried at amortized cost, which includes loans and receivables, due from banks and HTM investments, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery of charged-off assets' under 'Miscellaneous income' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

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

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

The details of credit and impairment losses on financial assets carried at amortized cost are disclosed in Note 15.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

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

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as longer than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The Bank's investment in a joint venture represents its 40.00% interest in Sumisho Motor Finance Corporation (SMFC).

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income (loss) of a joint venture'in the statement of income.

Upon loss of significant influence over the joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged

against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years depending on the type of assets
Leasehold improvements	5 years or the term of the related leases, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Intangible Assets
The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible assets'.

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

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

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties
At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

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

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

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

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statement of income.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

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

Common Stock
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital Paid in Excess of Par Value' in the statement of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition

Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms and payment excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial assets classified as AFS and financial instruments designated at FVPL, interest income or expense is recorded using the EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as ‘Interest income’.

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

Service fees and commission income

Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

Income from sale of property and equipment, investment property and chattel mortgage properties

Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Trading and securities gains (losses) - net

Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of financial instruments at FVPL. It also includes gains and losses realized from sale of AFS financial assets.

Realized gains and losses on disposals of financial instruments at FVPL are calculated using weighted average method. It represents the difference between an instrument’s initial carrying amount and disposal amount.

Rental income

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

Dividend income
Dividend income is recognized when the Bank's right to receive payment is established, which is generally when shareholders approve the dividend.

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

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost

Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's

employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

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

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

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

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

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

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2016 and 2015, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Segment Reporting
The Bank’s operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank’s assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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

Subsequent Events
Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2017

- Amendment to PFRS 12, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

- Amendments to PAS 7, *Statement of Cash Flows, Disclosure Initiative*
  The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

  Application of amendments will result in additional disclosures in the 2017 financial statements of the Bank.

- Amendments to PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses*
  The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

  Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

  The Bank is assessing the impact of adopting the amendments.

Effective beginning on or after January 1, 2018

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

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

  The amendments are not applicable to the Bank since it does not have share-based payment transactions.

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

  The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

  The amendments are not applicable to the Bank since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

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

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

  The Bank does not anticipate early adopting PFRS 15 and is currently assessing its impact.

- PFRS 9, *Financial Instruments*
  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement,* and all previous versions of PFRS 9. The

standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Bank's financial liabilities. The adoption will also have an effect on the Bank's credit losses. The Bank does not anticipate early adopting PFRS 9 and is currently assessing its impact.

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

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

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

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*
  Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, *Leases*. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

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

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

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

Deferred effectivity

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

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

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions 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.

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

(a) *Fair value of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(b) *Classification of HTM investments*
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *Credit losses on loans and receivables*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including the assessment of the financial condition of the counterparty, and estimated net selling prices of collateral, and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate (Note 5).

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(b) Impairment of non-financial assets

Investment properties and chattel mortgage properties
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's property and equipment, investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

Investment in a joint venture
The Bank assesses impairment on its investment in a joint venture whenever events or changes in circumstances indicate that the carrying amount of said asset may not be recoverable. Among others, the factors that the Bank considers important which could trigger an impairment review on its investment in a joint venture include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes (i.e., technological, market, economic, or legal environment in which the joint venture operates with an adverse effect on the joint venture have taken place during the period, or will take place in the near future).

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use. As of December 31, 2016 and 2015, the carrying values of the Bank's investment in a joint venture amounted to ₱727.2 million and ₱690.3 million, respectively (Note 10).

(c) *Present value of retirement obligation*
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation are disclosed in Note 24.

As of December 31, 2016 and 2015 the net pension liability of the Bank amounted to ₱748.8 million and ₱799.8 million, respectively (Note 24).

(d) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies and future market or economic conditions.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Net deferred tax assets as of December 31, 2016 and 2015 amounted to ₱1.3 billion and ₱1.2 billion, respectively (Note 27).

(e) *Contingent liabilities*
The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements (Note 31).

4. **Fair Value Measurement**

Financial Instruments
The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Quoted AFS equity investments - Fair values are based on quoted prices published in markets.

Unquoted AFS equity investments - Fair values could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. Hence, these investments are carried at cost less allowance for impairment losses.

Currently, there is no available market to sell these unquoted AFS equity investments. The Bank will hold onto these investments until management decides to sell them when there will be offers to buy out such investments or the appearance of an available market where the investments can be sold.

Derivative instruments (included under FVPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The inputs used in the fair value measurement based on Level 2 are as follows:

Derivative assets and liabilities – fair values are calculated by reference to the prevailing spot exchange rate as of statement of condition date.

Government securities – interpolated rates based on market rates of benchmark securities as of statement of condition date.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

<u>Non-financial Asset</u>
Investment properties-Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	December 31, 2016				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	**₱1,360,293**	**₱1,360,293**	**₱–**	**₱–**	**₱1,360,293**
Derivative assets - foreign exchange swaps	**499**	**–**	**499**	**–**	**499**
AFS investments					
Government debt securities	**8,462,431**	**7,860,775**	**601,656**	**–**	**8,462,431**
Private debt securities	**4,645,669**	**4,645,669**	**–**	**–**	**4,645,669**
Quoted equity securities	**5,343**	**5,343**	**–**	**–**	**5,343**
	₱14,474,235	**₱13,872,080**	**₱602,155**	**₱–**	**₱14,474,235**
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	**₱20,046,355**	**₱14,700,636**	**₱3,121,158**	**₱–**	**₱17,821,794**
Private	**3,110,532**	**4,671,187**	**–**	**–**	**4,671,187**
Loans and receivables					
Receivables from customers					
Consumption loans	**68,049,723**	**–**	**–**	**77,057,592**	**77,057,592**
Real estate loans	**43,394,060**	**–**	**–**	**43,727,872**	**43,727,872**
Commercial loans	**10,724,488**	**–**	**–**	**11,602,071**	**11,602,071**
Personal loans	**2,923,628**	**–**	**–**	**3,471,046**	**3,471,046**
Sales contract receivable	**117,814**	**–**	**–**	**154,520**	**154,520**
Security deposits	**178,331**	**–**	**–**	**168,120**	**168,120**
Non-Financial Assets					
Investment properties	**3,861,708**	**–**	**–**	**4,675,355**	**4,675,355**
	₱152,406,639	**₱19,371,823**	**₱3,121,158**	**₱140,856,576**	**₱163,349,557**
Liabilities measured at fair value:					
Financial Liabilities					
Derivative liabilities - foreign exchange swaps	**₱65,317**	**₱–**	**₱65,317**	**₱–**	**₱65,317**
Liabilities for which fair values are disclosed:					
Deposit liabilities - time	**₱115,811,946**	**₱–**	**₱–**	**₱115,519,377**	**₱115,519,377**
Subordinated notes	**5,975,732**	**–**	**–**	**6,000,716**	**6,000,716**
	₱121,787,678	**₱–**	**₱–**	**₱121,520,093**	**₱121,520,093**

	December 31, 2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments					
HFT - government securities	₱2,821,437	₱2,821,437	₱–	₱–	₱2,821,437
AFS investments					
Government debt securities	4,472,650	3,695,329	777,321	–	4,472,650
Private debt securities	4,449,702	4,449,702	–	–	4,449,702
Quoted equity securities	3,940	3,940	–	–	3,940
	₱11,747,729	₱10,970,408	₱777,321	₱–	₱11,747,729
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments					
Government	₱12,088,362	₱7,863,667	₱3,735,724	₱–	₱11,599,391
Private	2,858,306	2,833,262	–	–	2,833,262

(Forward)

	December 31, 2015				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Loans and receivables					
Receivables from customers					
Consumption loans	₱59,321,191	₱–	₱–	₱72,561,154	₱72,561,154
Real estate loans	40,109,194	–	–	41,156,371	41,156,371
Commercial loans	9,847,098	–	–	11,655,376	11,655,376
Personal loans	2,993,330	–	–	6,132,689	6,132,689
Sales contract receivable	180,849	–	–	199,546	199,546
Security deposits	172,433	–	–	171,050	171,050
Non-Financial Assets					
Investment properties	3,344,154	–	–	4,202,167	4,202,167
	₱130,914,917	₱10,696,929	₱3,735,724	₱136,078,353	₱150,511,006
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit Liabilities - time	₱98,553,754	₱–	₱–	₱100,248,431	₱100,248,431
Subordinated notes	5,952,052	–	–	5,646,627	5,646,627
	₱104,505,806	₱–	₱–	₱105,895,058	₱105,895,058

As of December 31, 2016 and 2015, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

As of December 31, 2016 and 2015, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

5. Financial Risk Management Policies and Objectives

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, including at least one (1) independent director, and a chairperson who is a non-executive member. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, a non-executive director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO
The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:
- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:
- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President
The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management
The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI), and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history. These are sourced from the databases of the Banker's Association of the Philippines and the Credit Management Association of the Philippines.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2016, the Bank has completely deployed its projects to effectively implement the sound credit risk management system and practices prescribed by the Bangko Sentral ng Pilipinas (BSP) under Circular 855. These include the internal loan loss models that ensure specific and collective allowance for expected credit losses in credit portfolio are adequate.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2016			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,838,630**	**₱788,154**	**₱1,054,476**	**₱788,154**
SPURA	**3,254,312**	**4,686,901**	**–**	**3,254,312**
Receivables from customers				
Consumption loans	**68,049,723**	**75,053,312**	**2,019,025**	**66,030,698**
Real estate loans	**43,394,060**	**49,133,794**	**5,354,204**	**38,039,856**
Commercial loans	**10,724,488**	**4,622,362**	**7,450,673**	**3,273,815**
Other receivables				
Accrued interest receivable	**1,614,842**	**1,527,477**	**87,365**	**1,527,477**
Sales contract receivable	**117,814**	**307,004**	**1,325**	**116,489**
Total credit exposure	**₱128,993,869**	**₱136,119,004**	**₱15,967,068**	**₱113,030,801**

	2015			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,034,706	₱3,034,441	₱–	₱1,034,706
SPURA	2,500,000	3,003,833	–	2,500,000
Receivables from customers				
Consumption loans	59,321,191	73,852,935	1,747	59,319,444
Real estate loans	40,109,194	71,680,705	–	40,109,194
Commercial loans	5,444,393	8,630,989	2,258,822	3,185,571
Other receivables				
Accrued interest receivable	1,301,362	1,583,623	–	1,301,362
Sales contract receivable	180,849	276,123	–	180,849
Total credit exposure	₱109,891,695	₱162,062,649	₱2,260,569	₱107,631,126

Collateral and Other Credit Enhancements

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:

- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. Generally, collateral is not held over loans and advances to banks except for SPURA. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral usually is not held against holdings in investment securities, and no such collateral was held as of December 31, 2016 and 2015.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2016 and 2015, the maximum credit exposure to any borrower amounted to ₱1.9 billion, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2016				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱114,457,713**	**₱19,023,728**	**₱37,635,681**	**₱273,614**	**₱171,390,736**
Visayas	**8,125,298**	**23,421**	**–**	**–**	**8,148,719**
Mindanao	**9,401,569**	**32,577**	**–**	**–**	**9,434,146**
	131,984,580	**19,079,726**	**37,635,681**	**273,614**	**188,973,601**
Less allowance for credit and impairment losses	**4,762,733**	**–**	**2,189**	**–**	**4,764,922**
Total	**₱127,221,847**	**₱19,079,726**	**₱37,633,492**	**₱273,614**	**₱184,208,679**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2015				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱102,789,526	₱15,276,382	₱26,698,957	₱275,579	₱145,040,444
Visayas	8,517,846	105,144	–	–	8,622,990
Mindanao	7,185,345	137,270	–	–	7,322,615
	118,492,717	15,518,796	26,698,957	275,579	160,986,049
Less allowance for credit and impairment losses	4,625,202	–	2,189	–	4,627,391
Total	₱113,867,515	₱15,518,796	₱26,696,768	₱275,579	₱156,358,658

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2016 and 2015 (in thousands):

	2016				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱76,644,704**	**₱–**	**₱–**	**₱–**	**₱76,644,704**
Financial and insurance activities	**3,506,711**	**19,079,726**	**37,635,681**	**189,954**	**60,412,072**
Real estate activities	**39,499,089**	**–**	**–**	**–**	**39,499,089**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,021,531**	**–**	**–**	**–**	**2,021,531**
Electricity, gas, steam and air-conditioning supply	**1,571,669**	**–**	**–**	**–**	**1,571,669**
Information and communication	**1,513,811**	**–**	**–**	**–**	**1,513,811**
Administrative and support service activities	**1,176,719**	**–**	**–**	**–**	**1,176,719**
Accommodation and food service activities	**709,800**	**–**	**–**	**–**	**709,800**
Manufacturing	**547,418**	**–**	**–**	**–**	**547,418**
Construction	**427,755**	**–**	**–**	**56,000**	**483,755**
Human health and social work activities	**356,752**	**–**	**–**	**–**	**356,752**
Transportation and storage	**326,725**	**–**	**–**	**–**	**326,725**
Water supply, sewage, waste management and remediation activities	**289,700**	**–**	**–**	**–**	**289,700**
Education	**203,247**	**–**	**–**	**–**	**203,247**
Professional, scientific and technical services	**81,247**	**–**	**–**	**–**	**81,247**
Arts, entertainment and recreation	**37,165**	**–**	**–**		**37,165**
Agricultural, forestry and fishing	**20,321**	**–**	**–**	**–**	**20,321**
Mining and quarrying	**4,514**	**–**	**–**	**–**	**4,514**
Other service activities	**3,045,702**	**–**	**–**	**27,660**	**3,073,362**
	131,984,580	**19,079,726**	**37,635,681**	**273,614**	**188,973,601**
Less allowance for credit and impairment losses	**4,762,733**	**–**	**2,189**	**–**	**4,764,922**
Total	**₱127,221,847**	**₱19,079,726**	**₱37,633,492**	**₱273,614**	**₱184,208,679**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

	2015				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱66,541,078	₱–	₱–	₱–	₱66,541,078
Financial and insurance activities	2,698,016	15,518,796	26,698,957	197,171	45,112,940
Real estate activities	36,822,242	–	–	–	36,822,242
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,784,507	–	–	–	1,784,507
Electricity, gas, steam and air-conditioning supply	611,868	–	–	–	611,868
Information and communication	1,729,521	–	–	–	1,729,521
Administrative and support service activities	285,443	–	–	–	285,443
Accommodation and food service activities	276,803	–	–	–	276,803
Manufacturing	827,991	–	–	–	827,991
Construction	370,676	–	–	54,000	424,676
Human health and social work activities	216,313	–	–	–	216,313
Transportation and storage	604,008	–	–	–	604,008
Water supply, sewage, waste management and remediation activities	295,308	–	–	–	295,308
Education	163,330	–	–	–	163,330
Professional, scientific and technical services	153,535	–	–	–	153,535
Arts, entertainment and recreation	31,904	–	–		31,904

(Forward)

	2015				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Agricultural, forestry and fishing	₱30,993	₱–	₱–	₱–	₱30,993
Mining and quarrying	2,853	–	–	–	2,853
Other service activities	5,046,328	–	–	24,408	5,070,736
	118,492,717	15,518,796	26,698,957	275,579	160,986,049
Less allowance for credit and impairment losses	4,625,202	–	2,189	–	4,627,391
Total	₱113,867,515	₱15,518,796	₱26,696,768	₱275,579	₱156,358,658

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines.

