PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

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

Attention: **Director Vicente Graciano P. Felizmenio, Jr.**
Corporate Governance and Finance Department

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

Attention: **MS. JANET A. ENCARNACION**
Head, Disclosure Department

Philippine Dealing & Exchange Corp.
37/F, Tower 1, The Enterprise Center
6766 Ayala Ave. cor. Paseo de Roxas, Makati City

Attention: **MS. VINA VANESSA S. SALONGA**
Head, Issuer Compliance & Disclosure Department (ICDD)

Dear Director Felizmenio, Mr. Encarnacion and Ms. Salonga,

We would like to submit the attached SEC 20-IS Preliminary Information Statement of Philippine Savings Bank (PSBank).

We hope that you will find everything in order.

Thank you very much.

Very truly yours,

Jose Vicente L. Alde
President

COVER SHEET

1 5 5 5 2

SEC Registration Number

P H I L I P P I N E S A V I N G S B A N K

(Company's Full Name)

P S B a n k C e n t e r , 7 7 7 P a s e o d e R o x a s c o r n e r S e d e ñ o S t r e e t , M a k a t i C i t y

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

Leah M. Zamora
(Contact Person)

885-8208
(Company Telephone Number)

PRELIMINARY

1 2 / **3 1**
Month *Day*
(Fiscal Year)

2 0 - I S
(Form Type)

0 4 / **1 5**
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

1,461
Total No. of Stockholders as of January 31, 2019

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

PHILIPPINE SAVINGS BANK
(COMPANY'S NAME)

PSBANK CENTER
777 Paseo de Roxas cor. Sedeno St. Makati City
(COMPANY'S ADDRESS)

885-82-08
(TELEPHONE NUMBER)

DECEMBER 31
(FISCAL YEAR ENDING MONTH & DAY)

SEC Form 20-IS
(FORM TYPE)

March 4, 2019
(PERIOD ENDED DATE)

Government Securities Eligible Dealer
(SECONDARY LICENSE TYPE AND FILE NUMBER)

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20- IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1.	Type of Statement	**(x) Preliminary Information Statement** **( ) Definitive Information Statement**
2.	Name of Registrant as specified in its character	**PHILIPPINE SAVINGS BANK**
3.	Province, country or other jurisdiction or incorporation or organization	**Manila, Philippines**
4.	SEC Identification No.	**15552**
5.	BIR Tax Identification No.	**000-663-983-000**
6.	Address of principal office & Postal Code	**PSBank Center, 777 Paseo de Roxas corner Sedeño Sts., Makati City** **1226**
7.	Registrant's Telephone No. including area code	**(632) 885- 8208**
8.	Date, time, and place of meeting of security holder	**April 15, 2019 3:00 PM, 19th Floor, PSBank Hall, PSBank Center, 777 Paseo de Roxas corner Sedeño St., Makati City 1226**
9.	Approximate date on which the Information Statement is first to be sent or given to security holders	**March 22, 2019**
10.	In case of Proxy Solicitations Name of Person Filing the Statement Address and Telephone Number	 **Not Applicable** **Not Applicable**
11.	Securities registered pursuant to Section 4 and 8 of RSA (information on number of shares and amount is applicable only to corporate registrant)	**Common Shares** **383,109,416 outstanding**
12.	Are any or all of registrant's Securities listed on the Philippine Stock Exchange	**Yes**

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 04 2019
MARKET REGULATION DEPT.
BY:
TIME:

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the annual meeting of stockholders of this Corporation will be held on April 15, 2019, Monday, at 3:00 p.m. at the 19th Floor PSBank Center, 777 Paseo de Roxas corner Sedeño St., 1226 Makati City to pass upon the following matters:

1. Call to Order
2. Certification of Notice and Quorum
3. Approval of the Minutes of the Annual Stockholders' Meeting held on April 23, 2018
4. President's Report
5. Confirmation of all acts of the Board of Directors, Management and All Committees
6. Election of the Members of the Board of Directors
7. Appointment of the External Auditor
8. Other Matters
9. Adjournment

In case you cannot attend the meeting in person and you wish to be represented, you may designate your authorized representative by submitting a proxy instrument on or before April 5, 2019 to Metrobank Trust Banking - Stock Transfer Department 16F Metrobank Center, 35th Street corner 7th Avenue Bonifacio Global City, 1634 Taguig City.

Stockholders of record as of March 01, 2019 shall be entitled to vote at the Meeting.

Pocholo V. dela Peña
Corporate Secretary

Philippine Savings Bank Head Office: 777 Paseo de Roxas corner Sedeño St., 1226 Makati City

In case of any change in your address or contact details, please get in touch with PSBank's Stock Transfer Agent, attention Walter R. Briones or Analee Q. Ballena of Metrobank Trust Banking Group through 857-5695 / 857-5694 or walter.briones@metrobank.com.ph or analee.ballena@metrobank.com.ph.

EXPLANATION AND RATIONALE
OF AGENDA ITEMS

1. **Call to Order**
   Chairman Jose T. Pardo will welcome stockholders and guests to formally begin the 2019 Annual Stockholders' Meeting of PSBank.

2. **Certification on Notice and Quorum**
   The Corporate Secretary, Pocholo V. dela Pena, will certify that the Notice of Meeting has been sent out as of March 22, 2019 as required by the PSBank By-Laws and will announce whether or not a quorum is present either in person or by proxy, constituting two-thirds of the outstanding capital stock.

3. **Approval of the Minutes of the Annual Stockholders' Meeting held on April 23, 2018**
   The stockholders will be asked to approve the minutes of the Annual Stockholders' Meeting held on April 23, 2018, which contain among others, the (a) Annual Report to Stockholders, (b) Confirmation of all acts of the Board of Directors, the Management and all Committees, (c) Election of the members of the Board of Directors, and (d) Appointment of the External Auditor.

   Resolution to be Adopted: Stockholders will vote for the adoption of a resolution approving the minutes of the April 23, 2018 Annual Stockholders' Meeting.

4. **Report of the President and Presentation of the Audited Financial Statements (AFS) of PSBank as of December 31, 2018**
   The PSBank President will render his Annual Report on the Bank's activities, business and financial performance for year-end 2018. It includes the summary of the AFS which is incorporated in the Definitive Information Statement. There will be an open forum after the President's Report, whereby all stockholders, after identifying himself/herself will be given an opportunity to raise any relevant questions or express an appropriate comment.

   A copy of the Annual Report will be available to all stockholders during the meeting. Further, a copy of the Bank's AFS is posted on the Bank's website.

   Resolution to be Adopted: Stockholders will vote for the adoption of a resolution approving the President's Annual Report for 2018.

5. **Confirmation of all acts of the Board of Directors, Management and All Committees during the year 2018**
   The stockholders will be asked to confirm all acts, transactions and resolutions of the Board of Directors, including transactions with the Bank's DOSRI and other related parties, Management and all Committees during the year 2018.

   Resolution to be Adopted: Stockholders will vote for the adoption of a resolution confirming and approving the acts of the Board of Directors and all Committees during the year 2018.

6. **Election of the members of the Board of Directors**
   The Chairman of the Corporate Governance Committee will present nominees for election as members of the Board of Directors, including independent directors. This is in compliance with regulatory requirements of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on the nomination of directors, and after the Corporate Governance Committee's review and evaluation of the qualifications of all persons nominated to the Board.

7. **Appointment of the External Auditor**
   The stockholders will confirm selected External Auditor for 2019-2020.

   Resolution to be Adopted: Stockholders will vote on a resolution for the appointment of said auditing firm as independent external auditor of the Bank for 2019.

8. **Adjournment**
   Upon determination that there are no other matters to be considered, the Chairman upon motion made and duly seconded by a stockholder shall declare the meeting adjourned.

P R O X Y

I, ________________ do hereby nominate, constitute and appoint ________________ as my proxy and representative at the Annual Meeting of Stockholders of Philippine Savings Bank (PSBank) to be held on **April 15, 2019**, with authority to participate in the deliberations thereof, and to vote in my behalf all the shares standing in my name for the election of directors and/or approval of transactions included in the Agenda or any related matter which may properly arise during the said Meeting or any adjournment thereof.

In witness whereof, I have signed on ________________ (date) at ________________ (place).

Name of Stockholder : ________________

Signature : ________________

This form is being provided for your convenience. Stockholders who wish to do so may adopt the above proxy form.

In case you cannot attend the meeting in person and you wish to be represented, you may designate your authorized representative by submitting a proxy instrument on or before ***April 5, 2019*** *to Metrobank Trust Banking – Stock Transfer Department, 16F Metrobank Center, 35th Street corner 7th Avenue Bonifacio Global City, 1634 Taguig City.*

THIS PROXY FORM NEED NOT BE NOTARIZED.

