May 15, 2018

Securities and Exchange Commission
G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

Attention: Director Vicente Graciano P. Felizmenio, Jr.
Markets and Securities Regulation Department

Philippine Stock Exchange
9/F PSE Tower, 28th St. cor. 5th Ave.
Bonifacio Global City (BGC)
Taguig City, Philippines

Attention: MR. JOSE VALERIANO B. ZUÑO III
OIC - HEAD, Disclosure Department

Dear Director Felizmenio and Mr. Zuňo,

This is to furnish you with a copy of the SEC 17-Q as of March 31, 2018.

We hope that you will find everything in order.

Thank you very much.

Very truly yours,

LEAH M. ZAMORA
Controller

COVER SHEET

1	5	5	5	2							

SEC Registration Number

PHILIPPINE SAVINGS BANK

(Company's Full Name)

PSBank Center, 777 Paseo de Roxas corner Sedeño Street, Makati City

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

Leah M. Zamora
(Contact Person)

885-8208
(Company Telephone Number)

1	2		3	1

Month *Day*
(Fiscal Year)

1	7	-	Q	

(Form Type)

1st Quarter 2018

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Markets and Securities Regulation Department
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,475
Total No. of Stockholders
As of March 31, 2018

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number | LCU

Document ID | Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF
THE SECURITIES REGULATION CODE

1. For the quarterly period ended : **March 31, 2018**

2. Commission identification number : **15552**

3. BIR tax identification number : **000-663-983-000**

4. Exact name of registrant as specified in its charter:

   o **PHILIPPINE SAVINGS BANK**

5. Province, country or other jurisdiction of incorporation or organization:

   o **City of Manila, Philippines**

6. Industry classification code : [ ] (SEC Use Only)

7. Address of registrant's principal office:

   o **PSBank Center, 777 Paseo de Roxas cor. Sedeño St., Makati City**

8. Registrant's telephone number, including area code

   o **(632) 885-8208**

9. Former name, former address and former fiscal year, if changed since last report:

   o **Not applicable**

10. Securities registered pursuant to Sections 4 and 8 of the RSA:

o Title of each class	**Common Shares**
o Number of shares of common stock outstanding	**240,252,491**
o Amount of debt outstanding	**₱2,979,652,667**
	(Tier II Subordinated Notes)

11. Are any or all of the securities listed on the Philippine Stock Exchange?

   o **Yes**

12. Indicate by check mark whether the registrant:

   (a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).
   Yes **[x]** No [ ]

   (b) has been subject to such filing requirements for the past 90 days.

   Yes **[x]** No [ ]

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

Interim Statements of Condition	Annex 1
Interim Statements of Income	Annex 2
Interim Statements of Changes in Equity	Annex 3
Interim Statements of Comprehensive Income	Annex 4
Interim Statements of Cash Flows	Annex 5
Financial Performance Indicators	Annex 6
General Notes to Interim Financial Statements	Annex 7

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations — Annex 8

PART II – OTHER INFORMATION

1. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of March 31, 2018:

Name of Stockholder	Outstanding Number of Shares	Percent to Total No. of Shares
Metropolitan Bank and Trust Co.	198,629,513	82.675%
Danilo L. Dolor	12,610,891	5.249%

As of March 31, 2018, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

Minimum Public Ownership
As of March 31, 2018, public ownership of the Bank was at 15.66%. Of the total shares issued, 1.65 million shares or 0.69% represents foreign ownership.

2. Legal Proceedings

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

3. Board Resolutions

All material disclosures of the Bank had been made under SEC 17-C.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE SAVINGS BANK
By:

LEAH M. ZAMORA
Controller

JOSE VICENTE L. ALDE
President

May 15, 2018

PHILIPPINE SAVINGS BANK

Unaudited Interim Condensed Financial Statements

As of March 31, 2018 (Unaudited)
(With Comparative Audited Figures as of December 31, 2017)

And for the quarters ended March 31, 2018 and 2017 (Unaudited)

