PHILIPPINE SAVINGS BANK

(A banking corporation organized and existing under Philippine Laws)

₱5,084,500,000 5% Long Term Negotiable Certificates of Time Deposit Due 2024
Issue Price 100%

The ₱5,084,500,000 5% Long-Term Negotiable Certificates of Time Deposit Due 2024 (the “Series 2 LTNCTDs”) will be issued in an aggregate principal amount of ₱5,084,500,000 by Philippine Savings Bank (“PSBank” or the “Issuer”). The Series 2 LTNCTDs will bear fixed interest at the rate of 5% per annum from and including August 9, 2018 up to but excluding February 9, 2024. The interest of the Series 2 LTNCTDs for the entire term will be payable quarterly in arrears on November 9, February 9, May 9 and August 9 of each year, commencing on November 9, 2018.

The Series 2 LTNCTDs will mature on February 9, 2024 (the “Maturity Date”). Subject as set out below and in “Terms and Conditions of the Series 2 LTNCTDs”, the Series 2 LTNCTDs may be redeemed, in whole but not in part only, at the option of the Issuer on the Pre-Termination Date, at 100% of the face value (as defined in “Terms and Conditions of the LTNCTDs”) of the Series 2 LTNCTDs plus accrued and unpaid interest as of but excluding the Pre-Termination Date. In the event of the proper exercise of the Pre-Termination Option, the Issuer shall shoulder the taxes due, if any, on the interest income already earned by the CD Holders.

The Series 2 LTNCTDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer. The Series 2 LTNCTDs shall, at all times, rank pari passu and ratably without any preference or priority amongst themselves, and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws. See “Terms and conditions of the Series 2 LTNCTDs — Status and PDIC Insurance”.

See “Investment Considerations” beginning on page 10 for a discussion of certain factors to be considered in connection with an investment in the LTNCTDs.

The Series 2 LTNCTDs will be issued in scripless form and in minimum denominations of ₱50,000.00 and increments of ₱50,000.00 beyond ₱50,000.00, or such other minimum denomination as may be prescribed or approved by the BSP. The Series 2 LTNCTDs will be represented by a Master CD which will be deposited with the Registrar. It is intended that, upon issuance, the Series 2 LTNCTDs will be immobilized and lodged with the Registrar. A Registry Confirmation will be issued by the Registrar in favor of the holders of the Series 2 LTNCTDs in accordance with the regulations of the Bangko Sentral ng Pilipinas (“BSP”). Once lodged, the Series 2 LTNCTDs will be eligible for electronic book-entry transfers in the Registry Book without the issuance of other evidences of certificates, and any sale, transfer, or conveyance of the Series 2 LTNCTDs shall be coursed through an accredited exchange. The Series 2 LTNCTDs will be listed in the trading platform of the Philippine Dealing & Exchange Corp. (“PDEx”) for secondary market trading pursuant to the BSP rules. Upon listing of the Series 2 LTNCTDs in the PDEx, investors shall course their secondary market trades through the trading participants of the PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and shall settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

Joint Lead Arrangers and Selling Agents

Selling Agents

Final Offering Circular
August 9, 2018

The LTNCTDs will be issued pursuant to General Banking Law of 2000 (Rep. Act No. 8791), BSP Circular No. 304 (Series of 2001) on Guidelines Governing the Issuance of Long-Term Negotiable Certificates of Time Deposit With a Minimum Maturity of Five Years, BSP Circular No. 778 (Series of 2012) Amendments to the Qualification Requirements of Selling Agents and/or Market Makers of Long-Term Negotiable Certificates of Time Deposit and/or Unsecured Subordinated Debt; BSP Circular No. 810 (Series of 2013) on Amendments to the Guidelines Governing the Issuance of Long-Term Negotiable Certificate of Time Deposits, BSP Circular No. 824 (Series of 2014) on Amendment to the Regulations on Long-Term Negotiable Certificates of Time Deposits, BSP Circular No. 834 (Series of 2014) on Amendments to the Guidelines Governing the Issuance of Long-Term Negotiable Certificate of Time Deposits and Unsecured Subordinated Debt, BSP Circular No. 877 (Series of 2015) on Amendments to the Guidelines on the Issuance of Long-Term Negotiable Certificates of Time Deposits, Sections X233.9 of the Manual of Regulations for Banks ("MORB"), BSP Memorandum No. M-2014-034 (Series of 2014) on Availability of an Exchange for Long-Term Negotiable Certificates of Time Deposits, Monetary Board Resolution No. 1145 dated July 12, 2018 which authorized the Bank to issue up to ₱15.0 billion worth of long-term negotiable certificates of time deposit in two or more issuances (the "BSP Approval"), and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the LTNCTDs is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

No offer or invitation or solicitation shall be made or received, and no agreement shall be made, on the basis of this document, to purchase or subscribe for any of the LTNCTDs.

PSBank confirms that this document contains all information with respect to PSBank and its joint venture (collectively, the "Bank") and the LTNCTDs which is material in the context of the issue and offering of the LTNCTDs, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the LTNCTDs, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of LTNCTDs, including the merits and risks involved. By receiving this Offering Circular (the "Offering Circular"), you acknowledge that (i) you have not relied on either ING Bank N.V., Manila Branch ("ING") or Standard Chartered Bank ("SCB") (collectively the "Joint Lead Arrangers and Selling Agents") or any person affiliated with the Joint Lead Arrangers and Selling Agents in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank or the LTNCTDs other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Joint Lead Arrangers and Selling Agents.

ING, SCB and the Philippine Depository and Trust Corp. are third-parties in relation to PSBank and each is not (i) a subsidiary or affiliate of PSBank and (ii) not related in any manner to PSBank as would undermine its independence and ability to perform its obligations in relation to the issuance of the LTNCTDs.

To the fullest extent permitted by law, none of the Joint Lead Arrangers and Selling Agents accepts any responsibility for the contents of this Offering Circular or for any other statement, made or purported to be made by Joint Lead Arrangers and Selling Agents or on its behalf in connection with the Bank, or the issue and offering of the LTNCTDs. Each of the Joint Lead Arrangers and Selling Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Offering Circular or any such statement.

No representation or warranty, express or implied, is made by the Joint Lead Arrangers and Selling Agents as to the accuracy or completeness of the information contained in this Offering Circular. Neither the delivery of this Offering Circular nor the offer of LTNCTDs shall, under any circumstances, constitute a representation or create any implication that there has been no change in the affairs of the Bank since the date of this Offering Circular or that any information contained herein is correct as at any date subsequent to the date hereof.

None of the Bank, the Joint Lead Arrangers, Selling Agents or any of its respective affiliates or representatives is making any representation to any purchaser of LTNCTDs regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business or tax advice. You should be aware that you may be required to bear the financial risks of an investment in the LTNCTDs for an indefinite period. You should consult with your own advisers as to the legal, tax, business, financial and related aspects of a purchase of LTNCTDs.

The Joint Lead Arrangers and Selling Agents and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. In the ordinary course of their various business activities, the Joint Lead Arrangers and Selling Agents and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investments and securities activities may involve securities and instruments of the Issuer.

The Joint Lead Arrangers and Selling Agents and/or their affiliates may purchase LTNCTDs for their own account and enter into transactions, including credit derivatives, such as asset swaps, repackaging and credit default swaps relating to the LTNCTDs and/or other securities of the Issuer or its respective subsidiaries or associates at the same time as the offer and sale of the LTNCTDs, or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the LTNCTDs to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the LTNCTDs).

This document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make any such offer or solicitation. Each investor in the LTNCTDs must comply with all applicable laws and BSP rules in force in the jurisdiction in which it purchases or offers to purchase such LTNCTDs, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such LTNCTDs under the laws and BSP rules in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor any of the Joint Lead Arrangers and Selling Agents shall have any responsibility thereof. Interested investors should inform themselves as to the applicable legal requirements under the laws and BSP rules of the countries of their nationality, residence, or domicile and as to any relevant tax or foreign exchange control laws and BSP rules that may affect them. See “Distribution and Sale”.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “Philippines” are references to the Republic of the Philippines. All references to the “Government” herein are references to the Government of the Philippines. All references to “United States” or “U.S.” herein are to the United States of America. All references to “Peso” and “₱” herein are to the lawful currency of the Philippines and all references to “U.S. dollars” or “US$” herein are to the lawful currency of the United States.

FORWARD-LOOKING STATEMENTS

Certain statements in this Offering Circular constitute “forward-looking statements”, including statements regarding the Bank’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Bank’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Bank’s products and services, are forward-looking statements.

Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Bank’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Bank’s ability to successfully implement its business strategy, the condition of and changes in the Philippine, Asian or global economies, future levels of non-performing loans, the Bank’s growth and expansion, including whether the Bank succeeds in its business strategy, changes in interest rates and changes in government regulation and licensing of its businesses in the Philippines and in other jurisdictions where the Bank may operate, and competition in the banking and financial services industry. Additional factors that could cause the Bank’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Investment Considerations”.

Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Each of the Bank, the Joint Lead Arrangers and the Selling Agents expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. While the Bank has ensured that such information has been extracted accurately and is believed by the Bank to be reasonable and presented in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the correctness of the underlying economic assumptions relied upon therein.

For further information on the Bank, see "Description of the Bank".

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SUMMARY OF THE OFFERING

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified in its entirety by more detailed information and financial statements, including notes thereto, appearing elsewhere in this Offering Circular. For a discussion of certain matters that should be considered in evaluating an investment in the LTNCTDs, see "Investment Considerations." Investors are advised to read this entire Offering Circular carefully, including the Bank's financial statements and related notes contained herein.

Principal Products, Markets and Distribution

Philippine Savings Bank ("PSBank" or the "Bank" or the "Issuer") 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 March 31, 2018, it has 250 branches. The Bank's total assets stood at ₱225.08 billion, ₱223.32 billion and ₱196.85 billion as of March 31, 2018, December 31, 2017 and December 31, 2016, respectively. Its total equity were at ₱23.16 billion, ₱22.39 billion and ₱20.04 billion as of March 31, 2018, December 31, 2017 and December 31, 2016, respectively.

As of March 31, 2018, the Bank is 83%-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 ₱2.07 trillion and has an extensive distribution network of over 700 branches nationwide as of March 31, 2018.

Competitive Strengths

Majority owned by the Metrobank Group. PSBank is 83%-owned by the Metrobank Group, which is the second largest Philippine universal bank in terms of assets as of March 31, 2018 based on data disclosed to regulators. Metrobank is one of the leading expanded universal banks in the country with more than 900 local and international offices and subsidiaries. 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 ₱186.01 billion deposit liabilities as of March 31, 2018. Over the years, it has sought to develop products that address the needs of its target market.

Consistent customer service and training. PSBank emphasizes Customer Service which is considered a major part of all performance evaluation reviews for both front-line and back-end support personnel. In an industry where homogenous products and services are being offered, PSBank aims to set itself apart through a unique customer-driven experience.

Investments in Information Technology. PSBank has been investing in information technology for greater automation and integration of processes. This has resulted in improved efficiency through faster turn-around time for credit decisions, more uniform compliance with 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. It has a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Strategy

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 maintaining a strategic management discipline that focuses on the consumer market. It will continue to harness inherent synergies with Metrobank and, at the same time, differentiate itself through its unmatched service, speed, and quality. In line with its vision to be the bank of choice in providing exceptional customer experience at every encounter, 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 amid changing customer preferences and advancements in technology.

PSBank will continuously strengthen its branch network capabilities even as it develops other customer touchpoints and service channels. This will be complemented by the Bank's continued improvements in customer profiling with more robust use of data analytics. The objective is to stay ahead of the profitability curve and build a competitive advantage by having a focus on preferred target markets. This is supported by having a customer-centric culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors. The Bank continues to be fueled and inspired by its mission and mandate to deliver Simple Lang, Maasahan (Simple and Reliable) service at all times. See Description of the Bank — Strategy of the Bank.

Awards and Citations. PSBank has been consistently recognized for its efforts to provide differentiated customer experience. Among such awards include 2018 BSP Pagtugon Award, its third Pagtugon Award after receiving the same awards in 2016 and 2015, and Outstanding Thrift Bank Partner for BSP's Clean Note Policy Campaign. PSBank also emerged as the 2nd strongest bank in the Asian Banker's AB500 annual ranking 2016-2017 edition and the only savings bank that has consistently maintained a spot in the list of the top 10 strongest banks in the country for six consecutive years. It has likewise consistently garnered recognition for specific initiatives from Anvil and Philippine Quill Awards.

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. 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.

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:

Vicente R. Cuna, Jr. – Vice Chairman
Jose Vicente L. Alde – President

The Board of Directors, in its meeting held on April 23, 2018, passed a resolution declaring a 7.5% Regular Cash Dividend for the first 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 9 May 2018 and will be paid no later than the Payment Date of May 23, 2018.

Risks of Investing

Prospective investors should consider the current and immediate political and economic factors in the Philippines as a principal risk for investing. Political instability and threats to local and regional currencies may also influence the operations, growth, and profitability of the Bank. Of equal importance are the investment considerations regarding the Bank's operations. See *Investment Considerations*.

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 March 31, 2018 and for the three months ended March 31, 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 three months ended March 31 (unaudited)	
(In ₱)		**2015**	**2016**	**2017**	**2017**	**2018**
Interest Income		11,002,726,921	12,492,470,031	14,543,776,800	3,410,814,543	3,910,021,975
Interest Expense		2,520,780,655	2,828,547,914	3,464,677,418	764,273,286	988,291,621
Net Interest Income		8,481,946,266	9,663,922,117	11,079,099,382	2,646,541,257	2,921,730,354
Net Service Fees and Commission Income		1,195,492,050	1,136,347,206	1,375,774,149	334,027,604	362,162,902
Other Operating Income		1,124,094,654	1,678,559,898	1,434,248,690	228,826,056	381,740,395
Total Operating Income		10,801,532,970	12,478,829,221	13,889,122,221	3,209,394,917	3,665,633,651
Other Expenses		8,513,308,445	9,843,739,367	11,039,478,119	2,716,720,287	2,964,633,570
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	492,674,630	701,000,081
Share in Net Income of a Joint Venture		20,213,935	35,466,690	71,836,533	10,291,137	15,407,396
Income before Income Tax		2,308,438,460	2,670,556,544	2,921,480,635	502,965,767	716,407,477
Provision for (Benefit from) Income Tax		(42,461,640)	219,713,234	267,061,507	(8,146,620)	99,359,988
Net income		**2,350,900,100**	**2,450,843,310**	**2,654,419,128**	**511,112,387**	**617,047,489**

Statements of Condition

		As of December 31 (audited)			As of March 31 (unaudited)
(In ₱)		**2015**	**2016**	**2017**	**2018**
Assets					
Cash and Other Cash Items		3,934,496,578	2,778,009,185	2,596,872,801	2,931,620,739
Due from Bangko Sentral ng Pilipinas		11,143,781,766	13,986,784,696	15,265,387,772	13,896,747,045
Due from Other Banks		1,861,110,141	1,838,630,022	1,508,489,309	1,852,684,311
Interbank Loans Receivable and Securities Purchased Under Resale Agreements		2,513,904,112	3,254,311,599	1,842,023,049	-
Financial Assets at Fair Value through Profit or Loss		2,821,437,211	1,360,792,147	366,235,689	275,419,963
Available-for-Sale Investments		8,928,662,491	13,115,812,858	16,925,485,941	-
Financial Assets at Fair Value Through Other		-	-	-	13,197,343,611

		As of December 31 (audited)			As of March 31 (unaudited)
(In ₱)		**2015**	**2016**	**2017**	**2018**
Comprehensive Income					
Held-to-Maturity Investments		14,946,668,457	23,156,886,629	29,473,724,384	-
Hold-to-Collect Investments		-	-	-	34,818,261,550
Loans and Receivables		113,867,515,442	127,221,847,151	144,964,513,221	147,752,396,445
Investments in a Joint Venture		690,333,838	727,176,484	607,162,821	622,570,217
Property and Equipment		2,746,074,371	2,667,170,455	2,480,012,354	2,400,964,011
Investment Properties		3,344,154,413	3,861,708,308	3,930,317,479	3,937,870,841
Deferred Tax Assets		1,194,416,550	1,300,724,234	1,429,327,369	1,291,452,789
Goodwill and Intangible Assets		444,460,121	505,165,868	714,924,056	679,888,709
Other Assets		894,231,737	1,078,083,056	1,219,566,379	1,425,775,540
Total Assets		169,331,247,228	196,853,102,692	223,324,042,624	225,082,995,771
Liabilities					
Deposit Liabilities					
Demand		12,906,567,074	15,339,143,653	19,112,561,892	19,888,142,771
Savings		22,835,987,240	27,236,228,764	30,383,783,001	31,714,505,607
Time		98,553,753,813	115,811,946,185	136,042,056,714	131,034,402,923
Long-Term Negotiable Certificates of Deposits		-	-	3,375,000,000	3,375,000,000
		134,296,308,127	158,387,318,602	188,913,401,607	186,012,051,301
Bills Payable		4,494,845,747	6,093,796,533	1,492,418,518	5,949,549,592
Subordinated Notes		5,952,051,581	5,975,732,110	2,978,997,695	2,979,652,667
Treasurer's, Cashier's and Manager's Checks		1,348,621,410	1,760,505,822	2,213,869,703	1,840,704,454
Accrued Taxes, Interest and Other Expenses		1,050,769,312	1,193,816,372	1,658,423,304	1,606,610,933
Financial Liabilities at Fair Value Through Profit or Loss		-	65,316,678	-	38,612,818
Income Tax Payable		8,055,422	466,880	375,277	86,905,915
Other Liabilities		3,005,540,869	3,338,477,499	3,673,232,353	3,409,341,758
Total Liabilities		150,156,192,468	176,815,430,496	200,930,718,457	201,923,429,438
Equity					
Common Stock		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
Surplus Reserves		1,035,275,317	1,035,275,317	1,035,402,901	1,035,402,901
Surplus		13,433,426,596	15,163,512,433	17,097,046,504	17,887,816,347
Net Unrealized Gain (Loss) on Available-for-Sale Investments		179,775	(842,908,364)	(411,510,218)	-
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income		-	-	-	(438,137,648)
Remeasurement Losses on Retirement Plan		(471,371,011)	(541,701,193)	(545,392,541)	(545,392,541)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture		67,642	1,443,599	1,245,144	1,245,144
Cumulative Translation Adjustment		(43,131,975)	1,441,988	(4,076,039)	(1,976,286)
Total Equity		19,175,054,760	20,037,672,196	22,393,324,167	23,159,566,333
		169,331,247,228	**196,853,102,692**	**223,324,042,624**	**225,082,995,771**

Selected Financial Ratios

		As of December 31 (audited)			As of March 31 (unaudited)
(in % except for Earnings per Share)		**2015**	**2016**	**2017**	**2018**
Return on Average Assets (1)		1.49	1.34	1.26	1.10
Return on Average Equity (2)		12.74	12.50	12.51	10.84
Net Interest Margin on Average Earning Assets (3)		6.37	6.17	6.10	1.52
Tier 1 Capital Adequacy Ratio (4)		12.40	11.08	11.09	11.03
Capital Adequacy Ratio (5)		18.04	14.07	13.87	13.75
Basic/Diluted Earnings per share (₱) (6)		9.79	10.20	11.05	2.57

(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 March 31, 2018, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Source: PSBank

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition

As of March 31, 2018 (Unaudited) and December 31, 2017 (Audited)

The Bank's Total Assets as of March 31, 2018 stood at ₱225.08 billion, ₱1.76 billion higher than the December 2017 level of ₱223.32 billion. Loan and investment portfolios continued its upward momentum.

Loans and Receivables, net of allowance and unearned interest discounts, representing 65.64% of total assets stood at ₱147.75 billion as of March 31, 2018. This was ₱2.79 billion higher than the December 31, 2017 level of ₱144.96 billion. Consumption loans and Real Estate Loans improved to ₱87.97 billion and ₱46.99 billion, respectively.

As of December 31, 2017, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) amounted to ₱1.84 billion.

Due from Other Banks went up to ₱1.85 billion as of March 31, 2018 from ₱1.51 billion as of December 31, 2017 due to higher placements with local banks. Cash and Other Cash Items were also higher by 12.89% to ₱2.93 billion as of March 31, 2018. Meanwhile, Due from BSP decreased by 8.97% or ₱1.37 billion to ₱13.90 billion as of March 31, 2018 compared to ₱15.27 billion as of December 31, 2017.

As of March 31, 2018, Hold-to-Collect Investments representing 15.47% of total assets was recorded at ₱34.82 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 5.86% of total assets amounted to ₱13.20 billion as of March 31, 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 ₱275.42 million as of March 31, 2018 under PFRS 9.

These investment securities represent 21.45% of total assets as of March 31, 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 a Joint Venture increased by ₱15.41 million to ₱622.57 million from ₱607.16 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), which is 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%.

Property and Equipment decreased by 3.19% or ₱79.05 million to ₱2.40 billion as of March 31, 2018 from ₱2.48 billion as of December 31, 2017. On the other hand, Investment Properties slightly increased by 0.19% to ₱3.94 billion from ₱3.93 billion.

Deferred Tax Assets declined by ₱137.87 million to ₱1.29 billion as of March 31, 2018.

Goodwill and Intangible Assets including software costs and license fees decreased by 4.90% or ₱35.04 million to ₱679.89 million. Other Assets went up by 16.91% or ₱206.21 million to ₱1.43 billion on account of higher prepaid insurance and prepaid rentals.

The Bank's deposits representing 92.12% of total liabilities was lower by 1.54% or ₱2.90 billion to ₱186.01 billion from ₱188.91 billion posted in December 2017. Savings Deposits and Demand Deposits improved by 4.38% and 4.06%, respectively to ₱31.71 billion and ₱19.89 billion, respectively. Meanwhile, Time Deposits went down by 3.68% or ₱5.01 billion to ₱131.03 billion.

In January 2017, the Bank successfully issued Long Term Negotiable Certificate of Time Deposits (LTNCTD) with an aggregate principal amount of ₱3.4 billion due on April 30, 2022, with fixed interest rate of 3.5% per annum.

Subordinated Notes, net of debt issuance cost 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.

As of March 31, 2018, Bills payable representing interbank borrowing and Securities Sold under Repurchase Agreement (SSURA) amounted to ₱5.95 billion.

Treasurer's, Cashier's and Manager's Checks decreased to ₱1.84 billion from ₱2.21 billion last December 31, 2017. Income Tax Payable was at ₱86.91 million as of March 31, 2018 versus ₱0.38 million as of December 31, 2017. The amount includes accrual for current quarter and previous quarter's income tax liability which will be remitted to the BIR on or before April 15, 2018 and May 31, 2018. Also, Other Liabilities decreased to ₱3.41 billion from ₱3.67 billion due to lower Accounts Payable.

The Bank's Equity stood at ₱23.16 billion, 3.42% higher than the end-December 2017 level of ₱22.39 billion mainly due to the Net Income for the 1st quarter of 2018 and effect of the adoption of PFRS 9.

As of March 2018, Capital Adequacy Ratio (CAR) was at 13.75%. This is above the minimum regulatory requirement of 10%. The Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱1.98 million, 51.51% lower against December 2017 of ₱4.08 million.

B. Discussion of Results of Operations

For the three months ended March 31, 2018 (Unaudited) and March 31, 2017 (Unaudited)

For the three months ended March 31, 2018, the Bank recorded a Net Income after Tax of ₱617.05 million or 20.73% higher than the ₱511.11 million posted during the same period last year. The increase in net income was attributed to higher net interest income.