<u>Credit Quality</u>
Description of the loan grades for loans, receivables and stand-by credit lines:

Master Loan Classifications
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved loan classifications which utilize the credit scoring results, credit experience and qualitative assessments.

Neither Past Due nor Individually Impaired
The Bank classifies those accounts under current status having the following master loan classification grades:

<u>High Grade (Master Loan Classification 1 - 4)</u>
1 - Excellent
This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong
This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Loan Especially Mentioned rating (rating=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Substandard rating (rating=8) at worst.

<u>Standard Grade (Master Loan Classification 5 - 7)</u>
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful rating (rating=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss rating (rating=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (Master Loan Classification 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The tables below show the credit quality per class of financial assets under loans and receivables (in thousands)*:

	2016						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	**₱13,986,785**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱13,986,785**
Due from other banks	**–**	**1,838,630**	**–**	**–**	**–**	**–**	**1,838,630**
Interbank loans receivable and SPURA	**3,254,312**	**–**	**–**	**–**	**–**	**–**	**3,254,312**
Receivables from customers							
Consumption loans	**54,186,784**	**–**	**5,282,592**	**–**	**10,630,050**	**–**	**70,099,426**
Real estate loans	**33,239,048**	**4,778,346**	**458,589**	**–**	**4,375,855**	**1,047,721**	**43,899,559**
Commercial loans	**10,575,097**	**478,928**	**199,136**	**–**	**180,377**	**172,246**	**11,605,784**
Personal loans	**1,979,545**	**880,638**	**93,212**	**–**	**636,243**	**–**	**3,589,638**
Other receivables							
Accrued interest receivable	**1,109,075**	**252,348**	**42,217**	**–**	**269,821**	**100,007**	**1,773,468**
Accounts receivable	**301,282**	**2,719**	**71**	**–**	**312,557**	**184,652**	**801,281**
Sales contract receivable	**112,841**	**12,571**	**–**	**–**	**26,238**	**–**	**151,650**
Bills purchased	**–**	**–**	**–**	**63,774**	**–**	**–**	**63,774**
Other assets							
Security deposits	**–**	**–**	**–**	**178,331**	**–**	**–**	**178,331**
RCOCI	**–**	**–**	**–**	**10,316**	**–**	**–**	**10,316**
Shortages	**–**	**–**	**–**	**1,307**	**–**	**–**	**1,307**
Total	**₱118,744,769**	**₱8,244,180**	**₱6,075,817**	**₱253,728**	**₱16,431,141**	**₱1,504,626**	**₱151,254,261**

*Shown gross of allowance for credit and impairment losses, net of unearned discount

	2015						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱11,143,782	₱–	₱–	₱–	₱–	₱–	₱11,143,782
Due from other banks	–	1,861,110	–	–	–	–	1,861,110
Interbank loans receivable and SPURA	2,500,000	13,904	–	–	–	–	2,513,904
Receivables from customers							
Consumption loans	50,437,345	535,215	80,356	–	9,047,575	–	60,100,491
Real estate loans	34,246,129	727,987	189,088	–	4,501,525	1,016,359	40,681,088
Commercial loans	10,055,824	462,836	364,958	–	116,111	631,824	11,631,553
Personal loans	2,773,631	106,834	76,714	–	642,379	–	3,599,558
Other receivables							
Accrued interest receivable	1,024,086	98,352	2,896	–	201,516	356,277	1,683,127
Accounts receivable	51,512	155	112	–	294,319	183,484	529,582
Sales contract receivable	168,777	870	444	–	25,636	18,888	214,615
Bills purchased	–	–	–	52,633	–	–	52,633
Other assets							
Security deposits	–	–	–	172,433	–	–	172,433
RCOCI	–	–	–	19,561	–	–	19,561
Shortages	–	–	–	5,177	–	–	5,177
Total	₱112,401,086	₱3,807,263	₱714,568	₱249,804	₱14,829,061	₱2,206,832	₱134,208,614

*Shown gross of allowance for credit and impairment losses, net of unearned discount

External Ratings

In ensuring quality investment portfolio, the Bank uses the credit risk rating based on the rating of Moody's Investors Service (Moody's rating) as follows:

Credit Quality	**External Rating**								
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.

Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.

B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

The tables below show the credit quality per class of investment securities (in thousands)*:

	2016						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	**Standard Grade**	**Substandard Grade**	**Unrated**			
FVPL							
HFT - government securities	**₱1,360,293**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,360,293**
Derivative asset	**–**	**499**	**–**	**–**	**–**	**–**	**499**
AFS investments							
Government debt securities	**8,462,431**	**–**	**–**	**–**	**–**	**–**	**8,462,431**
Private debt securities	**2,358,046**	**2,287,623**	**–**	**–**	**–**	**–**	**4,645,669**
Quoted equity securities	**–**	**–**	**–**	**5,953**	**–**	**–**	**5,953**
Unquoted equity securities	**–**	**–**	**–**	**3,949**	**–**	**–**	**3,949**
HTM investments							
Government debt securities	**20,046,355**	**–**	**–**	**–**	**–**	**–**	**20,046,355**
Private debt securities	**516,161**	**2,594,371**	**–**	**–**	**–**	**–**	**3,110,532**
Total	**₱32,743,286**	**₱4,882,493**	**₱–**	**₱9,902**	**₱–**	**₱–**	**₱37,635,681**

*Shown gross of allowance for credit and impairment losses

	2015						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL							
HFT - government securities	₱2,821,437	₱–	₱–	₱–	₱–	₱–	₱2,821,437
AFS investments							
Government debt securities	4,472,650	–	–	–	–	–	4,472,650
Private debt securities	2,106,530	2,343,172	–	–	–	–	4,449,702
Quoted equity securities	–	–	–	4,551	–	–	4,551
Unquoted equity securities	–	–	–	3,949	–	–	3,949
HTM investments							
Government debt securities	12,088,362	–	–	–	–	–	12,088,362
Private debt securities	518,276	2,340,030	–	–	–	–	2,858,306
Total	₱22,007,255	₱4,683,202	₱–	₱8,500	₱–	₱–	₱26,698,957

*Shown gross of allowance for credit and impairment losses

Impairment Assessment

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

Individually assessed allowances

The Bank determines the allowances appropriate for each significant loan or advance on an individual basis. Items considered when determining amounts of allowances include an account's age, payment and collection history, timing of expected cash flows and realizable value of collateral.

The Bank sets criteria for specific loan impairment testing and uses the discounted cash flow methodology to compute for impairment loss. Accounts subjected to specific impairment and that are found to be impaired shall be excluded from the collective impairment computation.

Collectively assessed allowances
Allowances are assessed collectively for losses on commercial loans and advances that are not individually significant or are found to be not individually impaired. Impairment losses are estimated by taking into consideration the historical losses using a lookback period of five years on the portfolio and the expected receipts and recoveries once impaired. The Bank is responsible for deciding the length of historical loss period which can extend for as long as five years. The impairment allowance is then reviewed by the Bank to ensure alignment with the Bank's overall policy.

The Bank uses the Net Flow Rate method to determine the credit loss rate of a particular delinquency age bucket based on historical data of flow-through and flow-back of loans across specific delinquency age buckets. The method applies to consumer loans, as well as salary and home equity loans granted to employees of the Bank. For commercial loans, the Bank uses Historical Loss Rate method in determining the credit loss rate based on the actual historical loss experienced by the Bank on each specific industry type.

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets
The succeeding tables show the total aggregate amount of gross past due but not individually impaired loans and receivables per delinquency bucket. Under PFRS, a financial asset is past due when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2016					
	Past Due but not Individually Impaired					
	Less than 30 days	**31 to 60 days**	**61 to 90 days**	**91 to 180 days**	**Over 180 days**	**Total**
Loans and receivables						
Receivables from customers						
Consumption loans	**₱4,999,504**	**₱2,345,627**	**₱1,078,386**	**₱1,147,048**	**₱1,059,485**	**₱10,630,050**
Real estate loans	**2,880,797**	**984,062**	**304,272**	**156,228**	**50,496**	**4,375,855**
Commercial loans	**59,469**	**59,569**	**46,461**	**3,476**	**11,402**	**180,377**
Personal loans	**124,461**	**30,575**	**23,010**	**53,238**	**404,959**	**636,243**
Other receivables						
Accrued interest receivable	**97,288**	**54,234**	**30,435**	**37,565**	**50,299**	**269,821**
Accounts receivable	**8,863**	**4,472**	**6,910**	**247,637**	**44,675**	**312,557**
Sales contract receivable	**7,755**	**2,653**	**5,170**	**2,208**	**8,452**	**26,238**
Total	**₱8,178,137**	**₱3,481,192**	**₱1,494,644**	**₱1,647,400**	**₱1,629,768**	**₱16,431,141**

*Shown gross of allowance for impairment and credit losses

	2015					
	Past Due but not Individually Impaired					
	Less than 30 days	31 to 60 days	61 to 90 days	91 to 180 days	Over 180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱4,446,935	₱2,036,225	₱879,025	₱963,326	₱722,064	₱9,047,575
Real estate loans	2,953,252	1,052,255	405,102	50,868	40,048	4,501,525
Commercial loans	48,238	44,887	450	–	22,536	116,111
Personal loans	164,544	60,172	26,752	58,893	332,018	642,379
Other receivables						
Accrued interest receivable	73,779	44,097	23,656	28,658	31,326	201,516
Accounts receivable	4,775	5,203	3,124	3,136	278,081	294,319
Sales contract receivable	7,549	11,156	–	190	6,741	25,636
Total	₱7,699,072	₱3,253,995	₱1,338,109	₱1,105,071	₱1,432,814	₱14,829,061

*Shown gross of allowance for impairment and credit losses *b. Market risk*

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk. The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2016[1]			December 31, 2015	
	Peso	**USD**		Peso	USD
Year-end	**4**	**9,817**	Year-end	18,866	6,705
Average	**15,643**	**8,912**	Average	12,755	3,605
High	**45,741**	**24,889**	High	56,331	12,519
Low	**3**	**–**	Low	1,331	152

[1]*Using METRISK Historical Simulation VaR*

Non-trading activities

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as non-interest rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year and capital. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EAR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The tables below demonstrate the sensitivity of net interest income and equity to reasonably possible changes in interest rates. Net interest income sensitivity was calculated by assuming interest rate shifts upon repricing of floating-rate financial instruments. Equity sensitivity was computed by calculating mark-to-market changes of AFS debt instruments, assuming a parallel shift in the yield curve.