PHILIPPINE SAVINGS BANK

Annex 1

INTERIM STATEMENTS OF CONDITION

(With Comparative Audited Figures as of 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	**13,896,747,044**	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
Investment Securities		
At Fair Value Through Profit or Loss (FVTPL)/FVPL	**275,419,963**	366,235,689
Fair Value Through Other Comprehensive Income (FVOCI)/Available-for-sale (AFS)	**13,197,343,612**	16,925,485,941
Hold-to-Collect (HTC)/Held-to-Maturity (HTM)	**34,818,261,548**	29,473,724,384
Loans and Receivables	**147,283,298,828**	144,964,513,221
Investment in a Joint Venture	**622,570,217**	607,162,821
Property and Equipment	**2,400,964,009**	2,480,012,354
Investment Properties	**3,937,870,840**	3,930,317,479
Deferred Tax Assets	**1,432,838,673**	1,429,327,369
Goodwill and Intangible Assets	**679,888,709**	714,924,056
Other Assets	**1,425,775,548**	1,219,566,379
	₱224,755,284,041	₱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	**131,034,402,922**	136,042,056,714
Long-term Negotiable Certificates of Deposits	**3,375,000,000**	3,375,000,000
	186,012,051,300	188,913,401,607
Bills Payable	**5,949,549,592**	1,492,418,518
Subordinated Notes	**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	**1,606,610,933**	1,658,423,304
Financial Liabilities at FVTPL	**38,612,818**	–
Income Tax Payable	**86,905,915**	375,277
Other Liabilities	**3,409,341,754**	3,673,232,353
	201,923,429,433	200,930,718,457
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	**17,557,915,956**	17,097,046,504
Net Unrealized Gain (Loss) on Fair Value Through Other Comprehensive Income (FVOCI) /AFS	**(435,948,982)**	(411,510,218)
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)
	22,831,854,608	22,393,324,167
	₱224,755,284,041	₱223,324,042,624

PHILIPPINE SAVINGS BANK
INTERIM STATEMENTS OF INCOME

Annex 2

	For the quarters ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
INTEREST INCOME		
Loans and receivables	**₱3,400,140,715**	₱2,963,981,523
Investment securities	**501,065,317**	419,524,870
Interbank loans receivable and securities purchased under resale agreements	**6,400,237**	19,921,208
Due from Bangko Sentral ng Pilipinas	**1,384,940**	6,745,069
Due from other banks	**1,030,769**	641,875
	3,910,021,978	3,410,814,545
INTEREST EXPENSE		
Deposit liabilities	**929,534,797**	680,300,613
Subordinated notes	**41,904,972**	65,223,852
Bills payable	**16,851,852**	18,748,821
	988,291,621	764,273,286
NET INTEREST INCOME	**2,921,730,357**	2,646,541,259
Service fees and commission income	**385,990,048**	356,218,610
Service fees and commission expense	**23,827,146**	22,191,005
NET SERVICE FEES AND COMMISSION INCOME	**362,162,902**	334,027,605
OTHER OPERATING INCOME (CHARGES)		
Gain on foreclosure and sale of investment properties - net	**81,496,571**	63,936,584
Gain on foreclosure and sale of chattel mortgage properties - net	**147,183,348**	105,514,529
Foreign exchange gain - net	**27,283,104**	11,508,164
Gain on sale of property and equipment	**86,491**	11,000
Trading and securities gains (losses) - net	**(56,041,220)**	(97,453,489)
Miscellaneous	**205,743,428**	145,309,267
	405,751,722	228,826,055
TOTAL OPERATING INCOME	**3,689,644,981**	3,209,394,919
OTHER EXPENSES		
Compensation and fringe benefits	**821,206,708**	748,427,295
Provision for credit and impairment losses	**662,715,254**	619,958,374
Taxes and licenses	**427,955,580**	336,666,634
Occupancy and equipment-related costs	**190,293,305**	186,372,465
Depreciation	**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	**520,114,773**	526,483,439
	2,964,633,571	2,716,720,287
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**725,011,410**	492,674,632
SHARE IN NET INCOME OF A JOINT VENTURE	**15,407,396**	10,291,137
INCOME BEFORE INCOME TAX	**740,418,806**	502,965,769
PROVISION FOR (BENEFIT FROM) INCOME TAX	**99,359,987**	(8,146,620)
NET INCOME	**₱641,058,819**	₱ 511,112,389
Basic/Diluted Earnings Per Share	**₱2.67**	₱2.13

PHILIPPINE SAVINGS BANK

Annex 3

INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the Quarters ended March 31	
	2018 (Unaudited)	2017 (Unaudited)
NET INCOME	**₱641,058,819**	₱511,112,389
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Net Unrealized Gain (Loss) on Fair Value Through Other Comprehensive Income (FVOCI)/AFS	**(24,438,764)**	276,391,509
Cumulative translation adjustment	**2,099,753**	272,153
	(22,339,011)	276,663,662
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱618,719,808**	₱787,776,051

PHILIPPINE SAVINGS BANK
INTERIM STATEMENTS OF CHANGES IN EQUITY

Annex 4

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Available-for-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at January 1, 2018	**₱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**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**641,058,819**	**(24,438,764)**	**–**	**–**	**2,099,753**	**618,719,808**
Cash dividends	**–**	**–**	**–**	**(180,189,368)**		**–**	**–**		**(180,189,368)**
Balance at March 31, 2018 (Unaudited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,557,915,955**	**₱ (435,948,982)**	**(545,392,541)**	**₱1,245,144**	**₱ (1,976,286)**	**₱22,831,854,607**
Balance at January 1, 2017	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,434	(₱842,908,364)	(₱541,701,193)	₱ 1,443,599	₱1,441,988	₱20,037,672,196
Total comprehensive income (loss) for the year	–	–	–	511,112,389	276,391,509	–	–	272,153	787,776,051
Cash dividends	–	–	–	(180,189,368)	–	–	–	–	(180,189,368)
ance at March 31, 2017 (Unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,494,435,455	(₱566,516,855)	(₱541,701,193)	₱1,443,599	₱1,714,141	₱20,645,258,880
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	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Appropriation of surplus to trust business	–	–	127,584	(127,584)	–	–	–	–	–
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