Total Interest Income for the three months ended March 31, 2018 increased by 14.64% or ₱499.21 million better than the ₱3.41 billion recorded during the same period last year.

Interest income on Loans and Receivables was 14.72% higher at ₱3.40 billion from ₱2.96 billion. Interest earned from Investment Securities increased to ₱501.07 million or 19.44% better than ₱419.52 million in 2017. Interest income from other banks was up by 60.59% to ₱1.03 million. On the other hand, Interest income on Interbank Loans Receivable and SPURA slid to ₱6.40 million from ₱19.92 million. Likewise, Interest earned from deposits with BSP decreased by 79.47% to ₱1.38 million.

Interest Expense on the Bank's deposit liabilities increased by 36.64% to ₱929.53 million with overall rise in total deposits by 9.25% as of March 31, 2018 versus March 31, 2017. On the other hand, Interest Expense on Subordinated Notes decreased to ₱41.90 million from ₱65.22 million due to the redemption of the Bank's ₱3.0 billion Tier 2 notes issued in 2012 last February 2017.

The Bank recorded ₱16.85 million in Interest Expense on Bills Payable for the three months ended March 31, 2018.

For the three months ended March 31, 2018, Net interest Income improved to ₱2.92 billion from ₱2.65 billion during the same period last year.

Net Service Fees and Commission Income increased to ₱362.16 million, 8.42% higher than ₱334.03 million a year ago.

Meanwhile, Other Operating Income increased by 66.83% or ₱152.91 million to ₱ 381.74 million due to lower trading loss recorded this quarter. The Bank reflected an ₱80.05 million trading loss versus ₱97.45 million loss in 2017 or a decrease of ₱17.40 million.

The Bank registered a net gain on foreclosure and sale of chattel mortgage amounting to ₱147.18 million from ₱105.51 million in 2017. For the three months ended March 31, 2018, the Bank posted a ₱81.50 million gains on foreclosure and sale of investment properties versus ₱63.94 million a year-ago. Miscellaneous Income also went up by ₱60.51 million to ₱205.83 million.

Meanwhile, Foreign Exchange gain was posted at ₱27.28 million compared to the FX gain of ₱11.51 million recorded a year ago.

Other Operating Expenses, excluding provision for impairment, was higher by 9.78% to ₱2.30 billion for the three months ended March 31, 2018 from ₱2.10 billion for the three months ended March 31, 2017. Taxes and Licenses increased by ₱91.29 million or 27.12% to ₱427.96 million from ₱336.67 million. Amortization of intangible assets was recorded at ₱44.18 million. Meanwhile, Depreciation of Bank's property and leasehold improvements decreased from ₱161.60 million to ₱160.22 million. Compensation and Fringe Benefits amounted to ₱821.21 million for the three months ended March 31, 2018 compared to ₱748.43 million for the three months ended March 31, 2017. On the other hand, Security, messengerial and janitorial services was at ₱137.95 million. Miscellaneous Expenses was registered at ₱520.11 million versus ₱526.48 million during the same period last year.

For the three months ended March 31, 2018, the Bank recognized ₱662.72 million provisions for credit losses.

For the three months ended March 31, 2018, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱15.41 million from ₱10.29 million during the same period last year.

March 2018 vs. March 2017 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) in March 31, 2018 increased to 10.84% from 10.05% 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 average of the outstanding balances of shareholders' equity at the beginning and ending of the period.

2. Return on Average Assets (ROAA) rose to 1.10% from 1.02% in March 2017. ROAA is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of total assets at the beginning and ending of the period.

3. Net Interest Margin on Average Earning Assets (NIM) was 1.52% for the comparative periods. NIM is calculated by dividing the net interest income by the average earning assets. Average interest-earning assets is based on outstanding balances at the beginning and ending 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. Earnings per Share (EPS) was higher at ₱2.57 as of March 31, 2018 compared to the ₱2.13 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 13.75% in March 2018 versus 14.00% in March 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 higher at 18.99% in March 2018 from 16.55% 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) was lower at 8.72:1 as of March 31, 2018 from 8.95:1 in March 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) decreased to 9.72:1 as of March 31, 2018 from 9.95:1 as of March 31, 2017. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down to 1.73:1 this year from 1.66:1 in March 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.

INVESTMENT CONSIDERATIONS

An investment in the LTNCTDs involves a number of investment considerations. You should carefully consider all the information contained in this Offering Circular including the investment considerations described below, before any decision is made to invest in the LTNCTDs. The Bank's business, financial condition and results of operations could be adversely affected materially by any of these investment considerations. The market price of the LTNCTDs could decline due to any one of these risks, and all or part of an investment in the LTNCTDs could be lost.

Considerations Relating to the Bank

Significant Shareholding by Metrobank

As of March 31, 2018, a significant portion of the equity of the Bank, or 83%, is owned by Metrobank. The next largest shareholder is the Dolor Family, which owns 8.42% of the Bank. There is no assurance that the interests of Metrobank will necessarily coincide with the interests of the Holders.

Concentration of Loan Portfolio

As of March 31, 2018, the Bank's top 10 largest exposures account for 3.68% of the Bank's gross loan portfolio. There can be no assurance that these exposures would continue to perform their obligations to the Bank.

As of March 31, 2018, 92.85% or ₱138.48 billion of the Bank's gross loan portfolio is concentrated in three major economic activities. These include activities of households as employers and undifferentiated goods-and-services producing activities of households for own use at ₱93.08 billion or 62.40%; real estate activities at ₱42.05 billion or 28.19%, and other service activities at ₱3.35 billion or 2.25%.

The Bank has significant exposure to the Philippine real estate market as well as the level of real estate it holds as collateral. As March 31, 2018, loans secured by real estate collateral accounted for 26.20% of the Bank's total secured loans to customers. 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, remittances from OFWs and political and economic developments. Accordingly, an extended downturn in the Philippine real estate sector could increase the level of the Bank's NPLs and related provisions for impairment loan losses, reduce the Bank's net income and consequently materially and adversely affect the Bank's business, financial condition and results of operations.

High Level of Regulation

The Bank, being subject to the supervision and regulation of the BSP, is periodically audited by the BSP through the appropriate Supervision and Examination Sector for compliance with banking rules and regulations. While the Bank believes that as of March 31, 2018, it is fully compliant with all applicable rules and regulations and has effectively and efficiently implemented all corrective actions required, if any, to the satisfaction of the BSP, there can be no assurance that the Bank will at all times be compliant or that the BSP will find the operations or corrective measures taken by the Bank to be proper, acceptable or sufficient. In such cases, the Bank could be reprimanded, fined, or in extreme cases, have its banking license revoked, but at all times after due notice and hearing.

Level of Non-Performing Loans

As of March 31, 2018, the Bank's net NPL ratio was at 2.16% per published BSP report. Through the implementation of stringent credit policies, the Bank expects its NPLs to further taper off. Ongoing volatile economic conditions in the Philippines may adversely affect the ability of the Bank's borrowers to service their indebtedness and as a consequence the Bank may experience an increase in NPLs and provisions for probable losses. Although the Bank monitors closely current and future credit risk exposures, no assurance can be given that the amount of NPLs will not increase and will not have a material effect on the Bank's capital adequacy ratio, its operations, and financial condition.

Secured Loans

As of December 31, 2016, 2017, and March 31, 2018, the Bank's secured loans represented 77.21%, 79.37%, and 80.46% of the Bank's total loans, and 29.31%, 26.92%, and 26.20% of the secured loans are secured by real estate. There can be no assurance that the collateral securing any particular loan will protect the Bank from suffering a partial or complete loss if the loan becomes non-performing. The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realized value of the collateral would be adequate to cover the Bank's loans. In addition, some of the valuations in respect of the Bank's collateral may also be out-of-date or may not accurately reflect the value of the collateral. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that its provision for credit losses may be inadequate and the Bank may need to increase such provision. Any increase in the Bank's provisions for credit losses could materially and adversely affect the Bank's business, financial condition and results of operations.

Furthermore, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee due, in part, to difficulties and delays involved in enforcing such obligations through the Philippine legal system.

Unsecured Loans

As of March 31, 2018, 19.54% of the Bank's lending portfolio was unsecured. Unsecured loans, which primarily consist of personal loans, loans to top tier corporates, and credit cards (booked under Metrobank Card Corp), entail a higher degree of credit risk than loans secured by collateral. Any increase in the level of NPLs with unsecured obligations could materially and adversely affect the Bank's business, results of operations and financial condition.

Consumer Debt Concentration

The Bank plans to continue to expand its consumer loan operations, composed of auto loans, home loans and personal loans. Such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's consumer portfolios. A rise in unemployment or an increase in interest rates, among others, could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

Implementation of 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.

In addition, new business endeavors may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise. The Bank's success in implementing new strategies also 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. The loss of some of the Group's key management, senior executives or an inability to attract or retain other key individuals could hinder the Group's implementation of its strategies. The

Bank's inability to implement its business strategy could materially and adversely affect the Bank's business, financial condition and results of operations.

Credit Risk

Credit risk is the risk that obligations will not be repaid on time and in full as contracted, resulting in a financial loss. It is the broadest category of risk in the Bank and is closely linked with other risk categories. Exposure to credit risk arises primarily from its lending activities and monitored and managed vis-à-vis Board-approved credit risk thresholds.

Market Risk

Market risk is the risk that the Bank's earnings decline, either immediately or over time, as a result of a change in market factors. The level of market risk to which the Bank is exposed varies continually as a result of changing market conditions as well as the composition of the Bank's trading and non-trading portfolios.

Trading portfolio profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss and Value-at-Risk (VaR) limits. Interest rate structure is managed within the desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This risk is a function of internal controls, information systems, employee integrity and operating processes. Operations risk has a very broad category that encompasses any risk not categorized as market or credit risk.

The Bank's operations are centralized in its Head Office in Makati. Although this is intended to promote efficiency, this set-up could also be a source of operational risk. The Bank mitigates this risk through its Business Continuity Program ("BCP") and Disaster Recovery Program to ensure operational effectiveness in case of business disruptions, system failures and disasters. The Bank's heavy reliance on technology for its operations also presents operational risks. The Bank identifies and quantifies technology-associated risks to the greatest extent possible, and institutes standards and controls as appropriate.

Liquidity Risk

Liquidity Risk relates to the Bank's ability to generate sufficient cash or equivalents from internal or external sources, in a timely and cost-effective manner, to meet its commitments as they fall due. Mismanagement of liquidity will have quicker and more severe repercussions than errors in managing other risks. 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.

Reputational Risk

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidences may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flow through their systems. Any occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial position, results of operations and prospects. In addition, failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. Although the Bank has in place certain internal procedures to prevent and detect fraudulent activities, such as a code of conduct, daily trading limits and compliance monitoring, these may be insufficient to prevent such occurrences from transpiring. There can be no assurance that the Bank will be able to avoid incidents of fraud that could materially and adversely affect the Bank's business, financial condition or results of operations.

Considerations 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, in some instances, competitors that have greater financial and other capital resources, greater market share and greater brand name recognition than the Bank. The banking industry in the Philippines is a mature market that has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations with the passage of RA10641 in July 2014. RA10641 lifted restrictions that previously barred the full entry and operation of foreign banks in the country. Since the enactment of RA10641, several foreign banks have obtained approvals from the BSP to venture into the Philippines banking, in entry modes including setting up branches, subsidiaries and acquisition of equity stake in domestic banks. In addition, the establishment of ASEAN economic integration which envisions providing a platform for ASEAN banks to enjoy greater market access and operational flexibility.

There were a total of 53 thrift banks operating in the Philippines as of March 31, 2018, according to the BSP.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products than the Bank and having larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on July 15, 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 permitting large foreign banks to set up their own branches in the country or expand their branch network through acquiring domestic banks;
- 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.

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 crossborder 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 March 31, 2018, according to the data from the BSP, there are a total of 43 domestic and foreign universal and commercial banks operating in the Philippines.

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 increase the size of its loan portfolios and deposit bases and may cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, ability to pass on increased costs of funding, results of operations and financial position.

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 December 31, 2017, past due ratios in the Philippine banking system was at 1.98% while it was 5.14% for the thrift banking system.

Further, the NPL coverage ratio in the Philippine banking system and thrift banking system reached 120.44% and 50.73% respectively as of December 31, 2017, maintaining adequate provision to cover the entire NPL portfolio. 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 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.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in 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:

(1) The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
(2) The vulnerability of the Philippine economy in general to a severe global downturn due to the dependence of the Philippine economy in general on remittances and exports for economic growth;
(3) The large foreign debt of the government and corporate sector, relative to the gross domestic product of the Philippines; and
(4) The volatility of interest rates and USD/₱ 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 net NPL ratios in the Philippine banking industry were 0.64%, 0.57%, and 0.77% as at the years ended December 31, 2015, 2016 and 2017, respectively. On the other hand, net NPL ratios of the Philippine thrift banking sector were 2.13%, 2.23%, and 2.88% as at the years ended December 31, 2015, 2016 and 2017, respectively.

Philippine banks in general have exposure to the Philippine property market through holdings of real and other properties acquired.

As with other banks in the Philippines, the Bank has exposure to the Philippine property market due to the level of its real and other properties acquired ("ROPA") holdings. The Bank's ROPA (net of allowances for impairment and accumulated depreciation) amounted to ₱2.99 billion as of March 31, 2018, or 1.34% of the Bank's total assets. The Philippine property market is highly cyclical, and property prices in general have been volatile through the past decade, though an uptrend has been observed toward the end of 2015 owing in part to recent domestic economic and political developments. Property 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 and political and economic developments.

There can be no assurance that an extended downturn in the property market will not occur, resulting in a significant decline in property values. Thus, there can be no assurance that the Bank will be able to recover all or most of the originally anticipated value of its ROPA in an eventual sale. Furthermore, the Bank is required under PFRS to recognize impairment losses on all ROPA, by reference to the difference between the carrying amount and the fair value less cost to sell. Accordingly, any extended downturn in the Philippine property sector could increase the level of the Bank's recognized impairment losses, reduce the Bank's net income and consequently adversely affect the Bank's business, financial condition and results of operations generally.

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

On January 15, 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 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 on 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 ratio of 7.5%; and
    - a 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 "systematically important", it may be required to hold additional capital reserves;
- removing existing limits on eligible Tier 1 and total Tier 2 capital;
- 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 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 ("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. Identified DSIBs will need to put up an additional 1.5 – 3.5% common equity Tier 1 depending on their classification. Compliance with this requirement shall be phased-in starting January 1, 2017, with full compliance on January 1, 2019.

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"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90 percent which will then be increased to 100% beginning 1 January 2019. During the observation period prior to 1 January 2018, banks are required to submit quarterly LCR reports for monitoring purposes. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. This is being finalized and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

These may result in an increase in the capital adequacy requirement of the Bank. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of ICAAP and Basel III, may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favorable to it. 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 of the BSP (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 December 31, 2017, according to the BSP and under the Revised Basel III standards (Memorandum No. M-2013-056), the universal and commercial banking industry's CAR was 14.98% on a consolidated basis and 14.37% on a non-consolidated basis. As reported to the BSP, PSBank's CAR was 13.87% as of December 31, 2017 and 13.75% as of March 31, 2018.

The Metrobank Group has been identified as a Domestic Systematically Important Bank (D-SIB) by the BSP and is required to maintain a Higher Loss Absorbency Ratio (HLA) of 2.5% CET1 Ratio. Based on the Bank's ICAAP submission, the Bank was compliant and had been ready for implementation since start of 2017.

In addition, the BSP issued 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 bank's 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.

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.

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 interests are regulated and supervised principally by, and have reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other BSP rules and laws in effect in the Philippines, administered by agencies such as the Bureau of Internal Revenue of the Philippines (the "BIR") and the Anti-Money Laundering Council ("AMLC"), as well as international bodies such as the Financial Action Task Force ("FATF").

In recent years, existing BSP and BIR rules have been modified, new guidelines and rules have been enacted and reforms have been implemented by the BSP and the BIR 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, and BSP rules governing the capital adequacy of banks in the Philippines. Institutions that are subject to the AMLA are 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 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.

In June 2016, the BSP implemented the Interest Rate Corridor (IRC) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the Special Deposit Account (SDA) prior to the IRC, is now replaced by the Overnight Deposit Facility (ODF) whose rate remains at 2.5%, and forms the lower bound of the IRC. Meanwhile, the rate for the Overnight Lending Facility (OLF) has replaced the Repurchase Facility (RP). The rate for the OLF, which forms the upper bound of the IRC, is now down to 3.5% from 6.0% under the RP. 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 last September 9, 2014 with regard to the lumping into a single amount.

Further, there is no assurance that the BSP or other Philippine regulators will not issue stricter regulations as a result of events affecting the financial institutions in the Philippines. 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 BSP rules and guidelines issued by other regulatory authorities in the Philippines could have a material adverse effect on the Bank’s business, financial condition and results of operations.

The local banking industry faces higher credit risks and greater market volatility than that of other developed markets.

Philippine banks are subject to the credit risk that borrowers may not make timely payments 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 those of borrowers in more developed countries due to the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment, the large foreign debt of the Government and corporate sectors relative to the gross domestic product of the Philippines, and the greater volatility of interest rates and Peso/U.S. dollar 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. Such losses and higher capital costs arising from this higher credit risk could materially and adversely affect the Bank’s business, financial condition and results of operations. According to data from the BSP, the average gross NPL ratios in the Philippine banking industry were 2.09%, 1.89% and 1.73% as at the years ended December 31, 2015, 2016 and 2017, respectively. For the same comparative years, the thrift banking industry's average gross NPL rations were 4.51%, 4.71%, and 4.70%, respectively.

The Bank’s ability to assess, monitor and manage risks inherent in its business is limited by the quality and timeliness of available data.

The Bank is exposed to a variety of risks including credit, market, foreign exchange and operational risks. The effectiveness of the Bank’s risk management, in particular its credit 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. Limitations in the Bank’s risk management systems may result in the Bank granting loans or taking positions that expose the Bank to significant credit risks or otherwise result in the Bank being over exposed to interest rate, liquidity, foreign exchange rate and other risks.

The Bank’s provisioning policies in respect of classified loans require significant subjective determinations, which may increase the variation of application of such policies.

BSP regulations require that Philippine banks, including the Bank, classify NPLs based on four different categories corresponding to levels of risk: Loans Especially Mentioned, Substandard, Doubtful and Loss. Generally, classification depends on a combination of a number of qualitative as well as quantitative factors such as the number of months payment is in arrears, the type of loan, the terms of the loan and the level of collateral coverage. These requirements have in the past, and may in the future, be subject to change by the BSP. Periodic examination by the BSP of these classifications may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk.

The level of provisions currently recognized by the Bank in respect of their 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 their 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 increases in the amount of their NPLs, or 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. For instance, certain accounting standards have been adopted in the Philippines based on International Accounting Standards, which currently require the Bank's loan loss provisions to reflect the net present value of the cash flows of the loan and underlying collateral.

Furthermore, the introduction of new accounting standards may result in the Bank recognising significantly higher provisions for loan loss in the future. While the Bank believes its current level of provisions and collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for higher levels of provisions in the future.

Considerations Relating to the Philippines

Substantially all of the Bank's business activities are conducted in the Philippines and substantially all of its assets are located in the Philippines, which exposes the Bank to risks associated with the Philippines, including the performance of the Philippine economy.

The Bank is highly dependent on the state of the Philippine economy since demand for banking services is 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. 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;
- foreign exchange controls;
- inflation or increase in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal policies;
- Government budget deficits;
- a re-emergence of SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease 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.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition or results of operations.

The Bank's business may be affected by political or social instability in the Philippines

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.

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 groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

Last May 23, 2017, President Duterte issued Proclamation No. 216 declaring a state of martial law in the Mindanao group of islands for a period not exceeding sixty (60) days and suspending the privilege of the writ of habeas corpus in the aforesaid area during the duration of the martial law. The President issued this proclamation in response to the alleged attempt of a certain Maute terrorist group, which is said to have links to the Islamic State of Iraq and Syria (ISIS) terrorist group, to remove from the allegiance of the Philippine government the province of Marawi City in Lanao del Sur thereby depriving the President of his powers and prerogatives to enforce the laws of the land and maintain public order and safety in Mindanao. Currently, the same group continues to sow terror, cause death and damage to property in this part of Mindanao. Proclamation No. 216 was immediately met with criticisms from different sectors of society because of Congress’ refusal to convene to review the propriety of the declaration as required by Article VII, Section 18 of the 1987 Constitution. Moreover, anti-martial law groups are questioning the coverage of the proclamation as, according to them, the declaration is too expansive and not limited to the area of the actual conflict and that the presence of an actual rebellion is still questionable. Presently, the Supreme Court is conducting the presentation of oral arguments in relation to the petition to nullify the declaration of martial law in Mindanao by the President. In addition, the hostilities between the government’s troops and the Maute group are still ongoing up to this time.

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.

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 Group'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 Group'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 Group'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.

The occurrence of natural catastrophes such as flooding, typhoons and earthquakes or power outages may materially disrupt the Bank's operations.

The Philippines has experienced a number of major natural catastrophes in recent years including typhoons, volcanic eruptions, earthquakes, mudslides, droughts, storm surges and floods related to the El Niño and La Niña weather events. Natural catastrophes may impair the economic conditions in the affected areas, as well as the overall Philippine economy, and disrupt the Bank's operations in these areas. The Philippines has also experienced power outages, both from insufficient power generation and from disruptions such as typhoons. These types of events may materially disrupt and adversely affect the Bank's business and operations.

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

The sovereign ratings of the Government may directly affect companies residing in the Philippines, as international credit rating agencies issue credit ratings by reference to that of the sovereign. The investment grade rating of the Philippines was reaffirmed by major credit rating agencies recently. In April 21, 2016, Standard & Poor's Financial Services (S&P) reaffirmed the BBB Stable long-term sovereign credit rating of the Philippines. Aside from S&P, Fitch Ratings (Fitch) kept a BBB- Positive rating in April 8, 2016 and Moody's Investors Service (Moody's) reaffirmed the Philippines a Baa2 Stable Investment Grade rating in December 14, 2015. In their announcements, the rating agencies cited expectations of sound growth in jobs, increasing inward remittance flows and adequately performing financial system for some of the reasons behind their decision. Moody's again reaffirmed its Baa2 rating in June 2017. In December 2017, Fitch upgraded the country's rating to BBB, with a stable outlook, on strong economic conditions and planned tax reform, while S&P raised its outlook to Positive from Stable last April 2018. However, no assurance can be given that international credit rating agencies will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Bank. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Bank, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

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 1 January 2018 and onwards come into effect.

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 1 January 2018 and onwards will not have material impact on the Bank's future financial statements.

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 had been relatively low since 2014, with the monetary policy directed towards stimulating the economy amid a low inflation environment. However, interest rates may increase in the future as price pressures begin building as a result of strong economic growth. The BSP made operational tweaks to its policy rates due to a shift to an interest rate corridor for its monetary operations last June 2016. The policy rates were tweaked as follows - overnight lending rate at 3.5% (from 6.0%), overnight borrowing rate at 3.0% (from 4.0%) and overnight deposit facility at 2.5% (no change from the special deposit account rate). In May 2017, the BSP maintained its key policy rates at 3.00% for overnight borrowing and 3.5% for overnight lending rates. Each of these rates were adjusted upwards by 25 bps on May 2018, and by another 25 bps in June 2018, such that currently, the overnight borrowing rate stands at 3.5% while the overnight lending rate stands at 4.0%. The overnight deposit facility is currently at 3.0%. The BSP also introduced the term deposit facility as the main tool to absorb excess liquidity in the system and to help guide short term market rates to the BSP's policy rates.