2016

	Change in basis points	Sensitivity of net interest income	Sensitivity of Equity: 0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	**+10**	**(53,740,848)**	**(56,914)**	**–**	**844,120**	**(34,706,103)**	**(33,918,897)**
USD	**+10**	**(15,351,214)**	**–**	**–**	**(559,507)**	**(61,126,662)**	**(61,686,169)**
Currency							
PHP	**-10**	**53,740,848**	**(32,420)**	**–**	**14,706,838**	**31,353,113**	**46,027,531**
USD	**-10**	**15,351,214**	**–**	**–**	**561,297**	**61,860,290**	**62,421,587**

2015

	Change in basis points	Sensitivity of net interest income	Sensitivity of Equity: 0 up to 6 months	Over 6 months to 1 year	Over 1 year to 5 years	More than 5 years	Total
			(Amounts in Pesos)				
Currency							
PHP	+10	(49,218,355)	(9,574)	–	(6,291,754)	(13,302,570)	(19,603,898)
USD	+10	(9,200,930)	–	–	411,384	(14,797,345)	(14,385,961)
Currency							
PHP	-10	49,218,355	9,580	–	2,556,121	20,409,784	22,975,485
USD	-10	9,200,930	–	–	3,101,381	53,519,086	56,620,467

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2016[1]	**2015[1]**
As of year-end	**₱176**	**₱632**
Average	**752**	**532**
High	**1,249**	**1,908**
Low	**18**	**.98**

[1]*Using METRISK Historical Simulation VaR*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2016 and 2015. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2016	2015
Assets		
Cash	**$82**	$90
Due from other banks	**1,728**	220
FVPL investments	**10**	–
AFS investments	**56,160**	–
Other assets	**–**	92
Total assets	**57,980**	402
Liabilities		
Deposit liabilities		
Savings	**62**	38
Time	**52**	46
Financial liabilities at FVPL	**1,314**	–
Other liabilities	**11**	300
Total liabilities	**1,439**	384
Net exposure	**$56,541**	$18

c. Liquidity Risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets
Analysis of equity and debt securities at FVPL and AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities
The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2016							
	On demand	**Up to 1 month**	**Over 1 to 3 months**	**Over 3 to 6 months**	**Over 6 to 12 months**	**Total within 1 year**	**Beyond 1 year**	**Total**
Financial Assets								
FVPL								
HFT - government securities	**₱64**	**₱609**	**₱710**	**₱–**	**₱–**	**₱1,383**	**₱–**	**₱1,383**
Derivatives	**–**	**–**	**1**	**–**	**–**	**1**	**–**	**1**
AFS investments								
Government securities	**5**	**4**	**7**	**45**	**157**	**218**	**13,083**	**13,301**
Private debt securities	**–**	**–**	**26**	**28**	**93**	**147**	**5,798**	**5,945**
Quoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**6**	**6**
Unquoted equity securities	**–**	**–**	**–**	**–**	**–**	**–**	**4**	**4**
HTM investments								
Government bonds	**–**	**30**	**24**	**85**	**400**	**539**	**24,998**	**25,537**
Private bonds	**–**	**1**	**6**	**39**	**395**	**441**	**2,965**	**3,406**
Loans and receivables								
Loans and advances to banks								
Due from BSP	**13,987**	**–**	**–**	**–**	**–**	**13,987**	**–**	**13,987**
Due from other banks	**1,839**	**–**	**–**	**–**	**–**	**1,839**	**–**	**1,839**
Interbank loans receivable and SPURA	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Receivables from customers								
Consumption loans	**119**	**2,024**	**4,254**	**6,611**	**14,451**	**27,459**	**60,024**	**87,483**
Real estate loans	**136**	**647**	**1,539**	**2,379**	**5,317**	**10,018**	**55,570**	**65,588**
Commercial loans	**419**	**801**	**607**	**437**	**778**	**3,042**	**11,920**	**14,962**
Personal loans	**637**	**154**	**357**	**595**	**1,699**	**3,442**	**604**	**4,046**
Other receivables								
Accrued interest receivable	**1,422**	**–**	**187**	**47**	**46**	**1,702**	**71**	**1,773**
Accounts receivable	**801**	**–**	**–**	**–**	**–**	**801**	**–**	**801**
Sales contract receivable	**4**	**3**	**7**	**11**	**21**	**46**	**140**	**186**
Other assets								
Security deposits	**–**	**4**	**1**	**5**	**15**	**25**	**154**	**179**
RCOCI	**10**	**–**	**–**	**–**	**–**	**10**	**–**	**10**
Shortages	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
	₱19,445	**₱4,277**	**₱7,726**	**₱10,282**	**₱23,372**	**₱65,102**	**₱175,337**	**₱240,439**
Financial Liabilities								
Deposit liabilities								
Demand	**₱15,339**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,339**	**₱–**	**₱15,339**
Savings	**27,236**	**–**	**–**	**–**	**–**	**27,236**	**–**	**27,236**
Time	**56**	**69,176**	**17,573**	**7,700**	**4,815**	**99,320**	**16,511**	**115,831**
	42,631	**69,176**	**17,573**	**7,700**	**4,815**	**141,895**	**16,511**	**158,406**
Derivative Liability	**–**	**33**	**32**	**–**	**–**	**65**	**–**	**65**
Bills payable	**–**	**4,698**	**1,401**	**–**	**–**	**6,099**	**–**	**6,099**
Subordinated notes	**–**	**3,066**	**–**	**41**	**82**	**3,189**	**4,114**	**7,303**
Treasurer's, cashier's and manager's checks	**1,761**	**–**	**–**	**–**	**–**	**1,761**	**–**	**1,761**
Accrued interest payable	**–**	**2**	**171**	**37**	**–**	**210**	**–**	**210**
Accrued other expenses payable	**–**	**851**	**–**	**–**	**–**	**851**	**–**	**851**
Other liabilities								
Accounts payable	**–**	**1,594**	**–**	**–**	**–**	**1,594**	**–**	**1,594**
Other credits	**–**	**–**	**–**	**–**	**–**	**–**	**592**	**592**
Bills purchased - contra	**–**	**64**	**–**	**–**	**–**	**64**	**–**	**64**
Due to the Treasurer of the Philippines	**12**	**–**	**–**	**–**	**–**	**12**	**–**	**12**
Deposit for keys	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Overages	**5**	**–**	**–**	**–**	**–**	**5**	**–**	**5**
	₱44,410	**₱79,484**	**₱19,177**	**₱7,778**	**₱4,897**	**₱155,746**	**₱21,217**	**₱176,963**

	2015							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL investments								
HFT - government securities	₱–	₱70	₱22	₱–	₱92	₱184	₱3,522	₱3,706
AFS investments								
Government securities	–	6,253	–	–	–	6,253	–	6,253
Private debt securities	–	5,577	–	–	–	5,577	–	5,577
Quoted equity securities	–	–	–	–	–	–	8	8
Unquoted equity securities	–	–	–	–	–	–	7	7
HTM investments								
Government bonds	–	131	131	72	330	664	17,891	18,555
Private bonds	–	5	31	48	65	149	3,464	3,613
Loans and receivables								
Loans and advances to banks								
Due from BSP	11,143	–	–	–	–	11,143	–	11,143
Due from other banks	1,861	–	–	–	–	1,861	–	1,861
Interbank loans receivable and SPURA	14	3,369	–	–	–	3,383	–	3,383
Receivables from customers								
Consumption loans	103	805	1,675	2,690	6,035	11,308	82,389	93,697
Real estate loans	129	388	914	1,448	3,236	6,115	67,318	73,433
Commercial loans	1,525	526	627	580	824	4,082	11,492	15,574
Personal loans	977	219	347	576	1,399	3,518	1,642	5,160
Other receivables								
Accrued interest receivable	1,014	605	45	14	5	1,683	–	1,683
Accounts receivable	529	–	–	–	–	529	–	529
Sales contract receivable	28	2	2	4	8	44	262	306
Other assets								
Security deposits	–	1	2	4	9	16	156	172
RCOCI	20	–	–	–	–	20	–	20
Shortages	5	–	–	–	–	5	–	5
	₱17,348	₱17,951	₱3,796	₱5,436	₱12,003	₱56,534	₱188,151	₱244,685
Financial Liabilities								
Deposit liabilities								
Demand	₱12,899	₱–	₱–	₱–	₱–	₱12,899	₱–	₱12,899
Savings	22,836	–	–	–	–	22,836	–	22,836
Time	–	25,429	39,196	14,036	1,823	80,484	21,811	102,295
	35,735	25,429	39,196	14,036	1,823	116,219	21,811	138,030
Bills payable	–	3,686	811	–	–	4,497	–	4,497
Subordinated notes	–	–	84	84	169	337	8,438	8,775
Treasurer's, cashier's and manager's checks	1,349	–	–	–	–	1,349	–	1,349
Accrued interest payable	–	–	141	36	–	177	–	177
Accrued other expenses payable	924	–	–	–	–	924	–	924
Other liabilities								
Accounts payable	1,406	–	–	–	–	1,406	–	1,406
Other credits	–	–	–	–	–	–	470	470
Bills purchased – contra	53	–	–	–	–	53	–	53
Due to the Treasurer of the Philippines	13	–	–	–	–	13	–	13
Deposit for keys	1	–	–	–	–	1	–	1
Overages	8	–	–	–	–	8	–	8
	₱39,489	₱29,115	₱40,232	₱14,156	₱1,992	₱124,984	₱30,719	₱155,703

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking -principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2016, 2015 and 2014 follows (in thousands):

	2016				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱4,202,897**	**₱293,441**	**₱5,895,983**	**₱2,100,149**	**₱12,492,470**
Service fees and commission	**480,075**	**31,697**	**714,243**	**–**	**1,226,015**
Other operating income	**595,208**	**17,873**	**531,821**	**533,658**	**1,678,560**
Total operating income	**5,278,180**	**343,011**	**7,142,047**	**2,633,807**	**15,397,045**
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	**3,209,361**	**(390,094)**	**(596,764)**	**–**	**2,222,503**
Depreciation	**185,943**	**5,839**	**365,680**	**187**	**557,649**
Amortization of other intangible assets	**40,057**	**2,327**	**68,521**	**255**	**111,160**
Total non-cash expenses	**3,435,361**	**(381,928)**	**(162,563)**	**442**	**2,891,312**
Interest expense	**–**	**–**	**1,606,743**	**1,221,805**	**2,828,548**
Service fees and commission expense	**35,112**	**2,318**	**52,238**	**–**	**89,668**
Subtotal	**35,112**	**2,318**	**1,658,981**	**1,221,805**	**2,918,216**
Compensation and fringe benefits	**721,231**	**56,789**	**2,127,091**	**17,790**	**2,922,901**
Taxes and licenses	**335,734**	**23,487**	**426,654**	**272,563**	**1,058,438**
Occupancy and equipment-related costs	**67,678**	**1,449**	**641,813**	**2**	**710,942**
Security, messengerial and janitorial services	**79,717**	**2,627**	**300,718**	**609**	**383,671**
Miscellaneous	**564,947**	**31,680**	**1,181,358**	**98,491**	**1,876,476**
Subtotal	**1,769,307**	**116,032**	**4,677,634**	**389,455**	**6,952,428**
Income before share in net income of a joint venture and income tax	**₱38,400**	**₱606,589**	**₱967,995**	**₱1,022,105**	**2,635,089**
Share in net income of a joint venture					**35,467**
Income before income tax					**2,670,556**
Provision for income tax					**219,713**
Net income					**₱2,450,843**
Segment assets	**₱94,193,769**	**₱8,891,632**	**₱39,281,097**	**₱52,458,705**	**₱194,825,203**
Investment in a joint venture					**727,176**
Deferred tax assets					**1,300,724**
Total assets					**₱196,853,103**
Segment liabilities	**₱1,365,551**	**₱110,204**	**₱108,983,331**	**₱66,356,344**	**₱176,815,430**

	2015				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,424,517	₱433,460	₱6,646,711	₱1,498,039	₱11,002,727
Service fees and commission	341,653	38,519	913,528	–	1,293,700
Other operating income	361,645	31,979	775,216	(44,746)	1,124,094
Total operating income	3,127,815	503,958	8,335,455	1,453,293	13,420,521
Non-cash expenses					
Provision for credit and impairment losses	534,730	34,988	1,015,294	3,286	1,588,298
Depreciation	94,839	6,189	400,103	180	501,311
Amortization of other intangible assets	23,423	2,784	73,779	239	100,225
Total non-cash expenses	652,992	43,961	1,489,176	3,705	2,189,834

(Forward)

	2015				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Interest expense	₱–	₱–	₱1,476,307	₱1,044,474	₱2,520,781
Service fees and commission expense	25,936	2,924	69,348	–	98,208
Subtotal	25,936	2,924	1,545,655	1,044,474	2,618,989
Compensation and fringe benefits	434,632	53,123	2,111,648	14,465	2,613,868
Taxes and licenses	163,728	19,347	512,614	265,404	961,093
Occupancy and equipment-related costs	34,129	1,609	635,915	76	671,729
Security, messengerial and janitorial services	46,943	3,235	283,232	620	334,030
Miscellaneous	279,418	35,962	1,343,991	83,383	1,742,754
Subtotal	958,850	113,276	4,887,400	363,948	6,323,474
Income before share in net income of a joint venture and income tax	₱1,490,037	₱343,797	₱413,224	₱41,166	2,288,224
Share in net income of a joint venture					20,214
Income before income tax					₱2,308,438
Benefit from income tax					42,462
Net income					₱2,350,900
Segment assets	₱82,181,033	₱8,438,387	₱36,990,937	₱39,836,139	₱167,446,496
Investment in a joint venture					690,334
Deferred tax assets					1,194,417
Total assets					₱169,331,247
Segment liabilities	₱1,201,661	₱86,172	₱97,009,484	₱51,858,875	₱150,156,192

	2014				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,096,566	₱513,270	₱5,825,439	₱1,678,135	₱10,113,410
Service fees and commission	272,034	47,454	832,331	–	1,151,819
Other operating income	472,611	81,951	1,008,351	217,766	1,780,679
Total operating income	2,841,211	642,675	7,666,121	1,895,901	13,045,908
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	992,493	(55,175)	850,325	(43,822)	1,743,821
Depreciation	107,781	8,429	387,800	619	504,629
Amortization of other intangible assets	22,430	3,171	56,437	330	82,368
Total non-cash expenses	1,122,704	(43,575)	1,294,562	(42,873)	2,330,818
Interest expense	–	–	1,558,925	844,103	2,403,028
Service fees and commission expense	17,460	3,046	53,423	–	73,929
Subtotal	17,460	3,046	1,612,348	844,103	2,476,957
Compensation and fringe benefits	480,544	88,291	1,815,143	11,973	2,395,951
Taxes and licenses	158,764	25,720	729,633	147,477	1,061,594
Occupancy and equipment-related costs	37,755	4,239	585,687	56	627,737
Security, messengerial and janitorial services	36,307	3,673	246,524	575	287,079
Miscellaneous	257,548	38,099	1,312,900	38,037	1,646,584
Subtotal	970,918	160,022	4,689,887	198,118	6,018,945
Income before share in net income of an associate and a joint venture and income tax	₱730,129	₱523,182	₱69,324	₱896,553	2,219,188
Share in net income of an associate and a joint venture					76,956
Income before income tax					2,296,144
Benefit from income tax					22,533
Net income					₱2,318,677
Segment assets	₱62,641,227	₱10,065,356	₱35,673,726	₱35,826,176	₱144,206,485
Investments in an associate and a joint venture					668,607
Deferred tax assets					731,937
Total assets					₱145,607,029
Segment liabilities	₱1,024,056	₱110,243	₱91,831,563	₱34,910,865	₱127,876,727

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2016	2015
SPURA	**₱3,254,311,599**	₱2,500,000,000
Interbank loans receivable	**–**	13,904,112
	₱3,254,311,599	₱2,513,904,112

SPURA are lending to counterparties collateralized by government securities ranging from one to 28 days. As of December 31, 2016 and 2015, fair value of government securities held as collateral amounted to ₱4.7 billion and ₱3.0 billion, respectively. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

SPURA of the Bank bear annual interest rates ranging from 3.00% to 4.00% in 2016 and 4.00% in 2015, while peso-denominated interbank loans of the Bank bear annual interest rate of 3.00% and 2.50% in 2016 and 2015, respectively. Foreign currency-denominated interbank loans bear annual interest rates ranging from 1.75% to 2.00% in 2015. The Bank has no foreign currency-denominated interbank loans in 2016.