PHILIPPINE SAVINGS BANK
INTERIM STATEMENTS OF CASH FLOWS

Annex 5

	Unaudited	
	Quarters Ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱740,418,806**	₱502,965,769
Adjustments to reconcile income before income tax to net cash used in operations:		
Provision for credit and impairment losses	**663,730,027**	619,958,374
Amortization of premium (discount) on FVOCI/AFS and HTC/HTM investments	**(857,722,732)**	998,233,331
Depreciation	**160,220,714**	161,598,023
Gain (loss) on foreclosure and sale of:		
Chattel mortgage properties	**(147,183,348)**	(162,299,739)
Investment properties	**(126,127,809)**	63,936,584
Amortization of:		
Intangible assets	**44,178,999**	26,759,281
Debt issuance costs	**1,188,605**	868,248
Realized gain on sale of FVOCI/AFS investments	**46,388,598**	(71,267,096)
Unrealized trading (gain) loss on FVTPL/FVPL investments	**(419,226)**	(15,545,541)
Share in net income of a joint venture	**(14,162,252)**	(10,291,137)
Gain on sale of property and equipment	**(86,491)**	(11,000)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
FVTPL/FVPL investments	**129,861,519**	443,873,566
Loans and receivables	**(1,748,541,792)**	(4,858,338,358)
Other assets	**(210,984,183)**	(143,733,061)
Increase (decrease) in:		
Financial liabilities at FVTPL /FVPL	**–**	(47,817,483)
Payment of Subordinated Notes	**–**	(2,999,264,700)
Income tax payable	**–**	88,021,687
Deposit liabilities	**(2,900,512,448)**	11,879,114,066
Accrued taxes, interest and other expenses	**(51,808,900)**	(260,048,546)
Treasurer's, cashier's and manager's checks	**(373,165,248)**	199,112,633
Other liabilities	**(265,657,991)**	(15,814,304)
Cash generated from (used in) operations	**(4,910,385,152)**	6,400,010,597
Income taxes paid	**(16,340,654)**	(8,372,018)
Net cash provided by (used in) operating activities	**(4,926,725,806)**	6,391,638,579
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Fair Value Through Other Comprehensive Income (FVOCI	**–**	(2,517,252,632)
Hold-to-Collect (HTC)	**(5,343,816,759)**	(4,410,112,682)
Property and equipment	**(29,176,151)**	(62,174,760)
Other intangible assets	**(9,143,653)**	(22,450,283)
Proceeds from sale of:		
FVOCI	**4,515,307,066**	–
Chattel mortgage properties	**608,554,532**	429,691,738
Investment properties	**212,838,751**	146,528,502
Property and equipment	**9,072,492**	124,907,557
Decrease (increase) in investment properties	**(3,793,483)**	–
Decrease (increase) in interbank loans receivable	**(1,842,023,049)**	1,709,782,900
Net cash provided by (used in) investing activities	**(1,882,180,254)**	(4,601,079,660)

(Forward)

	Unaudited	
	Quarters Ended March 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments (Settlement) of bills payable	**₱4,457,330,990**	(₱912,451,409)
Dividends paid	**(180,189,368)**	(180,189,368)
Net cash provided by financing activities	**4,277,141,622**	(1,092,640,777)
Effect of exchange rate differences	**43,603**	13,086
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(2,531,720,834)**	697,931,228
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
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 1ST QUARTER		
Cash and other cash items	**2,931,620,739**	2,530,014,329
Due from Bangko Sentral ng Pilipinas	**13,896,747,044**	14,635,497,590
Due from other banks	**1,852,684,311**	2,449,763,657
Interbank loans receivable and securities purchased under resale agreements	–	1,544,528,699
	₱18,681,052,094	₱21,159,804,275

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱3,546,488,190**	₱758,364,086
Interest received	**14,792,717,423**	3,633,706,227