PART I. INFORMATION STATEMENT

A. GENERAL INFORMATION

Item 1. Date, Time and Place of Meeting of Security Holders

Date	:	April 15, 2019, Monday
Time	:	3:00 P.M
Place	:	19th Floor, PSBank Hall, PSBank Center 777 Paseo de Roxas corner Sedeño St., Makati City 1226
Mailing address of the principal office	:	PSBank Center 777 Paseo de Roxas cor. Sedeño St., Makati City 1226

Approximate date on which copies of the Information Statement
are first to be given to security holders : **March 22, 2019**

**WE ARE NOT ASKING YOU FOR A PROXY AND
YOU ARE REQUESTED NOT TO SEND US A PROXY.**

Item 2. Dissenters' Right of Appraisal

There is no matter or proposed action in the Agenda which may give rise to the exercise by the security holders of their right of appraisal. Generally, however, in instances mentioned by the Corporation Code of the Philippines, the exercise of the right of appraisal must conform to certain procedures.

The appraisal right may be exercised by any stockholder who shall have voted against the proposed corporate action, by making a written demand on the corporation within thirty (30) days after the date on which vote was taken for payment of the fair value of his shares: Provided, that failure to make the demand within such period shall be deemed a waiver of the appraisal right. If the proposed corporate action is implemented or effected, the corporation shall pay to such stockholder, upon surrender of the certificate(s) of stock representing his shares, the fair value thereof as of the day prior to the date which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.

If within a period of sixty (60) days after the date the corporate action was approved by the stockholders, the withdrawing stockholder and the corporation cannot agree on the fair value of the shares, it shall be determined and appraised by three (3) disinterested persons, one of whom shall be named by the stockholder, another by the corporation and the third by the two thus chosen. The findings of the majority of the appraisers shall be final, and their award shall be paid by the corporation within thirty (30) days after such award is made: Provided, that no payment shall be made to any dissenting stockholder unless the corporation has unrestricted retained earnings in its books to cover such payment: and Provided, further, that upon payment by the corporation of the agreed awarded price, the stockholder shall forthwith transfer his shares to the corporation.

Item 3. Interests of Certain Persons in or Opposition to Matters to be Acted Upon

Other than election to office, there is no matter to be acted upon in which any director, executive officer, or nominee for election as director (or any associates of the foregoing), is involved or has a direct, indirect or substantial interest. There is also no incumbent director who has informed the Bank in writing that he intends to oppose any action to be taken at the Annual Stockholders' Meeting.

B. CONTROL AND COMPENSATION INFORMATION

Item 4. Voting Securities and Principal Holders Thereof

a) No. of Shares outstanding as of January 31, 2019 : **383,109,416 Common Shares**
No. of votes to which each share is entitled : **one (1) vote per share**

b) Record date to determine stockholders entitled to Notice and to vote at the regular meeting : **March 1, 2019**

c) Election of Directors:

Majority vote is required for the election of directors. Security holders shall have the right to cumulative voting. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed the number of shares registered in the name of that security holder in the books of the Bank as of the record date multiplied by the whole number of directors to be elected. There is no condition precedent to the exercise of the right to cumulative voting.

d) Arthur V. Ty is the person authorized to vote the MBTC shares in PSBank.

e) Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

As of January 31, 2019, the following stockholder owns more than 5% of the common voting securities:

Title of Class	Name, address of Record Owner and relationship with issuer	Name of Beneficial Owner and relationship with Record Owner	Citizenship	No. of Shares Held	Percent
Common	Metropolitan Bank and Trust Company. Metrobank Plaza, Gil Puyat Avenue, Makati City (Parent Company of PSBank)	Arthur V. Ty, Chairman of Metrobank	Filipino	338,610,090	88.38%

There is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

(2) Security Ownership of Directors and Management as of January 31, 2019

Title of Class	Name of Stockholder	Position	Citizenship	No. of Shares	% of Ownership
Common stock	Jose T. Pardo*	Chairman	Filipino	1,852	0.00048%
Common stock	Arthur V. Ty	Vice Chairman	Filipino	117	0.00003%
Common stock	Vicente R. Cuna, Jr.	Vice Chairman	Filipino	100	0.00003%
Common stock	De Vera, Rosanna F.	Director	Filipino	100	0.00003%
Common stock	Maria Soledad D.S. De Leon	Director	Filipino	4,000,000	1.04409%
Common stock	Jose Vicente L. Alde	Director/President	Filipino	100	0.00003%
Common stock	Samson C. Lim*	Director	Filipino	100	0.00003%
Common stock	Benedicto Jose R. Arcinas*	Director	Filipino	100	0.00003%
Common stock	Eduardo A. Sahagun*	Director	Filipino	100	0.00003%

* Independent director

(3) Voting Trust Holders of 5% or more

There is no person who holds more than 5% of the Bank's securities under a voting trust or similar agreement.

(4) Changes in Control

There is no arrangement that may result in a change in control of the registrant. There is no change in control that has occurred since the beginning of the last fiscal year.

Item 5. Directors and Executive Officers

a) Directors

The following are the Directors for 2018 – 2019:

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
Jose T. Pardo Chairman/ Independent Director	79	Filipino	Present Involvements • Chairman since Jan 2003/ Independent Director since May 2007, Philippine Savings Bank* • Chairman and Independent Director, Philippine Seven Corporation* since 2015 • Chairman and Independent Director, Philippine Stock Exchange since 2011 • Chairman and Independent Director, Securities Clearing Corporation of the Philippines since 2011 • Chairman and Independent Director, Bank of Commerce since 2003 • Independent Director, National Grid Corporation of the Philippines since 2009 • Independent Director, JG Summit Holdings, Inc.* since 2003 • Independent Director, ZNN Radio Veritas since 2006 • Independent Director, Monte Oro Grid Resources Corporation since 2015 • Independent Director, Synergy Grid and Development Philippines, Inc. (Non-Operating) since 2014 • Independent Director, Araneta Hotels, Inc. since 2016 • Independent Director, League One Finance and Leasing Corporation since 2016 • Independent Director, Del Monte Philippines, Inc. since 2018 • Chairman, ECOP Council of Business Leaders since 2009 • Chairman, PCCI Council of Business Leaders since 2007 • Chairman, Philippine Business Center Inc. since 2011 Past Experiences/ Positions Held • Chairman, De La Salle University, Inc. • Co-Chairman, De La Salle Philippines • Chairman, Assumption (Antipolo)	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Chairman, EDSA People Power Commission • President, Philippine Seven Corporation (Philippine Area Licensee of 7- Eleven, USA) • Chairman, Wenphil Corporation (Philippine Area Licensee of Wendy's, USA) • Chairman, Asian Holdings Corporation • President, Land and Housing Development Corporation • Chairman, ABC Development Corporation (ABC-5) • Chairman, Philippine Franchise Association • Senior Vice-President,Bancom Group, Inc. • Director, San Miguel Purefoods, Inc. • Director, GMA Network Inc. (Channel 7) • Director, Metropolitan Bank and Trust Company (Metrobank) • Director, C.C. Unson Co., Inc. (Battery Manufacturing) • Director, Mabuhay Philippine Satellite Corporation • Director, Coca - Cola Bottlers Philippines, Inc. Past experiences/ Positions held in Government Service • Cabinet Secretary, Department of Finance (DOF) from 2000 to 2001 • Cabinet Secretary, Department of Trade and Industry (DTI) from 1998 to 1999 • Governor for the Philippines, Asian Development Bank in 2000 • Alternate Governor for the Philippines, International Monetary Fund in 2000 • Governor, International Fund for Agricultural Development (IFAD) in 2000 • Chairman, Committee on Privatization (COP) from 2000 to 2001 • Chairman, Philippine Deposit Insurance Co. (PDIC) from 2000 to 2001 • Chairman, Trade and Investment Development Corp. from 1998 to 1999 • Vice Chairman, Economic Coordinating Council (ECC) from 1999 to 2000 • Member, Bangko Sentral Monetary Board from 1998 to 2001	