As of December 31, 2015, the outstanding balance of interbank loans receivable represents cash margin for securities sold under repurchase agreement.

Interest income on SPURA and interbank loans receivable are as follows:

	2016	2015	2014
SPURA	**₱56,735,116**	₱162,099,556	₱820,835,049
Interbank loans receivable	**4,795,139**	28,714,798	38,147,079
	₱61,530,255	₱190,814,354	₱858,982,128

8. Investment Securities

Fair Value Through Profit or Loss
FVPL consist of the following:

	2016	2015
HFT securities	**₱1,360,292,936**	₱2,821,437,211
Derivatives	**499,211**	–
	₱1,360,792,147	₱2,821,437,211

As of December 31, 2016 and 2015, the Bank has outstanding ROP paired warrants amounting to $1.9 million which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As of December 31, 2016 and 2015, the Bank determined the market value of its warrants to be zero due to the absence of an active market.

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

In 2016, the Bank entered into foreign currency swaps and forwards. As of December 31, 2016, foreign currency swaps with positive and negative fair value amounted to ₱0.5 million and ₱65.3 million, respectively. As of December 31, 2016, the aggregate notional amounts of the outstanding foreign currency swaps amounted to $64.1 million.

Net movements in fair value changes of derivative instruments are as follows:

	2016
Fair value changes during the year	**₱300,386,787**
Settled transactions	**(235,569,320)**
Balance at end of year	**₱64,817,467**

Available-for-Sale Investments
AFS investments consist of the following:

	2016	2015
Debt securities		
Government (Notes 29 and 30)	**₱8,462,431,246**	₱4,472,649,565
Private	**4,645,668,747**	4,449,702,326
Equity securities		
Quoted	**5,952,987**	4,550,722
Unquoted	**3,948,543**	3,948,543
	13,118,001,523	8,930,851,156
Less allowance for impairment losses (Note 15)	**2,188,665**	2,188,665
	₱13,115,812,858	₱8,928,662,491

Movements in the net unrealized gain (loss) on AFS investments follow:

	2016	2015
Balance at beginning of year	**₱179,775**	₱26,600,463
Gain from sale of AFS investments realized in profit or loss	**(456,628,139)**	(36,343,321)
Changes in fair values of AFS investments	**(386,460,000)**	9,922,633
	(843,088,139)	(26,420,688)
Balance at end of year	**(₱842,908,364)**	₱179,775

In 2014, the Bank sold its unquoted equity securities amounting to ₱43.8 million. The Bank realized net trading gain amounting to ₱191.9 million from the sale.

As of December 31, 2016 and 2015, included in AFS investments are National Food Authority bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱51.8 million and ₱52.2 million, respectively (Note 29).

As of December 31, 2016 and 2015, the Bank deposited AFS investments in the form of government bonds with total carrying value of ₱49.7 million and ₱39.7 million in compliance with trust regulations, respectively (Note 30).

As of December 31, 2015, the carrying value of AFS investments in the form of government bonds pledged as collateral for its bills payable amounted to ₱667.0 million (Note 17).

Held-to-Maturity Investments
HTM investments consist of the following:

	2016	2015
Debt securities		
Government	**₱20,046,354,933**	₱12,088,362,455
Private	**3,110,531,696**	2,858,306,002
	₱23,156,886,629	₱14,946,668,457

As of December 31, 2016 and 2015, the carrying value of HTM Investments in the form of government bonds pledged by the Bank as collateral for bills payable amounted to ₱4.7 billion and ₱1.8 billion, respectively (Note 17).

Interest income on investment securities consists of:

	2016	2015	2014
HTM investments	**₱776,516,116**	₱375,698,086	₱48,693,812
AFS investments	**486,761,874**	266,464,510	301,938,725
FVPL investments	**84,671,137**	85,605,995	13,330,603
	₱1,347,949,127	₱727,768,591	₱363,963,140

Peso-denominated AFS investments bear nominal annual interest rates ranging from 2.13% to 8.13% in 2016 and 1.63% to 9.13% in 2015 and 2014 while foreign currency-denominated AFS investments bear nominal annual interest rates ranging from 1.63% to 10.63% in 2016, 2.50% to 10.63% in 2015, and 3.88% to 9.38% in 2014. Effective interest rates on AFS investments as of December 31, 2016, 2015, and 2014 range from 1.58% to 8.14%, 2.20% to 6.75%, and 1.22% to 3.14%, respectively.

On the other hand, peso-denominated HTM investments bear effective interest rates ranging from 3.44% to 4.77% in 2016 and 2015 and 3.89% to 4.73% in 2014, while foreign currency-denominated HTM investments bear effective interest rates ranging from 2.75% to 4.78%, 3.15% to 4.09%, 4.16% to 5.47% in 2016, 2015 and 2014, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2016	2015	2014
FVPL investments (Note 29)			
Realized	**₱43,228,664**	(₱75,741,227)	(₱5,598,282)
Unrealized	**9,808,773**	(24,171,844)	(1,108,328)
	53,037,437	(99,913,071)	(6,706,610)
AFS investments (Note 29)	**456,628,139**	36,343,321	99,084,970
Unquoted debt instruments	**–**	–	117,574,471
	₱509,665,576	(₱63,569,750)	₱209,952,831

9. Loans and Receivables

This account consists of:

	2016	2015
Receivables from customers		
Consumption loans	**₱70,110,905,877**	₱60,270,969,989
Real estate loans	**43,899,559,143**	40,681,087,980
Commercial loans	**11,605,784,470**	11,631,552,796
Personal loans (Note 29)	**3,589,638,459**	3,599,557,613
	129,205,887,949	116,183,168,378
Less unearned discounts	**11,479,526**	170,478,620
	129,194,408,423	116,012,689,758
Other receivables		
Accrued interest receivable	**1,773,467,620**	1,683,126,883
Accounts receivable (Note 29)	**801,280,736**	529,582,404
Sales contract receivables	**151,649,979**	214,685,224
Bills purchased (Note 19)	**63,773,615**	52,633,449
	131,984,580,373	118,492,717,718
Less allowance for credit losses (Note 15)	**4,762,733,222**	4,625,202,276
	₱127,221,847,151	₱113,867,515,442

Personal loans comprise deposit collateral loans, employee salary and consumer loan products such as money card, multi-purpose loan and flexi-loan.

As of December 31, 2016, 2015 and 2014, 42.95%, 45.02%and 33.09%, respectively, of the total receivables from customers are subject to periodic interest repricing with average effective interest rates of 13.78%, 13.39% and 14.14% in 2016, 2015 and 2014. Remaining receivables earn average annual fixed interest rates of 15.06%, 15.10% and 15.72% in 2016, 2015 and 2014, respectively.

As of December 31, 2016, 2015 and 2014, receivable from customers earned interest income at an effective interest rate ranging from 8.55% to 9.70%, 8.56% to 10.16%, and 9.42% to 10.46%, respectively.

Interest income on loans and receivables consists of:

	2016	2015	2014
Receivables from customers			
Consumption loans	**₱6,326,845,090**	₱5,273,970,259	₱4,294,068,021
Real estate loans	**3,149,014,794**	2,889,904,587	2,551,584,794
Personal loans	**838,015,354**	881,020,749	964,681,596
Commercial loans	**741,347,084**	868,764,738	937,409,641
Other receivables			
Sales contract receivables	**11,640,532**	15,998,131	21,821,269
Unquoted debt instruments	**–**	–	45,250,664
	₱11,066,862,854	₱9,929,658,464	₱8,814,815,985

Interest income accreted on impaired loans and receivables classified under real estate loans and commercial loans amounted to ₱71.7 million, ₱92.1 million and ₱83.5 million in 2016, 2015 and 2014, respectively.

Interest income from restructured loans amounted to ₱34.4 million, ₱54.7 million and ₱51.6 million in 2016, 2015 and 2014, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses, excluding Bills Purchased) as to secured and unsecured and as to type of security follows:

	2016	**%**	2015	%
Secured by:				
Chattel	**₱70,110,905,877**	**54.24**	₱60,270,969,989	51.87
Real estate	**29,237,515,082**	**22.62**	29,331,718,876	25.25
Deposit hold-out	**412,128,144**	**0.32**	407,292,132	0.35
Others	**9,526**	**0.00**	362,924,198	0.31
	99,760,558,629	**77.18**	90,372,905,195	77.78
Unsecured	**29,445,329,320**	**22.82**	25,810,263,183	22.22
	₱129,205,887,949	**100.00**	₱116,183,168,378	100.00

Details of NPLs follow:

	2016	2015
Secured	**₱3,367,352,853**	₱3,473,247,122
Unsecured	**1,163,757,704**	924,325,979
	₱4,531,110,557	₱4,397,573,101

Generally, NPLs refer to loans and receivables whose principal and/or interest is unpaid for thirty (30) days or more after due date if payable in lumpsum or after they have become past due in accordance with the following schedule, in which case, the total outstanding balance thereof shall be considered nonperforming:

Mode of Payment	Number of Installments in arrears
Monthly	Three (3)
Quarterly	One (1)
Semestral	One (1)
Annual	One (1)

Provided, however, that when the total amount of arrearages reaches twenty percent (20.00%) of the total outstanding balance of the loans and receivables, the total outstanding balance of the loans and receivables shall be considered as past due, regardless of the number of installments in arrears.

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

Restructured loans and receivables, which do not meet the requirements to be treated as performing receivables, shall also be considered as NPLs.

All items in litigation shall be considered non-performing.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2016	2015
Total NPLs	**₱4,531,110,557**	₱4,397,573,101
NPLs fully covered by allowance for credit losses	**1,011,362,190**	887,998,169
	₱3,519,748,367	₱3,509,574,932

Restructured loans as of December 31, 2016 and 2015 amounted to ₱186.80 million and ₱633.1 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱3.7 billion and ₱2.9 billion as of December 31, 2016 and 2015, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses, excluding Bills Purchased):

	2016	%	2015	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱75,920,078,811**	**58.76**	₱66,086,846,722	56.88
Real estate activities	**39,133,764,415**	**30.29**	36,427,655,502	31.35
Financial and insurance activities	**2,241,354,851**	**1.73**	1,417,527,128	1.22
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,008,807,243**	**1.55**	1,771,061,074	1.53
Electricity, gas, steam and air-conditioning supply	**1,555,364,752**	**1.20**	604,649,596	0.52
Information and communication	**1,510,721,131**	**1.17**	1,724,559,643	1.48
Administrative and support service activities	**1,168,225,729**	**0.90**	282,484,930	0.24
Transportation and storage	**706,406,196**	**0.55**	597,802,393	0.52
Manufacturing	**544,063,882**	**0.42**	825,239,428	0.71
Construction	**419,201,856**	**0.32**	361,917,981	0.31
Human health and social work activities	**351,327,898**	**0.27**	210,928,661	0.18
Accommodation and food service activities	**320,287,158**	**0.25**	273,351,355	0.24
Water supply, sewerage, waste management and remediation activities	**285,743,840**	**0.22**	289,898,077	0.25
Education	**201,105,384**	**0.16**	160,755,341	0.14
Professional, scientific and technical activities	**81,018,814**	**0.06**	152,992,226	0.13
Arts, entertainment and recreation	**36,956,995**	**0.03**	31,712,746	0.03
Agriculture, forestry and fishing	**19,554,970**	**0.02**	30,002,116	0.03
Mining and quarrying	**4,513,747**	**0.00**	2,834,326	0.00
Others	**2,697,390,277**	**2.10**	4,930,949,133	4.24
	₱129,205,887,949	**100.00**	₱116,183,168,378	100.00

Others relate to economic activities such as public administration and defense and extra-territorial organization and bodies.