PHILIPPINE SAVINGS BANK **Annex 6**

UNAUDITED SCHEDULE OF FINANCIAL PERFORMANCE INDICATORS

		For the Period Ended March 31	
		2018	2017
PROFITABILITY RATIOS			
Return on Assets			
	Net Income* / Average Total Resources	**1.14%**	1.02%
Return on Equity			
	Net Income * / Average Stockholders' Equity	**11.34%**	10.05%
Net Interest Margin			
	Net Interest Income / Average Earning Assets	**1.52%**	1.53%
Cost to Income Ratio			
	Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes / Net Interest Income + Operating Income	**62.63%**	65.57%
SOLVENCY RATIOS			
Debt to Equity Ratio			
	Total Liabilities / Total Stockholders' Equity	**8.84:1**	8.95:1
Asset-to-Equity Ratio			
	Total Assets / Total Stockholders' Equity	**9.84:1**	9.95:1
Interest Rate Coverage Ratio			
	Earnings Before Interest and Taxes / Interest Expense	**1.75:1**	1.66:1
LIQUIDITY RATIOS			
Liquidity Ratio			
	Current Assets / Current Liabilities	**18.99%**	16.55%
Loans to Deposit Ratio			
	Gross Loans / Total Deposits	**80.18%**	78.42%
Capital Adequacy Ratio			
	Total Qualifying Capital / Total Risk-Weighted Assets	**13.75%**	14.00%

* computed based on annualized net income

PHILIPPINE SAVINGS BANK
General Notes to 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

<u>Basis of Preparation</u>
The accompanying interim condensed consolidated financial statements have been prepared in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting. Accordingly, the interim condensed financial statements do not include all the information and disclosures required in the annual audited financial statements and should be read in conjuction with the Bank's annual audited financial statements as at December 31, 2017.

<u>Statement of Compliance</u>
The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

<u>Presentation of Financial Statements</u>
The Bank presents its statement of condition in order of liquidity.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently 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 – Financial Instruments

The accounting policies adopted in the preparation of the unaudited interim financial statements are consistent with those followed in the preparation of the audited annual financial statements as of and for the year ended December 31, 2017 except those discussed under PFRS 9 adoption section.

Fair Value Measurement

The Bank measures financial instruments, such as derivative financial instruments, at fair value at each statement of condition date.

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.

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 Fair Value Through Profit or Loss (FVTPL) investments and liabilities, the initial measurement of financial instruments includes transaction costs. The Bank classifies its financial assets in the following categories: Fair Value Through Profit or Loss (FVTPL) investments, Fair Value Through Other Comprehensive Income (FVOCI) investments, Hold-to-Collect (HTC) investments, and loans and receivables. Financial liabilities are classified into liabilities at FVTPL 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 FVTPL

Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

Financial instruments at FVTPL

Other financial assets or financial liabilities at Fair Value Through Profit or Loss (FVTPL) are recorded in the statement of condition at fair value. Changes in fair value relating to the FVTPL 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 March 31, 2018 and December 31, 2017, 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.

Fair Value Through Other Comprehensive Income (FVOCI) investments

FVOCI investments include equity and debt securities. Equity investments classified as FVOCI are those which are neither classified as FVTPL nor designated at FVTPL. 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 FVOCI.

After initial measurement, FVOCI investments are subsequently measured at fair value. The effective yield component of FVOCI debt securities as well as the impact of restatement on foreign currency-denominated FVOCI debt securities is reported in other comprehensive income. The unrealized gains and losses arising from the fair valuation of FVOCI investments are excluded, net of tax, from reported income and are reported as 'Net unrealized gain (loss) from FVOCI 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 FVOCI debt investments are reported as interest income using the EIR. Dividends earned on holding FVOCI 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 FVOCI investments' in OCI.

Hold-to-Collect (HTC) investments
HTC 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, HTC 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 HTC investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTC investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as FVOCI investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTC 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 FVTPL;
- those that the Bank, upon initial recognition, designates as FVOCI; 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 FVTPL 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 FVTPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on quoted market prices for similar debt instruments). The residual amount determined after deducting the fair value of the debt component is assigned to the equity component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is primarily derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  a. the Bank has transferred substantially all the risks and rewards of the asset, or
  b. the Bank has neither transferred nor retained the risks and rewards of the asset but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank's continuing involvement in the asset. In this case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

<u>Repurchase and Reverse Repurchase Agreements</u>

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statement of condition as the Bank retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognized in the statement of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell (SPURA) at a specified future date ('reverse repos') are not recognized in the statement of condition. The consideration paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest amortization method.

<u>Reclassification of Financial Assets</u>
The Bank may reclassify, in rare circumstances, non-derivative financial assets out of the FVTPL investments category and into the FVOCI financial assets, HTC financial assets or Loans and Receivables categories.

A financial asset that is reclassified out of the FVTPL 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 FVOCI 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 HTC, it shall be reclassified as FVOCI 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 March 31, 2018 and 2017.

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.

Fair Value Through Other Comprehensive Income (FVOCI) investments
For FVOCI 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 FVOCI 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 FVOCI 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.

<u>PFRS 9, Financial Instruments Adoption</u>
Effective January 1, 2018, the Bank adopted PFRS 9 which reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. This covers the following changes in accounting policies in 2018:

a. Classification and Measurement
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 or hold-to-collect (HTC), fair value through other comprehensive income (FVOCI), or at fair value through profit or loss (FVTPL).

b. Impairment
The Bank applies expected credit losses (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
ECL model represents 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 is 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.