The Bank realizes income from the margin between income earned on its assets and interest paid on its liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates. 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. 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.

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

While a principal objective of Philippine securities laws and the PSE listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies than what is regularly made available by public companies in other countries. Philippine SEC and PSE requirements with respect to corporate governance standards may differ from those applicable in certain other jurisdictions. As a result, LTNCTD Holders 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 Securities Regulation Code of the Philippines (Republic Act No. 8799) (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.

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 LTNCTD Holder interests may be less well-defined and enforced in the Philippines than elsewhere, putting LTNCTD Holders 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 LTNCTD Holders generally, which may result in them taking actions that are contrary to the interests of LTNCTD Holders.

Generally, financial statements require the use of certain critical accounting estimates. Management of institutions are to use their own judgment to come up with estimates on certain balance sheet and income statement accounts such as, but not limited to, impairment losses on loans and receivables; fair value of derivatives; impairment of Financial Assets at Fair Value Through Other Comprehensive (FVOCI), Available-for-sale investments, Hold-to-Collect Investments (HTC) and Held-to-Maturity investments; impairment of goodwill; and realization of deferred income tax assets, among others.

CONSIDERATIONS RELATING TO THE LTNCTDs

Certain actions relating to the LTNCTDs require prior approval of the BSP.

Certain actions relating to the LTNCTDs, such as early redemptions and payments of principal, are subject to the prior approval of the BSP. There is no assurance that such approval will be obtained in a timely manner, if at all. Neither the Issuer nor the Arranger makes any such assurance that such approval will be obtained in a timely manner, if at all.

All redemption rights are at the Issuer's discretion and the timing of redemption of the LTNCTDs may not correspond with the CD Holders' expectations or preferences.

The "Terms and Conditions of the LTNCTDs" provide that the LTNCTDs are redeemable at the Issuer's option, in whole but not in part, on the Early Redemption Date at the Early Redemption Price.

The date on which the Issuer elects to redeem the LTNCTDs may not accord with the preference of individual CD Holders. This may be disadvantageous to CD Holders in light of market conditions or the individual circumstances of the CD Holders. A CD Holder's ability to realize value at a certain time may be limited to selling the LTNCTDs into the secondary market. In addition, an investor may not be able to reinvest the redemption proceeds in comparable securities at an effective distribution rate at the same level as that of the LTNCTDs.

Liquidity for the LTNCTDs

CD Holders may not redeem or pre-terminate the LTNCTDs before Maturity Date. CD Holders may, however, negotiate or transfer the LTNCTDs to purchasers who are not Prohibited CD Holders. In accordance with the Manual of Regulations for Banks, as amended, negotiations/transfers from one CD Holder to another do not constitute pre-termination. Any change in the interpretation of current tax laws subjecting the LTNCTDs to deductions or withholdings of whatever nature shall, however, be for the account of the CD Holder.

The Bank may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding LTNCTDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

The Bank intends to list the LTNCTDs on the PDEx. The liquidity for the LTNCTDs will depend in part upon the activity of the trading participants of PDEx. No assurance can be given that an active trading market for the LTNCTDs will develop.

Upon listing of the LTNCTDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of LTNCTDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the LTNCTDs trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling CD Holder would receive sales proceeds lower than his initial investment should a CD Holder decide to sell his LTNCTDs prior to maturity.

Transfers subject to BSP rules and transaction related fees

The LTNCTDs may not be issued or transferred to (i) the Bank; (ii) the subsidiaries or affiliates of the Bank; or (iii) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank. The Registry is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions.

In addition, transactions on the LTNCTDs will be subject to the relevant rules of the exchange, including guidelines on minimum trading lots and record dates, all in accordance with guidelines for holding and trading of the LTNCTDs as may be prescribed by the BSP. Such rules and regulations may include maintaining the minimum denomination for the LTNCTDs as prescribed by the BSP at all times such that no negotiation or secondary trading may be allowed if the result is that a remaining CD Holder of the LTNCTDs will hold less than the minimum denomination as prescribed or approved by the BSP.

The trading rules and regulations of the BSP or PDEx or its trading participants, and other providers necessary for the completion of such trades may affect the liquidity of the LTNCTDs.

Additionally, any trading or negotiations of the LTNCTDs may be subject to fees and charges of PDEx or its trading participants, and other providers necessary for the completion of such trades.

Taxation of the LTNCTDs

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the LTNCTDs shall be subject to deductions or withholdings for or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "Taxes"), then such Taxes shall be for the account of the CD Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the CD Holder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar.

In relation to the foregoing, the BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

In March 2015, the BIR has issued Revenue Memorandum Circular (RMC) 7-2015 which clarifies that interest income from LTNCTDs can be considered tax-exempt if held by an individual taxpayer for a period of at least five years. See “Taxation” Section for details. However, there is no assurance that any subsequent changes in related regulations will not affect the tax-exempt status of LTNCTDs. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed to withhold the necessary tax due on the LTNCTDs based on the related BIR rules.

The LTNCTDs may not be a suitable investment for all investors.

Each potential investor in the LTNCTDs must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the LTNCTDs, the merits and risks of investing in the LTNCTDs and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the LTNCTDs and the impact the LTNCTDs will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the LTNCTDs, including where the currency for principal or interest payments is different from the potential investor’s currency;
- understand thoroughly the terms of the LTNCTDs and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase LTNCTDs as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the LTNCTDs unless it has the expertise (either alone or with a financial adviser) to evaluate how the LTNCTDs will perform under changing conditions, the resulting effects on the value of the LTNCTDs and the impact this investment will have on the potential investor’s overall investment portfolio.

PDIC Insurance Coverage of the LTNCTDs

The LTNCTDs, which are considered bank deposits, are insured with the Philippine Deposit Insurance Corporation (“PDIC”) for up to the maximum insurance coverage set out in, and subject to PDIC’s applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

(a) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.
(b) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.
(c) In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.
(d) In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:
    (1) details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
    (2) details or information establishing the validity or effectivity of the deposit transfer; or

(3) copy of the board resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

(e) In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

(f) PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

CONSIDERATIONS RELATING TO THE MARKET GENERALLY

The value of the LTNCTDs may be adversely affected by movements in market interest rates.

Investment in the LTNCTDs involves the risk that if market interest rates subsequently increase above the rate paid on the LTNCDs, this will adversely affect the value of the LTNCTDs.

Credit ratings assigned to the Issuer or the LTNCTDs may not reflect all the risks associated with an investment in those LTNCTDs.

One or more independent credit rating agencies may assign credit ratings to the Issuer, or the LTNCTDs. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the LTNCTDs. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) LTNCTDs are legal investments for it; (2) LTNCTDs can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any LTNCTDs. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of LTNCTDs under any applicable risk-based capital or similar rules.

USE OF PROCEEDS

The net proceeds of the issue of the LTNCTDs, after deducting fees, commissions, and other related expenses will be utilized to diversify the Bank’s funding sources and support business expansion.

CAPITALIZATION OF THE BANK

The following table sets out the capitalization of the Bank and indebtedness of the Bank (i) as of March 31, 2018, and (ii) as adjusted for the aggregate principal amount of the Series 2 LTNCTDs being issued. The following selected financial information should be read together with other portions of this Offering Circular.

Capitalization of the Bank

(In ₱)	As of March 31, 2018 (Unaudited)	As of March 31, 2018 (Unaudited and Adjusted Including the LTNCTDs currently being issued)
Liabilities		
Deposit Liabilities		
Demand	19,888,142,771	19,888,142,771
Savings	31,714,505,607	31,714,505,607
Time	131,034,402,923	131,034,402,923
Long Term Negotiable Certificates of Time Deposit due 2022	3,375,000,000	3,375,000,000
New Long Term Negotiable Certificates of Time Deposit due 2024*	-	5,084,500,000
	186,012,051,301	191,096,551,301
Bills Payable	5,949,549,592	5,949,549,592
Subordinated Notes	2,979,652,667	2,979,652,667
Treasurer's, Cashier's and Manager's Checks	1,840,704,454	1,840,704,454
Accrued Taxes, Interest and Other Expenses	1,606,610,933	1,606,610,933
Income Tax Payable	86,905,915	86,905,915
Financial Liabilities at Fair Value Through Profit or Loss	38,612,818	38,612,818
Other Liabilities	3,409,341,758	3,409,341,758
Total Liabilities	**201,923,429,438**	**207,007,929,438**
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	17,887,816,347	17,887,816,347
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income	(438,137,648)	(438,137,648)
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	(1,976,286)	(1,976,286)
Total Equity	**23,159,566,333**	**23,159,566,333**
Total capitalization and indebtedness	**225,082,995,771**	**230,167,495,771**

**Gross principal amount of the Series 2 LTNCD issuance. This does not yet consider related transaction costs of the issuance.*

TERMS AND CONDITIONS OF THE SERIES 2 LTNCTDs

The following do not purport to be a complete listing of all the rights, obligations, and privileges of the LTNCTDs. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are encouraged to carefully review the Agreements, other information in this Offering Circular, and all amendments thereto.

1 DEFINITIONS	In these Terms and Conditions and the Contracts (as hereinafter defined):
"ADVERSE EFFECT"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the LTNCTDs and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
"ANTI-MONEY LAUNDERING LAWS OF THE PHILIPPINES"	means Republic Act No. 9160, Republic Act No. 9194 and Republic Act No. 10365 and BSP Circular Nos. 251, 253 279, 527, 564, 608, 612 and 950, and all other amendatory and implementing law, regulation, jurisprudence, notice or order of any Philippine governmental body relating thereto;
"AUDITORS"	means SyCip, Gorres,Velayo & Company;
"BANK"	means Philippine Savings Bank, the issuer of the LTNCTDs;
"BIR"	means the Philippine Bureau of Internal Revenue;
"BSP"	means the Bangko Sentral ng Pilipinas;
"BSP RULES"	means General Banking Law of 2000 (Republic Act No. 8791), BSP Circular No. 304 (Series of 2001), BSP Circular No. 778 (Series of 2012), BSP Circular No. 810 (Series of 2013), BSP Circular No. 824 (Series of 2014), BSP Circular No. 834 (Series of 2014), BSP Circular No. 877 (Series of 2015), Section X233.9 of the Manual of Regulations for Banks ("MORB") and other related circulars and issuances of the BSP, as may be amended from time to time;
"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
"CASH SETTLEMENT ACCOUNT"	means an account designated by a CD Holder with a Cash Settlement Bank into which shall be credited the interests, principal and other payments on the LTNCTDs;
"CASH SETTLEMENT BANK"	means a bank licensed and authorized under the laws of the Philippines and designated by a CD Holder as the bank with which such CD Holder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent;
"CD HOLDER(S)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the LTNCTDs;
"CLOSED PERIOD"	shall have the meaning set forth in Condition 18;

"CONTRACTS"	means: (a) the Issue Management and Placement Agreement in the agreed form dated on or about July 23, 2018 between the Bank, the Arranger and the Selling Agents; (b) the Registry and Paying Agency Agreement in the agreed form dated on or about July 23, 2018 between the Bank and the Registrar and Paying Agent; (c) the PSBank Master CD; (d) these Terms and Conditions; and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"EVENT OF DEFAULT"	means an event specified as such under Condition 22 hereof;
"GROUP"	means the Bank, its subsidiaries, affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"INSOLVENCY DEFAULT"	means the acts of bankruptcy referred to under subparagraph (h) of Condition 22, including but not limited to the following: (a) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (b) appointment of a trustee or receiver of all or a substantial portion of the Bank's properties; (c) making of an assignment for the benefit of the Bank's creditors of all or substantially all of its properties; (d) admission in writing of the Bank's inability to pay its debts; or (e) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its properties or assets;
"INTEREST"	means, in respect of a series of LTNCTDs, for any Interest Period, the interest payable on the LTNCTDs at such rate set out in these Terms and Conditions;
"INTEREST PAYMENT DATE"	means, in respect of a series of LTNCTDs, the last day of an Interest Period when payment for Interest in respect of the LTNCTDs for such series becomes due, as set out in these Terms and Conditions; Provided, that if any Interest Payment Date would otherwise fall on a day which is not a Business Day, the Interest Payment Date shall be deemed the next succeeding Business Day; Provided, further, that if such succeeding Business Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Business Day, in either case, without adjustment to the amount of interest to be paid. For the avoidance of doubt, each Interest Payment Date shall be specified in the relevant PSBank Master CD;
"INTEREST PERIOD"	means, in respect of a series of LTNCTDs, the period commencing on the relevant Issue Date and having a duration of three (3) months and, thereafter, each successive three (3) -month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first (1st) day of the immediately succeeding Interest Period. Each Interest Period for the LTNCTDs shall end on the numerically corresponding day of each third (3rd) month after the Issue Date or the immediately preceding Interest Period, except in the case of the last Interest Period, where the Interest Period will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the relevant Maturity Date;
"INTEREST RATE"	means a rate equal to 5% per annum;

"ISSUE DATE"	means each date when a series or tranche of the LTNCTDs is issued by the Issuer to CD Holders, as the Issuer may determine, which shall be such number of Banking Day following the end of a relevant Offer Period as may be determined by the Bank, or such other date as the Issuer and the Arranger may agree in writing; Provided, that the Issue Dates for each tranche or series subsequent to the first tranche must be no later than one (1) year from July 12, 2018, being the date of BSP Approval, pursuant to, and in accordance with the provisions of the BSP Rules;
"ISSUE PRICE"	means one hundred percent 100% of the nominal principal amount of each PSBank CD;
"JOINT LEAD ARRANGERS"	means ING Bank N.V., Manila Branch ("ING") and Standard Chartered Bank ("SCB");
"LTNCTDS"	means long-term negotiable certificates of time deposit in the amount of up to a maximum of ₱15,000,000,000.00 to be issued by the Bank in two or more tranches under these Terms and Conditions and pursuant to the authority granted by the BSP to the Bank on July 12, 2018 and the BSP Rules, represented by a PSBank Master CD;
"MATURITY DATE"	means five years and six months (5.5 years) from the Issue Date, at which date the LTNCTDs will be redeemed at their Maturity Value; *Provided,* that, if such date is declared to be a non-Business Day, the Maturity Date shall be the next succeeding Business Day;
"MATURITY VALUE"	means the Issue Price plus unpaid and accrued applicable interests up to but excluding the Maturity Date;
"OFFER PERIOD"	means the period when a series or tranche of the LTNCTDs shall be offered for sale by the Bank to the public, through the Bank's branches and the Selling Agents to prospective CD Holders, commencing at 10:00 a.m. and ending at 5:00 p.m., or on such other times and on such days or dates as may be determined by the Bank and the Joint Lead Arrangers;
"OFFERING CIRCULAR"	means the relevant Offering Circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final forms in respect of the LTNCTDs (the final form being dated as of the Issue Date), and all amendments, supplements and addenda thereto, including the supplemental offering circular(s) for the issuance of subsequent tranche(s) of the LTNCTDs in preliminary and final form;
"PAYMENT DATE"	means each date on which payment for interest and/or principal in respect of the LTNCTDs become due. The date on which a payment in respect of the LTNCTDs becomes due means the first date on which the CD Holders could claim the relevant interest or principal payment;
"PDEx"	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the PDS Group;
"PDEx RULES"	means the PDEx Rules for the Fixed Income Securities Market, as amended, and as the same may be revised from time to time, as well as other related rules, guidelines, and procedures that may be issued by PDEx;
"PDIC"	means Philippine Deposit Insurance Corporation;

"PLACEMENT AGREEMENT"	means the Issue Management and Placement Agreement in the agreed form dated on or about July 23, 2018 among the Bank, the Joint Lead Arrangers and Selling Agents, as may be amended or supplemented from time to time;
"PRE-TERMINATION AMOUNT"	means the face value of a relevant series of the LTNCTDs, subject of a Pre-termination Option, plus accrued interest covering the accrued and unpaid interest as of but excluding the Pre-termination Date in respect of such relevant series of the LTNCTDs;
"PRE-TERMINATION DATE"	means, in respect of a series of LTNCTDs, the Interest Payment Date on which the Bank may exercise its Pre-termination Option for such series pursuant to Condition 14 of these Terms and Conditions;
"PRE-TERMINATION OPTION"	means the option of the Bank to redeem a relevant series of the LTNCTDs as a whole, but not in part, on any Interest Payment Date on the basis of events specified in, and in accordance with, Condition 14 of these Terms and Conditions;
"PRICING DATE"	means any day within the relevant Offer Period and prior to the Issue Date, as may be determined by the Issuer in consultation with the Arranger;
"PROHIBITED CD HOLDER(S)"	means persons and entities which are prohibited from purchasing and/or holding any LTNCTDs of the Bank, specifically: (1) the Bank; (2) the subsidiaries and affiliates of the Bank; (3) wholly or majority-owned or controlled entities of the subsidiaries and affiliates of the Bank; (4) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: a U.S. citizen (including dual citizen); a U.S. resident alien for U.S. tax purposes; a US partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; any other person that is not a non-US person; (5) non-resident aliens not engaged in trade or business in the Philippines; and (6) non-resident foreign corporations. A "subsidiary" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates. An "**affiliate**" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "**controlled**" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company;
"PSBANK MASTER CD"	means the master form representing the LTNCTDs or a series of the LTNCTDs, as the case may be, setting forth the Terms and Conditions. For the avoidance of doubt, each LTNCTDs shall specify the series or tranche of LTNCTDs to which it pertains, as well as the relevant terms and conditions specific to such series or tranche;
"PSE"	means the Philippine Stock Exchange, Inc.;

	"PURCHASE ADVICE"	means the written advice sent by the Selling Agents (in case of the primary issuance of the LTNCTDs) or, upon listing of the LTNCTDs in PDEx, a PDEx Trading Participant (in case of secondary transfers of the LTNCTDs) to a CD Holder confirming the acceptance of its offer to purchase LTNCTDs and consequent ownership thereof and stating the details, including the tax status, and summary terms and conditions, of the issue, sale or assignment of LTNCTDs to such CD Holder;
	"REGISTRAR" OR "PAYING "AGENT"	means Philippine Depository & Trust Corp. ("PDTC"), or the registrar and paying agent in respect of the LTNCTDs appointed from time to time under the Registry and Paying Agency Agreement or an agreement supplemental to it and in accordance with the BSP Rules;
	"REGISTRY"	means the electronic registry book of the Registrar containing the official information on the CD Holders and the amount of LTNCTDs they respectively hold, including all transfers or assignments thereof or any liens or encumbrances thereon;
	"REGISTRY CONFIRMATION"	means the written advice sent by the Registrar to the CD Holders, confirming the registration in the name of such CD Holder of the specified amount of LTNCTDs issued to or purchased by a CD Holder, in the Registry, and setting forth the declarations required by the BSP;
	"SEC"	means the Philippine Securities and Exchange Commission and its successor agency/ies;
	"SELLING AGENTS"	means; PSBank, ING, SCB, First Metro Investment Corporation and Metropolitan Bank & Trust Company, and includes their respective successor entities, or the selling agent(s) in respect of the LTNCTDs appointed from time to time under the Issue Management and Placement Agreement or an agreement supplemental to it;
	"TAX EXEMPT / TREATY DOCUMENTS"	shall have the meaning set forth in Condition 26; and
	"TERMS AND CONDITIONS"	mean these Terms and Conditions of the LTNCTDs as may be amended from time to time.
2	**PURPOSE OF ISSUANCE**	The issue will be used to diversify the maturity profile of funding sources and to support business expansion plans.
3	**FORM**	The LTNCTDs shall be scripless and, subject to the payment of fees to the Registrar, registered and lodged with the Registrar in the name of the CD Holders. Once lodged, the LTNCTDs shall be eligible for electronic transfer in the Registry, without the issuance or cancellation of certificates. The LTNCTDs shall comply with the provisions of Republic Act No. 8792 or the Electronic Commerce Act, particularly, on the existence of an assurance on the integrity, reliability and authenticity of the LTNCTDs in electronic form.
4	**DENOMINATION**	The LTNCTDs will be in minimum denominations of Fifty Thousand Pesos (₱50,000) and in integral multiples of Fifty Thousand Pesos (₱50,000) thereafter. The LTNCTDs will be traded in a minimum board lot size of ₱50,000 and in multiples of ₱50,000 in excess thereof for as long as any of the LTNCTDs are listed on PDEx. Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between CD holders of different tax status and shall be subject to the relevant fees of PDEx and PDTC.

5	**TITLE**	Legal title to the LTNCTDs shall be evidenced by the Registry, which shall be the official registry and best evidence of ownership and all other information regarding ownership of the LTNCTDs. Following receipt from the Selling Agents of the Final Sales Report and complete account opening documents evidencing the purchase of LTNCTDs by the CD Holders, a Registry Confirmation will be issued by the Registrar in favor of the said CD Holders to evidence the registration of such LTNCTDs in their names in the Registry; Provided, however, that upon the listing of the LTNCTDs with the PDEx, the registration of the LTNCTDs shall, in addition to the Registry Rules, be subject to the PDEx Rules and fixed income trading conventions.
6	**SEC REGISTRATION**	The LTNCTDs have not been and will not be registered with the SEC. Since the LTNCTDs qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the LTNCTDs may be sold and offered for sale or distribution in the Philippines without registration.
7	**LISTING**	The LTNCTDs are intended to be listed by the Bank in the PDEx on Issue Date.
8	**ELIGIBLE CD HOLDERS**	In general, the LTNCTDs may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited CD Holders.
9	**QUALIFICATION DETERMINATION**	Each Selling Agent (in the case of initial issuances of the LTNCTDs for each tranche) and a PDEx Trading Participant (in the case of transfers or assignments of the LTNCTDs) shall verify the identity and relevant details of each proposed CD Holder and ascertain that said proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Each Trading Participant shall verify the respective aggregate amounts of the LTNCTDs held by the transferor and the transferee to determine compliance with the required minimum denomination through the Registry Confirmations to be provided by each of the transferor and the transferee. Proposed CD Holders shall be required to submit any and all information reasonably required by the Selling Agents or PDEx Trading Participants in order for the said Selling Agents or PDEx Trading Participants, as the case may be, to be able to determine that such proposed CD Holder is an Eligible CD Holder and is not a Prohibited CD Holder. Any question on such determination shall be referred to the Bank.
10	**INTEREST ACCRUAL AND PAYMENT**	The LTNCTDs will bear interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if the Pre-termination Option is not exercised); or (b) the Pre-termination Date (if the Pre-termination Option is exercised). Interest shall be payable on each Interest Payment Date. The amount of interest payable in respect of the LTNCTDs for each Interest Period shall be calculated by the Paying Agent on a 30/360-day year basis. The determination by the Paying Agent of the amount of interest payable (in the absence of an error) is final and binding upon all parties.
11	**PAYMENT**	The Paying Agent shall pay, or cause to be paid on behalf of the Bank, on or before 12:00 p.m. on each relevant Payment Date the amounts due in respect of the LTNCTDs through a direct credit of the proper

amounts, net of taxes and fees (if any) to the Cash Settlement Banks of the CD Holders, for onward remittance to the Cash Settlement Accounts of the CD Holders with the Cash Settlement Banks.

12 PRINCIPAL REPAYMENT

Unless the LTNCTDs are pre-terminated by the Bank on Pre-termination Date (*See Condition 13*), the LTNCTDs shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall fall on the immediately succeeding Business Day, without adjustment to interest payable in respect of the LTNCTDs.