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Commissioner, Presidential Anti-Crime Commission from 1994-1995 Academic Qualifications • Master’s Degree in Business Administration- First graduate under the Harvard- DLSU Advisory Program, De La Salle University Manila, Philippines • BS Commerce, Major in Accounting, De La Salle University Manila, Philippines • Doctor of Science in Finance, Honoris Causa De La Salle University, Manila Philippines • Honorary Doctorate, Academy of Multi-Skills, United Kingdom	
Arthur V. Ty **Vice Chairman**	52	Filipino	Present Involvements • Vice Chairman, Philippine Savings Bank* since 2001 • Chairman, Metropolitan Bank & Trust Company* since 2012 • Vice Chairman/ Director, First Metro Investment Corporation since 2012 • Director, Federal Land, Inc. since 2002 • Chairman/ Director, Global Treasure Holdings Inc. since 2006 • Chairman, Great Mark Resources Corp. since 2015 • President/ Director, Horizon Royale Holdings, Inc. since 2000 • Vice Chairman, Metrobank Foundation, Inc. since 2006 • President/ Director, Phil. Securities Corp since 2005 • Chairman, GT Capital Holdings Inc. since 2016 • Chairman/ Director, Grand Titan Capital Holdings, Inc. since 2007 • President/ Chairman, Nove Ferum Holdings, Inc. since 2009 • Chairman, Metropolitan Bank (China) Ltd. since 2010 • Chairman, Ferum Cee Inc. since 2011 • Chairman, GT Metro Foundation Inc. since 2010 • Vice Chairman, AXA Philippines since 2017 • Chairman / President, Milgen Holdings Inc. since 2016 • Chairman, Manila Medical Services, Inc. since 2017	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Past Experiences/ Positions Held • President, Philippine Savings Bank* from 2000 to 2001 • President, Metropolitan Bank & Trust Company* from 2006 to 2012 • Treasurer, FMIC Equities, Inc. from 2001 to 2006 • Chairman, First Metro Int'l Investment Corp. (Hong Kong) from 2006 to 2009 • Vice Chairman/Director, Global Business Holdings from 2002 to 2006 • Vice Chairman, Great Mark Resources Corp. from 2012 to 2015 • Vice Chairman, Metropolitan Bank (Bahamas), Ltd. from 2006 to 2009 • Director, Metrobank Card Corp. from 2002 to 2009 • Senior Vice President, Metrobank Foundation, Inc. from 2003 to 2005 • EVP /Director, Phil. Securities Corp. from 2001 to 2003 • Director, SMBC Metro Investment Corp. from 2001 to 2005 • Director, Lepanto Consolidated Mining Company from 1997 to 2003 • Director, Baywatch Realty Corp. from 2000 to 2005 • Vice Chairman, Metro Remittance Singapore Pte. Ltd. from 2004 to 2009 • Vice Chairman, Metro Remittance Center, Inc. (U.S.A) from 2008 to 2009 • Chairman, MB Remittance Center (Hawaii), Ltd. from 2007 to 2009 • Chairman, Metro Remittance Center, Inc. (Canada) from 2008 to 2009 • Vice Chairman, Metro Remittance (Italia) Spa from 2008 to 2009 • Director, MBTC Remittance GmbH (Vienna) from 2008 to 2009 • Vice Chairman, Metro Remittance (UK) Ltd. from 2007 to 2009 • Director, Global Business Power Corporation from 2009 to 2012 • Vice Chairman, GT Capital Holdings Inc. from 2014 to 2016 • Vice Chairman, Cathay Int'l Resources Corp. from 2006 to 2012 • Director, AXA Philippines from 2016 to 2017 Academic Qualifications • MBA, Columbia University • BS Economics, University of California- Los Angeles	

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
Vicente R. Cuna, Jr. **Vice Chairman**	57	Filipino	<u>Present Involvements</u> • Vice Chairman, Philippine Savings Bank* since 2018, Director since 2013 • Director, Metropolitan Bank and Trust Company* since 2014 • Senior Executive Vice President, MBTC – Enterprise Services Sector since 2018 • Chairman, Orix Metro Leasing & Finance Corporation since 2016 • Chairman, ORIX Auto Leasing Philippines Corporation since 2016 • Chairman, ORIX Rental Corporation since 2016 • Chairman, OMLF International Trading Development Corp. since 2016 • Chairman, OMLF Insurance Agency, Inc. since 2016 <u>Past Experiences/ Positions Held</u> • President, Philippine Savings Bank* from 2013 to 2018 • Senior Executive Vice President/Head, Metrobank* – Institutional Banking Sector from 2012 to 2013 • Executive Vice President/Head, Metrobank* – Corporate Banking Group from 2006 to 2012 • Adviser, Metropolitan Bank and Trust Company* from 2007 to 2009 • Director, FMIC from 2011 to 2015 • Chairman, Metro Remittance Center, Inc. (California) from 2010 to 2013 • Vice Chairman, Metro Remittance Inc. (U.S.A) from 2010 to 2013 • Chairman, Metro Remittance Inc. (Canada) from 2010 to 2013 • Vice Chairman, MB Remittance Center Ltd. (Hawaii) from 2010 to 2013 • Vice Chairman, PSBank* from 2009 to 2011 • Director, Asia Pacific Top Mgt., Int'l., Resources Corp. from 2008 to 2013 • Adviser, FMIIC-HK from 2006 to 2008 • Director, SMBC Metro Investment Corp. from 2006 to 2009 • Vice - President, Citibank Manila from 1995 to 2006 <u>Academic Qualifications</u> • Pursued further studies (MBA) at the	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Ateneo de Manila Graduate School of Business • AB Economics, De La Salle University Manila	
Samson C. Lim **Independent Director**	69	Filipino	Present Involvements • Independent Director, Philippine Savings Bank* since 2008 • Chairman, BLIMS Lifestyle Group (BLG) since 2014 • Chairman, Collins International Trading Corp. since 2002 • Chairman, Francorp Philippines since 2002 • President, Canadian Tourism & Hospitality Institute since 2010 • Chairman Emeritus/ International Relation, Philippine Franchise Association since 2005 • Chairman Emeritus, Philippine Retailers Association since 2000 • Director for Tourism, Retail and Franchise, Philippine Chamber of Commerce and Industry since 2018 Past Experiences/ Positions Held • President, LG Collins Electronics Philippines, Inc. from 1988 to1999 • Vice Chairman for Asia, World Franchise Council from 2001 to 2002 • Chairman, Federation of Asian Retailers Association (FARA) from 1992 to1993 • Founding Member, Institute of Corporate Governance in 1999 • President and Adviser, Philippines - Korea Economic Council from 1987 to1999 • Director, USAID - Trade and Investment Policy Analysis and Advocacy in 1992 • Director, Chamber of Furniture Industries of the Philippines in 2001 Past experiences/ Positions held in Government Service • Undersecretary and General Manager, Department of Trade and Industry-National Dev't Company (NDC) from 1999 to 2000 • Chairman, First Cavite Industrial Estate from 1999 to 2000 • Philippine Representative, ASEAN Fertilizer Corp (Ventulu) from 1999 to 2000	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Academic Qualifications • Master in Business Economics (MBE), University of Asia and the Pacific • Exchange Student, Sophia University, Tokyo, Japan • Special Training on International Business, Institute of International Studies and Training, Fujinomia, Japan • BS Liberal Arts, Cum Laude, Ateneo de Manila University	
Benedicto Jose R. Arcinas **Independent Director**	62	Filipino	Present Involvements • Independent Director, Philippine Savings Bank* since 2012 • Director & General Manager, Arcinas Freres, Inc. since 1989 • Director, Metrobank Card Application since 2018 Past Experiences/ Positions Held • Executive Vice President and Chief Investment Officer, Government Service Insurance System (GSIS) from 2010 to 2011 • Director and Risk Oversight Committee Chairman, GSIS Family Bank from 2010 to 2011 • Consultant for Philippine Consumer Credit, Veda Advantage, Australia in 2012 • EVP and Treasurer, Export & Industry Bank from 2007 to 2010 • Director (ex-officio), Valuegen Financial Insurance Co., Inc. from 2009 to 2011 • Director (ex-officio), EIB Securities Inc. from 2009 to 2012 • Director, Asia Pacific Recoveries (SPV-AMC) Corporation from 2005 to 2010 • Director, Asia Special Situations M3P2 (SPV-AMC), Inc., from 2005 to 2011 • Managing Director, Structured Solutions, Inc. from 2002 to 2007 • Managing Director, ATR-Kim Eng Fixed Income, Inc. from 1998 to 2002 Academic Qualifications • Master of Science in Management, Arthur D. Little Management Education Institute (now Hult International Business School), Cambridge, Massachusetts	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			• Certificate Courses in: Small Enterprise Mgt., Operations Research, Economics, Computer Programming, Harvard University, Cambridge, Massachusetts • Bachelor of Science in Business Economics, University of the Philippines, Diliman, Quezon City	
Jose Vicente L. Alde **Director/President**	52	Filipino	<u>Present Involvements</u> • President since April 2018 / Director since 2016, Philippine Savings Bank* • Chairman / Director, Sumisho Motor Finance Corporation since 2016 <u>Past Experiences/ Positions Held</u> • Executive Vice President since 2010 to 2018 ,Philippine Savings Bank* • Senior Vice President since 2007 to 2010, Philippine Savings Bank* • Director, Metrobank Card Corporation from 2015 to 2016 • Vice President, ABN AMRO BANK from 1999 to 2007 <u>Academic Qualifications</u> • Master in Business Management, Asian Institute of Management • Bachelor of Computer Science, University of the Philippines (Diliman)	None
Ma. Soledad D.S. De Leon **Director**	59	Filipino	<u>Present Involvements</u> • Director, Philippine Savings Bank* since 2016 • Chairman/ Treasurer, Casa Medica Inc. since 1995 • Chairman/ Treasurer, SODEL Milling Corp. since 1995 • President/ Treasurer, SODEL Realty, Inc. since 1995 • Director, St. Patrick College, GSIS Village, Quezon City since 2002 • Director, Yaman Lahi Foundation Inc. (Emilio Aguinaldo College) since 1993 • Director, University Physician Services Inc. Property Holdings, Inc. since 1993 • Director, Hospital Management Services Inc. (Medical Center Manila) since 1993 • Director, The Pearl Manila Pearl of the Orient & Seas Hotel & Recreational	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Resort, Inc. since 1993 • Vice President / Treasurer, Fil - Homes Realty Development Corp. since 1993 • Vice President, Lipa Golden Land Development Inc. since 1994 • Consultant, Candelaria Rural Bank since 2016 <u>Past Experiences/ Positions Held</u> • Vice President/ Treasurer, Candelaria Rural Bank since 1998 to 2016 • Vice President / Treasurer, Batangas Sugar Central, Inc. from 1993 to 2016 <u>Academic Qualifications</u> • International Management Studies, University of California, Los Angeles, USA • BS in Business Administration – Major in Business Management , St. Paul College of Manila	
Eduardo A. Sahagun Independent Director	60	Filipino	<u>Present Involvements</u> • Independent Director, Philippine Savings Bank* since 2017 • Chairman, Edcommerce Corporation since 2017 • President & CEO, Union Galvasteel Corporation since 2017 • Director , Union Galvasteel Corporation since 2011 • President & CEO, Phinma Solar Energy Corporation since 2017 • President & CEO, Philcement Corporation since 2017 • Director, Phinma Foundation Inc. since 2017 • Director, Phinma Renewable Energy Corporation since 2017 • Director, Phinma Property Holdings Corporation since 2016 <u>Past Experiences/ Positions Held</u> • Director, Holcim Philippines, Inc.* from 2010 to 2017 • President, Holcim Philippines, Inc* from 2013 to 2017 • Chief Executive Officer, Holcim Philippines Inc.* from 2013 to 2016 • Senior Vice President –Sales, Marketing, Technical Services & Commercial, Holcim Philippines,	None