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 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.

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.

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, 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. 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 FVOCI equity investments - Fair values are based on quoted prices published in markets.
Unquoted FVOCI 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 FVOCI 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 FVTPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

Receivable from customers, sales contract receivables and security deposits - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

Demand deposits, savings deposits, bills payable, treasurer's, cashier's and manager's checks, accrued interest payable, accounts payable, bills purchased-contra, other credits, due to the Treasurer of the Philippines, deposits for keys-SDB, payment orders payable and overages - Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

Subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The inputs used in the fair value measurement based on Level 2 are as follows:

Derivative assets and liabilities - fair values are calculated by reference to the prevailing spot exchange rate as of statement of condition date.

Government securities - interpolated rates based on market rates of benchmark securities as of statement of condition date.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates and applicable risk premium.

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 (in thousands):

	March 31, 2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
Government securities	₱271,658	₱271,658	₱–	₱–	₱271,658
Derivative assets - foreign exchange swaps	3,762	–	3,762	–	3,762
FVOCI investments					
Government debt securities	7,388,979	7,388,979	–	–	7,388,979
Private debt securities	5,798,362	5,798,362	–	–	5,798,362
Quoted equity securities	8,585	163	8,760	–	8,923
	₱13,471,346	₱13,459,162	₱12,522	₱–	₱13,471,346
Assets for which fair values are disclosed:					
Financial Assets					
HTC investments					
Government	₱31,213,187	₱31,213,187	₱–	₱–	₱31,213,187
Private	3,605,074	3,605,074	–	–	3,605,074
Loans and receivables					
Receivables from customers					
Consumption loans	86,179,310	–	–	92,719,816	92,719,816
Real estate loans	46,610,713	–	–	46,096,181	46,096,181
Commercial loans	9,646,666	–	–	10,896,069	10,896,069
Personal loans	2,979,032	–	–	3,302,622	3,302,622
Sales contract receivable	65,095	–	–	100,462	100,462
Security deposits	182,485	–	–	259,415	259,415
Non-Financial Assets					
Investment properties	3,937,871	–	–	4,422,637	4,422,637
	₱184,419,433	**₱34,818,261**	**₱-**	**₱157,797,202**	**₱192,615,463**
Liabilities for which fair values are disclosed:					
Deposit liabilities – Time	₱131,034,403	₱–	₱–	₱131,140,127	₱131,140,127
Deposit liabilities – LTNCD	3,375,000	–	–	3,198,056	3,198,056
Subordinated notes	2,979,653	–	–	2,314,521	2,314,521
Bills payable	5,949,550	–	–	5,949,550	5,949,550
	₱143,338,606	**₱–**	**₱–**	**₱142,602,254**	**₱142,602,254**

	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

As of March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

4. Financial Risk Management Policies and Objectives

Compared with December 31, 2017, there have been no changes in the financial risk exposures that materially affect the financial statements of the Bank as of 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, 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.

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 days 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

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. 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.

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.

c. Liquidity Risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

5. 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 period ended March 31, 2018 and 2017 and year ended December 31, 2017 follows (in thousands):

	March 31, 2018 (Unaudited)				
(In thousands)	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	9,071	218,814	–	385,991
Other operating income	262,518	4,921	167,070	(28,758)	405,751
Total operating income	2,839,910	153,026	1,227,705	481,123	4,701,764
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	603,378	1,228	96,991	272	662,715
Depreciation	61,730	(12,168)	71,505	–	160,221
Amortization of other intangible assets	16,247	754	26,947	231	44,179
Total non-cash expenses	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	124,502	427,956
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	175,846	2,097,519
Income before share in net income of a joint venture and income tax	₱1,590,201	₱130,298	(₱718,532)	(₱276,956)	725,011
Share in net income of a joint venture	–	15,407	–	–	15,407
Income before income tax	1,590,201	145,705	(718,532)	(276,956)	740,418
Provision for income tax					99,360
Net income					₱641,058
Segment assets	₱118,159,979	₱6,832,270	₱43,760,345	₱53,947,281	₱222,699,875
Investment in a joint venture					622,570
Deferred tax assets					1,432,839
Total assets					₱224,755,284
Segment liabilities	₱1,735,908	₱98,142	₱117,025,703	₱83,063,677	₱201,923,429