13 PRE-TERMINATION BY THE CD HOLDER

Presentation of the LTNCTDs to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under “Events of Default” in these Terms and Conditions. CD Holders may, however, transfer or assign their LTNCTDs to another holder who is not a Prohibited CD Holder. Negotiations/transfers from one CD Holder do not constitute pre-termination. For tax purposes, negotiations/transfers from one CD Holder to another shall be subject to the pertinent provisions of the National Internal Revenue Code of 1997, as amended, and Bureau of Internal Revenue Regulations.

14 PRE-TERMINATION BY THE BANK

Subject to BSP Rules, the Bank shall have the option (but not the obligation) to pre-terminate the LTNCTDs as a whole, but not in part, prior to the Maturity Date and on any Interest Payment Date at the Pre-termination Amount, for any cause as may be allowed under the BSP Rules, including, without limitation if or when: (i) there shall occur at any time during the term of the LTNCTDs any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) at any time during the term of the LTNCTDs, long term negotiable certificates of deposit issuances become subject to additional or increased reserves required by the BSP, other than the seven percent (7%) statutory regular reserves required in BSP Circular No.832, Series of 2014.

The Bank may pre-terminate all and not only part of the LTNCTDs as permitted under this Condition 14 on any Interest Payment Date prior to the Maturity Date provided that: (1) a 30-day prior notification is given to the appropriate department of the Supervisory and Examination Sector of the BSP and PDEx, together with the justification for the pre-termination; (2) a 30-day prior notification is given to the CD Holders; (3) the Bank shall shoulder the tax due on the interest income already earned by the CD Holders; and (4) the Bank’s reserve positions shall be recomputed retroactively based on the applicable reserve rate(s) for regular time deposits during the affected periods.

Any incremental tax that may be due on the interest income already earned under the LTNCTDs prior to or as a result of the exercise by the Bank of its Pre-termination Option shall be for the account of the Bank. In addition, the Bank shall re-compute its reserve positions retroactively based on the applicable reserve rate(s) for regular time deposits during the period between the Issue Date and the Pre-termination Date.

15 SECONDARY TRADING

The LTNCTDs are freely transferable across tax categories, if and when so allowed under PDEx rules, conventions, and guidelines.

All transfers or assignments of the LTNCTDs shall be coursed through a PDEx Trading Participant, subject to the PDEx Rules.

As a condition precedent for any transfer or assignment of the LTNCTDs, the transferee CD Holder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Purchase Advice; (ii) the Registry Confirmations of both the transferor and the transferee (if any); (iii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iv) the Investor Registration Form; (v) Tax Exempt/Treaty Documents, if applicable; (vi) written consent of the transferee CD Holder to be bound by the terms of the LTNCTDs and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vii) such other documents as may be reasonably required by the Registrar.

A service charge shall be imposed for any registration of transfer or assignment of the LTNCTDs, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any transfer or assignment of the LTNCTDs, each for the account of the CD Holder requesting the registration of transfer or assignment of the LTNCTDs.

Subject to Condition 18, payment by the relevant CD Holder of the proper fees, if any, to PDEx and/or the Registrar, a transfer or assignment of LTNCTDs may generally be done at any time.

In case of a transfer or assignment deemed by the Bank as a pre-termination, solely for withholding tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the LTNCTDs (if any), based on the holding period of such LTNCTDs by the transferor CD Holder and the amount equal to the final withholding tax, if any, will be deducted from the purchase price due to it. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the LTNCTDs has a remaining maturity of at least five (5) years.

"Transfers or assignments deemed by the Bank as pre-termination for withholding tax purposes" means any transfer or assignment which: (a) is made by a CD Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust (subject to certain conditions); (b) under the BSP Rules, is not considered a pre-termination of the LTNCTDs; and (c) under relevant tax laws or revenue regulations, will result in the interest income on the LTNCTDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

16 TRANSFERABILITY

All transfers and assignment of, as well as change in title to, the LTNCTDs shall be recorded in the Registry. Settlement in respect of such transfer and assignment of, or change of title to, the LTNCTDs, including settlement of applicable taxes, if any, arising from such transfers, assignments or change in title, shall be for the account of the transferee and/or transferor CD Holder.

Transfers or assignments of the LTNCTDs made in violation of the restrictions on transfer under these Terms and Conditions shall be null and void and shall not be registered by the Registrar.

17 PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES

The Registry shall be kept at the specified office of the Registrar.

The registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the CD Holders) shall be observed and complied with in the implementation of the functions of the Registrar, including, without limit, transfers of the LTNCTDs.

18 CLOSING OF REGISTRY

The Registrar shall not register any transfer or assignment of the LTNCTDs for a period of two (2) Business Days preceding the due date for any payment of interest on the LTNCTDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the LTNCTDs ("**Closed Period**"), or register the transfer or assignment of any LTNCTDs previously called for redemption or pre-termination. The Registrar will treat the person in whose name the LTNCTDs is registered immediately before the relevant closed period as the owner of such LTNCTDs for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.

19 STATUS AND PDIC INSURANCE

The LTNCTDs constitute direct, unconditional, unsecured, and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions. Claims of all the CD Holders in respect of the LTNCTDs will at all times rank *pari passu* without any preference among themselves. The LTNCTDs shall be at least *pari passu* with all other present and future unsecured and unsubordinated Peso-denominated obligations of the Bank that by their terms rank equal with the LTNCTDs, except obligations mandatorily preferred by law.

The LTNCTDs are insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in, and subject to PDIC's applicable rules and regulations, as may be amended from time to time, including, without limit, the following:

(a) Deposits are insured by the PDIC up to a maximum amount of Five Hundred Thousand Pesos (₱500,000.00) per depositor.
(b) PDIC shall presume that the name/s appearing on the deposit instrument is/are the actual/beneficial owner/s of the deposit, except as provided therein.
(c) In case of transfers or break-up of deposits, PDIC shall recognize actual/beneficial ownership of transferees who are qualified relatives of the transferor. Qualified relatives are transferees within the third degree of consanguinity or affinity of the transferor.
(d) In case of: (i) deposits in the name of, or transfers or break-up of deposits in favor of, entities, either singly or jointly with individuals; and (ii) transfers or break-up of deposits in favor of non-qualified relatives, whenever such transfers/ break up will result in increased deposit insurance coverage, PDIC shall recognize beneficial ownership of the entity or transferee provided that the deposit account records show the following:
    (1) details or information establishing the right and capacity or the relationship of the entity with the individual/s; or
    (2) details or information establishing the validity or effectivity of the deposit transfer; or
    (3) copy of the Board Resolution, order of competent government body/agency, contract or similar document as required/provided by applicable laws.

(e) In the absence of any of the foregoing, PDIC shall deem the outstanding deposit as maintained for the benefit of the transferor although in the name of the transferee, subject to consolidation with the other deposits of the transferor.

PDIC may require additional documents from the depositor to ascertain the details of the deposit transfer or the right and capacity of the transferee or his relationship to the transferor.

20 REPRESENTATIONS AND WARRANTIES

The Bank hereby represents and warrants to the CD Holders, as follows:

(a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it;

(b) except as otherwise disclosed in the Offering Circular, each of the members of the Group has legal title to all its property in each case free and clear of all liens, encumbrances and defects; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;

(c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the LTNCTDs and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the LTNCTDs;

(d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts;

(e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;

(f) the LTNCTDs have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Registry and Paying Agency Agreement, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the LTNCTDs constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the LTNCTDs, the carrying out of the other transactions contemplated by the LTNCTDs and the Contracts or the compliance by the Bank with the terms of the LTNCTDs and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank has obtained the approval of the BSP to issue the LTNCTDs, which approval has not been revoked, qualified, or restricted, and shall fully, timely, and unconditionally comply with all other terms and conditions imposed by the BSP regarding the issuance of the LTNCTDs while any portion of the LTNCTDs remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the BSP Rules to issue, maintain, service, pay out, redeem, and cancel the LTNCTDs, including the prohibitions of Section X233.9 (h) of the Manual of Regulations for Banks, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue of the LTNCTDs, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the documents constituting the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or (ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) the Offering Circular contains all information with respect to the Group and to the LTNCTDs which is material in the context of the issue and offering of the LTNCTDs (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the LTNCTDs, is necessary to enable potential CD Holders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the LTNCTDs); (ii) the statements contained in the Offering Circular relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the LTNCTDs the omission of which would, in the context of the issue and offering of the LTNCTDs, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "**Critical Accounting Policies**"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the LTNCTDs has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, within the meaning of the Code of Ethics for Professional Accountants in the Philippines adopted by the Philippine Board of Accountancy and approved by the Philippine Professional Regulation Commission.

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorizations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "**Intellectual Property**") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the LTNCTDs, or which are otherwise material in the context of the issue of the LTNCTDs and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects. The financial transactions and operations of the Bank and its subsidiaries are and have been conducted at all times in compliance with applicable financial record keeping and reporting requirements and anti-money laundering laws, rules, regulations or guidelines applicable to the Bank and its subsidiaries (collectively, the "**Anti-Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Bank or any of its subsidiaries with respect to the Anti-Money Laundering Laws is pending or, to the best knowledge of the Bank and each of its subsidiaries, after due inquiry, threatened; and

(y) The Bank is Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy.

These representations and warranties are true and correct as of the Issue Date and shall be deemed repeated with reference to the facts and circumstances then existing on each Interest Payment Date.

21 COVENANTS

The Bank hereby covenants and agrees that during the term of the LTNCTDs and until payment in full and performance of all its obligations under the LTNCTDs, it shall act as follows and perform the following obligations:

(a) The Bank shall pay all amounts due under the LTNCTDs at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the LTNCTDs;

(b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the LTNCTDs until Maturity Date or full payment of the claims under the LTNCTDs, whichever is later, and accordingly, shall secure all necessary corporate and government approvals, and perform all necessary acts, for the renewal and extension of its corporate term, on or prior to the expiry thereof;

(c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a CD Holder, furnish to such requesting CD Holder such updates and information as may be reasonably requested by a CD Holder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the LTNCTDs and the Contracts;

(d) It shall, when so requested in writing, provide any and all information reasonably needed by the Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the BSP Rules, and the Contracts; *Provided,* that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

(e) The Bank shall promptly advise the CD Holders through the Registrar and Paying Agent of: (i) any request by any government agency for any information related to the LTNCTDs; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the LTNCTDs or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the LTNCTDs at the earliest time possible;

(f) The Bank shall ensure that any documents related to the LTNCTDs will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a CD Holder execute and deliver to such CD Holders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a CD Holder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the CD Holders through the Registrar and Paying Agent, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC, PDEx and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the LTNCTDs and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the LTNCTDs in accordance with the purpose of issuance provided in the Offering Circular; and

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the LTNCTDs, as provided in the Registry and Paying Agency Agreement.

These covenants of the Bank shall survive the issuance of the LTNCTDs and shall be performed fully and faithfully by the Bank at all times while the LTNCTDs or any portion thereof remain outstanding.

22 EVENTS OF DEFAULT

The Bank shall be considered in default under the LTNCTDs in case any of the following events shall occur:

(a) The Bank fails to pay any principal and/or interest due on the LTNCTDs, provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment

Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date;

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the LTNCTDs is untrue, incorrect, or misleading in any material respect;

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of fifteen (15) calendar days from notice to the Bank;

(d) The Bank violates any term or condition of any contract, bond, note, debenture, or similar security executed by the Bank with any other bank, financial institution, or other person, corporation, or entity in respect of borrowed moneys in an aggregate amount exceeding Five Hundred Million Pesos (₱500,000,000.00) or its equivalent or, in general, the Bank violates any contract, law, or regulation which: (i) if remediable, is not remedied by the Bank within ten (10) calendar days from such failure; (ii) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) will adversely and materially affect the performance by the Bank of its obligations under the LTNCTDs and pay any amount outstanding on the LTNCTDs;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the LTNCTDs expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;

(f) It becomes unlawful for the Bank to perform any of its material obligations under the LTNCTDs;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "**Insolvency Default**");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of Five Hundred Million Pesos (₱500,000,000.00) or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and

(k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Adverse Effect.

23 EFFECTS OF DEFAULT

If any one or more of the Events of Default (other than an Insolvency Default, the effects of which are set forth in Condition 24 hereof) shall have occurred and be continuing after any applicable cure period shall have lapsed, any CD Holder by written notice to the Bank and the Registrar and the Paying Agent stating the Event of Default relied upon, may declare the Bank in default in respect of the LTNCTDs held by such CD Holder and require the principal amount of the LTNCTDs held by such CD Holder, and all accrued interests (including any default interest) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including any default interest) and other charges, without prejudice to any other remedies which such CD Holder or the other holders of the LTNCTDs may be entitled.

In case of an Event of Default under Condition 22 (a), the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month thereon, which shall accrue from the date the amounts payable under these Terms and Conditions became due until the same is fully paid.

Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first,* to the pro-rata payment to the Registrar and Paying Agent of the costs, expenses, fees, and other charges of collection incurred by it without gross negligence or bad faith; to the payment to the Registrar and Paying Agent of its fees, and other outstanding charges due to it; *second,* to the pro-rata payment of all outstanding interest owing to the CD Holders, including any default interest as specified in this Condition 23, in the order of maturity of such interest; and third, to the pro-rata payment of the whole amount then due and unpaid on the LTNCTDs for principal owing to the CD Holders.

The Registrar and Paying Agent shall promptly notify the Bank and the CD Holders of any notice received by it on the occurrence of any Event of Default as set forth in these Terms and Conditions according to a process agreed upon by the Registrar and Paying Agent and the Bank attached as Schedule 14 to the Registry and Paying Agency Agreement; *Provided,* that in case such notice (other than a notice of default pursuant to an Insolvency Default) is received by the Registrar and Paying Agent from a CD Holder, the Registrar and Paying Agent, prior to notifying the remaining CD Holders, shall first advise the Bank of such notice and provide the Bank with an opportunity to refute such claim to the satisfaction of the party alleging the Event of Default within three (3) Business Days from its receipt of the advice from the Registrar and Paying Agent, failing which the Registrar and Paying Agent shall immediately notify the remaining CD Holders; *Provided,* further, that in case such notice consists of a notice of default under this Condition 23, the Registrar and Paying Agent shall immediately, and in no case more than one (1) Business Day from its receipt of such notice, notify the remaining CD Holders.

24 REMEDY FOR NON-PAYMENT

The payment of principal on the LTNCTDs may be accelerated only in the event of insolvency of the Bank; provided that insolvency proceedings have been instituted in the appropriate court, which proceedings have not been dismissed within one hundred twenty (120) days from the institution thereof. Recovery of amounts owing in respect of the LTNCTDs against the Bank is available to any CD Holder only through the institution of proceedings for the insolvency of the Bank.

25 TAXATION

If payments of principal and/or interest in respect of the LTNCTDs shall be subject to deductions and withholding for or on account of any present or future taxes or duties imposed by or on behalf of the Republic of the Philippines, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes and duties, including interest and penalties thereon, then such taxes or duties shall be for the account of the CD Holder concerned, and if the Bank shall be required by law or regulation to deduct or withhold such taxes or duties, then the Bank shall make the necessary withholding or deduction for the account of the CD Holder concerned; Provided, however, that all sums payable by the Bank to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission by the relevant CD Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Registrar in accordance with Condition 25.

In case of transfers and assignments deemed by the Bank as a pre-termination for tax purposes, the transferor CD Holder shall be liable for the resulting tax due on the entire interest income earned on the LTNCTDs (if any), based on the holding period of such LTNCTDs.

The Bank acknowledges that it has read and understood the Bureau of Internal Revenue (“BIR”) letter dated 10 March 2015 on the accreditation of the tax-tracking enhancement of the PDS Group’s Corporate Action Auto-Claim (“CAAC”) System, a copy of which is included in the Listing Information Kit duly furnished to the Bank. In accordance with the said BIR letter, it should be emphasized that PDS owns and maintains the CAAC system, and is not owned by the issuing bank, and neither does it form part of the latter’s computerized accounting system. The Bank undertakes to abide by the terms of the said BIR letter, to the extent applicable to it and its Securities, and to the extent that the terms thereof affect the information processed by the CAAC system in relation to the Securities, and in accordance with BIR regulations.

Documentary stamp tax for the primary issue of the LTNCTDs and the documentation, if any, shall be for the Bank’s account.

26 CLAIM OF TAX-EXEMPT STATUS

CD Holders claiming exemption from any applicable tax shall be required to submit documentary proof of its tax-exempt status ("**Tax Exempt/Treaty Documents**") to the Registrar, through the CD Holders' Selling Agent or PDEx Trading Participant, (who shall forthwith provide copies to the Bank) upon its purchase of the LTNCTDs (and on each anniversary thereafter), such as, but not limited to:

(a) A current and valid BIR-certified true copy of the tax exemption certificate, ruling or opinion issued by the BIR;

(b) A duly notarized declaration warranting its tax-exempt status or entitlement to reduced treaty rates and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption or treaty privileges and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

For corporations/banks/trust departments or units of banks holding common or individual trust funds or investment management accounts on behalf of qualified individual investors, a duly notarized declaration warranting its tax-exempt status and undertaking to immediately notify the Bank and the Registrar and Paying Agent of any suspension or revocation of its tax exemption and agreeing to indemnify and hold the Bank and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities arising from the non-withholding or reduced withholding of the required tax; and

(c) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or required under applicable regulations of the relevant taxing or other authorities.

Unless properly provided with satisfactory proof of the tax-exempt status of a CD Holder, the Registrar and Paying Agent may assume that such CD Holder is taxable and proceed to apply the tax due on the LTNCTDs. Notwithstanding the submission of documentary proof of the tax-exempt status of a CD Holder, the Bank may, in its sole and reasonable discretion, determine that such CD Holder is taxable and require the Registrar and Paying Agent to proceed to apply the tax due on the LTNCTDs. Any question on such determination shall be referred to the Bank.

27 REPLACEMENT REGISTRY CONFIRMATIONS

In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar shall deliver to the CD Holders a new Registry Confirmation of like denomination in exchange for, and upon cancellation of, the mutilated Registry Confirmation or in lieu of the Registry Confirmation so destroyed, lost or stolen, only in the absence of any notice in writing to the Registrar that the LTNCTDs for which such Registry Confirmation had been issued has been acquired by a bona fide purchaser and only upon presentation of such documents or other requirements as may be imposed by the Registrar (in consultation with the Bank).

The Registrar and Paying Agent, at its option, may also require from the CD Holders requesting replacement of the Registry Confirmation the payment of a sum sufficient to reimburse the Bank and/or the Registrar and Paying Agent for any tax or other governmental charge connected with the issuance of any such substitute Registry Confirmation and the cost of preparing such Registry Confirmation, and all legal and other expenses incurred by the Registrar and Paying Agent in connection with such issuance.

28 NOTICES

Except for communications to the Issuer and to the Registrar & Paying Agent under Schedule 14 of the Registry ad Paying Agency Agreement which must be delivered personally in writing, any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

PHILIPPINE SAVINGS BANK
PSBANK Center
777 Paseo de Roxas cor. Sedeno St.
Makati City

Telephone no.: (63) 2 8858208
Fax no.: (63) 2 8858352
E-mail: pzdimayuga@psbank.com.ph
Attention: Perfecto Ramon Z. Dimayuga, Jr.
SVP and Treasurer

E-mail: JLAlde@psbank.com.ph
Attention: Jose Vicente L. Alde
President

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORPORATION
37th Floor Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.: (63) 2 884-5025
Fax no.: (63) 2 884-5099
E-mail: baby_delacruz@pds.com.ph
Attention: Josephine Dela Cruz
Director

And in the case of notices to the CD Holders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

29 GOVERNING LAW

These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.

30 JURISDICTION

The courts of Makati City are to have jurisdiction to settle any disputes which may arise out of or in connection with the LTNCTDs and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the LTNCTDs or these Terms and Conditions ("**Proceedings**") may be brought in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. This submission is made for the benefit of each CD Holder and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

31 AMENDMENT

Any amendment of these Terms and Conditions is subject to the BSP Rules.

32 NON-WAIVER

The failure of any party at any time or times to require the performance by the other of any provision of the LTNCTDs or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.

33 ABILITY TO FILE SUIT

Nothing herein shall be deemed to create a partnership or collective venture between the CD Holders. Each CD Holder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other CD Holders to be joined as a party in any judicial or other proceeding for such purpose.

34 SEVERABILITY

If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.

35 PRESCRIPTION

Any action upon the LTNCTDs shall prescribe within ten (10) years from the time the right of action accrues.

DESCRIPTION OF THE BANK

Introduction

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 53 thrift banks in terms of assets as of March 31, 2018 based on data from the *Bangko Sentral ng Pilipinas* (''BSP''). The Bank's total assets stood at ₱225.08 billion, ₱223.32 billion and ₱196.85 billion as of March 31, 2018, December 31, 2017 and December 31, 2016, respectively. Its total equity were at ₱23.16 billion, ₱22.39 billion and ₱20.04 billion as of March 31, 2018, December 31, 2017 and December 31, 2016, respectively.

As of March 31, 2018, the Bank has a network of 250 branches nationwide. The Bank also has 611 ATMs, which are part of the Bancnet consortium. This is broken down to 270 on-site and 341 off-site locations.

The Bank is listed on the Philippine Stock Exchange (the ''PSE'') with a market capitalization of ₱20.54 billion as of March 31, 2018.

As of March 31, 2018, the Bank's capital adequacy ratio and Tier 1 capital adequacy ratio were at 13.75% and 11.03%, respectively.

History

The Bank was established in 30 June 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 83%.

In 1991, the Bank was authorized to perform trust functions and in 1995, was granted a quasi-banking license. In 1994, its shares were listed on the PSE and made it the first publicly listed thrift bank in the country.

The Bank moved its principal office to its current address at the PSBank Center, 777 Paseo de Roxas corner Sedeno St., Ayala Avenue, 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.

PSBank has been consistently recognized for its efforts to provide differentiated customer experience. Among such awards include the Bangko Sentral ng Pilipinas (BSP) Pagtugon Award (three-time awardee – also in 2015 and 2016) given during the 15th BSP Annual Stakeholders Awards, Outstanding Thrift Bank Partner for BSP's Clean Note Policy Campaign in 2017. PSBank also emerged as the 2nd strongest bank in the Asian Banker's AB500 annual ranking 2016-2017 edition and the only savings bank that has consistently cornered a spot in the list of the top 10 strongest banks in the country for six consecutive years. It has likewise consistently garnered recognition for specific initiatives from Anvil and Philippine Quill Awards, recent of which is the Anvil and Quill Awards for its Annual Report 2016 "We Are Where You Are", and PayMe "Sweldo Situmercial.

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.

Strategy of the Bank

Throughout its more than 50 years of operation, the Bank's philosophy is that of being responsive to its clients' needs. While its capitalization of ₱23.16 billion as of March 31, 2018 qualifies it to become a commercial bank, the Bank has decided to remain a thrift bank and use its resources to aggressively compete in retail banking.

The Bank will continue to harness inherent synergies with Metrobank but will remain resolute in differentiating itself in terms of markets and products. The Bank and Metrobank have distinct core market focus and have agreed on a coherent strategy on market segmentation. Operational synergies are achieved through coordination on branch expansion, sharing of integrated data and ATM infrastructure, coordination on group-wide concentration limits, and maximization of each institution's competitive advantage.

The Bank has been constantly at the forefront of developing new products to widen and expand its customer reach. The Bank made it simpler for its customers to avail auto loans via fast approval rates, low interest payments, flexible payment terms and convenient modes of payment. Technological applications were the engine powering the Bank's growth over the past few years. It has put in place continuous system and process improvement projects, which enabled it to deliver faster turnaround time for loan approvals.