10. Investment in a Joint Venture

Investment in a Joint Venture

The Bank owns 8,000,000 shares of SMFC (representing 40.00% ownership) accounted for as Investment in a Joint Venture. SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles. As of December 31, 2016 and 2015, the Bank's Investment in a Joint Venture amounted to ₱727.2 million and ₱690.3 million, respectively.

The following table illustrates the summarized financial information of SMFC (in thousands):

	2016	2015
Current assets	**₱2,481,689**	₱1,760,152
Non-current assets	**125,057**	119,572
Current liabilities	**(179,881)**	(132,042)
Non-current liabilities	**(608,924)**	(19,208)
Net assets	**₱1,817,941**	₱1,728,474

	2016	2015	2014
Revenues	**₱661,242**	₱449,887	₱378,392
Costs and expenses	**539,530**	379,678	324,730
	121,712	70,209	53,662
Provision for income tax	**35,687**	19,674	41,595
Net income	**86,025**	50,535	12,067
Other comprehensive income (loss)	**3,440**	3,783	(2,415)
Total comprehensive income	**₱89,465**	₱54,318	₱9,652

Movement in this account follows (in thousands):

	2016	2015
Acquisition cost	**₱800,000**	₱800,000
Accumulated equity in net losses		
Balance at beginning of year	**(109,666)**	(131,393)
Share in net income (Note 29)	**35,466**	20,214
Share in unrealized gain on remeasurement of retirement liability	**1,376**	1,513
	(72,824)	(109,666)
	₱727,176	₱690,334

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2016 and 2015. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Investment in an Associate
On August 29, 2014, the Bank sold its 25.00% interest in Toyota Financial Services Philippines Corporation (TFSPC) to GT Capital Holdings, Inc. for a total consideration of ₱1.3 billion. The gain on sale of the investment in TFSPC amounted to ₱558.7 million. The investment was previously recognized as an Investment in an Associate.

11. **Property and Equipment**

The composition of and movements in this account follow:

	2016				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,090,198,998**	**₱2,392,877,414**	**₱877,422,384**	**₱5,336,942,472**
Acquisitions	**–**	**35,590,621**	**247,293,337**	**36,146,475**	**319,030,433**
Disposals	**–**	**(708,977)**	**(40,933,064)**	**(3,143,015)**	**(44,785,056)**
Balance at end of year	**976,443,676**	**1,125,080,642**	**2,599,237,687**	**910,425,844**	**5,611,187,849**
Accumulated Depreciation					
Balance at beginning of year	**–**	**346,201,515**	**1,695,505,804**	**549,160,782**	**2,590,868,101**
Depreciation	**–**	**34,789,001**	**256,555,570**	**77,100,086**	**368,444,657**
Disposals	**–**	**–**	**(29,168,860)**	**(772,755)**	**(29,941,615)**
Reclassifications/transfer	**–**	**–**	**14,646,251**	**–**	**14,646,251**
Balance at end of year	**–**	**380,990,516**	**1,937,538,765**	**625,488,113**	**2,944,017,394**
Net Book Value	**₱976,443,676**	**₱744,090,126**	**₱661,698,922**	**₱284,937,731**	**₱2,667,170,455**

	2015				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,049,131,113	₱2,090,556,377	₱746,694,617	₱4,862,825,783
Acquisitions	–	41,067,885	464,942,845	133,478,491	639,489,221
Disposals	–	–	(162,621,808)	(2,750,724)	(165,372,532)
Balance at end of year	976,443,676	1,090,198,998	2,392,877,414	877,422,384	5,336,942,472
Accumulated Depreciation					
Balance at beginning of year	–	311,283,591	1,628,112,918	453,921,828	2,393,318,337
Depreciation	–	34,917,924	210,670,868	95,238,954	340,827,746
Disposals	–	–	(143,277,982)	–	(143,277,982)
Balance at end of year	–	346,201,515	1,695,505,804	549,160,782	2,590,868,101
Net Book Value	₱976,443,676	₱743,997,483	₱697,371,610	₱328,261,602	₱2,746,074,371

Gain on sale of property and equipment amounted to ₱2.6 million, ₱17.7 million and ₱45.0 million in 2016, 2015 and 2014, respectively.

The details of depreciation under the statements of income follow:

	2016	2015	2014
Property and equipment	**₱368,444,657**	₱340,827,746	₱334,530,351
Investment properties (Note 12)	**85,649,120**	73,873,201	68,816,313
Chattel mortgage properties (Note 14)	**103,554,973**	86,610,199	101,282,291
	₱557,648,750	₱501,311,146	₱504,628,955

As of December 31, 2016 and 2015, property and equipment of the Bank with gross carrying amounts of ₱1.4 billion and ₱1.2 billion, respectively, are fully depreciated but are still being used.

12. **Investment Properties**

The composition of and movements in this account follow:

	2016		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,572,972,787**	**₱2,327,005,675**	**₱3,899,978,462**
Additions (Note 32)	**409,768,437**	**715,620,863**	**1,125,389,300**
Disposals	**(244,193,848)**	**(299,716,449)**	**(543,910,297)**
Balance at end of year	**1,738,547,376**	**2,742,910,089**	**4,481,457,465**
Accumulated Depreciation			
Balance at beginning of year	**–**	**318,449,867**	**318,449,867**
Depreciation (Note 11)	**–**	**85,649,120**	**85,649,120**
Disposals	**–**	**(37,724,012)**	**(37,724,012)**
Balance at end of year	**–**	**366,374,975**	**366,374,975**
Allowance for Impairment Losses			
Balance at beginning of year	**181,407,122**	**55,967,060**	**237,374,182**
Provisions for the year (Note 15)	**–**	**16,000,000**	**16,000,000**
Balance at end of year	**181,407,122**	**71,967,060**	**253,374,182**
Net Book Value	**₱1,557,140,254**	**₱2,304,568,054**	**₱3,861,708,308**

	2015		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,488,847,086	₱2,030,831,281	₱3,519,678,367
Additions (Note 32)	331,524,271	592,319,299	923,843,570
Disposals	(247,398,570)	(296,144,905)	(543,543,475)
Balance at end of year	1,572,972,787	2,327,005,675	3,899,978,462
Accumulated Depreciation			
Balance at beginning of year	–	279,439,397	279,439,397
Depreciation (Note 11)	–	73,873,201	73,873,201
Disposals	–	(34,862,731)	(34,862,731)
Balance at end of year	–	318,449,867	318,449,867
Allowance for Impairment Losses			
Balance at beginning of year	181,203,062	125,967,060	307,170,122
Provisions (reversals) for the year (Note 15)	204,060	(70,000,000)	(69,795,940)
Balance at end of year	181,407,122	55,967,060	237,374,182
Net Book Value	₱1,391,565,665	₱1,952,588,748	₱3,344,154,413

The details of the net book value of investment properties follow:

	2016	2015
Real estate properties acquired in settlement of loans and receivables	**₱3,759,902,584**	₱3,238,509,775
Bank premises leased to third parties and held for capital appreciation	**101,805,724**	105,644,638
	₱3,861,708,308	₱3,344,154,413

As of December 31, 2016 and 2015, the aggregate fair value of investment properties amounted to ₱4.7 billion and ₱4.2 billion, respectively. Fair value of the properties was determined using Sales Comparison Approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱350.4 million, ₱258.7 million and ₱285.9 million in 2016, 2015 and 2014, respectively. The Bank realized gain on sale of investment properties amounting to ₱14.0 million and ₱12.9 million in 2016 and 2014, respectively, and a loss on sale amounting to ₱0.7 million in 2015.

Rental income on investment properties included in miscellaneous income amounted to ₱53.8 million, ₱53.0 million and ₱47.8 million in 2016, 2015 and 2014, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense) amounted to ₱18.8 million, ₱15.7 million and ₱11.9 million in 2016, 2015 and 2014, respectively.

13. Goodwill and Intangible Assets

This account consists of:

	2016	2015
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**414,483,793**	355,178,046
Branch licenses	**37,123,737**	35,723,737
	451,607,530	390,901,783
	₱505,165,868	₱444,460,121

The movements in intangible assets follow:

	2016		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱355,178,046**	**₱35,723,737**	**₱390,901,783**
Additions	**170,466,198**	**1,400,000**	**171,866,198**
Amortization	**(111,160,451)**	**–**	**(111,160,451)**
Balance at end of year	**₱414,483,793**	**₱37,123,737**	**₱451,607,530**

	2015		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱280,057,951	₱35,523,737	₱315,581,688
Additions	175,344,810	200,000	175,544,810
Amortization	(100,224,715)	–	(100,224,715)
Balance at end of year	₱355,178,046	₱35,723,737	₱390,901,783

14. **Other Assets**

This account consists of:

	2016	2015
Chattel mortgage properties - net	**₱607,096,135**	₱456,284,550
Prepayments	**186,996,554**	117,460,237
Security deposits (Note 29)	**178,330,923**	172,432,726
Documentary stamps on hand	**42,298,499**	64,101,457
Stationeries and supplies on hand	**25,762,082**	21,326,534
Sundry debits	**21,699,387**	35,469,127
RCOCI	**10,315,608**	19,560,606
Creditable withholding tax	**1,130,340**	1,744
Others	**4,453,528**	7,594,756
	₱1,078,083,056	₱894,231,737

Prepayments represent prepaid insurance, prepaid rent, prepaid taxes and other prepaid expenses.

The movements in chattel mortgage properties - net follow:

	2016	2015
Cost		
Balance at beginning of year	**₱526,167,582**	₱439,906,235
Additions (Note 32)	**1,925,310,853**	1,598,334,363
Disposals	**(1,767,679,312)**	(1,512,073,016)
Balance at the end of year	**683,799,123**	526,167,582
Accumulated Depreciation		
Balance at beginning of year	**69,266,942**	61,615,736
Depreciation (Note 11)	**103,554,973**	86,610,199
Disposals	**(96,735,017)**	(78,958,993)
Balance at the end of year	**76,086,898**	69,266,942
Allowance for Impairment Losses		
Balance at beginning and end of year (Note 15)	**616,090**	616,090
Net Book Value	**₱607,096,135**	₱456,284,550

Gain on foreclosure of chattel mortgage properties amounted to ₱458.4 million, ₱432.6 million and ₱392.5 million in 2016, 2015 and 2014, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱106.7 million, ₱54.9 million, and ₱75.7 million in 2016, 2015 and 2014, respectively.

15. **Allowance for Credit and Impairment Losses**

	2016					
	AFS Investments - Equity Securities					
	Quoted	**Unquoted**	**Loans and Receivables**	**Investment Properties**	**Other Assets**	**Total**
Balance at beginning of year	**₱610,000**	**₱1,578,665**	**₱4,625,202,276**	**₱237,374,182**	**₱616,090**	**₱4,865,381,213**
Provision for credit and impairment losses	**–**	**–**	**2,206,503,257**	**16,000,000**	**–**	**2,222,503,257**
Reversal of allowance on assets sold/settled	**–**	**–**	**(1,231,826,987)**	**–**	**–**	**(1,231,826,987)**
Accounts written off	**–**	**–**	**(837,145,324)**	**–**	**–**	**(837,145,324)**
Balance at end of year	**₱610,000**	**₱1,578,665**	**₱4,762,733,222**	**₱253,374,182**	**₱616,090**	**₱5,018,912,159**

	2015					
	AFS Investments - Equity Securities					
	Quoted	Unquoted	Loans and Receivables	Investment Properties	Other Assets	Total
Balance at beginning of year	₱610,000	₱1,578,665	₱4,683,082,577	₱307,170,122	₱616,090	₱4,993,057,454
Provision for (reversal of) credit and impairment losses	–	–	1,658,094,336	(69,795,940)	–	1,588,298,396
Reversal of allowance on assets sold/settled	–	–	(884,190,865)	–	–	(884,190,865)
Accounts written off	–	–	(831,783,772)	–	–	(831,783,772)
Balance at end of year	₱610,000	₱1,578,665	₱4,625,202,276	₱237,374,182	₱616,090	₱4,865,381,213

A reconciliation of the allowance for credit losses by class of loans and receivables is as follows (in thousands):

	2016								
	Receivables from Customers				**Other Receivables**				
	Consumption	**Real Estate**	**Commercial**	**Personal**	**Accrued Interest Receivable**	**Accounts Receivable**	**Sales Contract Receivable**	**Bills Purchased**	**Total**
Balance at beginning of year	**₱779,300**	**₱571,894**	**₱1,784,455**	**₱606,227**	**₱381,765**	**₱466,422**	**₱33,836**	**₱1,303**	**₱4,625,202**
Provisions for the year charged against profit or loss	**3,140,534**	**(66,395)**	**(903,159)**	**226,828**	**(191,391)**	**86**	**–**	**–**	**2,206,503**
Reversal of allowance	**(1,231,827)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,231,827)**
Amounts written off	**(638,304)**	**–**	**–**	**(167,045)**	**(31,748)**	**(48)**	**–**	**–**	**(837,145)**
Balance at end of year	**₱2,049,703**	**₱505,499**	**₱881,296**	**₱666,010**	**₱158,626**	**₱466,460**	**₱33,836**	**₱1,303**	**₱4,762,733**
Individual impairment	**₱–**	**₱459,093**	**₱105,041**	**₱–**	**₱100,007**	**₱184,652**	**₱–**	**₱–**	**₱848,793**
Collective impairment	**2,049,703**	**46,406**	**776,255**	**666,010**	**58,619**	**281,808**	**33,836**	**1,303**	**3,913,940**
	₱2,049,703	**₱505,499**	**₱881,296**	**₱666,010**	**₱158,626**	**₱466,460**	**₱33,836**	**₱1,303**	**₱4,762,733**
Gross amount of loans individually impaired, before deducting any individual impairment allowance	**₱–**	**₱1,047,721**	**₱172,246**	**₱–**	**₱100,007**	**₱184,652**	**₱–**	**₱–**	**₱1,504,626**