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Inc.* from 2007 - 2012 • Chief Financial Officer, Holcim Philippines, Inc.* from 2002 - 2007 • Senior Vice President –Treasurer, Bacnotan Consolidated Industries, Inc. (part of Phinma Group's Cement Division, which was acquired by Holcim) from 1995 to 2002 • Chairman, Holcim Mining and Development Corporation from 2013 to 2017 • Director, Holcim Philippines Manufacturing Corporation from 2013 to 2017 • Member, Board of Trustees, Cement Manufacturers Association of the Philippines from 2013 to 2016 • Member, Board of Trustees, Philippine Business for the Environment, Inc. from 2014 to 2016 • Treasurer, Phinma Cement Group (Central Cement Corporation, Davao Union Cement Corporation and Hi Cement Corporation since 1995 to 2002 Academic Qualifications • Master in Management Science, Arthur D. Little Management Education Institute, (now Hult International Business School) Boston, USA • Masters in Business Administration, Ateneo Graduate School of Business • BS Commerce , Major in Accounting, Holy Angel University	
Rossana F. De Vera **Director**	50	Filipino	Present Involvements • Director, Philippine Savings Bank* since 2018 • First Vice President – Division Head Credit Group, Metropolitan Bank & Trust Company* since 2008 Past Experiences/ Positions Held • Vice President – Team Head, Commercial Banking Group, Banco de Oro from 2007 to 2008 • Vice President - Head of Small Business, Equitable PCI Bank from 2006 to 2007 • Assistant Vice President – Corporate Banking Group, Equitable PCI Bank from 2003 to 2006 • Senior Manager – Corporate Banking	Antonell S. Interino Vice President 2nd degree relative by affinity

Name/ Position	Age	Citizenship	Business Experience and Present and Past Directorship with Other Companies for the last five (5) years	Relatives up to 4th Civil degree
			Group, Equitable PCI Bank from 2001 to 2002 • Manager – Corporate Banking Group , PCI Bank from 1999 to 2000 <u>Academic Qualifications</u> • MBA (36 Units), Ateneo Graduate School of Business • BSC-Accounting , University of Sto. Tomas	

*Company listed at The Philippine Stock Exchange, Inc.

b) Executive Officers

Name/ Position	Age	Citizenship	Experience	Relatives up to 4th Civil degree
Jose Vicente L. Alde **President/Director**	52	Filipino	Present Involvement • President since April 2018 • Chairman, Sumisho Motor Finance Corporation since 2016 Past Experiences/ Positions Held • Director since 2016/ Executive Vice President since 2010 , Philippine Savings Bank* • Director, Metrobank Card Corporation from 2015 to 2016 • Vice President, ABN AMRO BANK from 1999 to 2007 • Asst. Vice President, ABN AMRO BANK from 1995 to 1999 • Business Development Manager, Household Development from 1993 to 1994 • Key Account Manager, Johnson and Johnson from 1992 to 1993 • Computer Programmer, World Health Organization from 1988 to 1990	None
Noli S. Gomez **Executive Vice President**	53	Filipino	Present Involvements • EVP and Head at PSBank's* Operations Group since Jan 2006 • Director, Sumisho Motor Finance Corporation since June 2018 Past Involvements • Chief Finance Officer at PSBank* from 2001 to 2005 • Head of Systems and Methods and Chief Risk Officer at DBS Bank Phils., Inc. from 1998 to 2001 • System Management Officer of the Bank of the Philippine Islands* from 1996 to1997 • Citytrust Banking Corporation from 1992 to 1996	None
Perfecto Ramon Z. Dimayuga, Jr. **Senior Vice President/Treasurer**	57	Filipino	Present Involvements • Treasurer/ Head of Corporate Services Office, Legal Services Division and Treasury Group since January 2017 • Corporate Secretary, Sumisho Motor Finance Corp. since December 2009 Past Involvements • SVP, Chief Finance Officer and Finance Group Head, PSBank* from Jan 2006 to December 2016 • Treasurer, PSBank* from June 2002 to May 2004 • Held various treasury positions in Development Bank of Singapore (DBS) Phils., Inc., Bank of the Philippine Islands*, Mindanao Development Bank, Citytrust Banking Corp. and Rizal Commercial Banking Corp.* from 1988 to 2002	None

Emmanuel A. Tuazon **Senior Vice President**	55	Filipino	Present Involvement • SVP and Head of PSBbank's* Marketing Group since June 2016 Past Involvements • SVP and Head of PSBank's* Marketing and Customer Experience Group since July 2014 • Senior Vice President and Chief Marketing Officer, Allied-PNB Savings from 2013 to 2014 and Philippine National Bank* from 2010 to 2013 • Vice President for Marketing at ABN AMRO Bank from 1999 to 2000 and Jardine Pacific Finance from 1997 to 1999	None
Neil C. Estrellado **Senior Vice President**	47	Filipino	Present Involvement • SVP since 2015 and Head of PSBank's* IT Group since 2002 Past Involvements • Held various positions in the following Banks: - Assistant Manager, BPI* (formerly Citytrust Banking Corporation) - Project Manager, DBS Philippines Inc. (formerly Bank of Southeast Asia) - AVP, Development Bank of Singapore - Project Manager, Overseas Chinese Banking Corp (OCBC), Singapore	None
Francis C. Llanera **Senior Vice President**	47	Filipino	Present Involvement • SVP since October 2016 and Head of Branch Banking Group since October 2012. Past Involvements • FVP and Group Head of PSBank Loans Operations Group from 2011 to 2012. • Division Head Remedial Management from 2007 to 2010 • Held various positions in the following Banks: - Senior Manager – Credit Card Collections Head, Union Bank - Assistant Manager – Credit Risk, AIG - Assistant Manager - Far East Bank & Trust Co	None
Jose Jesus B. Custodio **Senior Vice President**	59	Filipino	Present Involvement • SVP since Oct 2013 and Head PSBank*-Indirect Sales Channel Group Past Involvements • FVP and Group Head of PSBank*-Indirect Sales Channel Group from 2010 to 2013 • Vice President and Division Head of Dealer Sales from 2004 to 2010 • AVP and Department Head of Dealer Sales from 2003 to 2004 • Senior Manager and Department Head of Dealer Sales from 2001 to 2003	None

* Company listed at The Philippine Stock Exchange, Inc.

None of the Bank's directors and officers works with the government. All of the above-mentioned officers have been involved in the banking industry for more than five years.

c) Significant Employees

Except for the above-mentioned executives, there are no other significant employees as contemplated under the Securities Regulations Code.