In 2011, PSBank launched the PSBank Debit MasterCard, a product which combines the functionality of a debit facility and a savings account in one card. It can be used for shopping, paying bills and making online purchases, both here and abroad. PSBank also introduced the PSBank Prepaid Mastercard, the PSBank Euro Time Deposit and the PSBank Euro Savings Account on the same year. It also made structural changes in the organization and adapted new channels for service delivery.

In 2012, PSBank introduced e-Credit to Micro, Small and Medium Enterprises. The service aimed to provide these companies with an alternative to manual payroll processing. The Bank also rolled out its Time Deposit System to automate the processing of TDs for clients. This allowed branches to focus more on product marketing and sales.

In 2013, PSBank launched the PSBank Kiddie Savers and Teen Savers Accounts to introduce children to the concept of saving money. It also opened a Land Registration Authority (LRA) extension office at its head office for its Home Loan clients to receive, process, and issue certified true copies of certificates of land titles. Lastly, the Bank participated in the ASEAN corporate governance scorecard where it received an overall score of 73% and was part of the top 50 publicly listed corporations in the

Philippines. For the third consecutive year, it was also recognized by the Asian Banker 500 publication as the 6th strongest bank in the country.

In 2014, the Bank successfully issued ₱3.0 billion in Basel III-compliant Tier 2 Unsecured Subordinated Notes. In line with the issuance, PSBank was given an Issuer Rating of PRS Aaa (corp) which is the highest possible corporate rating in the Philippine Ratings Corporation scale. It was again recognized by The Asian Banker as the fifth strongest bank in the Philippines and was the only savings bank in the Top 5 annual ranking. For the first time, PSBank was recognized as one of the 10 finalists in the Philippine Stock Exchange Bell Awards for 2014 for its adherence to the highest standards of corporate governance and regulatory compliance. It also entered into a bancassurance partnership with AXA Philippines to provide its customers with easier access to AXA's wide range of insurance products. It launched its first ever Unit Investment Trust Fund ("UITF") product, the PSBank Money Market Fund. During the year, it started offering its PSBank Online Mobile App which is an online banking facility that allows clients to perform a wide range of transactions on the move. Lastly, PSBank gave its clients more ways to interact through its PSBank Live Chat, a first in the local banking industry, wherein existing and potential clients anywhere in the world can contact customer service assistants regarding their inquiries on deposits, loans, investments and other banking concerns.

In 2015, PSBank maintained its Issuer Rating of PRS Aaa (corp) with Philratings in line with its outstanding Unsecured Subordinated Tier 2 Notes. It emerged as the only savings bank in The Asian Banker 500 list of the Philippines' Top 10 strongest banks and kept its spot for the past five years. It was conferred the Pagtugon Award by the Bangko Sentral ng Pilipinas for excellence in responding to and addressing issues and concerns of clients referred by the Bangko Sentral. The Bank was also recognized with the Balikat ng Bayan Best Paying Partner Thrift Bank by the Social Security System for its role as the pension fund's partner in providing universal, equitable and viable social security protection to its members. During the year, it introduced the Lock and Unlock facility for its ATM cards to provide clients with a tool to ensure their accounts' safety amid the rising incidence of fraud. On the branch level, it introduced an automated lobby management system called PSBank Queue Anywhere wherein customers can use a laptop and mobile phone to book a transaction with any PSBank branch. The Bank also launched its Mobile 2.0 and 3.0, a mobile banking facility that has an easy-to-use interface and its improved website www.psbank.com.ph to provide a seamless customer experience.

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. 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.

All these product and service launches continue to be in line with the Bank's *"Simple Lang, Maaasahan"* (Simple and Reliable) line of products and services.

The Bank aims to maintain a strategic management discipline in serving the consumer market. To grow the business in the coming years, it will rely on increasing visibility and customer convenience by improving its branch network throughout the country as well as harness the potential of electronic channels as new customer touchpoints. This will be complemented by the Bank's robust use of customer data for profiling and analytics through its unique customer information system. This will be supported by having a customer-centric performance oriented culture within the Bank and an organizational structure which encourages employees to be flexible and motivated contributors.

Strategic Initiatives

PSBank has grown to become the second largest thrift bank in the Philippines today. It has been consistently cited in The Asian Banker's list of top ten strongest banks in the Philippines for six consecutive years. The Bank was ranked as the country's second strongest bank in The Asian Banker's 2016-2017 edition. Strategic initiatives have been undertaken to increase shareholder value, solidify the Bank's market leadership and sustain its growth momentum. However, these anticipated developments are not assured and actual results may materially differ as a result of risks and uncertainties the Bank faces.

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.

Support Initiatives

Internal Processes. The Bank launched improvements and streamlining of internal processes to complement business growth. Various surveys were launched to enable the Bank to capture client perceptions and work on exceeding performance expectations.

Technology Applications. The Bank is looking to further develop its customer information system to assist in its customer-focus strategy. This system will allow the Bank to actively profile its clients and analyze their needs. In addition, the Bank is also continually working on integrating its systems where possible with Metrobank.

Resource Requirements. The Bank will continue to invest in the development of its people through continued training on sales, new products, risk appreciation, customer service and other development programs. The Bank also has appropriate incentive packages to encourage expansion of the customer touch points for the Bank's products.

Product Development, Communications and Marketing. The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It will continue to measure customer satisfaction drivers such as speed in processing, complaint handling, and problem resolution, and, use the same as a feedback mechanism. The Bank utilizes external communications, both traditional and digital, to effectively build and reinforce its story among its markets. The Bank has contracted the services of top agencies to launch its advertising campaigns and provide supplemental public relations efforts.

Business Activities

The Bank's principal business activities are organized as follows: Consumer Banking, Corporate Banking, Branch Banking and Treasury.

Segment Report

Contributions of the business segments to the Bank's operating results for the three months ended March 31, 2018 are as follow:

	Three Months ended March 31, 2018 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,419,286	₱139,034	₱841,821	₱509,881	**₱3,910,022**
Service fees and commission	158,106	9,070	218,814	–	**385,990**
Other operating income (expense)	262,518	4,921	167,070	(52,769)	**381,740**
Total operating income	2,839,910	153,025	1,227,705	457,112	**4,677,752**
Non-cash expenses					
Provision for credit and impairment losses	603,378	(12,168)	71,505	–	**662,715**
Depreciation	61,730	1,228	96,991	272	**160,221**
Amortization of other intangible assets	16,247	754	26,947	231	**44,179**
Total non-cash expenses (income)	681,355	(10,186)	195,443	503	**867,115**
Interest expense	–	–	406,562	581,730	**988,292**
Service fees and commission expense	9,760	560	13,507	–	**23,827**
Subtotal	9,760	560	420,069	581,730	**1,012,119**
Compensation and fringe benefits	202,435	16,483	594,961	7,328	**821,207**
Taxes and licenses	127,252	7,062	169,140	124,501	**427,955**
Occupancy and equipment-related costs	19,847	309	170,062	75	**190,293**
Security, messengerial and janitorial services	44,275	1,101	92,342	230	**137,948**
Miscellaneous	164,785	7,399	304,220	43,711	**520,115**
Subtotal	558,594	32,354	1,330,725	175,845	**2,097,518**
Income (loss) before share in net income of a joint venture and income tax	₱1,590,201	₱130,297	(₱718,532)	(₱300,966)	**701,000**
Share in net income of a joint venture					**15,407**
Income before income tax					**716,407**
Provision from income tax					**99,360**
Net income					**₱617,047**

Segment assets	₱118,523,530	₱6,867,452	₱43,795,527	₱53,982,464	**₱223,168,973**
Investments in a joint venture					**622,570**
Deferred tax assets					**1,291,453**
Total assets					**₱225,082,996**
Segment liabilities	₱1,735,908	₱98,142	₱117,025,703	₱83,063,676	**₱201,923,429**

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 March 31, 2018 have grown to ₱87.97 billion or 19.70% while real estate loans have grown by 5.57% to ₱46.99 billion as of March 31, 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 On-Line 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 March 31, 2018, the Bank’s commercial loans total ₱10.79 billion.

Branch Banking

As of March 31, 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			March 31
	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**	**611**
Total	**862**	**866**	**860**	**861**

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.

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.

Customers/Clients

While the Bank's client base has been traditionally composed of big and small savers, PSBank has since refocused its strategy towards customers belonging to the Broad C market that includes employed individuals, professionals and business entrepreneurs.

As of March 31, 2018, the Bank services about 900,000 deposit and loan account customers. Many customers have remained loyal depositors and borrowers of the Bank through the years. There is no single customer that accounts for 20.0% or more of the Bank's deposit liabilities and loans.

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.

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)						March 31 (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	**93,079**	**62.40%**
Real estate activities	36,428	31.35%	39,134	30.29	41,988	28.69	**42,054**	**28.19%**
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,771	1.53%	2,009	1.55	2,407	1.64	**2,440**	**1.64%**
Information and communication	1,725	1.48%	1,511	1.17	592	0.40	**588**	**0.39%**
Financial and insurance activities	1,418	1.22%	2,241	1.73	2,076	1.42	**1,020**	**0.68%**
Manufacturing	825	0.71%	544	0.42	641	0.44	**643**	**0.43%**
Electricity, gas, steam and air-conditioning supply	605	0.52%	1,555	1.20	1,729	1.18	**1,893**	**1.27%**
Transportation and storage	598	0.52%	706	0.55	956	0.65	**944**	**0.63%**
Construction	362	0.31%	419	0.32	795	0.54	**820**	**0.55%**
Water supply, sewerage, waste management and remediation activities	290	0.25%	286	0.22	234	0.16	**232**	**0.16%**
Administrative and support service activities	282	0.24%	1,168	0.90	989	0.68	**945**	**0.63%**
Accommodation and food service	273	0.24%	320	0.25	369	0.25	**376**	**0.25%**

(In ₱ millions)	December 31 (audited)						March 31 (unaudited)	
	2015	%	2016	%	2017	%	2018	%
activities								
Human health and social work activities	211	0.18%	351	0.27	321	0.22	**315**	**0.21%**
Education	161	0.14%	201	0.16	197	0.13	**193**	**0.13%**
Professional, scientific and technical activities	153	0.13%	81	0.06	137	0.09	**142**	**0.10%**
Arts, entertainment and recreation	32	0.03%	37	0.03	85	0.06	**87**	**0.06%**
Agriculture, forestry and fishing	30	0.03%	20	0.02	24	0.04	**24**	**0.02%**
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	**3,251**	**2.25%**
Total	**116,183**	**100.00%**	**129,206**	**100.00%**	**146,332**	**100.00%**	**149,153**	**100.00%**

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)						March 31 (Unaudited)	
	2015	%	2016	%	2017	%	2018	%
Consumption Loans	60,271	51.87	70,111	54.26	84,276	57.59	87,968	58.98
Real Estate	40,681	35.01	43,900	33.98	46,594	31.84	46,985	31.50
Commercial	11,632	10.01	11,606	8.98	11,976	8.18	10,792	7.24
Personal Loans	3,600	3.10	3,590	2.78	3,486	2.39	3,408	2.28
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**149,153**	**100.00**

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

Over the last three years, the Bank's loan portfolio has been concentrated with auto and real estate loans. As of March 31, 2018, auto loans have grown 19.70% and real estate loans have grown 5.57% from their respective levels in March 31, 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 with a one day turn-around time for Auto Loans, five days for Home Loans and three days for Flexi/Personal Loans.

Maturity

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

(In ₱ millions)	December 31						March 31	
	2015	%	2016	%	2017	%	2018	%
Due within one year	10,380	7.70	10,158	7.86	11,399	7.79	11,197	7.51
Due within one to five years	65,745	57.22	76,270	59.03	94,343	64.47	96,790	64.89
Due after five years	40,058	35.08	42,778	33.11	40,590	27.74	41,166	27.60
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**149,153**	**100.00**

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

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)	March 31, 2018					
Breakdown of Loans by Type and Maturity	**Due within 1 year**	**%**	**Due within 1-5 years**	**%**	**Due after 5 years**	**%**
Auto	2,483	22.17	85,369	88.20	116	0.28
Commercial	3,427	30.61	4,535	4.69	2,830	6.87
Home Mortgage	3,146	28.10	5,866	6.06	37,974	92.25
Others	2,141	19.12	1,020	1.05	246	0.60
Total	**11,197**	**100.00**	**96,790**	**100.00**	**41,166**	**100.00**

(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**

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

Borrower

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

(In ₱ millions)	December 31						March 31	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Individual	106,172	91.38	119,258	92.30	136,543	93.31	140,652	94.30
Corporation	10,011	8.62	9,948	7.70	9,790	6.69	8,501	5.70
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**149,153**	**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		March 31	
	2017	**%**	**2018**	**%**
Less than 1,000,000	81,624	55.78	83,498	55.98
1,000,001 to 2,000,000	40,584	27.73	42,866	28.74
2,000,001 to 3,000,000	10,844	7.41	10,860	7.28
More than 3,000,000	13,280	9.08	11,929	8.00
Total	**146,332**	**100.00**	**149,153**	**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 March 31, 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)						March 31 (Unaudited)	
	2015	**%**	**2016**	**%**	**2017**	**%**	**2018**	**%**
Secured								
Chattel	60,271	51.88	70,111	54.26	84,277	57.59	87,968	58.98
Real Estate	29,332	25.25	29,238	22.63	31,276	21.37	31,446	21.08
Deposit hold-out	407	0.35	412	0.32	599	0.41	591	0.40

(In ₱ millions)	December 31 (Audited)						March 31 (Unaudited)	
	2015	%	2016	%	2017	%	2018	%
Others	363	0.31	-	-	-			0.01
Unsecured	25,810	22.22	29,445	22.79	30,180	20.63	29,140	19.54
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**149,153**	**100.00**

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

Pricing and Rating

Pricing of loans follows the approved mechanics in the respective Product Manuals. The Bank utilizes credit scoring models for its loans. Upon booking of loans, the Bank rates accounts in a scale of 1 to 10, with 1 being the best. This scale is based on the board's approved interim credit rating system which utilizes both the credit scoring results and the BSP loan grading system. These are mapped to high grade, standard, substandard and impaired to meet PFRS requirements. In addition to credit scoring, 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 Administration Group 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 whenever there is evidence of difficulty in generating recovery of the loan.

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.

BSP Classification

In categorizing its loan portfolio, the Bank follows the BSP's categorization of risk assets according to their risk profile. All risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets, and the appropriate loan loss allowance is made in accordance to the bank's internal loss classification allowance models compliant to BSP circular 855 guidelines.

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						March 31,	
	2015	%	2016	%	2017	%	2018	%
Risk Classifications								
Especially mentioned	5,380	4.63	5,895	4.56	6,729	4.60	6,393	4.29
Substandard	2,520	2.17	1,883	1.46	2,285	1.56	1,971	1.32
Doubtful	1,188	1.02	1,238	0.96	1,321	0.90	1,282	0.86
Loss	927	0.80	1,389	1.07	1,190	0.81	987	0.66
Total Classified	10,015	8.62	10,405	8.05	11,525	7.88	10,633	7.13
Unclassified	106,168	91.38	118,801	91.95	134,807	92.12	138,520	92.87
Total	**116,183**	**100.00**	**129,206**	**100.00**	**146,332**	**100.00**	**149,153**	**100.00**
Allowance for Probable Losses								
Specific	2,939	71.64	3,125	69.92	2,958	66.00	2,663	62.96
General	1,164	28.36	1,344	30.08	1,524	34.00	1,567	37.04
Total	**4,103**	**100.00**	**4,469**	**100.00**	**4,482**	**100.00**	**4,230**	**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			March 31
	2015	2016	2017	2018
Gross NPLs	4,397,573,101	4,531,110,557	4,770,532,360	5,252,790,829
Net NPLs	1,458,571,640	1,406,409,796	1,812,205,866	3,228,762,544
Gross Total Loan Portfolio (TLP)	118,579,227,317	132,512,493,639	148,184,807,646	149,165,225,749
Ratio of Gross NPLs to gross	3.71%	3.42%	3.22%	3.52%

	December 31			March 31
	2015	2016	2017	2018
TLP (%)				
Ratio of Net NPLs to gross TLP (%)	1.23%	1.06%	1.22%	2.16%
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	2,989,378,662
Non-performing assets (NPA) - based on BSP formula (Gross)	7,117,792,979	7,709,255,641	8,033,370,336	8,495,404,983
NPA as a percentage of total assets (%) * using total assets reported in the BSP Published Balance Sheet	4.23%	3.93%	3.62%	3.80%
NPA as a percentage of Gross Total Loan Portfolio (TLP) (%)	6.00%	5.82%	5.42%	5.70%
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	4,229,577,772
Allowance for probable losses (ROPA)	237,990,273	253,990,273	237,564,053	234,452,382
Allowance for probable loan losses as a percentage of total Gross NPL (%)	93.29%	98.62%	93.96%	80.52%
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%	52.55%
Total restructured loans (gross of allowance)	633,087,101	206,268,432	189,398,901	179,720,713
Restructured loans to gross total loan portfolio (TLP)	0.53%	0.16%	0.13%	0.12%
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:

(In ₱ millions)	December 31						March 31	
	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	3,567	67.91
Real estate activities	964	21.93	1,077	23.78	1,050	22.02	1,243	23.67
Wholesale and retail trade, repair of motor vehicles and motorcycles	253	5.76	150	3.32	139	2.92	145	2.76
Information and communication	6	0.13	2	0.04	2	0.05	7	0.13
Financial and insurance activities	5	0.10	23	0.52	3	0.05	1	0.01
Manufacturing	430	9.78	20	0.45	14	0.28	25	0.48

(In ₱ millions)	December 31						March 31	
	2015	%	2016	%	2017	%	2018	%
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	20	0.39
Construction	71	1.60	21	0.46	18	0.38	7	0.12
Water supply, sewerage, waste management and remediation activities	6	0.14	2	0.05	1	0.03	1	0.03
Administrative and support service activities	4	0.09	69	1.52	39	0.81	44	0.83
Accommodation and food service activities	13	0.30	13	0.30	12	0.25	16	0.30
Human health and social work activities	1	0.03	1	0.02	1	0.01	1	0.02
Education	1	0.02	9	0.19	7	0.15	2	0.04
Professional, scientific and technical activities	23	0.53	-	-	-	-	-	-
Arts, entertainment and recreation	1	0.01	-	-	-	-	-	-
Agriculture, forestry and fishing	12	0.28	3	0.08	-	-	-	-
Mining and quarrying	-	-	-	-	-	-	-	-
Others	398	9.04	168	3.70	168	3.52	174	3.32
Total	**4,398**	**100.00**	**4,531**	**100.00**	**4,771**	**100.00**	**5,253**	**100.00**

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)	December 31 (audited)			March 31 (unaudited)
	2015	2016	2017	2018
Demand	12,906	15,339	19,112	19,888
Savings	22,836	27,236	30,384	31,715
Time	98,554	115,812	136,042	131,034
LTNCTD	-	-	3,375	3,375
Total	**134,296**	**158,387**	**188,913**	**186,012**

Source: PSBank

As of March 31, 2018, Peso low-cost to total deposit ratio is 26.55% while total low-cost to total deposit ratio is 27.74%. 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)	December 31						March 31	
	2015	%	2016	%	2017	%	2018	%
Current	**12,906**	**9.61**	**15,339**	**9.68**	**19,112**	**10.12**	**19,888**	**10.69**
Peso	12,906		15,339		19,112		19,888	
Foreign	-		-					
Savings	**22,836**	**17.00**	**27,236**	**17.20**	**30,384**	**16.08**	**31,715**	**17.05**
Peso	21,182		25,390		28,313		29,500	
Foreign	1,654		1,846		2,071		2,214	
Time	**98,554**	**73.39**	**115,812**	**73.12**	**136,042**	**72.01**	**131,034**	**70.44**
Peso	91,304		103,740		119,957		116,696	
Foreign	7,250		12,072		16,085		14,339	
LTNCTD	-		-		**3,375**	**1.79**	**3,375**	**1.81**
Total	**134,296**	**100.00**	**158,387**	**100.00**	**188,913**	**100.00**	**186,012**	**100.00**

Source: PSBank

As of March 31, 2018, Peso deposits comprise 91.10% 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 March 31, 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 March 31, 2018.

Particulars	**Issue Date**	**Maturity Date**	**Face Value**	**Carrying Value** *(in ₱ millions)*		Coupon Rate/ Step-up
				December 31, 2017 (audited)	**March 31, 2018 (unaudited)**	
PSBank-2024*	May 23, 2014	August 23, 2024	3,000	2,979	2,980	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*

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.

Capital Adequacy

The following table shows the Bank's capital base by category.

	December 31			March 31
	2015	2016	2017	2018
Common Equity Tier 1 capital	₱18,174	₱18,768	₱20,898	₱ 21,323
Less: Regulatory Adjustments to CET1 capital	2,878	3,281	3,583	3,566
Total Tier 1 Capital	15,296	15,487	17,315	17,757
Tier 2 capital	6,962	4,168	4,346	4,373
Less: Regulatory Adjustments to Tier 2 capital	–	–	–	–
Total Tier 2 capital	6,962	4,168	4,346	4,373
Total qualifying capital	₱22,258	₱19,655	₱21,661	₱22,130

The components of Tier 1 capital and regulatory adjustments as follow (in millions):

	December 31			March 31
	2015	2016	2017	2018
	CET1	CET1	CET1	CET1
Paid-up common stock	₱2,403	₱2,403	₱2,403	₱2,403
Additional paid-in capital	2,818	2,818	2,818	2,818
Retained Earnings	10,904	12,489	14,139	16,566
Undivided Profits	2,369	2,366	2,497	538
Other comprehensive income				
Net unrealized gains (losses) on AFS securities	37	(837)	(412)	(451)
Cumulative foreign currency translation	(43)	(0)	(6)	(6)
Remeasurement Losses on Retirement Plan	(314)	(471)	(541)	(544)
Sub-total	₱18,174	₱18,768	₱20,898	₱21,323
Less Regulatory adjustments:				
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	₱189	₱218	₱247	₱240
Deferred tax asset	1,582	1,860	2,037	2,047
Goodwill	30	30	30	30
Other intangible assets	391	452	662	626
Significant minority investments	686	721	607	623
Total deductions	2,878	3,281	3,583	3,566
Total Common Equity Tier 1 capital	₱15,296	₱15,487	₱17,315	₱17,757
Additional Tier 1 (AT1) capital	–	–	–	–
Total Tier 1 capital	₱15,296	₱15,487	₱17,315	₱17,757

The components of Tier 2 capital and deductions, as reported to BSP as of December 31, 2015, 2016, 2017 and March 31, 2018 consist of the following (in millions):

	December 31			March 31
	2015	2016	2017	2018
Unsecured subordinated debts	₱5,938	₱2,976	₱2,979	₱2,980
General loan loss provision*	1,024	1,192	1,367	1,393
Less: Regulatory adjustments	–	–	–	–
Total Tier 2 capital	₱6,962	₱4,168	₱4,346	₱4,373

*Limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio

Source: PSBank

As of March 31, 2018, total capital adequacy ratio was at 13.75% while its Tier 1 capital adequacy ratio was at 11.03 %. As of December 31, 2015, 2016 and 2017, the Bank's total capital adequacy ratio stood at 18.04%, 14.07%, 13.87%, respectively. As of December 31, 2015, 2016 and 2017, the Bank's Tier 1 capital adequacy ratio stood at 12.40%, 11.08%, 11.09%, respectively.

As the thrift bank arm of Metrobank, the Bank is compliant with Basel III requirements and undergoes an annual ICAAP exercise. The target of the Bank is above 10.00% CAR even with the expansion of its loan portfolio.