	2015								
	Receivables from Customers				Other Receivables				
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Bills Purchased	Total
Balance at beginning of year	₱824,166	₱652,675	₱1,683,458	₱649,822	₱371,436	₱466,387	₱33,836	₱1,303	₱4,683,083
Provisions for the year charged against profit or loss	1,359,877	(80,781)	115,434	226,805	36,670	89	–	–	1,658,094
Reversal of allowance	(884,191)	–	–	–	–	–	–	–	(884,191)
Amounts written off	(520,552)	–	(14,437)	(270,400)	(26,341)	(54)	–	–	(831,784)
Balance at end of year	₱779,300	₱571,894	₱1,784,455	₱606,227	₱381,765	₱466,422	₱33,836	₱1,303	₱4,625,202
Individual impairment	₱–	₱448,899	₱398,484	₱–	₱324,922	₱183,484	₱18,888	₱–	₱1,374,677
Collective impairment	779,300	122,995	1,385,971	606,227	56,843	282,938	14,948	1,303	3,250,525
	₱779,300	₱571,894	₱1,784,455	₱606,227	₱381,765	₱466,422	₱33,836	₱1,303	₱4,625,202
Gross amount of loans individually impaired, before deducting any individual impairment allowance	₱–	₱1,016,359	₱631,824	₱–	₱356,277	₱183,484	₱18,888	₱–	₱2,206,832

16. Deposit Liabilities

Interest expense on deposit liabilities consists of:

	2016	2015	2014
Time (Note 29)	**₱2,158,092,448**	₱1,964,893,142	₱1,941,865,601
Demand (Note 29)	**131,686,232**	107,321,034	90,918,211
Savings	**120,200,524**	98,527,236	82,848,973
	₱2,409,979,204	₱2,170,741,412	₱2,115,632,785

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 9.00% in 2016 and 0.25% to 10.50% in 2015 and 0.25% to 6.00% in 2014, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.01% to 2.13% in 2016, 0.13% to 6.00% in 2015 and 0.50% to 6.00% in 2014. Effective interest rate on deposit liabilities as of December 31, 2016, 2015, and 2014 ranges from 0.25% to 1.75%, 1.50% to 2.00%, and 1.69% to 2.32%, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to reserves equivalent to 8.00%. As of December 31, 2016 and 2015, the Bank is in compliance with such regulations. As of December 31, 2016 and 2015, Due from BSP amounting to ₱12.0 billion and ₱10.6 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP.

17. Bills Payable and Subordinated Notes

Bills Payable

This account consists of the following:

	2016	2015
Interbank borrowings	**₱2,237,400,000**	₱2,494,180,000
Securities sold under repurchase agreements (SSURA)	**3,856,396,533**	2,000,665,747
	₱6,093,796,533	₱4,494,845,747

Bills payable - SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 5 to 33 days. Details of securities pledged under Bills payable - SSURA as of December 31, 2016 and 2015 are as follows:

	December 31, 2016		
Collateral Pledge	**Face Value**	**Carrying Value**	**Fair Value**
HTM Investments (Note 8)	**₱3,247,163,480**	**₱4,740,757,004**	**₱4,686,900,717**

	December 31, 2015		
Collateral Pledge	Face Value	Carrying Value	Fair Value
AFS Investments (Note 8)	₱635,310,000	₱667,026,322	₱667,026,322
HTM Investments (Note 8)	1,411,800,000	1,761,558,382	1,679,627,872
	₱2,047,110,000	₱2,428,584,704	₱2,346,654,194

In 2016 and 2015, peso-denominated interbank borrowings of the Bank bear annual interest ranging from 2.50% to 2.56%. In 2016 and 2015, foreign currency-denominated interbank borrowings bear annual interest ranging from 0.88% to 1.94% and 0.55% to 1.25%, respectively. In 2016 and 2015, annual interest rate on dollar-denominated SSURA ranges from 0.25% to 1.65% and 0.50% to 1.25%, respectively.

Interest expense on bills payable in 2016, 2015 and 2014 amounted to ₱56.8 million, ₱7.4 million and ₱10.8 million, respectively.

Subordinated Notes

This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**2016**	2015
February 20, 2022	₱3,000,000,000	**₱2,999,264,700**	₱2,977,976,956
August 23, 2024	3,000,000,000	**2,976,467,410**	2,974,074,625
	₱6,000,000,000	**₱5,975,732,110**	₱5,952,051,581

Unamortized debt issuance costs on these notes amounted to ₱24.3 million and ₱48.0 million as of December 31, 2016 and 2015, respectively.

5.75%, ₱3.0 Billion Unsecured Subordinated Notes

On December 29, 2011, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due 2022 (the Notes) and issued them on February 20, 2012 with an interest rate of 5.75%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.75% per annum from and including February 20, 2012 but excluding February 20, 2022. The interest shall be payable quarterly in arrears at the end of each interest period on every 20th of May, August, November and February of each year, commencing on February 20, 2012 until the maturity date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Issuer and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem the Notes in whole and not only in part at a redemption price equal to 100.00% of the principal amount together with the accrued and unpaid interest upon at least thirty (30) days notice prior to call option date, which is the Banking Day immediately following the fifth anniversary of the issue date of the Notes or February 21, 2017.

e. The Bank may, but is not obliged to, redeem the Notes, in whole but not in part, at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Bank with the Regulations and prevailing requirements for the granting by the BSP of its consent therefore, including (i) the capital adequacy ratio of the Bank is well above the required minimum ratio after redemption; or (ii) the Note is simultaneously replaced, on or prior to the Call Option Date, with issues of new capital which is of the same or of better quality and is done under conditions which are sustainable for the income capacity of the Bank; and (iii) a 30 Banking Day prior written notice to the then Holder on record. Any tax due on interest income already earned by the Holders on the Notes shall be for the account of the Bank. Call Option Amount shall be based on the Issue Price of the Note plus accrued but unpaid interest thereon up to but excluding the Call Option Date.

On July 22, 2016, the Board of Directors approved the Bank’s option to call the Tier 2 Notes issued in 2012 on its fifth year anniversary or on February 21, 2017. The request of the Bank to exercise the same was approved by the Bangko Sentral ng Pilipinas on September 13, 2016. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2022.

The Bank sent a notice on the call option to its public trustee, Development Bank of the Philippines, with a copy to its registrar and paying agent Standard Chartered Bank on January 12, 2017. Each of the noteholders also received individual notices no less than 30 business days nor more than 45 days prior to the Call Option date. The Bank has likewise published the notice of Call Option in two newspapers of general circulation within Metro Manila for two consecutive weeks prior to February 21, 2017. The notice included the Call Option Date, Call Option Amount and the manner in which the call will be effected.

<u>5.50%, ₱3.0 Billion Unsecured Subordinated Notes</u>
On April 14, 2014, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due August 23, 2024 (the Notes) and issued them on May 23, 2014 with an interest rate of 5.50%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days prior notice to August 23, 2019, the Call Option Date. Interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Bank and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions set out in the "Terms and Conditions of the Notes - Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down", when the Bank or its parent company is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Bank or its parent company to continue business or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Bank in writing that it has determined that a: i) Write-Down of the Notes and other capital instruments of the Bank is necessary because, without such write-down, the Bank would become non-viable, ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Bank would become non-viable, or iii) write-down of the Notes and other capital instruments of the Bank is necessary, because, as a result of the closure of the Bank, the latter has become non-viable;

e. Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to regulations, the Bank shall have the option but not the obligation, upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: i) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with Regulations and prevailing requirements for the granting by the BSP of its consent, ii) prior to the stated maturity and on any Interest Payment Date at par plus accrued but unpaid interest thereon if or when payments or principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank or iii) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Bank of its option for early redemption, shall be for its own account. Call Option Amount shall be based on the principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.

As of December 31, 2016 and 2015, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

Interest expense incurred on these notes amounted to ₱361.8 million, ₱342.7 million and ₱276.6 million in 2016, 2015 and 2014, respectively, net of amortization of deferred financing cost amounting to ₱23.7 million, ₱5.2 million and ₱4.0 million, respectively.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2016	2015
Accrued interest payable	**₱209,657,954**	₱177,197,223
Accrued other taxes and licenses payable	**132,890,355**	126,385,574
Accrued other expenses payable (Note 29)	**851,268,063**	747,186,515
	₱1,193,816,372	₱1,050,769,312

Accrued other expenses payable consist of:

	2016	2015
Lease payable	**₱177,998,246**	₱167,910,397
Insurance	**153,566,866**	134,085,556
Litigation	**145,925,051**	83,377,539
Compensation and fringe benefits	**121,462,104**	174,112,455
Advertising	**82,806,040**	82,151,817
Information technology	**57,590,058**	31,944,862
Security, messengerial and janitorial	**54,428,863**	30,488,113
ATM maintenance	**11,967,068**	11,943,575
Professional and consultancy fees	**5,422,558**	6,959,596
Membership, fees & dues	**3,817,488**	3,674,352
Miscellaneous	**36,283,721**	20,538,253
	₱851,268,063	₱747,186,515

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for director's fees, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2016	2015
Accounts payable (Note 29)	**₱1,594,254,450**	₱1,406,429,684
Net retirement liability (Note 24)	**748,843,368**	799,831,823
Other credits	**592,403,220**	470,280,233
Sundry credits	**191,460,186**	51,096,902
Withholding taxes payable	**73,091,847**	60,869,894
Bills purchased - contra (Note 9)	**63,773,615**	52,633,449
Due to the Treasurer of the Philippines	**12,229,687**	12,848,886
SSS, Medicare, ECP and HDMF premium payable	**8,757,223**	8,409,984
Miscellaneous (Note 29)	**53,663,903**	143,140,014
	₱3,338,477,499	₱3,005,540,869

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱27.3 million and ₱58.2 million as of December 31, 2016 and 2015, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2016			2015		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,778,009**	**₱–**	**₱2,778,009**	₱3,934,497	₱–	₱3,934,497
Due from BSP	**13,986,785**	**–**	**13,986,785**	11,143,782	–	11,143,782
Due from other banks	**1,838,630**	**–**	**1,838,630**	1,861,110	–	1,861,110
Interbank loans receivable and SPURA	**3,254,312**	**–**	**3,254,312**	2,513,904	–	2,513,904
FVPL investments	**1,360,792**	**–**	**1,360,792**	2,821,437	–	2,821,437
AFS investments - gross (Note 8)	**39,805**	**13,078,197**	**13,118,002**	368,856	8,561,995	8,930,851
HTM investments	**329,768**	**22,827,119**	**23,156,887**	–	14,946,668	14,946,668
Loans and receivables - gross (Note 9)	**12,821,739**	**119,174,321**	**131,996,060**	12,685,194	105,978,003	118,663,197
Other assets - gross* (Note 14)	**36,475**	**153,479**	**189,954**	41,459	155,711	197,170
	36,446,315	**155,233,116**	**191,679,431**	35,370,239	129,642,377	165,012,616
Nonfinancial Assets						
Investment in a joint venture	**–**	**727,176**	**727,176**	–	690,334	690,334
Property and equipment - gross (Note 11)	**–**	**5,611,188**	**5,611,188**	–	5,336,942	5,336,942
Investment properties - gross (Note 12)	**–**	**4,481,457**	**4,481,457**	–	3,899,978	3,899,978
Deferred tax assets	**–**	**1,300,724**	**1,300,724**	–	1,194,417	1,194,417
Goodwill and intangible assets	**–**	**505,166**	**505,166**	–	444,461	444,461
Other assets - gross**	**281,033**	**683,799**	**964,832**	240,776	526,168	766,944
	281,033	**13,309,510**	**13,590,543**	240,776	12,092,300	12,333,076
Less:Allowance for credit and impairment losses (Note 15)			**5,018,912**			4,865,381
Accumulated depreciation (Notes 11, 12 and 14)			**3,386,479**			2,978,585
Unearned discounts (Note 9)			**11,480**			170,479
			8,416,871			8,014,445
	₱36,727,348	**₱168,542,626**	**₱196,853,103**	₱35,611,015	₱141,734,677	₱169,331,247

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2016			2015		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱141,892,398**	**₱16,494,921**	**₱158,387,319**	₱115,987,159	₱18,309,149	₱134,296,308
Bills payable	**6,093,797**	**–**	**6,093,797**	4,494,846	–	4,494,846
Subordinated notes	**2,999,265**	**2,976,467**	**5,975,732**	–	5,952,052	5,952,052
Derivatives at negative fair value	**65,317**	**–**	**65,317**	–	–	–
Treasurer's, cashier's and manager's checks	**1,760,506**	**–**	**1,760,506**	1,348,621	–	1,348,621
Accrued other expenses payable (Note 18)	**851,268**	**–**	**851,268**	747,187	–	747,187
Accrued interest payable (Note 18)	**209,658**	**–**	**209,658**	177,197	–	177,197
Other liabilities (Note 19)						
Accounts payable	**1,594,254**	**–**	**1,594,254**	1,406,430	–	1,406,430
Other credits	**592,403**	**–**	**592,403**	470,280	–	470,280
Bills purchased - contra	**63,774**	**–**	**63,774**	52,633	–	52,633
Due to the treasurer of the Philippines	**12,230**	**–**	**12,230**	12,849	–	12,849
Deposits for keys - SDB	**823**	**–**	**823**	849	–	849
Others*	**4,702**	**–**	**4,702**	8,033	–	8,033
	156,140,395	**19,471,388**	**175,611,783**	124,706,084	24,261,201	148,967,285