Nomination Procedures

1) A stockholder may submit nominations for directorial positions to the Corporate Governance Committee.

2) The nominating stockholder shall submit his proposed nomination in writing to the Corporate Governance Committee together with the biodata, acceptance and conformity by the would-be nominee. In case of a nominee for the position of an independent director, the would-be nominee is also required to submit a Certification that he/she has all the qualifications and none of the disqualifications to become an independent auditor.

3) The Corporate Governance Committee shall screen the nomination of directors prior to the submission of the Definitive Information Statement and come up with the Final List of Candidates.

4) Only nominees whose names appear in the Final List of Candidates shall be eligible for election as director.

5) The nomination process of the Bank is incorporated in the company's amended Code of By-Laws duly approved by the Securities and Exchange Commission as early as September 27, 2006.

The following are the members of the Bank's Corporate Governance Committee:

Name	Position
Jose T. Pardo, Independent Director	Chairperson
Samson C. Lim, Independent Director	Member
Eduardo A. Sahagun, Independent Director	Member
Gilbert L. Nunag, Chief Compliance Officer	Secretary

Legal Proceedings

To the knowledge and information of the Bank, none of its directors and executive officers are involved or have been involved for the past five (5) years in any legal proceeding which will have material or substantial effect to the Bank, its operation, reputation, or financial condition.

To the knowledge and information of the Bank, none of its directors and executive officers have been involved or subject of the following legal proceedings during the past five (5) years up to latest date that are material to an evaluation of their ability or integrity:

(a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign;

(c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; and

(d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

Certain Relationships and Related Transactions

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2018 and 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 December 31, 2018 and 2017:

	2018	2017
Total outstanding DOSRI accounts	**₱1,376,123,192**	₱1,201,916,069
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**0.88%**	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	**16.39%**	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 ₱5.8 million in 2018 and 2017 and ₱26.6 million in 2016, respectively.

Further discussion on transactions with related parties are found in Note 29 of the Audited Financial Statements.

Others

No director has resigned or declined to stand for re-election because of any disagreement with the Bank on any matter relating to the Bank's operations, policies or practices.

No director has informed the Bank in writing that he intends to oppose any action to be taken by the Bank at the Annual Stockholders' Meeting.

Item 6. Compensation of Directors and Executive Officers

Name and Principal Position	2019 (estimate)	
	Salary*	Bonus*
Jose Vicente L. Alde – President		
Noli S. Gomez – Executive Vice President		
Jose Jesus B. Custodio – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Emmanuel A. Tuazon		
Total	**₱62.01 million**	**₱32.47 million**
All Officers (AVP up) and Directors	**₱160.99 million**	**₱74.64 million**

* Increased 2018 figures by 7%

Name and Principal Position	2018	
	Salary	Bonus
Vicente R. Cuna, Jr. – President*		
Jose Vicente L. Alde –President**		
Noli S. Gomez – Executive Vice President***		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio, Senior Vice President		
Total	₱57.95 million	₱30.35 million
All Officers (AVP up) and Directors	₱150.46 million	₱69.76 million

*President from January 2018 to April 2018
**President from April 2018 to present
*** Executive Vice President from April 2018 to present

Name and Principal Position	2017	
	Salary	Bonus
Vicente R. Cuna, Jr. – President		
Jose Vicente L. Alde – Executive Vice President		
Noli S. Gomez – Senior Vice President		
Perfecto Ramon Z. Dimayuga, Jr. – Senior Vice President		
Jose Jesus B. Custodio, Senior Vice President		
Total	₱53.09 million	₱ 31.38 million
All Officers (AVP up) and Directors	₱191.72 million	₱ 94.13 million

The directors receive fees, bonuses and allowances that are already included in the amounts stated above. Aside from said amounts, they have no other compensation plan or arrangement with the bank. The executive officers receive salaries, bonuses and other usual bank benefits that are also included in the amounts stated above. Aside from these, they have no other compensation plan or arrangement with the bank.

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

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of the Bank's overall strategy. The total per diem and transportation allowance paid to directors for their attendance in Board meetings amounted to ₱19.3 million, ₱19.3 million and ₱16.7 million in 2018, 2017 and 2016, respectively. This translates to an average of ₱145,181.02, ₱139,120 and ₱113,802, per month/per director in 2018, 2017 and 2016, respectively. Aside from said amounts, they have no other compensation plan or arrangement with the Bank.

Item 7. Independent Public Accountants

SGV & Co. has acted as the Bank's external auditors since 1979. Mr. Miguel U. Ballelos, Jr. has been the certifying partner from SGV and Co. since 2016, in compliance with the 5-year rotation requirement.

The Bank has no disagreements on accounting and financial disclosures with its current external auditors for the same periods or any subsequent interim period.

The same group of independent public accountants has been recommended by the Audit Committee to be re-appointed as the external auditors of the company for the year 2018. The re-appointment of SGV complies with the requirement of SEC under SRC Rule 68 (3) (b) (IV).

Representatives of SGV are expected to be present at the Annual Stockholders' Meeting and will have the opportunity to make a statement if they desire to do so and will be available to answer appropriate questions.

Item 8. Financial and Other Information

The Audited Financial Statements of PSBank is attached as **Annex "A"**.

C. OTHER MATTERS

Item 9. Other Proposed Actions

Approval of the Minutes of the Annual Meeting of Stockholders in the annual stockholders meeting held on April 23, 2018 at 3:00 p.m. at 19th Floor, PSBank Center, the following transpired.

Stockholders Present and Represented

NAMES	No. of Shares Held	Percentage of Equity
Metropolitan Bank & Trust Company (parent company) represented by Arthur Ty	198,629,513	82.67532%
Chairman Jose T. Pardo	1,852	0.00077%
Vice Chairman Arthur Ty	117	0.00005%
Director Vicente R. Cuna Jr.	100	0.00004%
Director Ma. Soledad D.S. De Leon	4,000,000	1.66492%
Director Jose Vicente L. Alde	100	0.00004%
Director Samson C. Lim	100	0.00004%
Director Benedicto Jose R. Arcinas	100	0.00004%
Director Eduardo A. Sahagun	100	0.00004%
Director Rosanna F. De Vera	100	0.00004%
Various PSBank stockholders	16,310	0.00679%
TOTAL	**202,648,392**	**84.34809%**

1. **CALL TO ORDER**

The Chairman of the Board, Mr. Jose T. Pardo, presided over the meeting which he called to order. The minutes were taken down by the Corporate Secretary, Mr. Pocholo V. Dela Peña.

2. **CERTIFICATION OF NOTICE AND QUORUM**

The Corporate Secretary, Mr. Pocholo V. Dela Pena, certified that copies of the Notice of Meeting were duly sent as required by the By-laws and that there was a required quorum with **84.35%** of the outstanding capital stock of 240,252,491 present in person or by proxy. The Chairman of the Board, Mr. Jose T. Pardo, acknowledged that, there being a quorum, the meeting was duly constituted for the transactions of the business in the agenda.

3. **APPROVAL OF MINUTES FOR THE ANNUAL STOCKHOLDERS MEETING HELD ON 24 APRIL 2017**

Upon motion duly made and seconded, the Minutes of the Annual Stockholders' Meeting held on April 24, 2017 were approved.

(Voting results: 84.35% voted in favor, 0.00% abstained and 0.00% voted against)

4. **REPORT TO THE STOCKHOLDERS AND APPROVAL OF THE AUDITED FINANCIAL STATEMENTS FOR 2017**

The President, Vicente R. Cuna, rendered to the stockholders his annual report for 2017 including the audited financial statements.

Upon motion duly made and seconded, the President's Report to the stockholders and the Audited Financial Statements for 2017 were approved.

(Voting results: 84.35% voted in favor, 0.00% abstained and 0.00% voted against)

5. **CONFIRMATION OF ALL CORPORATE ACTS OF THE BOARD OF DIRECTORS, MANAGEMENT AND ALL COMMITTEES DURING THE YEAR 2017**

Upon motion duly made and seconded, all corporate acts, transactions and resolutions of the Board of Directors, Management and all Committees during the year 2017, including significant transactions with the Bank's DOSRI and other related parties as shown in the 2017 Annual Report, were confirmed.

(Voting results: 84.35% voted in favor, 0.00% abstained and 0.00% voted against)

6. **ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS**

In compliance with the regulatory requirements of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on the nomination of directors, the Bank's Corporate Governance Committee consisting of Directors Samson C. Lim and Eduardo A. Sahagun as members, and Director Jose T. Pardo as the Chairman, reviewed and evaluated the qualifications of all persons nominated to the Board, and certified that, based on the records, the nominees possess all the qualifications and none of the disqualifications prescribed by law and the regulations.