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.

Various Types of Risk

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 ₱100.0 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 March 31, 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.

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 March 31, 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.

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Asset Accounts								
Due from BSP	13,897	-	-	-	-	-	-	**13,897**
Due from Other Banks	1,044	-	-	-	-	-	-	**1,044**
Financial Assets Held for Trading (excluding equity securities)	4	-	-	-	-	-	-	**4**
(a) Held For Trading Securities	-	-	-	-	-	-	-	-
(i) National Government Securities	-	-	-	-	-	-	-	-
(ii) Other Securities	-	-	-	-	-	-	-	-
(b) Derivatives with Positive Fair Value	4	-	-	-	-	-	-	**4**
Financial Assets Designated at Fair Value through Profit or Loss (excluding equity securities)	-	-	-	-	-	-	-	**-**
(a) National Government Securities	-	-	-	-	-	-	-	**-**
(b) Other Securities	-	-	-	-	-	-	-	**-**
Available-for-Sale Financial Assets (excluding equity securities)	-	20	63	1,007	1,379	5,045	334	**7,849**
(a) National Government Securities	-	20	63	-	487	3,243	334	**4,148**
(b) Other Securities	-	-	-	1,007	892	1,802	-	**3,701**

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Held-to-Maturity Financial Assets	-	-	-	1,408	3,473	15,435	-	**20,586**
(a) National Government Securities	-	-	-	1,084	2,409	14,487	-	**17,981**
(b) Other Securities	-	-	-	324	1,333	948	-	**2,605**
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-
(a) National Government Securities	-	-	-	-	-	-	-	-
(b) Other Securities	-	-	-	-	-	-	-	-
Loans and Receivables	728	1,950	7,225	28,337	63,787	30,763	10,483	**143,273**
Disclosure: Of which Interbank Loans Receivable	-	-	-	-	-	-	-	-
Loans and Receivables Under Repurchase Agreements and Securities Lending and Borrowing Transactions	-	-	-	-	-	-	-	-
Derivatives with Positive Fair Value Held for Hedging	-	-	-	-	-	-	-	-
Sales Contract Receivable	-	-	-	36	11	16	-	**65**
Accrued Interest Income from Financial Assets	1,247	-	-	-	-	-	-	**1,247**
Due from H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total Asset Accounts	16,920	1,970	7,291	30,788	68,920	51,259	10,817	**187,966**
Liability Accounts								
Financial Liabilities Held for Trading	39	-	-	-	-	-	-	**39**
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-
Deposit Liabilities	69,170	28,377	23,658	7,004	8,421	3,375	29,455	**169,459**
Due to Other Banks	-	-	-	-	-	-	-	-
Bills Payable	2,000	-	-	-	-	-	-	**2,000**
Bonds Payable	-	-	-	-	-	-	-	-
Unsecured Subordinated Debt	-	-	-	-	-	2,980	-	**2,980**
Redeemable Preferred Shares	-	-	-	-	-	-	-	-
Financial Liabilities Associated with Transferred Assets	-	-	-	-	-	-	-	-

Performing Financial Assets and Financial Liabilities – Peso and Foreign Regular Accounts (amounts in ₱ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Derivatives with Negative Fair Value Held for Hedging	-	-	-	-	-	-	-	-
Accrued Interest Expense on Financial Liabilities	434	-	-	-	-	-	-	**434**
Finance Lease Payment Payable	-	-	-	-	-	-	-	-
Due to H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	-	-	-	-	-	-	-	-
Others	5,540	-	-	-	-	-	-	5,540
Total Liability Accounts	77,182	28,377	23,658	7,004	8,421	6,355	29,455	**180,451**
Net	**(60,261)**	**(26,407)**	**(16,366)**	**23,785**	**60,499**	**44,904**	**(18,638**	**7,515**

Source: PSBank

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Asset Accounts								
Due from BSP	-	-	-	-	-	-	-	**0**
Due from Other Banks	15	-	-	-	-	-	-	**15**
Financial Assets Held for Trading (excluding equity securities)	5	-	-	-	-	-	-	**5**
(a) Held For Trading Securities	5	-	-	-	-	-	-	**5**
(i) National Government Securities	5	-	-	-	-	-	-	**5**
(ii) Other Securities	-	-	-	-	-	-	-	**0**
(b) Derivatives with Positive Fair Value	-	-	-	-	-	-	-	**0**
Financial Assets Designated at Fair Value through Profit or Loss (excluding equity securities)	-	-	-	-	-	-	-	-
(a) National Government Securities	-	-	-	-	-	-	-	-
(b) Other Securities	-	-	-	-	-	-	-	-
Available-for-Sale Financial Assets (excluding equity securities)	-	-	-	4	2	96	-	**102**
(a) National Government Securities	-	-	-	4	2	34	-	**40**
(b) Other Securities	-	-	-	-	-	62	-	**63**
Held-to-Maturity Financial Assets	-	-	-	8	5	219	41	**273**
(a) National Government Securities	-	-	-	-	0	133	31	**245**
(b) Other Securities	-	-	-	8	5	15	-	**28**
				-				

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Unquoted Debt Securities Classified as Loans	-	-	-	-	-	-	-	-
(a) National Government Securities	-	-	-	-	-	-	-	-
(b) Other Securities	-	-	-	-	-	-	-	-
Loans and Receivables	-	-	-	-	-	-	-	-
Disclosure: Of which Interbank Loans Receivable	-	-	-	-	-	-	-	-
Loans and Receivables Under Repurchase Agreements and Securities Lending and Borrowing Transactions	-	-	-	-	-	-	-	-
Derivatives with Positive Fair Value Held for Hedging	-	-	-	-	-	-	-	-
Sales Contract Receivable	-	-	-	-	-	-	-	-
Accrued Interest Income from Financial Assets	4	-	-	-	-	-	-	4
Due from H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
Total Asset Accounts	25	-	-	12	7	315	41	**399**
Liability Accounts								
Financial Liabilities Held for Trading	-	-	-	-	-	-	-	-
Financial Liabilities Designated at Fair Value through Profit or Loss	-	-	-	-	-	-	-	-
Deposit Liabilities	154	109	12	-	-	-	-	317
Due to Other Banks	-	-	-	-	-	-	-	-
Bills Payable	34	42	-	-	-	-	-	76
Bonds Payable	-	-	-	-	-	-	-	-
Unsecured Subordinated Debt	-	-	-	-	-	-	-	-
Redeemable Preferred Shares	-	-	-	-	-	-	-	-
Financial Liabilities Associated with Transferred Assets	-	-	-	-	-	-	-	-
Derivatives with Negative Fair Value Held for Hedging	-	-	-	-	-	-	-	-
Accrued Interest Expense on Financial Liabilities	1	-	-	-	-	-	-	1

Performing Financial Assets and Financial Liabilities – FCDU / EFCDU (in US$ millions)								
Maturity	**Up to one month**	**Over one month to three months**	**Over three months to 12 months**	**Over one year to three years**	**Over three years to five years**	**Over five years to 15 years**	**Over 15 years**	**Total**
Finance Lease Payment Payable	-	-	-	-	-	-	-	-
Due to H.O./Branches/Agencies Abroad - (Philippine branch of a foreign bank)	-	-	-	-	-	-	-	-
Others	6	-	-	-	-	-	-	6
Total Liability Accounts	194	151	12	-	-	-	43	**400**
Net	**(170)**	**(151)**	**(12)**	**12**	**7**	**315**	**(2)**	**0**

Source: PSBank

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-avis 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.

Research and Development

The Bank utilizes various consumer research studies to develop new or enhance existing products and marketing programs. It maximizes the use of customer surveys to measure customer satisfaction drivers such as speed in processing, complaint handling and problem resolution, and as a feedback mechanism, to improve customer service. The Bank also supports heavily its products and service delivery with relevant technology applications.

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 State'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

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 directors in its Board, four of whom are independent directors while three are executive directors and 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:

- 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).

- The **Risk Oversight Committee (ROC)** 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).

- 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).

- 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:

- 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.

- The **Related 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).

- 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 Oversight

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.

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.

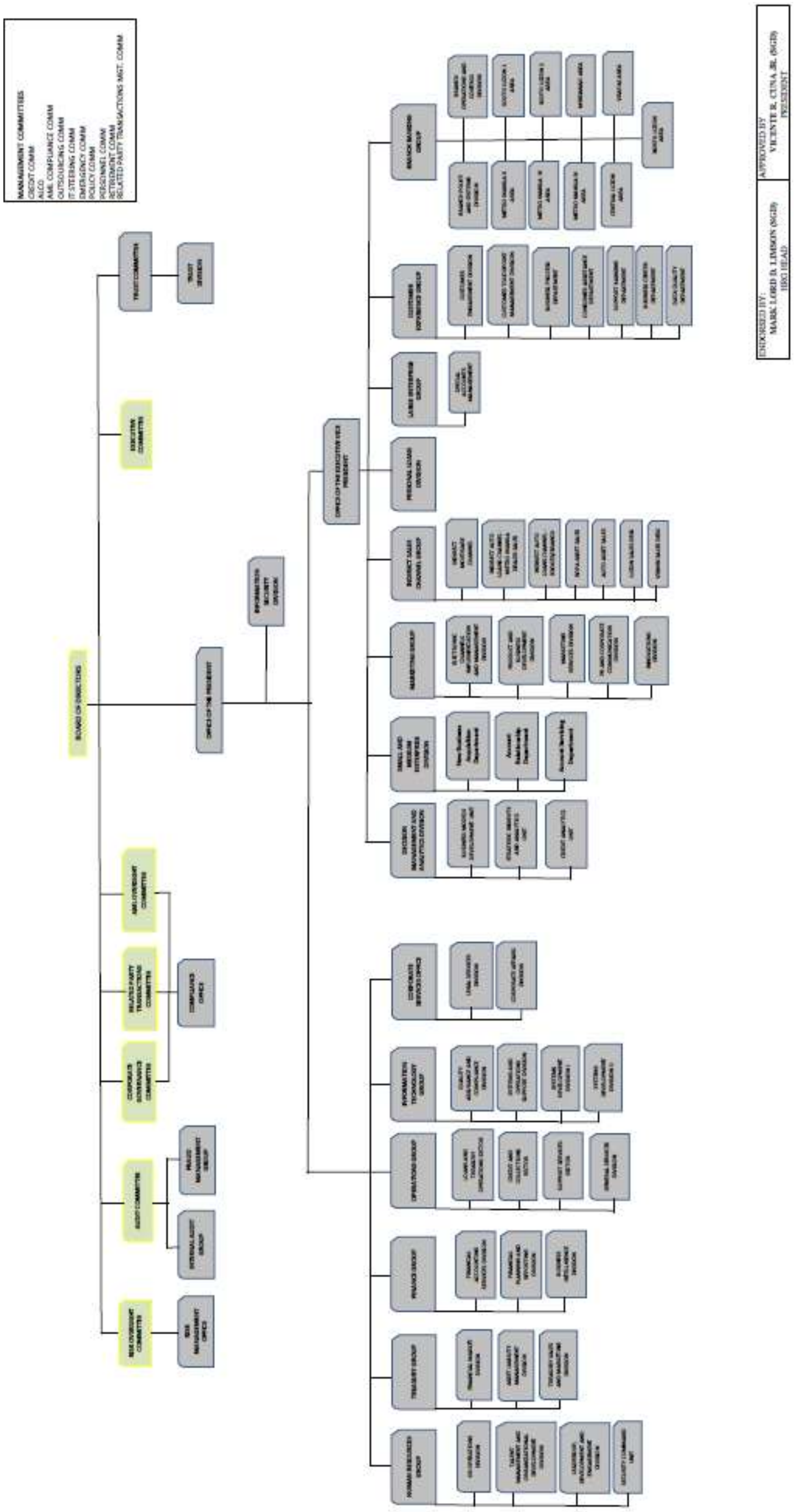
Initially, SMFC is a joint venture between PSBank, PSBank Retirement Fund, Sumisho Corporation (Sumitomo) Japan and Sumitomo Philippines. PSBank and Sumitomo Japan each own 40% of Sumisho while PSBank Retirement Fund and Sumitomo Philippines each own 10%. In August 2017, PSBank and PSBank Retirement 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 June 2018, Sumisho has 25 branches including its head office. Its principal office is located at the 12th floor of PSBank Center.

MANAGEMENT, EMPLOYEES, AND SHAREHOLDERS

Organizational Chart

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



Directors

The names, positions, and educational attainment of the Bank's directors follow. The members of the Board of Directors were elected at the Annual Stockholders' Meeting held on April 23, 2018 and shall hold office until the next annual meeting and their respective successors have been elected.

Name	Position
Jose T. Pardo	Chairman / Independent Director
Arthur V. Ty	Vice Chairman
Vicente R. Cuna, Jr.	Vice Chairman
Benedicto Jose R. Arcinas	Independent Director
Samson C. Lim	Independent Director
Eduardo A. Sahagun	Independent Director
Rosanna F. De Vera	Director
Ma. Soledad D.S. De Leon	Director
Jose Vicente L. Alde	Director / President

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 Synergy Grid and Development Phils., 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.

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.

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.

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.

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.

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

JOSE VICENTE L. 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. Masters in Business Management, Asian Institute of Management.

Executive Officers

The names, positions and educational attainment of the Bank's executive officers follow. The Executive Officers are appointed by the Board at the organizational meeting following the stockholders' meeting, each to hold office for a period of one year.

Name	Position
Jose Vicente L. Alde	President
Noli S. Gomez	Executive Vice President
Jose Jesus B. Custodio	Senior Vice President
Perfecto Ramon Z. Dimayuga, Jr.	Senior Vice President
Neil C. Estrellado	Senior Vice President

Name	Position
Francis C. Llanera	Senior Vice President
Emmanuel A. Tuazon	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. Masters 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 Certain Legal Proceedings of Directors and Executive Officers

None of the members of the Bank's Board nor its executive officers has been convicted in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this Offering Circular.

Number of Employees

PSBank's manpower complement is as follows:

	As of December 31, 2017	As of March 31, 2018
Top Executive	8	8
Senior Officers	53	53
Junior Officers	1,141	1,141
Rank and File	2,007	2,007
Total	**3,184**	**3,209**

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.

Shareholders

The Bank's Top 10 shareholders as of March 31, 2018 are as follows:

	NAME OF STOCKHOLDERS	OUTSTANDING NUMBER OF SHARES	% OF SHARES
1	METROPOLITAN BANK & TRUST CO. (MBTC)	198,629,513*	82.675%
2	DOLOR, DANILO L.	12,610,891	5.249%
3	DOLOR, ERLINDA L.	7,605,832	3.166%
4	DE LEON, MARIA SOLEDAD S.	4,000,000	1.665%
5	DE LEON, GIAN CARLO S.	2,741,378	1.141%
6	DE LEON, LEONARD FREDERICK S.	2,598,334	1.082%
7	PCD NOMINEE CORP. (FILIPINO)	2,571,119**	1.070%
8	DE LEON, ALVIN BENJAMIN S.	2,437,887	1.015%
9	DE LEON, KEVIN ANTHONY S.	2,407,964	1.002%
10	PCD NOMINEE CORP. (NON-FILIPINO)	1,616,312	0.673%

* Includes 45,203,536 shares lodged with PCD Nominee Corp.

*** Net of MBTC lodged shares equivalent to 45,203,536 shares and Arthur Ty lodged shares equivalent to 17 shares*

Total number of stockholders as of March 31, 2018 is 1,475.

The Bank's principal shareholders are comprised of three major groups with Metrobank, owning 82.675%, the Dolor Family collectively owning 8.415%, and De Leon Family owning 5.905%. Other minority shareholders hold the balance of 3.006%.

PHILIPPINE BANKING SECTOR

The following is a general discussion of the Philippine Banking Industry. 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 could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the aspects of the industry that may be relevant to a decision to purchase, own or dispose of the LTNCTDs. Prospective purchasers should consult their advisors as to the consequences of acquiring, holding and disposing of the LTNCTDs.

Overview

The Philippine banking industry is a ₱15.3 trillion industry composed of 43 Universal and Commercial Banks ("UB/KBs"), 53 thrift banks and 489* rural and cooperative banks as of March 31, 2018. Out of the total banking industry assets, 90.8% are from UBs and KBs. Thrift banks account for 7.6%, while rural and cooperative banks account for the remaining 1.5%. Total assets of the banking system rose by 11.3% year-on-year as of March 31, 2018 driven by a growth in loans and deposits.

**rural and cooperative bank count as of Dec 31, 2017*

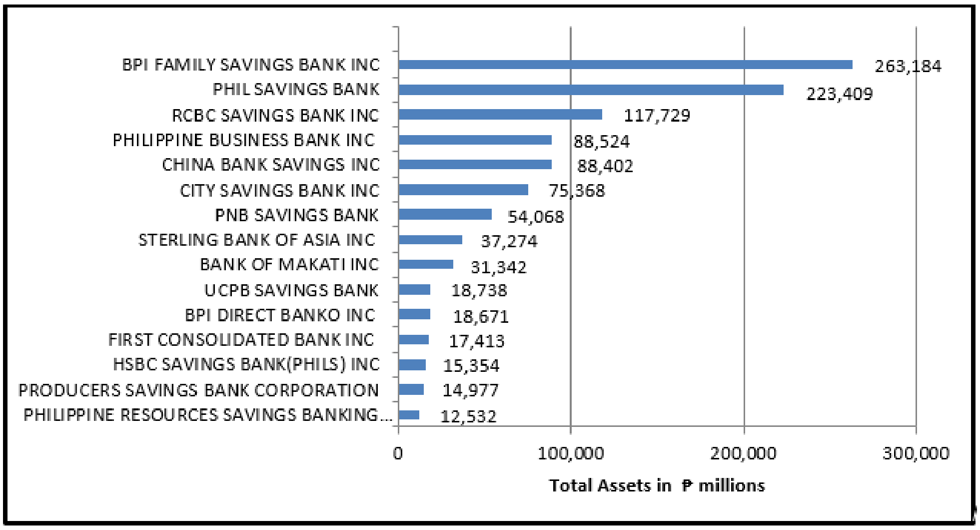
Philippine Thrift Banks

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 March 31, 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 (51.7%) of the thrift banking sector's total assets while the top 15 accounted for 92.2%; the remaining 7.18% is accounted for by 38 other thrift banks. The table below shows the top five thrift banks in the Philippines as of March 31, 2018.

(₱ millions)	Total Assets	Total Equity	Total Loans	Total Deposits
BPI Family Savings Bank	263,184	28,023	209,427	229,401
Philippine Savings Bank	223,409	21,323	144,935	186,012
RCBC Savings Bank	117,729	12,686	82,360	101,406
Philippine Business Bank Inc	88,524	10,342	73,724	73,832
China Bank Savings	88,402	9,053	62,586	76,755

Source: BSP website

The chart below shows the top 15 Thrift Banks in the Philippines by Total Assets as of March 31, 2018.



BANKING REGULATIONS 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 per cent. 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 per cent and 7.5 per cent, respectively. A capital conversion buffer of 2.5 per 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 December 31, 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 favourable 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 June 23, 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 February 15, 2013, Republic Act No. 10365, which took effect on March 7, 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 April 4, 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 February 15, 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 September 21, 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 August 15, 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 August 24, 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) **<u>BSP Circular No. 1007</u> 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.

(2) **<u>BSP Circular No. 1000</u> 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.

(3) **<u>BSP Circular No. 1001</u> 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.

(4) **<u>BSP Memorandum No. M-2018-012</u> 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.

(5) **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.

(6) **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).

(7) **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).

(8) **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.

(9) **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 January 1, 2019 subject to certain entailing reportorial and disclosure requirements as well as liquidity build-up plans, as applicable.

(10) **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.

(11) **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.

(12) **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 secure a certification from the BSP that the accounts are worthless and can be written off, 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 GRT, which is a tax levied on the gross receipts of banks and non-bank financial intermediaries.

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. The interbank call loans are not subject to documentary stamp tax (DST) except if they have a maturity of more than seven days.

TAXATION

The following is a general description of certain Philippine tax aspects of the LTNCTDs. 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 or regulation 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 tax considerations that may be relevant to a decision to purchase, own, or dispose of the LTNCTDs. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the LTNCTDs.

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; 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 doing 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 doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

Taxation of Interest

The LTNCTDs will be treated as deposit substitute instruments. Consequently, interest income earned by individual citizens, resident aliens, and non-resident aliens engaged in trade or business in the Philippines as holders of the unsecured subordinated notes will generally be subject to a 20.0% final withholding tax. However, the LTNCTDs may qualify as long-term deposit or investment, in which case, pursuant to Revenue Regulations No. 14-2012 and Revenue Memorandum Circular No. 81-2012, interest income derived by said individuals may be exempt from the said 20.0% final withholding tax provided the following characteristics or conditions are present:

1. The depositor or investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;
2. The long-term deposits or investment certificates should be under the name of the individual and not under the name of the corporation or the bank or the trust department/unit of the bank;
3. The long-term deposits or investments must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
4. The long-term deposits or investments must be issued by banks only and not by other financial institutions;
5. The long-term deposits or investments must have a maturity period of not less than five (5) years;
6. The long-term deposits or investments must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
7. The long-term deposits or investments should not be terminated by the original investor before the fifth (5^{th}) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and
8. Except those specifically exempted by law or BSP rules, any other income such as gains from trading, foreign exchange gain, shall not be covered by income tax exemption.

The exemption from interest income on long term investments is subject to full compliance with the above requisites. Nevertheless, should qualified investors of such instruments pre-terminate the deposit or investment before the fifth (5th) year, a final tax shall be imposed on the entire income and shall be deducted and withheld by the depository bank from the proceeds of the long term deposit or investment certificate based on the remaining maturity thereof:

Four (4) years to less than five (5) years: 5.00%;
Three (3) years to less than four (4) years: 12.00%; and
Less than three (3) years: 20.00%.

Interest Income received by domestic and resident foreign corporations shall be subject to the final withholding tax of 20.0%. Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25.0%. The foregoing rates may be reduced under an applicable tax treaty. However, non-resident aliens not engaged in trade or business in the Philippines are Prohibited CD Holders and accordingly, not eligible to invest in the Series 2 LTNCTDs.

No tax ruling has been issued by the BIR which clarifies the operation of Revenue Regulation No. 14-2012 vis-à-vis unsecured subordinated debt issuances such as the LTNCTDs.

Under Rep. Act No. 9337 (amending the National Internal Revenue Code), interest income received by a non-resident foreign corporation shall generally be subject to the 30.0% final withholding tax. This rate may also be reduced under an applicable tax treaty. However, non-resident foreign corporations are Prohibited CD Holders and accordingly, not eligible to invest in the Series 2 LTNCTDs.

The BIR has also issued Revenue Memorandum Circular No. 8-2014 (RMC 8-2014) which applies to exemptions from withholding tax in general. Under BIR RMC 8-2014, taxpayers claiming exemption from withholding taxes shall be required by the concerned withholding agent to submit a copy of a valid, current and subsisting tax exemption certificate or ruling, as per existing administrative issuances and any issuance that may be issued from time to time, before payment of related income. If the taxpayer fails to submit the said proof of tax exemption, he or she shall be subjected to the payment of appropriate withholding taxes due on the transaction.

While the income from the LTNCTDs may be considered tax exempt under BIR Revenue Regulation No. 14-2012 (RR 14-2012) (although no categorical ruling has been issued by the BIR to this effect), there is no assurance that the BIR will not issue clarificatory regulations making RMC 8-2014 applicable to long term deposit or investment certificates. In such an event, it may be difficult for qualified individual CD Holders to avail of the tax-exempt nature of the LTNCTDs in accordance with RR 14-2012. In such an event, the Bank may be compelled to apply the prescribed rates of withholding tax and proceed withhold the necessary tax due on the LTNCTDs based on current BSP rules.