(Forward)

	December 31					
	2016			2015		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**₱132,890**	**₱–**	**₱132,890**	₱126,385	₱–	₱126,385
Income tax payable	**467**	**–**	**467**	8,055	–	8,055
Withholding taxes payable (Note 19)	**73,092**	**–**	**73,092**	60,870	–	60,870
Other liabilities (Note 19)**	**248,354**	**748,844**	**997,198**	193,765	799,832	993,597
	454,803	**748,844**	**1,203,647**	389,075	799,832	1,188,907
	₱156,595,198	**₱20,220,232**	**₱176,815,430**	₱125,095,159	₱25,061,033	₱150,156,192

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. **Equity**

Issued Capital

The Bank's capital stock consists of:

	2016		2015	
	Shares	**Amount**	Shares	Amount
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**	425,000,000	₱4,250,000,000
Issued and outstanding				
Balance at beginning and end of year (Note 28)	**240,252,491**	**₱2,402,524,910**	240,252,491	₱2,402,524,910

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2016 and 2015, the total number of stockholders is 1,507 and 1,532, respectively.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
January 24, 2014	0.75	₱180,189,368.3	February 12, 2014	March 5, 2014	March 20, 2014
April 28, 2014	0.75	180,189,368.3	June 6, 2014	July 1, 2014	July 16, 2014
July 22, 2014	0.75	180,189,368.3	August 12, 2014	September 2, 2014	September 17, 2014
October 30, 2014	0.75	180,189,368.3	November 27, 2014	January 12, 2015	January 30, 2015
January 22, 2015	0.75	180,189,368.3	March 3, 2015	March 30, 2015	April 17, 2015
April 28, 2015	0.75	180,189,368.3	June 5, 2015	July 14, 2015	July 28, 2015
July 28, 2015	0.75	180,189,368.3	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368.3	–	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368.3	–	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368.3	–	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368.3	–	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368.3	–	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368.3	–	February 10, 2017	February 24, 2017

On October 9, 2015, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB, otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

<u>Capital Management</u>
The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.
- On March 2, 2005, the Bank's BOD approved an amendment to the Bank's Dividend Policy which provides for an annual regular cash dividend of 6.00% of the par value of the total capital stock payable quarterly at the rate of 1.50% or ₱0.15 per share payable not later than March 31, June 30, September 30 and December 31 of each year.
- On February 29, 2012, the Bank's BOD approved a further amendment to the Bank's Dividend Policy to provide for an annual regular cash dividend of 30.00% of the par value of the total capital stock, payable quarterly at the rate of 7.50% or ₱0.75 per share payable not later than March 31, June 30, September 30 and December 31 of each year.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital. The Bank's unsecured subordinated debt is eligible as Lower Tier 2 capital until December 31, 2015.

Prior to January 1, 2014, the risk-based capital ratio is computed in accordance with BSP Circular No. 538 or Basel II.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2016	2015
Tier 1 capital	**₱18,768**	₱18,174
Tier 2 capital	**4,168**	6,962
Gross qualifying capital	**22,936**	25,136
Less required deductions	**3,281**	2,878
Total qualifying capital	**19,655**	22,258
Risk weighted assets	**₱139,738**	₱123,389
Tier 1 capital adequacy ratio	**11.08%**	12.40%
Capital adequacy ratio	**14.07%**	18.04%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, and cumulative translation adjustment. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred income tax (net of allowance for impairment, if any) and goodwill. In 2013, deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital in accordance with Basel II standards.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2016 and 2015, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538, respectively.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the parent company. Per BSP Circular 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2016	2015	2014
Return on average equity	**12.50%**	12.74%	13.64%
Return on average assets	**1.34%**	1.49%	1.68%
Net interest margin on average earning assets	**6.17%**	6.37%	6.58%
Liquidity ratio	**23.46%**	28.72%	46.83%
Debt-to-Equity ratio	**8.82:1**	7.83:1	7.21:1
Asset-to-Equity ratio	**9.82:1**	8.83:1	8.21:1
Interest rate coverage ratio	**1.94:1**	1.92:1	1.96:1

22. Net Service Fees and Commission Income

This account consists of:

	2016	2015	2014
Service Fees and Commission Income			
Credit-related fees and commissions	**₱731,435,587**	₱757,297,871	₱655,161,584
Deposit-related and other fees received	**473,979,270**	521,122,916	484,105,336
Trust fees	**20,600,300**	15,278,974	12,552,005
	1,226,015,157	1,293,699,761	1,151,818,925
Service Fees and Commission Expense			
Commissions	**83,156,492**	89,801,141	67,740,038
Brokerage	**6,511,459**	8,406,570	6,188,482
	89,667,951	98,207,711	73,928,520
Net Service Fees and Commission Income	**₱1,136,347,206**	₱1,195,492,050	₱1,077,890,405

23. Miscellaneous Income

This account consists of:

	2016	2015	2014
Recovery of charged-off assets	**₱296,241,762**	₱284,561,719	₱196,461,347
Insurance commission income	**63,948,168**	42,103,916	37,701,172
Rental income (Notes 12 and 25)	**55,505,274**	54,876,077	49,595,665
Others	**10,452,674**	133,871,739	59,809,434
	₱426,147,878	₱515,413,451	₱343,567,618

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

24. Retirement Benefits

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the Board of Directors of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2016.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2016	2015
Current service cost	**₱194,358,002**	₱174,313,825
Net interest cost	**40,071,574**	27,940,931
	₱234,429,576	₱202,254,756

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	2016											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2016	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2016
Present value of defined benefit obligation	₱1,990,815	₱194,358	₱97,314	₱291,672	(₱65,706)	₱–	₱69,380	₱–	(₱63,509)	₱5,871	₱–	₱2,222,652
Fair value of plan assets	(1,190,983)	–	(57,242)	(57,242)	65,706	94,601	–	–	–	94,601	(385,891)	(1,473,809)
Net defined benefit liability	₱799,832	₱194,358	₱40,072	₱234,430	₱–	₱94,601	₱69,380	₱–	(₱63,509)	₱100,472	(₱385,891)	₱748,843

	2015											
		Net benefit cost				Remeasurements in other comprehensive income						
	January 1, 2015	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2015
Present value of defined benefit obligation	₱1,668,195	₱174,314	₱75,623	₱249,937	(₱100,127)	₱–	₱324,949	₱338,199	(₱490,338)	₱172,810	₱–	₱1,990,815
Fair value of plan assets	(1,047,954)	–	(47,682)	(47,682)	100,127	54,343	–	–	–	54,343	(249,817)	(1,190,983)
Net defined benefit liability	₱620,241	₱174,314	₱27,941	₱202,255	₱–	₱54,343	₱324,949	₱338,199	(₱490,338)	₱227,153	(₱249,817)	₱799,832

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱359.8 million to its noncontributory defined benefit plan in 2017.

The fair values of plan assets by each class as at the statement of condition date are as follows:

	2016	2015
Cash and cash equivalents		
Special deposit account	**₱582,003,365**	₱357,000,000
Certificate of time deposit (Note 29)	**92,000,000**	179,830
Investment in other debt securities	**531,057,496**	92,758,900
Investment in equity securities	**223,986,236**	686,565,597
Unit Investment Trust Fund	**58,850,839**	47,007,039
Other assets	**5,833,021**	8,441,342
	1,493,730,957	1,191,952,708
Other liabilities	**19,922,568**	969,937
	₱1,473,808,389	₱1,190,982,771

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank (Note 29).

The principal actuarial assumptions used in determining retirement liability as of December 31, 2016 and 2015 are shown below:

	2016	2015
Discount rate	**5.31%**	5.01%
Turnover rate	**6.00%**	6.00%
Future salary increases	**5.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2016		December 31, 2015	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(190,815,355)**	+1.00%	(79,641,824)
	-1.00%	**221,306,014**	-1.00%	107,316,377
Turnover rate	**+1.00%**	**(20,387,630)**	+1.00%	(369,887,050)
	-1.00%	**20,980,032**	-1.00%	312,520,456
Future salary increase rate	**+1.00%**	**238,629,209**	+1.00%	160,232,267
	-1.00%	**(208,964,328)**	-1.00%	(77,058,424)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2016	2015
Less than one year	**₱146,739,063**	₱211,744,483
More than one year to five years	**660,937,425**	669,094,669
More than five years to 10 years	**1,364,613,210**	1,266,637,603
More than 10 years to 15 years	**2,014,243,913**	1,753,882,998
More than 15 years to 20 years	**1,954,212,513**	1,583,678,293
More than 20 years	**4,095,907,866**	3,347,210,983

The average duration of the expected benefit payments at the statement of condition date is 16.5 years.

25. Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱559.9 million, ₱521.8 million and ₱463.6 million in 2016, 2015 and 2014, respectively, are shown under ‘Occupancy and equipment-related costs’ in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2016	2015
Within one year	**₱370,406,271**	₱366,096,380
After one year but not more than five years	**1,152,216,591**	1,150,092,048
More than five years	**607,663,809**	775,249,542
	₱2,130,286,671	₱2,291,437,970

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2016 and 2015, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱53.8 million, ₱53.0 million, and ₱47.8 million in 2016, 2015 and 2014, respectively are shown under ‘Miscellaneous income’ in the statements of income.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2016	2015
Within one year	**₱48,424,870**	₱52,604,779
After one year but not more than five years	**40,876,011**	88,702,895
	₱89,300,881	₱141,307,674

26. Miscellaneous Expenses

This account consists of:

	2016	2015	2014
Insurance	**₱531,430,943**	₱477,751,230	₱410,805,829
Information technology	**342,296,763**	272,182,604	199,435,470
Litigation	**231,158,922**	275,455,140	187,421,071
Communications	**154,193,467**	159,129,969	168,180,967
Repairs and maintenance	**139,952,788**	159,398,625	187,608,093
Transportation and traveling	**115,592,190**	107,011,983	107,908,124
Advertising	**102,412,588**	64,934,029	153,730,772
Stationery and supplies	**58,283,090**	63,978,794	71,125,041
Supervision and examination fees	**49,247,092**	52,911,508	32,700,683

(Forward)

	2016	2015	2014
Management and professional fees	**₱23,062,585**	₱25,993,577	₱26,569,891
Fines, penalties and other charges	**18,411,698**	14,432,007	25,584,443
Training and seminars	**18,007,677**	9,332,858	8,578,641
Donations and charitable contributions	**10,920,000**	3,912,468	12,072,600
Banking activities expenses	**8,004,469**	9,472,020	10,374,008
Membership fees and dues	**5,816,084**	5,046,531	5,384,549
Meeting allowance	**4,074,588**	4,675,555	3,316,271
Entertainment, amusement and recreation (EAR) (Note 27)	**3,407,845**	3,563,703	2,621,330
Rewards and incentives	**3,181,297**	4,522,624	4,249,634
Others	**57,022,178**	29,049,206	28,916,736
	₱1,876,476,264	₱1,742,754,431	₱1,646,584,153

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱289.5 million, ₱245.2 million, and ₱233.8 million in 2016, 2015 and 2014, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also include payments to union members amounting to ₱10.6 million, ₱10.5 million and ₱9.9 million in 2016, 2015 and 2014, respectively, for the successful completion of the collective bargaining agreement.

27. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth (4th) taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2016 and 2015.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for (benefit from) income tax consists of:

	2016	2015	2014
Current:			
Final tax	**₱148,514,787**	₱158,241,185	₱218,057,871
RCIT	**147,364,626**	193,630,281	190,814,945
MCIT	**–**	–	75,447
	295,879,413	351,871,466	408,948,263
Deferred	**(76,166,179)**	(394,333,106)	(431,481,389)
	₱219,713,234	(₱42,461,640)	(₱22,533,126)

The Bank's FCDU paid MCIT in 2014.