In this regard, the stockholders elected the following nine (9) nominees, with four (4) of them as Independent Directors, to serve on the Board for 2018-2019:

1. MS. ROSANNA F. DE VERA
2. MR. EDUARDO A. SAHAGUN (Independent Director)
3. MR. JOSE VICENTE L. ALDE
4. MS. MA. SOLEDAD D.S. DE LEON
5. MR. BENEDICTO JOSE R. ARCINAS (Independent Director)
6. MR. SAMSON C. LIM (Independent Director)
7. MR. VICENTE R. CUNA, JR.
8. MR. ARTHUR TY and
9. MR. JOSE T. PARDO (Independent Director)

(Voting results: 84.35% voted in favor, 0.00% abstained and 0.00% voted against)

7. **APPOINTMENT OF THE EXTERNAL AUDITOR FOR THE YEAR 2018-2019**

Upon the recommendation of the Audit Committee and with a motion duly made and seconded, Sycip Gorres Velayo & Co. was appointed as the Bank's external auditor for 2018-2019.

(Voting results: 84.35% voted in favor, 0.00% abstained and 0.00% voted against)

8. **OTHER MATTERS**

There were no other matters taken up in the agenda.

9. **ADJOURNMENT**

There being no other business to transact, the meeting was, upon motion duly made and seconded, adjourned.

Item 10. Voting Procedures

1) Majority vote is required for the approval of the Minutes of the Annual Meeting of Stockholders and Confirmation of all corporate acts of the Board of Directors, the Management and all committees including significant transactions with the Bank's Directors, Officers, Stockholders & their Related Interests (DOSRI) and other related parties.

2) Majority vote is required for the election of members of the Board of Directors. Nominees receiving the highest number of votes shall be declared elected following the provisions of the Corporation Code.

3) Every stockholder entitled to vote on the particular question or matter involved shall be entitled to one vote (1) vote for each share of stock in his name. Cumulative voting is allowed provided that the total votes cast by a stockholder shall not exceed that number of shares registered in his name in the

books of the bank as of the record date multiplied by the whole number of directors elected. Matters submitted to stockholders for ratification shall be decided by the required vote of stockholders present, in person or by proxy.

4) All votes will be counted by the Corporate Secretary, to be assisted by the Bank’s stock transfer agent Metrobank Trust.

THE BANK SHALL PROVIDE EACH STOCKHOLDER WITHOUTCHARGE A COPY OF SEC FORM 17-A (ANNUAL REPORT) UPON WRITTEN REQUEST ADDRESSED TO:

Mr. Pocholo V. dela Pena
Corporate Secretary
3rd Floor, PSBank Center,
777 Paseo de Roxas cor. Sedeño St., Makati City 1226

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on March 4, 2019.

PHILIPPINE SAVINGS BANK

Pocholo V. dela Pena
Corporate Secretary

PART II. MANAGEMENT REPORT

Brief Description and General Nature and Scope of Business of Registrant

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2018 and 2017, the Bank had 250 branches. In 2018, the Bank had 309 Automated Tellering Machines (ATMs) in Metro Manila and 266 in provincial locations, bringing its total number of ATMs to 575 and 610 as of December 31, 2018 and 2017 respectively.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

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

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

As of December 31, 2018 and 2017, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) of the Bank respectively. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 1,000 local and international branches, subsidiaries, representative offices, remittance correspondents and agencies.

The Bank's principal place of business is located at PSBank Center, 777 Paseo de Roxas corner Sedeño Streets, Makati City.

Market Price Information

PSBank common shares were listed in the Philippine Stock Exchange (PSE) in 1994. The shares are traded under the symbol "PSB".

The high and low sales prices of the Shares as reported in the PSE for each quarter in the years ending December 31, 2018 and 2017 and subsequent interim periods were as follows:

	Highest	**Lowest**
	In Php	
2019:		
January	61.00	57.50
February	59.50	58.80
2018:		
First quarter	89.50	85.05
Second quarter	87.90	81.00
Third quarter	88.50	80.00
Fourth quarter	86.90	61.80

	Highest	Lowest
	In Php	
2017:		
First quarter	91.00	87.00
Second quarter	90.50	86.50
Third quarter	92.00	87.65
Fourth quarter	90.00	87.00

Closing price as of March 1, 2019 was at ₱58.50 per share.

Dividends and Dividend Policy

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

Consistent with SEC rules, cash dividends declared by the Bank must have a record date of not less than 10 but not more than 30 business days from the date the cash dividends are declared/approved by the Board. With respect to stock dividends, the record date should not be less than 10 but not more than 30 business days from the date of the stockholders' approval; provided however, that the set record date should not be less than 10 business days after the Philippine Stock Exchange (PSE) has received the notice of declaration of stock dividend. BSP regulations have since allowed banks to fix the record date and payment date on the date of dividend declaration, and pay such dividends without prior BSP approval, with the exception of banks with major supervisory concerns. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

Unless approved via majority vote of the Board of Directors at a different rate depending on the Bank's earnings/results of operations, cash flow, financial condition and other factors or otherwise restricted/prohibited from declaring/paying dividends, the Bank regularly declares out of its unrestricted retained earnings and pays cash dividends at a pay out ratio of ₱3.00 per share per annum or ₱0.75 per share per quarter, provided that the regulatory requirements of both the SEC and the BSP are complied with. Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures or when it is restricted from paying cash dividends by its loan covenants.

Provided likewise that the Bank is not restricted/prohibited from declaring/paying dividends and that all such regulatory requirements are complied with, the Bank may also declare out of its unrestricted retained earnings and pay out special cash dividends (on top of its regular quarterly cash dividends) at such rate as may also be approved via majority vote of the Board of Directors.

The aggregate amount of quarterly cash dividends declared by the Bank in 2018 stood at ₱720.8 million. Details are shown under Note 21 of the Audited Financial Statements section.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends			
Date of declaration	Per share	Total amount	Record date	Payment date
January 19, 2016	₱0.75	₱180,189,368	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368	May 09, 2018	May 23, 2018

July 20, 2018	0.75	180,189,368	August 06, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368	October 30, 2018	November 14, 2018
January 17, 2019*	0.75	287,332,062	February 1, 2019	February 18, 2019

*On November 28, 2018, the Exchange approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. As of January 15, 2019, the Bank has complied with all applicable listing requirements of the Exchange.

No unregistered securities were sold or offered for sale by the Bank for the year 2018.

Holders

As of January 31, 2019, the Bank has 1,461 stockholders.

Top 20 Stockholders as of January 31, 2019

	Name of Stockholders	No. of Shares	% to Total
1	Metropolitan Bank & Trust Co.*	338,610,090	88.3847%
2	Dolor, Danilo L.	12,610,891	3.2917%
3	Dolor, Erlinda L.	7,605,832	1.9853%
4	PCD Nominee Corp. (Filipino)**	4,543,409	1.1859%
5	De Leon, Maria Soledad S.	4,000,000	1.0441%
6	De Leon, Gian Carlo S.	2,741,378	0.7156%
7	De Leon, Leonard Frederick S.	2,598,334	0.6782%
8	PCD Nominee Corp. (Non-Filipino)	2,561,223	0.6685%
9	De Leon, Alvin Benjamin S.	2,437,887	0.6363%
10	De Leon, Kevin Anthony S.	2,407,964	0.6285%
11	Go, James (c/o Mr. Olayer)	298,823	0.0780%
12	Chua, Gabriel	100,337	0.0262%
13	Chua, Josephine T.	81,056	0.0212%
14	Que, Liong H.	68,062	0.0178%
15	Choa, Johnny K.	64,843	0.0169%
16	Choa, Victoria K.	61,875	0.0162%
17	Ty, Alejandro	57,345	0.0150%
18	Cheng, Berck Y.	45,000	0.0117%
19	Sy, Victor Gan	40,975	0.0107%
20	Perez, Ma. Georgina V.	39,866	0.0104%

* Includes 185,184,113 shares lodged with PCD Nominee Corp.
** Net of 185,184,113 shares owned by Metropolitan Bank & Trust Company and 17 shares owned by Arthur Ty

As of January 31, 2019, public ownership of the Bank was at 10.57%. Of the total shares issued, 2.59 million shares or 0.68% represents foreign ownership.

Compliance with Leading Practices on Corporate Governance

OUR CORPORATE GOVERNANCE CULTURE

We see our compliance with applicable laws, rules, and regulations as a minimum requirement. Going beyond such minimum is the true essence of good corporate governance. We always aim to continually build the trust and confidence of our stakeholders by running our business in a prudent and sound manner, being fair and transparent in all our dealings, providing reliable and better service in response to the ever-growing expectations of our customers, and working with integrity and accountability.