Documentary Stamp Taxes

The issuance of the LTNCTDs will be subject to documentary stamp tax at the rate of ₱1.50 for every ₱200.00 of the issue value of such notes. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the LTNCTDs. No documentary stamp tax is imposed on the secondary transfer of the LTNCTDs.

Taxation on Sale or Other Disposition of LTNCTDs

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a Note in an amount equal to the difference between the amount realized from such disposition and the value of such holders interest in the Note. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the LTNCTDs have a maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the LTNCTDs will be exempt from Philippine income tax.

Value-Added Tax/Gross Receipts Tax

The gross income from the sale or transfer of the LTNCTDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0% of the gross income. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:
    Maturity period is 5 years or less — 5.0%
    Maturity period is more than 5 years — 1.0%
(b) On dividends and equity shares and net income of subsidiaries — 0%
(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7.0%
(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7.0%

Other nonbank financial intermediaries are subject to gross receipts tax at the following rates:

(a)On interest, commissions, discounts and all other items treated as gross income under the Tax Code– 5.0%
(b)On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:
    Maturity period is 5 years or less — 5.0%
    Maturity period is more than 5 years — 1.0%

On June 13, 2016, the BIR issued Revenue Memorandum Circular 62-2016 (“RMC 62-2016”) seeking to clarify the tax treatment of the gross receipts tax which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the gross receipts tax is passed on to the client, such passed on gross receipts tax should be treated as gross income and should be itself subject to a gross receipts tax of either 5% or 7%, depending on the type of income or activity.

Estate and Donor's Tax

The transfer of LTNCTDs as part of the estate of a deceased individual to his heirs, whether or not such individual was a resident of the Philippines at the time of his death, will be subject to an estate tax. Under the Tax Reform for Acceleration and Inclusion (TRAIN) Law, which took effect on the first day of 2018, from a graduated tax rate of 5 percent to 20 percent, a flat tax rate of 6 percent will now be applied to the value of the net estate upon transfer of the decedent, whether the decedent is a resident or non-resident of the Philippines

A holder of such LTNCTDs will be subject to donor's tax. The TRAIN Law also amended the taxation of donations by imposing a uniform tax rate of 6 percent based on the value of the total gift in excess of ₱250,000 made during a calendar year, regardless of the relation of the donor to the donee. Previously, the donations were subjected to a graduated tax rate of 2 percent to 15 percent on donations to relatives, and 30 percent on donations to strangers.

The estate tax as well as the donor's tax in respect of the LTNCTDs shall not be collected (i) if the deceased at the time of death or the donor at the time of the 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 (ii) if the laws of the foreign country of which the deceased or the 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.

OFFER PROCEDURE

Method of Distribution

The LTNCTDs are being issued pursuant to an approval by the BSP dated July 12, 2018 and subject to the terms and conditions of the Master CD, as well as BSP Circular Nos. 877 (2015), 834 (2014), 824 (2014), 810 (2013), 778 (2012) and 304 (2001) and Sections X233.9 of the Manual of Regulations for Banks, as may be amended.

The LTNCTDs are being issued by the Issuer with ING Bank N.V., Manila Branch and Standard Chartered Bank as Joint Lead Arrangers and Selling Agents, (b) the Bank, First Metro Investment Corp and Metropolitan Bank and Trust Company as Selling Agents, and (d) Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Issuer or the Joint Lead Arrangers in any jurisdiction (other than the Philippines), that would permit a public offering of any of the LTNCTDs, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the LTNCTDs, in any country or jurisdiction where action for that purpose is required.

The Joint Lead Arrangers are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the LTNCTDs and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Joint Lead Arrangers in connection therewith. Each of the Joint Lead Arrangers is a third-party in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent is likewise a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine its independence.

Applications to Purchase the LTNCTDs during the Offer Period

Applicants may purchase the LTNCTDs during the Offer Period by submitting fully and duly accomplished Applications to Purchase the LTNCTDs, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. The Issuer and Arranger reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

a. A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;
b. Two (2) fully executed signature cards in the form attached to the application; and
c. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;
b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the LTNCTDs and specifying the authorized signatories; and

c. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application.

Corporate applicants who are claiming tax exemption must also submit the following:

a. Certified true copy of a tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue no more than one year prior to the date of submission of the same to the Selling Agents;
b. Unless waived by the Bank or an equivalent document acceptable to the Bank is submitted, original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax exempt status and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and
c. Such other documentary requirements as may be required by the Registrar as proof of the Applicant's tax-exempt status.

Allocation and Issue of the LTNCTDs

Applications to Purchase the LTNCTDs shall be subject to the availability of the LTNCTDs and acceptance by the Issuer. The Joint Lead Arrangers, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to Purchase the LTNCTDs applied for.

In the event that payment supporting any Application to Purchase is returned by the drawee bank for any reason whatsoever, the Application to Purchase shall be automatically cancelled and any prior acceptance of the Application to Purchase shall be deemed revoked. If any Application to Purchase is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Issuer and the relevant CD Holder.

Upon confirmation by the Issuer of acceptance of the relevant Applications to Purchase and the respective amount of LTNCTDs, the Selling Agents shall issue the relevant purchase advice (the "Purchase Advice") to successful applicants confirming the acceptance of their offer to purchase the LTNCTDs and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Registrar.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agents to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the CD Holder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall issue the Registry Confirmations directly to the CD Holders in the mode elected by the CD Holder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the LTNCTDs shall be coursed the trading facilities of PDEx, as applicable, subject to the payment by the CD Holder of fees to the connection with trading on PDEx, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the LTNCTDs in PDEx for secondary market trading. Upon listing of the LTNCTDs with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the LTNCTDs in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the LTNCTDs on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the LTNCTDs as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the LTNCTDs as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining CD Holder of the LTNCTDs will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the LTNCTDs, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the LTNCTDs.

The Registrar shall register any transfer of the LTNCTDs upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor CD holder and endorsed by the PDEx Trading Participant;
- the relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the LTNCTDs as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the LTNCTDs in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the LTNCTDs made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the CD Holders the amounts due under the LTNCTDs, net of taxes and fees (if any), by way of credits to the bank accounts identified by the CD Holders in the Applications to Purchase.

INDEX TO THE FINANCIAL STATEMENTS

PARTIES TO THE ISSUE

ISSUER

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

JOINT LEAD ARRANGERS AND SELLING AGENTS

ING Bank N.V., Manila Branch
21/F Tower One, Ayala Triangle
Ayala Avenue, Makati City

Standard Chartered Bank,
Philippine Branch
6788 Ayala Avenue, Makati City

SELLING AGENTS

Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner
Sedeno St., Makati City

First Metro Investment Corporation
44/F GT Tower International
6813 Ayala Avenue Corner
H.V. Dela Costa Street, Makati City

Metropolitan Bank & Trust Company
Metrobank Plaza
Sen. Gil Puyat Avenue
Urdaneta Village, Makati City

REGISTRAR AND PAYING AGENT

Philippine Depository & Trust Corp
37th Floor, Tower 1, Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

LEGAL ADVISER TO THE ISSUE

Picazo Buyco Tan Fider and Santos
Liberty Center – Picazo Law
104 H.V. Dela Costa St., Makati City

INDEPENDENT AUDITOR

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
Makati City

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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Building a better working world

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Building a better working world

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

INDEPENDENT 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.

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

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.

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.

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.

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 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."

Deferred effectivity

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

Bills Payable

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	December 31, 2016 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	₱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						
				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**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
				[d]		
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 [d]		
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	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 [d]		
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]**
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 [d]		
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]
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

Unaudited Interim Condensed Financial Statements
As at March 31, 2018
And for the three-month periods ended
March 31, 2018 and 2017
(With Comparative Audited Statement of Condition as of December
31, 2017)

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENT OF CONDITION
(With Comparative Audited Figures as at December 31, 2017)

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and Other Cash Items	**₱2,931,620,739**	₱2,596,872,801
Due from Bangko Sentral ng Pilipinas	**13,896,747,045**	15,265,387,772
Due from Other Banks	**1,852,684,311**	1,508,489,309
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	–	1,842,023,049
Financial Assets at Fair Value Through Profit or Loss (Notes 2, 3 and 5)	**275,419,963**	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)	**13,197,343,611**	–
Held-to-Maturity Investments (Notes 2, 3 and 5)	–	29,473,724,384
Hold-to-Collect Investments (Notes 2, 3 and 5)	**34,818,261,550**	–
Loans and Receivables (Notes 2, 3 and 6)	**147,752,396,445**	144,964,513,221
Investment in a Joint Venture	**622,570,217**	607,162,821
Property and Equipment (Note 7)	**2,400,964,011**	2,480,012,354
Investment Properties (Note 8)	**3,937,870,841**	3,930,317,479
Deferred Tax Assets (Note 2)	**1,291,452,789**	1,429,327,369
Goodwill and Intangible Assets	**679,888,709**	714,924,056
Other Assets (Note 9)	**1,425,775,540**	1,219,566,379
	₱225,082,995,771	₱223,324,042,624
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱19,888,142,771**	₱19,112,561,892
Savings	**31,714,505,607**	30,383,783,001
Time	**131,034,402,923**	136,042,056,714
Long-term Negotiable Certificates of Deposits	**3,375,000,000**	3,375,000,000
	186,012,051,301	188,913,401,607
Bills Payable (Note 10)	**5,949,549,592**	1,492,418,518
Subordinated Note	**2,979,652,667**	2,978,997,695
Treasurer's, Cashier's and Manager's Checks	**1,840,704,454**	2,213,869,703
Accrued Taxes, Interest and Other Expenses (Note 11)	**1,606,610,933**	1,658,423,304
Income Tax Payable	**86,905,915**	375,277
Financial Liabilities at Fair Value Through Profit or Loss (Notes 3 and 5)	**38,612,818**	–
Other Liabilities (Note 12)	**3,409,341,758**	3,673,232,353
	201,923,429,438	200,930,718,457

(Forward)

	March 31, 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)	**17,887,816,347**	17,097,046,504
Net Unrealized Loss on Available-for-Sale Investments (Notes 2 and 5)	**–**	(411,510,218)
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income (Notes 2 and 5)	**(438,137,648)**	–
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	**(1,976,286)**	(4,076,039)
	23,159,566,333	22,393,324,167
	₱225,082,995,771	₱223,324,042,624

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF INCOME

	Three Months Ended March 31	
	2018	2017
INTEREST INCOME		
Loans and receivables (Note 6)	**₱3,400,140,712**	₱2,963,981,522
Hold-to-collect investments (Note 5)	**346,999,962**	–
Financial assets at fair value through other comprehensive income (Note 5)	**147,912,701**	–
Interbank loans receivable and securities purchased under resale agreements	**6,400,237**	19,921,208
Financial assets at fair value through profit or loss (Note 5)	**6,152,654**	24,374,361
Due from Bangko Sentral ng Pilipinas	**1,384,940**	6,745,069
Due from other banks	**1,030,769**	641,874
Held-to-maturity investments (Note 5)	**–**	267,085,712
Available-for-sale investments (Note 5)	**–**	128,064,797
	3,910,021,975	3,410,814,543
INTEREST EXPENSE		
Deposit liabilities (Note 14)	**929,534,797**	680,300,614
Subordinated notes	**41,904,972**	65,223,852
Bills payable	**16,851,852**	18,748,820
	988,291,621	764,273,286
NET INTEREST INCOME	**2,921,730,354**	2,646,541,257
Service fees and commission income	**385,990,048**	356,218,609
Service fees and commission expense	**23,827,146**	22,191,005
NET SERVICE FEES AND COMMISSION INCOME	**362,162,902**	334,027,604
OTHER OPERATING INCOME (CHARGES)		
Gain on foreclosure and sale of chattel mortgage properties - net (Note 9)	**147,183,348**	105,514,529
Gain on foreclosure and sale of investment properties - net (Note 8)	**81,496,571**	63,936,584
Trading and securities losses - net (Note 5)	**(80,052,545)**	(97,453,488)
Foreign exchange gains - net	**27,283,104**	11,508,164
Miscellaneous (Note 13)	**205,829,917**	145,320,267
	381,740,395	228,826,056
TOTAL OPERATING INCOME	**3,665,633,651**	3,209,394,917
OTHER EXPENSES		
Compensation and fringe benefits	**821,206,708**	748,427,295
Provision for credit and impairment losses	**662,715,253**	619,958,374
Taxes and licenses	**427,955,581**	336,666,634
Occupancy and equipment-related costs	**190,293,305**	186,372,465
Depreciation (Note 7)	**160,220,714**	161,598,023
Security, messengerial and janitorial services	**137,948,238**	110,454,776
Amortization of intangible assets	**44,178,999**	26,759,281
Miscellaneous (Note 14)	**520,114,772**	526,483,439
	2,964,633,570	2,716,720,287

(Forward)

	Three Months Ended March 31	
	2018	2017
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**₱701,000,081**	₱492,674,630
SHARE IN NET INCOME OF A JOINT VENTURE	**15,407,396**	10,291,137
INCOME BEFORE INCOME TAX	**716,407,477**	502,965,767
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**102,871,292**	96,393,705
Deferred	**(3,511,304)**	(104,540,325)
	99,359,988	(8,146,620)
NET INCOME	**₱617,047,489**	₱511,112,387
Basic/Diluted Earnings Per Share	**₱2.57**	₱2.13

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

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PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31	
	2018	2017
NET INCOME	**₱617,047,489**	₱511,112,387
OTHER COMPREHENSIVE INCOME (LOSSES)		
Items that recycle to profit or loss in subsequent periods:		
Net unrealized gain from available-for-sale investments (Note 5)	–	276,391,509
Net unrealized loss from financial assets at fair value through other comprehensive income (Note 5)	**(366,802,251)**	–
Cumulative translation adjustment	**2,099,753**	272,153
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)**	–
	(366,891,163)	276,663,662
TOTAL COMPREHENSIVE INCOME	**₱250,156,326**	₱787,776,049

See accompanying Notes to Unaudited Interim Condensed 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 Loss on Financial Assets at Fair Value Through Other Comprehensive Income/ Available-For-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains 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 Philippine Financial Reporting Standards 9 (Note 2)	**–**	**–**	**–**	**353,911,722**	**342,363,486**	**–**	**–**	**–**	**696,275,208**
Balance at January 1, 2018, as restated	**2,402,524,910**	**2,818,083,506**	**1,035,402,901**	**17,450,958,226**	**(69,146,732)**	**(545,392,541)**	**1,245,144**	**(4,076,039)**	**23,089,599,375**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**617,047,489**	**(368,990,916)**	**–**	**–**	**2,099,753**	**250,156,326**
Cash dividends (Note 18)	**–**	**–**	**–**	**(180,189,368)**	**–**	**–**	**–**	**–**	**(180,189,368)**
Balance at March 31, 2018 (unaudited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,887,816,347**	**(₱438,137,648)**	**(₱545,392,541)**	**₱1,245,144**	**(₱1,976,286)**	**₱23,159,566,333**
Balance at January 1, 2017 (audited)	₱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	–	–	–	511,112,387	276,391,509	–	–	272,153	787,776,049
Cash dividends (Note 18)	–	–	–	(180,189,368)	–	–	–	–	(180,189,368)
Balance at March 31, 2017 (unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,494,435,452	(₱566,516,855)	(₱541,701,193)	₱1,443,599	₱1,714,141	₱20,645,258,877

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Three Months Ended March 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱716,407,477**	₱502,965,767
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	–	(703,371,210)
Amortization of premium on financial assets at fair value through other comprehensive income and hold-to-collect investments	**589,176,174**	–
Provision for credit and impairment losses	**662,715,253**	619,958,374
Depreciation (Note 7)	**160,220,714**	161,598,023
Gain on foreclosure and sale of:		
Chattel mortgage properties (Note 9)	**(147,183,348)**	(105,514,529)
Investment properties (Note 8)	**(81,496,571)**	(63,936,584)
Amortization of:		
Intangible assets	**44,178,999**	26,759,281
Debt issuance costs	**654,972**	3,265,585
Realized loss on sale of available-for-sale investments (Note 5)	–	71,267,096
Realized gain on sale of financial assets at fair value through other comprehensive income (Note 5)	**(46,025,553)**	–
Share in net income of a joint venture	**(15,407,396)**	(10,291,137)
Unrealized trading gain on financial assets at fair value through profit or loss (Note 5)	**(23,592,099)**	(15,545,541)
Gain on sale of property and equipment (Note 7)	**(86,491)**	(11,000)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**153,034,319**	396,056,074
Loans and receivables	**(3,590,553,723)**	(4,858,337,003)
Other assets	**(210,984,113)**	(143,734,415)
Increase (decrease) in:		
Deposit liabilities	**(2,900,516,910)**	11,879,469,975
Accrued taxes, interest and other expenses	**(51,808,938)**	(172,026,491)
Treasurer's, cashier's and manager's checks	**(373,165,249)**	199,112,633
Other liabilities	**(263,879,272)**	(15,814,300)
Cash generated from (used in) operations	**(5,378,311,755)**	7,771,870,598
Income taxes paid	**(16,340,634)**	(8,372,015)
Net cash provided by (used in) operating activities	**(5,394,652,389)**	7,763,498,583
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Available-for-sale investments	–	(2,012,662,639)
Financial assets at Fair value through other comprehensive income	**(4,306,461,223)**	–
Held-to-maturity investments	–	(4,155,851,723)
Hold-to-collect investments	**(882,422,211)**	–

(Forward)

	Three Months Ended March 31	
	2018	**2017**
Property and equipment	**(₱29,176,151)**	(₱62,174,937)
Other intangible assets	**(9,143,652)**	(22,511,036)
Proceeds from sale of:		
Available-for-sale investments	**–**	1,309,876,825
Financial assets at fair value through other comprehensive income	**3,036,638,321**	–
Chattel mortgage properties	**607,572,463**	429,335,694
Investment properties	**168,364,361**	146,528,501
Property and equipment	**375,718**	568,164
Net cash used in investing activities	**(1,414,252,374)**	(4,366,891,151)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	**63,269,745,119**	30,855,941,100
Settlement of bills payable	**(58,812,415,195)**	(31,768,392,555)
Dividends paid	**(180,189,368)**	(180,189,368)
Settlement of subordinated notes	**–**	(3,001,910,905)
Net cash provided by (used in) financing activities	**4,277,140,556**	(4,094,551,728)
Effect of exchange rate differences	**43,371**	13,069
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(2,531,720,836)**	(697,931,229)
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	**2,931,620,739**	2,530,014,328
Due from Bangko Sentral ng Pilipinas	**13,896,747,045**	14,635,497,590
Due from other banks	**1,852,684,311**	2,449,763,656
Interbank loans receivable and securities purchased under resale agreements	**–**	1,544,528,699
	₱18,681,052,095	₱21,159,804,273
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱1,070,102,394**	₱755,098,500
Interest received	**4,748,138,772**	3,947,039,345

See accompanying 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 March 31, 2018, the Bank had a total of 250 branches and 611 ATMs which consist of 263 onsite ATMs and 348 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 March 31, 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 condensed 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 condensed 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.

The unaudited interim condensed financial statements have been prepared solely for inclusion in the offering circular prepared by the Bank for its issuance of long-term negotiable certificate of time deposits (LTNCD), and for no other purpose.

Statement of Compliance
The accompanying unaudited interim condensed financial statements for the three months ended March 31, 2018 and 2017 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed 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.

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, 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'.

Interest income from financial assets at FVTPL are recorded using the nominal interest rate.

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 classified at amortized cost 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 condensed 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 applied 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 using a modified retrospective approach. This approach allows the entity not to restate prior periods, however, adjustments are made at the beginning balance of the annual reporting period 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:

Financial Instruments – Classification and Measurement
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 amortized cost consist of hold-to-collect (HTC) investments and loans and receivables.

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 interim 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 hold-to-collect investments.

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 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's loans and receivables consists of different portfolios, such as consumption, real estate, commercial and personal loans, as well as other receivables (e.g., sales contract receivables). In compliance with PFRS 9, the Bank has developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

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 as the Bank does not apply hedge accounting.

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	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

	Balance at December 31, 2017 (audited)	Transition adjustment	Balance at January 1, 2018, as restated
Surplus	₱17,097,046,504	₱353,911,722	₱17,450,958,226
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income/Available-For-Sale Investments	(411,510,218)	342,363,486	(69,146,732)
	₱16,685,536,286	₱696,275,208	₱17,381,811,494

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 HTC investments	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, net of tax	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 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. 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 (LTNCD) 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 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 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):

	March 31, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments (Note 5)					
Government securities	**₱271,658**	**₱271,658**	**₱–**	**₱–**	**₱271,658**
Derivative assets - foreign exchange swaps	**3,762**	**–**	**3,762**	**–**	**3,762**
FVOCI investments (Note 5)					
Government debt securities	**7,388,979**	**7,388,979**	**–**	**–**	**7,388,979**
(Forward)					

	March 31, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Private debt securities	**₱5,798,362**	**₱5,798,362**	**₱–**	**₱–**	**₱5,798,362**
Equity securities	**7,703**	**163**	**7,540**	**–**	**7,703**
	₱13,470,464	**₱13,459,162**	**₱11,302**	**₱–**	**₱13,470,764**
Liabilities measured at fair value:					
Financial Liabilities					
Financial liabilities at fair value	**₱38,613**	**₱–**	**₱38,613**	**₱–**	**₱38,613**
Assets for which fair values are disclosed:					
Financial Assets					
HTC investments (Note 5)					
Government	**₱30,746,489**	**₱16,352,933**	**₱–**	**₱–**	**₱16,352,933**
Private	**4,071,773**	**2,582,229**	**–**	**–**	**2,582,229**
Loans and receivables (Note 6)					
Receivables from customers					
Consumption loans	**85,715,610**	**–**	**–**	**92,719,816**	**92,719,816**
Real estate loans	**46,737,824**	**–**	**–**	**46,096,181**	**46,096,181**
Commercial loans	**10,303,385**	**–**	**–**	**10,896,069**	**10,896,069**
Personal loans	**2,975,021**	**–**	**–**	**3,291,754**	**3,291,754**
Other receivables					
Sales contract receivable	**71,634**	**–**	**–**	**100,461**	**100,461**
Other assets (Note 9)					
Security deposits	**182,485**	**–**	**–**	**182,485**	**182,485**
Non-Financial Assets					
Investment properties (Note 8)	**3,937,871**	**–**	**–**	**5,550,932**	**5,550,932**
	₱184,742,092	**₱18,935,162**	**₱–**	**₱158,837,698**	**₱177,772,860**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	**₱131,034,402**	**₱–**	**₱–**	**₱131,140,127**	**₱131,140,127**
LTNCD	**3,375,000**	**–**	**–**	**3,193,895**	**3,193,895**
Subordinated notes	**2,979,653**	**–**	**–**	**2,874,005**	**2,874,005**
	₱137,427,668	**₱–**	**₱–**	**₱137,208,027**	**₱137,208,027**

	December 31, 2017(Audited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments (Note 5)					
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 (Note 5)					
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*	8,923	163	8,760	–	8,923
	₱17,290,642	₱16,707,213	₱583,429	₱–	₱17,290,642
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments (Note 5)					
Government	₱25,460,778	₱24,634,062	₱–	₱–	₱24,634,062
Private	4,012,946	4,046,020	–	–	4,046,020
Loans and receivables (Note 6)					
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
Other assets (Note 9					
Security deposits	179,436	–	–	288,467	288,467

(Forward)

Non-Financial Assets					
Investment properties (Note 8)	₱3,930,317	₱–	₱–	₱4,939,141	₱4,939,141
	₱176,023,171	₱28,680,082	₱–	₱160,265,752	₱188,945,834
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 (Note 10)	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 March 31, 2018 and December 31, 2017.