(In thousands)	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	199,866	3,775	111,131	(85,945)	228,826
Total operating income	2,461,961	162,319	616,669	(9,362)	3,231,586
Non-cash expenses					
Provision for (reversal of) 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	9,711	541	16,354	154	26,759
Total non-cash expenses	204,585	12,337	547,721	43,673	808,316
Interest expense	–	–	394,024	370,250	764,273
Service fees and commission expense	8,762	575	12,854	–	22,191
Subtotal	8,762	575	406,878	370,250	786,464
Compensation and fringe benefits	183,653	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	1,286	89,632	594	110,455
Miscellaneous	164,675	9,755	318,013	34,040	526,483
Subtotal	479,014	33,259	1,263,621	132,511	1,908,405
Income before share in net income of a joint venture and income tax	₱1,769,600	₱116,148	(₱1,207,527)	(₱185,546)	492,675
Share in net income of a joint venture					10,291
Income before income tax					502,966
Provision for income tax					(8,147)
Net income					₱ 511,112
Segment assets	₱101,809,244	₱8,959,603	₱39,815,754	₱52,752,712	₱203,337,314
Investment in a joint venture					737,468
Deferred tax assets					1,405,265
Total assets					₱205,480,046
Segment liabilities	₱1,365,746	₱107,458	₱113,776,933	₱69,584,650	₱184,834,787

	December 31, 2017 (Audited) Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,811,338	₱321,494	₱6,777,057	₱2,633,888	₱14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income	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

6. 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 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 SMFC with the retirement plan of the employees of the Bank as of March 31, 2018 and December 31, 2017:

		March 31, 2018	
		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 ₱0.3 million

		December 31, 2017 (Audited)	
		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

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)	December 31, 2017 (Audited)
Short-term employee benefits	**₱ 74,939,811**	₱253,953,306
Post-employment pension benefits	**8,412,329**	7,858,066
	₱ 83,352,140	₱261,811,372

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

For the comparative period ended March 31, 2018 and 2017 and year ended December 31, 2017, remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱4.7 million, ₱3.3 million, and ₱19.3 million, 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):

	March 31, 2018 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable		₱–	Peso-denominated lending with 2.50%-2.87% interest rates and maturities ranging from 1-5 days, secured - Php 0.00
Placements	₱4,900,000		
Maturities	4,900,000		
Due from other banks	773,665	1,686,410	Short term peso and foreign-currency denominated deposits with fixed rates ranging from 0.00% to 5.00%
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	Pledge for security of payroll account with MBTC
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	22,990	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	10,230	–	Service income received from collection services
Information technology expense	29,935	–	Payment of information technology transactions
Trading and security gain	41	–	Gain from securities transactions

(Forward)

	March 31, 2018 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Securities transactions			
Outright purchases	₱1,112,960	–	Outright purchase of FVTPL, HTC and FVOCI investments
Outright sales	578,160	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	₱622,570	Outstanding balance of capital investment in SMFC
Accounts receivable	–	2,241	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	2,658	15,979	Demand and short term peso time-deposits deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	6,242	Advance payment of security deposits
Rental income	3,528	–	Income from leasing agreements
Share in net income of a joint venture	15,407	–	30.00% share in net income of SMFC
Interest expense	47	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable			
Placements	25,355,000	–	Peso denominated lending with interest ranging from
Maturities	25,355,000	–	3.03%-3.25% with maturity terms from 1 to 4 days
Receivable from customers		7,500	Loans granted bear interest ranging from 7.0% to
Placements	3,588	–	8.93% Secured - ₱7.5 million Unsecured - 0
Maturities	42		Impaired - 0
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)	775,652	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 received from insourcing agreements
Insurance expense	15,756	–	Payment of insurance premium
Interest expense	3,983	–	Interest on deposit liabilities
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	–	12,420	Unsecured, no impairment, with annual fixed interest
Placements	1,888	–	rates of 6.00% and maturities ranging from 2 to 10
Maturities	2,537	–	years
Interest income	255	–	Interest income from loans

	December 31, 2017 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	₱19,970,000	₱–	
Maturities	19,970,000	–	
Due from other banks	(540,032)	912,745	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	10,802	17,651	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 3 days
Deposits/placements	1,285,000	–	
Withdrawals/maturities	1,285,000	–	
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	–	37,732	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	2,494	–	Income on deposits and interbank loans receivables
Rental income	18,384	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	7,502	–	Income received from ATM service fees, rental and utilities
Information technology expense	95,662	–	Payment of information technology expenses
Trading and security loss	(3,898)	–	Loss from securities transactions
Interest expense	256	–	Interest expense on bills payable

(Forward)

	December 31, 2017 (Audited)		
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%
Miscellaneous liabilities	(2,975)	–	Payment of security deposits
Rental income	11,619	–	Income from leasing agreements
Share in net income of a joint venture	71,837	–	40.00% (January to July) and 30% (August to December) share in net income of SMFC
Interest expense	75	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable	–	500,000	Peso-denominated lending which earn 2.50% fixed daily
	59,900,000		
Placements	59,400,000	–	interest rate with maturity terms from 1 to 5 days.
Maturities		–	
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

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 March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017:

	March 31, 2018	December 31, 2017
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 2018 and December 2017, respectively.