OUR CORE GOVERNANCE POLICIES

The policies and guidelines embodied in our annually updated Corporate Governance Manual are posted in our website, *www.psbank.com.ph*, and in our intranet site, InfoChannel, for the guidance of all our stakeholders. These primarily revolve around the following three basic values that we observe:

Fairness

We see to it that all dealings with counterparties and other stakeholders are fairly conducted. We ensure that such dealings, especially with our related parties, are made in the regular course of our business, and upon terms not less favorable to us than those offered to others. Our Board-level Related Party Transactions Committee (RPTC), entirely composed of non-executive directors, and management-level Related Party Transactions Management Committee (RPTMC) help ensure that our transactions with related parties are conducted at arm’s length, and that our resources are not misappropriated, in accordance with our Board-approved Related Party Transactions (RPT) policy and its specific guidelines and handling procedures, vis-à-vis set transaction materiality thresholds and exposure limits.

Our transaction materiality thresholds for RPTs were set on a per transaction type basis considering the high-end of their historical ticket sizes, their nature and the Bank's risk appetite. These thresholds are applied on a per single transaction basis for one-time/non-recurring transactions or the aggregate amount of multiple transactions expected in a year's time for some arrangements with recurring/continuing transactions. Except for certain transactions with DOSRIs requiring prior approval of the Board of Directors under existing BSP rules regardless of their amounts, RPTs amounting within said thresholds are subject to the review and approval of the Management-level RPTMC and endorsement of the Board-level RPTC for the Board of Directors' confirmation. On the other hand, those beyond such thresholds are considered "material" and shall pass through the Board-level RPTC for review and endorsement for the Board of Directors' approval prior to their consummation and then Stockholders' confirmation in the Annual Stockholders' Meeting. In 2018, the following "material" RPTs were entered into between the Bank and its related parties (see also Note 29 of the Audited Financial Statements section):

Material Related Party Transactions

Related Parties	Type	Nature of Transaction	Terms & Conditions	In Millions of Php Total Amount	Dec. 31, 2018 Balance
INSURANCE					
Related Entity	Affiliate	Annual Renewal of Bank's Money, Securities, Payroll & Robbery (MSPR) Insurance Coverage	Total Sum Insured is at Php425 Million with a net annual premium rate of 1.465% thereof	**7.76**	**N/A**
Related Entity	Affiliate	Annual Renewal of the Bank's Fire Insurance Coverage for ROPA-Real Estate Properties	Total Sum Insured is at Php4.259 Billion with a net annual premium rate of 0.1500% thereof	**8.09**	**N/A**
INTERCOMPANY COUNTERPARTY LINES					
Parent-Bank	DOSRI	Annual Renewal of Related Intercompany Counterparty Lines of Treasury Group	Clean/unsecured lines for Interbank Call Loan (IBCL) only; Secured lines are collateralized by non-risk assets i.e. Government securities (GS) and thus exempted from DOSRI ceilings when so availed	**Clean – 2,000.00; Secured - 16,000.00; Settlement – 1,500.00 & Pre-Settlement -750.00**	**N/A**
Related Entity	Affiliate	Annual Renewal of Related Intercompany Counterparty Lines of Treasury Group	Clean/unsecured lines for Interbank Call Loan (IBCL) only; Secured lines are collateralized by non-risk assets i.e. Government securities (GS) and thus exempted from DOSRI ceilings when so availed	**Clean – 1,000.00; Secured - 4,000.00 & Pre-Settlement – 85.00**	**N/A**
Related Entity	Affiliate	Annual Renewal of Related Intercompany Counterparty Lines of Treasury Group	Clean/unsecured lines for Interbank Call Loan (IBCL) only	**Clean – 1,000.00**	**N/A**
Related Entity	Affiliate	Annual Renewal of Related Intercompany Counterparty Lines of Treasury Group	Clean/unsecured lines for Interbank Call Loan (IBCL) only; Secured lines are collateralized by non-risk assets i.e. GS and thus exempted from DOSRI ceilings when so availed	**Clean – 1,000.00 & Secured - 500.00**	**N/A**
Parent-Bank	DOSRI	Annual Renewal of Related Intercompany Counterparty Lines of Trust Division	Counterparty line for fixed income securities (i.e., Corporate Bonds, Government Securities)	**Pre-Settlement – 5.00 & Settlement – 50.00**	**N/A**
Related Entity	Affiliate	Annual Renewal of Related Intercompany Counterparty Lines of Trust Division	Counterparty line for fixed income securities (i.e., Corporate Bonds, Government Securities)	**Pre-Settlement – 20.00 & Settlement – 200.00**	**N/A**
Related Entity	Affiliate	Annual Renewal of Related Intercompany Counterparty Lines of Trust Division	Counterparty line for equity transactions of various trust accounts.	**Pre-Settlement – 500.00 & Settlement – 500.00**	**N/A**
LOANS					
Other Related Individual	Corresponding Person of Affiliated Companies	New Home Loan	Ten (10) years with interest rate @ 6.00% p.a. fixed for one (1) year subject to annual re-pricing	**17.17**	**17.17**
Other Related Individual	Corresponding Person of Affiliated Companies	New Home Loan	Fifteen (15) years with interest rate @ 7.00% p.a. fixed for five (5) years	**16.50**	**16.45**

OTHERS					
Parent-Bank	DOSRI	Provision of Services	Development, Support and Maintenance of Various Bank Systems	**38.79**	**N/A**
Related Entity	Affiliate	Accreditation of Affiliate-Car Dealer	Accreditation of Affiliate's Employees for the Bank's Multi-Purpose Loan	**19.40**	**N/A**
Related Entity	Affiliate	Receivable Purchase Agreement	Purchase of receivables from Affiliate's Car Buyers	**N/A**	**N/A**
Parent-Bank	DOSRI	Cross-Selling Arrangement	Cross-Selling Arrangement for the Bank's Multi-Purpose Loan (MPL)	**N/A**	**N/A**
Related Entity	Affiliate	Receipt of Services	Arranger for the Bank's Medium Term Notes Issuance	**9.33**	**N/A**
Related Entity	Affiliate	Receipt of Services	Issue Manager, Bookrunner and Lead Underwriter for the Bank's Stock Rights Offer (SRO)	**64.50**	**N/A**

Our RPT policy likewise requires our directors and officers with personal interest in the Bank's transaction (e.g. they themselves or any of their close family members acting as the Bank's counterparty) to inhibit/abstain from the discussion, approval and management of such transaction except in order to provide material information to the RPTC/Board about the transaction. Provisions against conflict of interest situations are likewise stipulated in the Bank's Board-approved "Code of Conduct" such as the prohibition of self-dealing transactions.

We also ensure that our stockholders are treated equally and without discrimination by preserving stockholders' rights and protecting our minority stockholders' interests, including the latter's right to nominate candidates to our Board of Directors.

Integrity and Accountability

We uphold at all times the value of honesty as the best policy. We believe that our reputation precedes us in the business of trust and confidence. We continue to enhance a working culture of integrity, guided by a Code of Conduct that defines the standards that we must follow in our business dealings and relationships.

Code of Conduct

Our Code of Conduct is our guide in defining the norms, rules, and responsibilities of each and every PSBanker. It includes provisions on:

- Disciplinary process;
- General policies to establish a professional working environment and secure a favorable reputation for our Bank;
- Corrective measures for unacceptable behavior or failure to comply with our rules, such as on Financial Consumer Protection and on Anti-Money Laundering/Terrorism Financing, policies and procedures;
- Schedule of penalties for attendance and punctuality, required corporate attire, conduct and behavior, dishonesty, health, safety and security, reporting of violations, and information security; and
- Provisions on management of personal finances, conflict of interest, anti-sexual harassment, non-disclosure of information and insider information.

Insider Trading

Under our *Policy against Insider Trading*, reporting insiders are required to disclose their and their associates' initial beneficial ownership in PSBank shares and any changes thereof within two trading days after their election/appointment in office and from the date of said changes, respectively. They are likewise prohibited from selling or buying PSBank shares during "blackout periods," i.e., upon obtaining material on non-public information up to two trading days after such information is disclosed. The Bank did not have any trading transactions with reporting insiders and/or their associates in 2018. Directors' level of share ownership and movements from beginning to end of the year 2018 are summarized as follows:

#	Name of Director	Position	Rollforward of Common Shares					
			Beginning		Movements		End	
			12/31/2017	%	Additions	Deductions	12/31/2018	%
1	Jose T. Pardo	Chairman & Independent Director	1,852	0.000771	-	-	1,852	0.000771
2	Arthur V. Ty	Vice-Chairman	117	0.000049	-	-	117	0.000049
3	Vicente R. Cuna, Jr.	Vice-Chairman	100	0.000042	-	-	100	0.000042
4	Samson C. Lim	Independent Director	100	0.000042	-	-	100	0.000042
5	Benedicto Jose R. Arcinas	Independent Director	100	0.000042	-	-	100	0.000042
6	Eduardo A. Sahagun	Independent Director	100	0.000042	-	-	100	0.000042
7	Jose Vicente L. Alde	President	100	0.000042	-	-	100	0.000042
8	Ma. Soledad D.S. De Leon	Director	4,000,000	1.664915	-	-	4,000,000	1.664915
9	Rosanna F. De Vera*	Director			100	-	100	0.000042
	Total		4,002,469	1.665945	100	-	4,002,569	1.665987

** Ms. De Vera was elected as Director during the Annual Stockholders' Meeting in April 2018.*

Whistleblowing
PSBank's whistleblower policy requires our employees to report any impropriety or malpractice committed by co-employee/s or third party/ies to their Group Heads or to the Human Resources Group Head, the Fraud Management Group Head/ Division Heads, or the Chief Audit Executive/ Internal Audit Group Head for evaluation if it would warrant an investigation. Under the Code of Conduct, concealment or non-reporting is considered as an impropriety or malpractice in itself. The whistleblower is protected from any form of harassment as a result of any disclosure which was made in good faith believing the disclosure to be true and was not made maliciously or for personal gain. The policy considers any attempt to determine the whistleblower's identities as a breach of confidentiality which is subject to disciplinary sanctions.