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 March 31, 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 March 31, 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, cash flow 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**

Financial Assets and Liabilities at Fair Value Through Profit or Loss
Financial assets at FVTPL consist of the following:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities	**₱271,658,347**	₱293,076,128
Derivative instruments	**3,761,616**	73,159,561
	₱275,419,963	₱366,235,689

As of March 31, 2018 and December 31, 2017, the Bank has derivative liabilities presented as financial liabilities at FVTPL amounting to ₱38.6 million and nil, respectively.

Net movements of derivative instruments are as follows:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	**₱73,159,561**	(₱64,817,467)
Fair value changes during the year	**(82,517,941)**	244,579,043
Settled transactions	**(25,492,822)**	(106,602,015)
Balance at end of period	**(₱34,851,202)**	₱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:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - AFS		
Government	**₱–**	₱10,762,411,432
Private	**–**	6,153,071,645
Debt securities - FVOCI		
Government	**7,388,978,751**	–
Private	**5,798,361,995**	–

(Forward)

Equity securities - AFS	**₱–**	₱12,191,529
Equity securities - FVOCI	**10,002,865**	–
	₱13,197,343,611	₱16,927,674,606
Less allowance for impairment losses	**–**	2,188,665
	₱13,197,343,611	₱16,925,485,941

Movements in the net unrealized loss on FVOCI/AFS investments follow:

	March 31, 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	**46,025,553**	–
Changes in fair values of AFS investments	**–**	381,641,780
Changes in fair values of financial assets at FVOCI	**(415,016,469)**	–
	(368,990,916)	431,398,146
Balance at end of year	**(₱438,137,648)**	(₱411,510,218)

Hold-to-collect investments/Held-to-Maturity Investments
HTC investments/HTM investments consist of the following:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - HTM		
Government	**₱–**	₱25,460,777,587
Private	**–**	4,012,946,797
Debt securities - HTC		
Government	**30,746,488,690**	–
Private	**4,071,772,860**	–
	₱34,818,261,550	₱29,473,724,384

As of March 31, 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 ₱4.3 billion and ₱1.0 billion, respectively.

Interest income on investment securities consists of:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
Interest income recognized using EIR		
Hold-to-collect investments	**₱346,999,962**	₱–
Financial assets at FVOCI	**147,912,701**	–
HTM investments	–	267,085,712
AFS investments	–	128,064,797
	494,912,663	395,150,509
Interest income recognized using nominal interest rates		
Financial assets at FVTPL	**6,152,654**	24,374,361
	6,152,654	24,374,361
	₱501,065,317	₱419,524,870

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 2.13% to 9.50% for the three months ended March 31, 2018 and 2017, 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 three months ended March 31, 2018 and 2017, respectively.

EIR on financial assets at FVOCI/AFS investments for the three months ended March 31, 2018 and 2017 range from 2.47% to 7.97% and 2.47% to 8.14%, respectively.

On the other hand, peso-denominated hold-to-collect investments/HTM investments bear effective interest rates ranging from 3.70% to 5.61% and 3.50% to 5.61% for the three months ended March 31, 2018 and 2017, respectively, while foreign currency-denominated hold-to-collect investments/HTM investments bear effective interest rates ranging from 2.46% to 4.96% for the three months ended March 31, 2018 and 2017.

Trading and securities losses - net on investment securities consist of:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
FVTPL investments		
Realized	**(₱10,434,893)**	(₱41,731,933)
Unrealized market valuation gain (loss)	**(23,592,099)**	15,545,541
	(34,026,992)	(26,186,392)
AFS investments	–	(71,267,096)
Financial assets at FVOCI	**(46,025,553)**	–
	(₱80,052,545)	(₱97,453,488)

6. Loans and Receivables

This account consists of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Receivables from customers		
Consumption loans	**₱87,968,342,989**	₱84,276,599,224
Real estate loans	**46,985,306,038**	46,594,075,046
Commercial loans	**10,791,948,788**	11,975,704,903
Personal loans	**3,407,591,248**	3,486,068,122
	149,153,189,063	146,332,447,295
Less unearned discounts	**134,721**	145,142
	149,153,054,342	146,332,302,153
Other receivables		
Accrued interest receivable	**1,662,431,838**	1,911,372,461
Accounts receivable	**838,843,300**	1,250,586,507
Sales contract receivables	**98,931,601**	106,727,770
Bills purchased	**12,171,407**	10,482,445
	151,765,432,488	149,611,471,336
Less allowance for credit losses	**4,013,036,043**	4,646,958,115
	₱147,752,396,445	₱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 8.61% to 9.07%, and 9.00% to 9.16% for the three months ended March 31, 2018 and 2017, respectively.

Interest income on loans and receivables consists of:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
Receivables from customers		
Consumption loans	**₱2,074,709,444**	₱1,778,940,843
Real estate loans	**825,944,336**	806,731,181
Personal loans	**314,564,066**	194,273,311
Commercial loans	**183,253,379**	181,643,062
Other receivables		
Sales contract receivables	**1,669,487**	2,393,125
	₱3,400,140,712	₱2,963,981,522

7. Property and Equipment

The composition of and movements in this account follow:

	March 31, 2018 (Unaudited)				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of period	**₱976,443,676**	**₱1,126,593,369**	**₱2,721,454,277**	**₱976,140,270**	**₱5,800,631,592**
Acquisitions	**–**	**–**	**28,212,847**	**963,304**	**29,176,151**
Disposals	**–**	**–**	**(1,495,000)**	**(3,850,000)**	**(5,345,000)**
Balance as at March 31, 2018	**976,443,676**	**1,126,593,369**	**2,748,172,124**	**973,253,574**	**5,824,462,743**
Accumulated Depreciation					
Balance at beginning of period	**–**	**416,470,260**	**2,185,390,898**	**718,758,080**	**3,320,619,238**
Depreciation	**–**	**8,467,663**	**66,744,631**	**24,026,200**	**99,238,494**
Disposals	**–**	**–**	**(1,205,773)**	**–**	**(1,205,773)**
Reclassifications/transfer	**–**	**–**	**4,657,994**	**188,779**	**4,846,773**
Balance as at March 31, 2018	**–**	**424,937,923**	**2,255,587,750**	**742,973,059**	**3,423,498,732**
Net Book Value	**₱976,443,676**	**₱701,655,446**	**₱492,584,374**	**₱230,280,515**	**₱2,400,964,011**

	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:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
Property and equipment	**₱99,238,494**	₱97,193,007
Investment properties (Note 8)	**22,934,715**	21,871,114
Chattel mortgage properties (Note 9)	**38,047,505**	42,533,902
	₱160,220,714	₱161,598,023

8. Investment Properties

The composition of and movements in this account follow:

	March 31, 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	**30,779,315**	**127,257,459**	**158,036,775**
Disposals	**(54,189,607)**	**(91,171,074)**	**(145,360,682)**
Balance as at March 31, 2108	**1,603,431,360**	**2,966,707,561**	**4,570,138,921**
Accumulated Depreciation			
Balance at beginning of year	–	**397,625,717**	**397,625,717**
Depreciation	–	**22,934,715**	**22,934,715**
Disposals	–	**(13,857,403)**	**(13,857,403)**
Balance as at March 31, 2018	–	**406,703,029**	**406,703,029**
Allowance for Impairment Losses			
Balance at beginning of year	**166,817,379**	**62,702,253**	**229,519,632**
Provisions for the three months ended	**861,493**	**799,581**	**1,661,074**
Disposals	**(161,099)**	**(5,454,556)**	**(5,616,655)**
Balance as at March 31, 2018	**167,517,773**	**58,047,278**	**225,565,051**
Net Book Value	**₱1,435,913,587**	**₱2,501,957,254**	**₱3,937,870,841**

	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)
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:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Real estate properties acquired in settlement of loans and receivables	**₱3,840,837,538**	₱3,832,340,181
Bank premises leased to third parties and held for capital appreciation	**97,033,303**	97,977,298
	₱3,937,870,841	₱3,930,317,479

Gain on foreclosure of investment properties amounted to ₱44.6 million and ₱65.3 million for the three months ended March 31, 2018 and 2017, respectively. The Bank realized gain amounting to

₱36.9 million and loss amounting to ₱1.3 million on sale of investment properties for the three months ended March 31, 2018 and 2017, respectively.

9. Other Assets

This account consists of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Chattel mortgage properties - net	**₱708,073,239**	₱712,848,255
Prepayments	**201,118,366**	139,556,053
Security deposits	**182,485,422**	179,996,425
Documentary stamps on hand	**101,408,132**	103,123,771
Creditable withholding tax	**90,445,903**	6,675,985
Sundry debits	**73,506,559**	23,766,185
Stationeries and supplies on hand	**45,387,446**	41,788,037
RCOCI	**21,056,137**	10,349,423
Others	**2,293,936**	1,462,245
	₱1,425,775,540	₱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:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost		
Balance at beginning of period	**₱806,325,646**	₱683,799,123
Additions	**684,360,149**	2,577,163,081
Disposals	**(681,125,934)**	(2,454,636,558)
Balance at the end of period	**809,559,861**	806,325,646
Accumulated Depreciation		
Balance at beginning of period	**₱93,217,346**	₱76,086,898
Depreciation	**38,047,505**	150,298,384
Disposals	**(30,430,059)**	(133,167,936)
Balance at the end of period	**100,834,792**	93,217,346
Allowance for Impairment Losses		
Balance at beginning of period	**260,045**	616,090
Provision	**982,069**	–
Disposals	**(590,284)**	(356,045)
Balance at end of period	**651,830**	260,045
Net Book Value	**₱708,073,239**	₱712,848,255

Gain on foreclosure of chattel mortgage properties amounted to ₱189.7 million and ₱133.9 million for the three months ended March 31, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱42.5 million and ₱28.4 million for the three months ended March 31, 2018 and 2017, respectively.

10. **Bills Payable**

This account consists of the following:

	March 31,2018 (Unaudited)	December 31, 2017 (Audited)
Securities sold under repurchase agreements (SSURA)	**₱3,427,949,592**	₱1,492,418,518
Interbank borrowings	**2,521,600,000**	–
	₱5,949,549,592	₱1,492,418,518

Bills payable - SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 5 to 33 days. Interest rates for SSURA range from 1.70% to 2.25% and 0.00% to 1.75% as of March 31, 2018 and December 31, 2018, respectively. Interest rate for interbank borrowing range is 1.85% and nil as of March 31, 2018 and December 31, 2018, respectively.

Interest expense on bills payable for the three months ended March 31, 2018 and 2017 amounted to ₱16.85 million and ₱18.75 million, respectively.

11. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Accrued interest payable	**₱457,193,303**	₱539,659,048
Accrued other taxes and licenses payable	**232,819,617**	121,804,006
Accrued other expenses payable	**916,598,013**	996,960,250
	₱1,606,610,933	₱1,658,423,304

Accrued other expenses payable consist of:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Litigation	**₱264,768,140**	₱209,942,489
Lease payable	**192,854,333**	188,338,698
Compensation and fringe benefits	**119,025,508**	141,725,665
Insurance	**97,226,941**	193,075,730
Advertising	**64,159,810**	68,640,771
Security, messengerial and janitorial	**60,707,443**	76,800,392
Information technology	**39,635,712**	37,731,731
ATM maintenance	**11,894,674**	15,568,755
Telephone	**7,700,133**	7,562,631
Membership, fees & dues	**5,161,321**	4,993,929
Professional and consultancy fees	**2,948,150**	2,830,174
Miscellaneous	**50,515,848**	49,749,285
	₱916,598,013	₱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:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Accounts payable	**₱1,829,118,808**	₱2,080,276,358
Other credits	**747,798,008**	698,347,392
Net retirement liability	**441,752,607**	515,852,989
Sundry credits	**203,901,258**	207,190,555
Withholding taxes payable	**88,981,964**	94,051,921
Due to the Treasurer of the Philippines	**17,189,565**	16,959,070
Bills purchased - contra	**12,171,407**	10,482,445
SSS, Medicare, ECP and HDMF premium payable	**9,569,414**	9,122,722
Miscellaneous	**58,858,727**	40,948,901
	₱3,409,341,758	₱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 ₱18.5 million and ₱18.2 million as of March 31, 2018 and December 31, 2017, respectively.

13. **Miscellaneous Income**

This account consists of:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
Recovery of charged-off assets	**₱80,667,581**	₱97,998,842
Insurance commission income	**30,994,573**	27,651,904
Rental income	**12,185,998**	14,194,358
Others	**81,981,765**	5,475,163
	₱205,829,917	₱145,320,267

Rental income arises from the lease of properties and safety deposit boxes of the Bank.

Others include income from renewal fees, check book charges, dividend income and other miscellaneous income.

14. Interest Expense on Deposit Liabilities and 'Miscellaneous Expenses'

Interest expense on deposit liabilities consists of:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
Time	**₱815,017,966**	₱590,293,595
Demand	**46,749,719**	36,407,476
Savings	**36,963,442**	32,833,904
LTNCD	**30,803,670**	20,765,639
	₱929,534,797	₱680,300,614

Miscellaneous expenses consist of:

	March 31, 2018 (Unaudited)	March 31, 2017 (Unaudited)
Insurance	**₱135,956,393**	₱153,172,124
Litigation	**86,655,967**	74,684,507
Information technology	**59,671,103**	78,063,571
Fines, penalties and other charges	**57,200,985**	17,971,486
Communications	**49,640,043**	36,342,270
Repairs and maintenance	**26,372,730**	33,138,733
Transportation and traveling	**26,166,523**	26,941,634
Advertising	**23,556,329**	42,731,759
Supervision and examination fees	**14,647,133**	13,095,092
Stationery and supplies	**14,569,548**	13,968,167
Management and professional fees	**7,988,185**	5,415,523
Training and seminars	**4,941,596**	4,632,036
Banking activities expenses	**3,928,241**	1,362,094
Rewards and incentives	**2,743,071**	5,101,753
Meeting allowance	**2,023,202**	841,985
Membership fees and dues	**1,466,010**	1,052,412
Entertainment, amusement and recreation (EAR)	**597,443**	906,357
Donations and charitable contributions	**–**	10,000,000
Others	**1,990,270**	7,061,936
	₱520,114,772	₱526,483,439

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱93.1 million and ₱83.9 million for the three months ended March 31, 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 March 31, 2018 and December 31, 2017 amounted to ₱2.0 billion and ₱1.9 billion, respectively.

The following table shows the amount of outstanding balances of related party transactions of the Bank and Sumisho Motor Finance Corporation (SMFC) with the retirement plan of the employees of the Bank as of March 31, 2018 and December 31, 2017:

		March 31, 2018 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Investment in Money Market Fund*	**₱64,483,523**	
	Income from Unit Investment Trust Fund (UITF)		**₱135,053**
	Savings deposit	**861**	
First Metro ETF	Equity investment	**9,349,047**	

*Includes fair value gains of ₱0.025 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:

	March 31, 2018 (Unaudited)	March 31, 2017 (Audited)
Short-term employee benefits	**₱74,939,811**	₱63,140,066
Post-employment pension benefits	**8,412,329**	7,858,066
	₱83,352,140	₱70,998,132

Short-term employee benefits include salaries and other non-monetary benefits.

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱4.7 million and ₱3.3 million for the three months ended March 31, 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). Except as otherwise indicated, the outstanding accounts with related parties shall be settled in cash:

	March 31, 2018 (Unaudited)		
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	**₱4,900,000**	**₱–**	
Maturities	**4,900,000**		
Due from other banks	**773,665**	**1,686,410**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	**(5,689)**	**11,962**	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	**–**	**39,636**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**930**	**–**	Income on deposits and interbank loans receivables
Rental income	**8,599**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**10,230**	**–**	Income received from ATM service fees, rental and utilities
Information technology expense	**29,935**	**–**	Payment of information technology expenses
Trading and security loss	**41**	**–**	Loss from securities transactions
Securities transactions			
Outright purchases	**1,112,960**	**–**	Outright purchase of FVTPL, FVOCI and HTC investments
Outright sales	**578,160**	**–**	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	**–**	**622,570**	Capital investment in SMFC
Accounts receivable	**261**	**2,241**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**2,658**	**15,979**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Rental income	**3,528**	**–**	Income from leasing agreements
Share in net income of a joint venture	**15,407**	**–**	30% 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	**25,355,000**	**–**	
Maturities	**25,355,000**	**–**	
Receivable from customers		**13,787**	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	**3,588**	**–**	
Maturities	**42**	**–**	
Miscellaneous assets	**–**	**1,390**	Three months advance security deposits
Accounts receivable	**(437)**	**2,033**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense	**–**	**542**	Payment for various policy renewals
Deposit liabilities	**(837,034)**	**775,653**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	**–**	**16,400**	Various personal and car insurance payable
Miscellaneous liabilities	**–**	**3,169**	Advance payment of security deposits from various tenants
Interest income	**3,053**	**–**	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**16**	**–**	Loss from securities transactions
Rental income	**4,792**	**–**	Income from leasing agreements with various lease terms
Bank commission	**784**	**–**	Commission income on ATM service fees
Miscellaneous income	**1,901**	**–**	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**15,756**	**–**	Payment of insurance premium
Interest expense	**3,983**	**–**	Interest on deposit liabilities and bills payable
Rent expense	**1,051**	**–**	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	**–**	**4,425**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**1,888**	**–**	
Maturities	**(10,532)**	**–**	
Interest income	**255**	**–**	Interest income from loans

Category	Amount/ Volume	Outstanding Balance	December 31, 2017 (Audited) Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates
Placements	₱19,970,000	₱–	and maturities ranging from 1 to 3 days
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
Deposits/placements	1,285,000	–	2.50% and maturities ranging from 1 to 3 days
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
(Forward)			
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%
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
Placements	59,900,000	–	interest rate with maturity terms from 1 to 5 days.
Maturities	59,400,000	–	
Receivable from customers		10,241	Loans granted bear interest ranging from 6.00% to
Placements	3,723	–	10.50% with maturities ranging from 1 to 5 years;
Maturities	2,817		Secured - ₱10,241
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
Deposits/placements	4,750,000	–	2.50% and maturities ranging from 1 to 4 days
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 March 31, 2018 and December 31, 2017, the Bank's credit exposures to DOSRI are within the said regulatory limits:

	March 31, 2017 (Unaudited)	December 31, 2017 (Audited)
Total outstanding DOSRI accounts	**₱1,945,425,652**	₱1,201,916,069
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.30%**	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	**11.94%**	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 ₱1.4 million and ₱5.8 million in March 31, 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:

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Trust department accounts	**₱6,197,290,384**	₱5,596,171,367
Swap forward exchange - sold	**2,842,305,530**	2,653,256,032
Stand-by credit lines	**74,426,355**	81,664,196
Spot foreign exchange contracts - sold	**52,160,000**	–
Late deposits/payments received	**9,521,669**	5,625,757
Items held for safekeeping	**1,306,206**	1,298,438
Others	**1,257,523**	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 April 23, 2018 passed a resolution approving the declaration of a 7.5% Regular Cash Dividend for the first 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 May 9, 2018 and will be paid no later than the Payment Date of May 23, 2018.

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 ₱85.50 per share as of March 31, 2018.

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
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
April 23, 2018	0.75	180,189,368.3	–	May 9, 2018	May 23, 2018

d) The following table presents information used to calculate basic EPS:

	Three months ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
a. Net income	**₱617,047,489**	₱511,112,387
b. Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491
c. Basic/Diluted EPS (a/b)	**₱2.57**	₱2.13

As of March 31, 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 March 31, 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

BUSINESS SEGMENT INFORMATION

(In thousands)

	Three Months ended March 31, 2018 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,419,286	₱139,034	₱841,821	₱509,881	₱3,910,022
Service fees and commission	158,106	9,070	218,814	–	385,990
Other operating income (expense)	262,518	4,921	167,070	(52,769)	381,740
Total operating income	2,839,910	153,025	1,227,705	457,112	4,677,752
Non-cash expenses					
Provision for credit and impairment losses	603,378	(12,168)	71,505	–	662,715
Depreciation	61,730	1,228	96,991	272	160,221
Amortization of other intangible assets	16,247	754	26,947	231	44,179
Total non-cash expenses (income)	681,355	(10,186)	195,443	503	867,115
Interest expense	–	–	406,562	581,730	988,292
Service fees and commission expense	9,760	560	13,507	–	23,827
Subtotal	9,760	560	420,069	581,730	1,012,119
Compensation and fringe benefits	202,435	16,483	594,961	7,328	821,207
Taxes and licenses	127,252	7,062	169,140	124,501	427,955
Occupancy and equipment-related costs	19,847	309	170,062	75	190,293
Security, messengerial and janitorial services	44,275	1,101	92,342	230	137,948
Miscellaneous	164,785	7,399	304,220	43,711	520,115
Subtotal	558,594	32,354	1,330,725	175,845	2,097,518
Income (loss) before share in net income of a joint venture and income tax	₱1,590,201	₱130,297	(₱718,532)	(₱300,966)	701,000
Share in net income of a joint venture					15,407
Income before income tax					716,407
Provision from income tax					99,360
Net income					₱617,047

	As of March 31, 2018 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Segment assets	₱118,523,530	₱6,867,452	₱43,795,527	₱53,982,464	₱223,168,973
Investments in a joint venture					622,570
Deferred tax assets					1,291,453
Total assets					₱225,082,996
Segment liabilities	₱1,735,908	₱98,142	₱117,025,703	₱83,063,676	₱201,923,429

PHILIPPINE SAVINGS BANK
BUSINESS SEGMENT INFORMATION
(In thousands)

Philippine Savings Bank
BUSINESS SEGMENT INFORMATION
(In thousands)

	Three Months ended March 31, 2017 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱ 2,121,446	₱149,318	₱693,218	₱446,833	₱3,410,815
Service fees and commission	140,649	9,226	206,344	–	356,219
Other operating income	199,865	3,775	111,131	(85,945)	228,826
Total operating income	2,461,960	162,319	1,010,693	360,888	3,995,860
Non-cash expenses					
Provision for credit and impairment losses	132,090	10,393	434,154	43,321	619,958
Depreciation	62,783	1,403	97,213	199	161,598
Amortization of other intangible assets	9,712	541	16,354	152	26,759
Total non-cash expenses	204,585	12,337	547,721	43,672	808,315
Interest expense	–	–	394,023	370,250	764,273
Service fees and commission expense	8,762	575	12,854	–	22,191
Subtotal	8,762	575	406,877	370,250	786,464
Compensation and fringe benefits	183,652	14,614	544,169	5,992	748,427
Taxes and licenses	97,346	7,272	140,215	91,834	336,667
Occupancy and equipment-related costs	14,399	331	171,591	51	186,372
Security, messengerial and janitorial services	18,942	1,287	89,633	594	110,456
Miscellaneous	164,675	9,756	318,013	34,040	526,484
Subtotal	479,014	33,260	1,263,621	132,511	1,908,406
Income before share in net income of a joint venture and income tax	₱1,769,599	₱116,147	(₱1,207,526)	(₱185,545)	492,675
Share in net income of a joint venture					10,291
Income before income tax					502,966
Provision from income tax					(8,146)
Net income					₱ 511,112
	Year ended December 31, 2017 (Audited)				
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