Item 2. Management Discussion and Analysis

A. Analysis of Statements of Condition

<u>As of March 31, 2018 (Unaudited) and December 31, 2017 (Audited)</u>

The Bank's Total Assets as of March 31, 2018 stood at ₱224.76 billion, ₱1.43 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 65.53% of total assets stood at ₱147.28 billion. This was ₱2.32 billion higher than the December 2017 level of ₱144.96 billion. Auto Loans and Mortgage Loans improved to ₱86.18 billion and ₱ 46.61 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 ₱1.86 billion from ₱1.51 billion due to higher placements with local banks. Cash and Other Cash Items were also higher by 12.89% to ₱2.93 billion. Meanwhile, Due from BSP decreased by 8.97% or ₱1.37 billion to ₱13.90 billion in 2018 compared to ₱15.27 billion in 2017.

Held-to-Collect Investments representing 15.49% of total assets posted an 18.13% increase to ₱34.82 billion as the Bank invested its excess funds in government securities. On the other hand, Investment Securities at Fair Value Through Other Comprehensive Income (FVOCI/AFS in 2017) decreased by ₱3.73 billion or 22.03% to ₱13.20 billion from ₱16.93 billion in 2017. Investment securities at Fair Value through Profit or Loss (FVTPL) stood at ₱275.42 million as of March 31, 2018. These Investment securities represent 21.49% 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. 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 Capitals 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 in March 2018 from ₱2.48 billion in Dec. 2017. On the other hand, Investment Properties slightly increased by 0.19% to ₱3.94 billion from ₱3.93 billion.

Deferred Tax Assets slightly grew by ₱3.51 million to ₱1.43 billion in March 31, 2018 due to recognition of deferred tax benefits on the provision for probable losses on loans during the 1st quarter of 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 Dec. 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 ₱5.00 billion to ₱131.03 billion.

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

The Tier II 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. PS Bank 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 Dec. 31, 2017. Income Tax Payable was at ₱86.91 million in March 2018 versus ₱0.38 million in Dec. 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 Capital funds stood at ₱22.83 billion, 1.96% higher than the end-Dec. 2017 level of ₱22.39 billion mainly due to the Net Income for the 1st quarter of 2016.

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 Dec. 2017 of ₱4.08 million.

B. Discussion of Results of Operations

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

In March 2018, the Bank recorded a Net Income after Tax of ₱641.06 million or 25.42% 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 increased by 14.64% or ₱499.21 million better than the ₱3.41 billion recorded 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 year-on-year by 24%. 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.

The Bank recorded ₱16.85 million in Interest Expense on Bills Payable as of March 31, 2018.

As of March 2018, Net interest Income improved to ₱2.92 billion from ₱2.65 billion in 2017.

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 77.32% or ₱176.93 million to ₱ 405.75 million due to lower trading loss recorded this quarter. The Bank reflected a ₱56.04 million trading loss versus ₱97.45 million loss in 2017 or a decrease of ₱41.41 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. As of March 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 ₱ 60.43 million to ₱205.74 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 from ₱2.10 billion in 2017. Taxes and Licenses increased by ₱91.29 million or 27.12% to ₱427.96 million from ₱336.67 million. Amortization of software costs was recorded at ₱44.18 million. Meanwhile, Depreciation and amortization 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 compared to ₱748.43 million in March 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.

As of March 2018, the Bank set aside ₱662.72 million provisions for credit losses.

As of March 31, 2018, the Bank also reported income from its investment in Sumisho Motor Finance Corporation (SMFC) amounting to ₱15.41 million from ₱10.29 million.

Analysis of Key Performance Indicators

The following ratios measure the financial performance of the Bank:

		March 2018	March 2017	December 31 2017
		(Unaudited)		(Audited)
Return on Average Equity*	ROAE	**11.34%**	**10.05%**	12.51%
Return on Average Assets*	ROAA	**1.14%**	**1.02%**	1.26%
Net Interest Margin on Average Earning Assets	NIM	**1.52%**	**1.53%**	6.10%
Earnings per share	EPS	**₱2.67**	**₱2.13**	₱11.05
Capital-to-Risk Assets Ratio	CAR	**13.75%**	**14.00%**	13.87%
Liquidity Ratio	LR	**18.99%**	**16.55%**	20.70%
Debt-Equity Ratio	DER	**8.84:1**	**8.95:1**	8.97:1
Asset-to-Equity Ratio	AER	**9.84:1**	**9.95:1**	9.97:1
Interest Rate Coverage Ratio	IRCR	**1.75:1**	**1.66:1**	1.84:1

** computed based on annualized net income*

<u>March 2018 vs. March 2018 Comparative highlights on key performance indicators</u>

1. Return on Average Equity (ROAE) in March 31, 2018 increased to 11.34% 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 year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) rose to 1.14% from 1.02% in March 2017. ROAA is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) slightly decreased to 1.52% from 1.53% for the comparative periods. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) was higher at ₱2.67 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 8.84:1 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 9.84:1 from 9.95:1 last year. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down to 1.75:1 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.