Net deferred tax assets consist of:

	2016	2015
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,317,650,642**	₱1,228,774,665
Net pension liability	**224,653,010**	239,949,547
Accumulated depreciation on investment properties	**96,203,815**	82,977,957
Accrued rent	**53,399,474**	50,373,119
Unamortized pension cost contribution	**65,821,218**	16,246,916
	1,757,728,159	1,618,322,204
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(353,141,383)**	(305,617,162)
Accretion of interest on impaired loans	**(30,002,072)**	(100,705,110)
Unrealized foreign exchange gains	**(73,860,470)**	(17,583,382)
	(457,003,925)	(423,905,654)
	₱1,300,724,234	₱1,194,416,550

As of December 31, 2016 and 2015, the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱188.0 million and ₱230.8 million, respectively. Income tax effect recognized in OCI amounted to ₱30.1 million, ₱68.1 million and ₱57.3 million in 2016, 2015 and 2014, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2016	2015	2014
Statutory income tax	**₱801,167**	₱692,532	₱688,843
Tax effect of:			
Tax-paid and tax-exempt income	**(677,956)**	(540,388)	(731,727)
Nondeductible expenses	**336,301**	272,409	470,714
FCDU income	**(206,632)**	(19,132)	54,700
Others	**(33,167)**	(447,882)	(505,063)
Effective income tax	**₱219,713**	(₱42,461)	(₱22,533)

28. **Earnings Per Share**

The following table presents information used to calculate basic EPS:

	2016	2015	2014
a. Net income	**₱2,450,843,310**	₱2,350,900,100	₱2,318,676,615
b. Weighted average number of common shares for basic EPS (Note 21)	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱10.20**	₱9.79	₱9.65

As of December 31, 2016, 2015 and 2014, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank’s related parties are as follows:

- Bank’s Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP’s existing DOSRI rules and regulations;
- Close Family Members (i.e. 2nd degree relatives) of the Bank’s Directors, Officers with rank of SVP and up and Individual Substantial Stockholders;
- Bank’s Subsidiaries and Affiliates as defined per BSP’s existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank’s interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2016 and 2015 amounted to ₱1.5 billion and ₱1.2 billion, respectively. The details of the assets of the fund as of December 31, 2016 and 2015 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2016 and 2015:

		2016	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Investment in Money Market Fund*	**₱58,850,839**	
	Deposits in Bank	**3,365**	
	Gain on sale of equity securities		**₱246,455,484**
	Dividends earned		**6,901,211**
	Interest income		**7,309**
	Income from Unit Investment Trust Fund (UITF)		**1,179,402**
Sumisho Motor Finance Corporation	Equity investment	**200,000,000**	

*Includes fair value gains of ₱0.2 million

		2015	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Equity investment*	₱473,423,040	
	Investment in Money Market Fund**	43,444,701	
	Deposits in Bank***	361,235	
	Accrued interest income	30	
	Dividends earned		₱17,328,994
	Gain on sale of equity securities		1,801,791
	Interest income		38,363
	Income from UITF		739,108
Sumisho Motor Finance Corporation	Equity investment	200,000,000	

*Includes fair value gains of ₱263.0 million
**Includes fair value gains of ₱0.6 million
***Represent 17 days time deposits and bear interest of 1.00%

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

In 2016, the Trust Division, in behalf of the Retirement Fund, provided allowance for impairment losses amounting to ₱38.5 million to its equity investment.

Remunerations of Directors and Other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures.*

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	2016	2015
Short-term employee benefits	**₱250,805,503**	₱198,857,936
Post-employment pension benefits	**6,356,856**	19,320,109
	₱257,162,359	₱218,178,045

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱16.7 million, ₱16.9 million, and ₱16.3 million in 2016, 2015 and 2014, respectively.

The Bank also provides banking services to Directors and other key management personnel and persons connected to them.

Other Related Party Transactions
Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable		**₱–**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Deposits/placements	**₱26,450,000**		
Withdrawals/maturities	**26,450,000**		
Due from other banks	**418,071**	**1,452,777**	Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 5.00% secured by government securities amounting to ₱788,154
Accounts receivable	**216**	**6,849**	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets		**781**	Security deposits on lease contracts
Bills payable		**–**	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	**14,526,000**		
Withdrawals/maturities	**14,526,000**		
Miscellaneous liabilities		**6,242**	Advance payments of security deposits
Accrued other expense payable		**57,590**	Outstanding information technology expense payable, charges on current and savings accounts processing
AFS investments	**(479)**	**51,757**	Pledge for security of payroll account with MBTC
Interest income	**4,077**		Income on deposits and interbank loans receivables
Rental income	**24,775**		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**6,022**		Income received from ATM service fees, rental and utilities
Information technology expense	**263,263**		Payment of information technology expenses
Trading and security loss	**6,937**		Loss from securities transactions
Interest expense	**2,144**		Interest expense on bills payable

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2016		
Securities transactions			
Outright purchases	**₱6,374,152**		Outright purchase of FVPL, AFS and HTM investments
Outright sales	**2,611,040**		Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture		**₱727,176**	Capital investment in SMFC
Accounts receivable	**(38)**	**514**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**7,318**	**12,387**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities		**2,975**	Advance payment of security deposits
Rental income	**11,460**		Income from leasing agreements
Share in net income of a joint venture	**35,467**		40.00% share in net income of SMFC
Interest expense	**47**		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		**–**	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Deposits/placements	**11,800,000**		
Withdrawals/maturities	**11,800,000**		
Receivable from customers		**12,252**	Loans granted bear interest ranging from 7.00% to 19.14% with maturities ranging from 1 to 2 years; Secured - ₱12,252
Deposits/placements	**14,715**		
Withdrawals/maturities	**383,987**		
Miscellaneous assets		**1,390**	Three months advance security deposits
Accounts receivable	**621**	**2,454**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense		**8,600**	Payment for various policy renewals
Deposit liabilities	**2,494,936**	**6,686,381**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable		**900,000**	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	**10,630,000**		
Withdrawals/maturities	**9,730,000**		
Accrued other expense payable		**3,231**	Outstanding group life insurance payable
Accounts payable		**174**	Various personal and car insurance payable
Miscellaneous liabilities		**3,169**	Advance payment of security deposits from various tenants
Interest income	**1,251**		Income on receivables from customers and interbank loans receivables
Trading and securities gain	**2,590**		Gain from securities transactions
Rental income	**12,967**		Income from leasing agreements with various lease terms
Bank commission	**4,629**		Commission income on ATM service fees
Miscellaneous income	**1,020**		Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**53,946**		Payment of insurance premium
Interest expense	**179,408**		Interest on deposit liabilities and bills payable
Rent expense	**3,410**		Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**650,000**		Outright purchase of FVPL and AFS investments
Outright sales	**650,000**		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		**₱13,808**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	**₱2,528**		
Withdrawals/maturities	**559**		
Interest income	**814**		Interest income from loans

	December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable		₱–	Dollar and Peso-denominated lending with 1.75% and 2.5% fixed interest rates respectively, and maturities ranging from 1 to 360 days
Deposits/placements	₱19,929,460		
Withdrawals/maturities	21,315,780		
Due from other banks	219,599	1,034,706	Short-term peso and foreign currency-denominated deposits with fixed rates ranging from 0.00% to 5.00% secured by government securities amounting to ₱3,034,441
Accounts receivable		6,633	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Accrued interest receivable		–	Accrual of interest on outstanding Interbank Loans Receivable
Miscellaneous assets		781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of 2.50% and three-day maturity
Deposits/placements	1,000,000		
Withdrawals/maturities	1,000,000		
Miscellaneous liabilities		5,589	Advance payments of security deposits from various tenants
Accrued other expense payable		31,945	Outstanding information technology expense payable, charges on current and savings accounts processing
AFS investments		52,236	Pledge for security of payroll account with MBTC
Interest income	17,317		Income on deposits and interbank loans receivables
Rental income	23,640		Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	7,982		Income received from ATM service fees, rental and utility
Information technology expense	177,427		Payment of information technology expenses
Trading and security loss	(7,391)		Loss from securities transactions
Interest expense	139		Interest expense on bills payable
Securities transactions			
Outright purchases	12,942,638		Outright purchase of FVPL, AFS and HTM investments
Outright sales	8,384,374		Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture		690,334	Capital investment in SMFC
Accounts receivable		552	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	(74,459)	5,069	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities		2,610	Advance payment of security deposits
Rental income	11,412		Income from leasing agreements
Share in net income of a joint venture	20,214		40.00% share in net income of SMFC
Share in unrealized earnings of a joint venture	1,513		40.00% share in unrealized earnings from SMFC's retirement plan remeasurement
Interest expense	537		Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		–	Peso denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Deposits/placements	114,047,000		
Withdrawals/maturities	114,047,000		
Receivable from customers		381,524	Loans granted bearing an interest ranging from 7.00% to 19.14% with maturities ranging from 1 to 3 years; Secured - ₱372,183 Unsecured - ₱9,341 Impaired - ₱362,903
Deposits/placements	4,673		
Withdrawals/maturities	26,212		
Miscellaneous assets		1,061	Three months advance security deposits
Accounts receivable		1,833	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense		6,848	Payment for various policy renewals
Deposit liabilities	1,659,942	4,191,445	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accrued other expense payable		3,308	Outstanding group life insurance payable
Accounts payable		159	Various personal and car insurance payable
Miscellaneous liabilities		2,136	Advance payment of security deposits from various tenants
Interest income	56,394		Income on receivables from customers and interbank loans receivables
Trading and securities gain	771		Gain from securities transactions

(Forward)

	December 31, 2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Rental income	₱13,746		Income from leasing agreements with various lease terms
Bank commission	4,915		Commission income on ATM service fees
Miscellaneous income	5,735		Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	50,595		Payment of insurance premium
Interest expense	93,141		Interest on deposit liabilities
Rent expense	3,127		Payment of rent expense to various lessors
Securities transactions			
Outright purchases	1,987,501		Outright purchase of FVPL and AFS investments
Outright sales	1,942,500		Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		₱11,839	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Deposits/placements	1,899		
Withdrawals/maturities	1,750		
Interest income	669		Interest income from loans

Regulatory Reporting

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2016 and 2015, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31, 2016 and 2015:

	2016	2015
Total outstanding DOSRI accounts	**₱1,734,454,266**	₱1,667,247,339
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.34%**	1.43%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**12.63%**	12.97%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	22.88%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	22.88%

Total interest income from DOSRI loans amounted to ₱26.6 million, ₱44.7 million, ₱49.5 million in 2016, 2015 and 2014, respectively.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2016 and 2015, the Bank deposited government securities with face value of ₱50.0 million and ₱40.0 million in compliance with trust regulations, respectively (Note 8).

For 2016 and 2015, the Bank did not appropriate any surplus reserve resulting from the operations of the Bank's Trust Department since it is still in a net loss position. No part of such surplus reserve shall at any time be paid out in dividends, but losses accruing in the course of its trust business may be charged against surplus.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2016	2015
Trust department accounts (Note 30)	**₱3,991,172,047**	₱2,349,289,988
Stand-by credit lines	**83,660,385**	78,408,259
Late deposits/payments received	**62,929,377**	57,141,192
Spot foreign exchange contracts - sold	**49,720,000**	70,590,000
Items held for safekeeping	**695,408**	311,877
Others	**472,843**	143,111

Also, several suits and claims, in behalf or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. Notes to Statements of Cash flows

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2016	2015	2014
Additions to investment properties in settlement of loans (Note 12)	**₱1,125,389,300**	₱923,843,570	₱878,210,590
Additions to chattel mortgage in settlement of loans (Note 14)	**1,925,310,853**	1,598,334,363	1,286,282,783
Change in net unrealized gain/loss on AFS investments (Note 8)	**(386,460,000)**	9,922,633	4,310,948
Dividends declared and unpaid (Note 21)	**–**	–	176,889,908
Cumulative translation adjustment	**(42,860,727)**	1,401,659	(407,034)

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2016

Financial assets recognized at the end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria [d]**		**Net exposure [c-d] [e]**
				Financial instruments	**Fair value of financial collateral**	
Derivative Assets (Note 8)	**₱499,211**	**₱–**	**₱499,211**	**₱65,316,678**	**₱–**	**₱–**
Securities Purchased Under Resale Agreements (SPURA) (Note 7)	**3,254,311,599**	**–**	**3,254,311,599**	**–**	**4,686,900,717**	**–**

December 31, 2015

Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria [d]		Net exposure [c-d] [e]
				Financial instruments	Fair value of financial collateral	
SPURA (Note 7)	₱2,500,000,000	₱–	₱2,500,000,000	₱–	₱3,003,833,005	₱–

Financial liabilities

December 31, 2016						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
				[d]		
Derivative Liabilities	**₱65,316,678**	**₱–**	**₱65,316,678**	**₱499,211**	**₱–**	**₱64,817,467**
Securities Sold Under Repurchase Agreements* (SSURA) (Note 17)	**3,856,396,533**	**–**	**3,856,396,533**	**–**	**4,686,900,717**	**–**

** Included in 'Bills Payable' in the Statement of Condition*

December 31, 2015						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments	Fair value of financial collateral	Net exposure [c-d] [e]
				[d]		
SSURA* (Note 17)	₱2,000,665,747	₱–	₱2,000,665,747	₱–	₱2,346,654,194	₱–

** Included in 'Bills Payable' in the Statement of Condition*

34. Subsequent Events

Cash Dividend Declaration

On January 24, 2017, the BOD of the Bank declared a 7.50% regular cash dividend for the fourth quarter of 2016 amounting to ₱180.2 million or ₱0.75 per share.

Issuance of 3.8 Billion Peso-denominated Long Term Negotiable Certificate of Time Deposits (LTNCD)

On January 30, 2017, the Bank issued LTNCD with an aggregate principal amount of ₱3.4 billion due April 30, 2022, with fixed interest rate of 3.5% per annum.

Exercise of Call Option on its 5.75%, 3.0 Billion Unsecured Subordinated Notes

On February 21, 2017, the Bank exercised the call option for its ₱3.0 billion Tier 2 Notes issued in 2012. It has complied with its obligations under the Notes and has made full payment of the outstanding principal and interest.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed by the Audit Committee on February 15, 2017 and approved by the BOD in its meeting on February 23, 2017.

36. **Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010**

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2016, taxes and licenses of the Bank consist of:

Gross receipts tax	**₱555,023,903**
Documentary stamps tax	**423,355,647**
Local taxes	**73,245,988**
Fringe benefit tax	**6,809,406**
Others	**3,000**
	₱1,058,437,944

Withholding Taxes
Details of total remittances of withholding taxes in 2016 are as follows:

Withholding taxes on compensation and benefits	₱493,890,388
Final withholding taxes	353,973,573
Expanded withholding taxes	96,136,438
	₱944,000,399