C. Key Variables and Other Qualitative and Quantitative Factors

Liquidity

PSBank manages its liquidity position to ensure that it has more than adequate funds to meet its obligations at any given time. The Bank monitors its daily liquidity and reserve position by determining inflows and outflows, short-term and long-term obligations, holdings and repayments. Short-term liquidity management identifies obligations and repayments in the next 12-months, aids in the determination of the securities trading strategy, and influences the Bank's pricing mechanism. On the other hand, long-term liquidity management covers maturing obligations and repayments of loans and investments beyond the next 12-months.

The level of liquid assets remained strong, exhibiting healthy growth in both placements with BSP/other banks and investments.

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2018.

The Bank also performs liquidity stress testing under various stress scenarios to ensure its ability to meet its funding obligations. The Bank has a Liquidity Contingency Funding Plan to anticipate and manage any funding crisis that may occur.

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:

	31 Mar 2018	31 Mar 2017	31 Dec 2017
Trust department accounts	**₱6,197,290,384**	₱4,304,252,255	₱5,596,171,367
Swap forward exchange - sold	**2,842,305,530**	2,665,478,121	2,653,256,032
Stand-by credit lines	**74,426,355**	87,453,277	81,664,196
Late deposits/payments received	**9,521,669**	88,462,712	5,625,757
Items held for safekeeping	**1,306,206**	956,977	1,298,438
Spot foreign exchange contracts - sold	**52,160,000**	–	–
Others	**1,257,523**	757,517	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.

Material Commitments for Capital Expenditures

The Bank's capital expenditure target in 2018 includes projected expenses for new off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses.

Causes for Any Material Changes from Period to Period of Financial Statements

See previous discussion on Analysis of Statement of Condition and Discussion of Results of Operations.

Known Trends, Events or Uncertainties or Seasonal Aspects

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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:

Date of declaration	Cash Dividends Per share	Cash Dividends 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

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.

PSBank stock price closed at ₱86.40 per share as of May 11, 2018.

d) No unregistered securities were sold or offered for sale by the Bank as of March 31, 2018.

e) Segment revenue and result of business segments are found in Annex 7 – Note 5.

f) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

Subsequent Events

The Bank's Board of Directors approved on April 23, 2018, the declaration of 7.5% Regular Cash Dividend for the first quarter of 2018 amounting to ₱180.19 million or ₱0.75 per share, payable to all common stockholders as of a Record Date May 9, 2018 and will be paid no later than the Payment Date of May 23, 2018.

PHILIPPINE SAVINGS BANK

Unaudited Aging of Receivables

As of March 31, 2018

ACCOUNT TITLE	TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE & ITL	PAST DUE				Items in Litigation
				90 days or less	91-180 Days	181 Days to 1 Year	More Than 1 Year	
1 -TRADE RECEIVABLES								
Loans and Discounts	PHP 148,769,993,088	PHP 139,748,249,372	PHP 9,021,743,716	PHP 11,984,574,739	PHP 446,683,086	PHP 453,452,660	(PHP 5,230,740,406)	PHP 1,367,773,637
Agri / Agrarian Reform Loans	203,475,261	176,642,753	26,832,507	16,158,175	477,871	-	8,280,567	1,915,894
Bills Purchased	12,171,407	12,171,407	-					-
Restructured Loans	179,720,713	67,928,154	111,792,560	71,785,286	5,356,914	-	2,118,598	32,531,761
Total Trade Receivables	149,165,360,470	140,004,991,687	9,160,368,783	12,072,518,199	452,517,871	453,452,660	(5,220,341,240)	1,402,221,292
Less: Allowance For Probable Losses	3,749,505,310							
Other Deferred Credits	134,721							
Net Trade Receivable	145,415,720,438							
2 -Non-Trade Receivables								
Accounts Receivables	838,843,299	337,234,987	501,608,312	4,462,576	6,448,335	3,059,665	481,863,975	5,773,761
Accrued Interest Receivables	1,662,431,838	1,432,691,455	229,740,383	102,856,775	27,505,703	29,593,846	19,842,815	49,941,245
Total Non-Trade Receivables	2,501,275,137.37	1,769,926,442	731,348,695	107,319,351	33,954,037	32,653,511	501,706,790	55,715,006
Less: Allowance For Probable Losses	698,792,245							
Net Non-Trade Receivable	1,802,482,892							
3 -Sales Contract Receivables	98,931,601	80,148,491	18,783,110	3,605,723	75,470	220,918	14,880,999	
Less: Allowance For Probable Losses	33,836,104	15,143,168	18,692,935					
Net Sales Contract Receivables	65,095,497	65,005,323	90,175					
Net Receivables	**PHP 147,283,298,828**							