Anti-Money Laundering/Combating Financing of Terrorism (AML/CFT)
PSBank subscribes to and adopts the State's policy to protect the: (1) integrity and confidentiality of accounts and to ensure that it shall not be used as a money laundering/terrorism financing site and/or conduit for the proceeds of unlawful activities; and (2) life, liberty and property from acts of terrorism by condemning such acts and those who support and finance it as a crime against the Filipino people, against humanity and against the law of nations.

We ensure that we execute transactions with our customers in accordance with the AML/CFT policy guidelines, procedures, tools, and controls set forth in our regularly updated Money Laundering & Terrorism Financing Prevention Program (MLTFPP). Our MLTFPP, as posted in our intranet site for the guidance of all our implementing personnel, primarily revolves around the basic AML/CFT controls required under existing AML/CFT laws, rules and regulations, namely:

1. Know Your Customer (KYC)/Customer Due Diligence (CDD) & Know Your Employee (KYE);
2. Ongoing Monitoring of Customers & their Transactions
3. Covered and Suspicious Transactions Reporting
4. Records Keeping & Retention; and
5. Employee Training & Continuing Education.

The Bank's MLTFPP is undergoing another round of review/updating to align with the recently issued BSP Amended AML Rules & Regulations per BSP Circular No. 1022 as well as the Anti-Money Laundering Council's (AMLC) Revised AML Implementing Rules & Regulations and related AMLC issuances. Compliance with the requirements of this MLTFPP is continuously monitored by our Board-designated AML Compliance Officer (AMLCO) under the Compliance Office as lead implementer.

Transparency and Open Communication
We abide by the various disclosure requirements of the Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC), and the Philippine Stock Exchange (PSE), PSBank being a publicly listed company. We ensure that we are transparent to our stakeholders by posting the latest public disclosures on the Investor Relations section of our website and in our press releases. In compliance with SEC Memorandum Circular No. 11 s2014, we regularly update our website to include all required disclosures in accordance with the SEC-prescribed web template for our stakeholders to readily check our corporate governance practices.

We also maintain an open communication line and use feedback from our stakeholders to develop better policies, products, and services. We likewise accommodate requests for information on the management of our Bank, stockholders rights, or any other Bank-related matters, while remaining mindful of disclosure limitations under existing laws on the secrecy of bank deposits and data privacy.

Our Corporate Governance Manual (CGM) serves as a valuable guide and reference in our implementation of corporate governance rules and regulations, and standards of both the BSP and the SEC. In 2018, we updated our CGM to incorporate the recent SEC issuances related to corporate governance, among others.

Financial Consumer Protection
With customers at the forefront of our priorities and in compliance with BSP Circular No. 857 (BSP Regulations on Financial Consumer Protection), our corporate governance system/culture includes a Financial Consumer Protection (FCP) Framework to ensure that consumer protection standards and practices are duly observed and embedded in our business operations.

This framework is comprised of FCP Policies and Procedures, FCP Code of Conduct, Consumer Assistance Management System, FCP Training Program, FCP Risk Management System, FCP Compliance Program, FCP Audit Program, and Financial Consumer Education and Awareness Program. The framework revolves around the core principles of consumer protection, namely: 1. Disclosure and transparency; 2. Protection of client information; 3. Fair treatment; 4. Effective recourse; and 5. Financial education and awareness.

The Board of Directors, jointly with the Senior Management, is ultimately responsible in establishing an effective oversight over the Bank's consumer protection programs as well as in ensuring that consumer protection practices are embedded in the Bank's business operations.

As part of the Bank's corporate-wide risk management system spearheaded by its Risk Management Office (RMO), an FCP Risk Management System (FCPRMS) is instituted to identify, measure, monitor, and control consumer protection risks (both risks to the financial consumers and the Bank) inherent in the Bank's operations.

PSBank aims to differentiate itself from other banks by providing excellent customer experience. Being attentive and proactive to all customer feedback is one of the more powerful means of doing so. While positive feedback is welcome, we are more vigilant about negative feedback or complaints as they cover areas for improvement. Complaints received from clients are lodged in an automated tracking system in order to manage our defined TAT in resolving them and to serve as a database of all customer complaints including the record of actions taken thereon for MIS purposes. This process is implemented in four (4) steps, namely: (1) Acknowledgement, (2) Decision/Disposition by Designated Senior Officers, (3) Investigation and Communicating Feedback to the Customer, and (4) Closing of Complaint.

While all personnel are given access to the said system for the reporting of customer complaints and feedback, the investigation and resolution shall be handled by the following:

- **Service Recovery Team (SRT) -** consists of the Consumer Assistance Management Department. The Team is responsible for investigation, resolution, and documentation of all customer complaints and feedback received across all channels. The SRT also works with other Departments, Divisions, or Groups in the implementation of interim and long-term resolution (i.e. process improvement efforts, policy revision, system enhancement, personnel training, etc.).

- **Designated Senior Officers -** consists of Senior Officers or Group Heads who are tasked to provide decision/disposition to the customer complaint.
- **Emergency Recovery Team (ERT)** - All complaints/feedback that are qualified under fraud or those that may be classified as high risk are immediately escalated to the ERT which consists of the Executive Vice President (EVP), the Customer Experience Head, and the Process Owner Representative. Issues requiring PR solution or those with media impact are also submitted to the PR and Corporate Communications Head.
- **Process Owner Representative -** are the respondents to the complaint. They may also be subject matter experts who may provide valuable inputs in the immediate resolution of the complaint.
- **CX Council -** The CX Council is a top-level advisory and action group of Senior Officers. The Council is composed of holistic organizational leaders who review the biggest issues and recommends actions that will lead to continuous structural improvements.

At the end of each day, all customer issues received are reported to a pool of Senior Officers including the President and the EVP. The consolidated report is likewise submitted to the RMO on a monthly basis as part of the Key Risk Indicator (KRI) reports. Each valid complaint arising from a service/process lapse shall have a corresponding one (1) demerit point against the responsible personnel's performance rating.

CUSTOMER INTERACTION: Aside from the branches, the Bank offers other channels for customer-interaction. The Customer Experience Group (CXG) handles loan and deposit inquiries, requests and complaints coursed through the Direct Banking, Call Banking, email, LiveChat, SMS, website, PSBank Online, PSBank Mobile and social media. All these channels are managed 24/7, except for Direct Banking which caters to walk-in clients.

BOARD OVERSIGHT

The Board of Directors sets the Corporate Governance tone in our organization by ensuring adherence to principles and standards. It is accountable to our stakeholders in running our Bank in a prudent and sound manner. It is primarily responsible for approving and overseeing the implementation of our strategic objectives, risk strategy, corporate governance and corporate values.

At the end of 2018, there are nine (9) directors in our Board, four (4) of whom are independent directors while three (3) are executive directors and two (2) are non-executive directors. They are all qualified business professionals with the required expertise and experience in directing our strategic path. These directors were selected based on their qualifications (i.e., integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, diligence and knowledge/experience) without discrimination on gender, age, and ethnic, political, religious, or cultural backgrounds.

In accordance with the Bank's By-Laws, directors are elected by the vote of the holders of common stock of the Bank in accordance with Section 24 of the Corporation Code and other pertinent applicable laws. Any stockholder may submit nominations for directorial positions to the Corporate Governance Committee. The Committee then screens the qualifications of the nominees in accordance with screening policies and procedures, and parameters, including alignment with the Bank's strategic directions to come up with a final list of candidates. Only nominees whose names appear in the said list are considered for election as directors at the annual meeting of the stockholders.

We have consistently maintained independent directors who provide independent judgment, outside experience, and objectivity. Of our nine-seat Board, we have four (4) independent directors, including our Board Chairman. This is more than the required minimum number of independent directors. We do not have any director holding more than five board seats in other publicly listed companies.

Our Board Chairman provides active leadership by ensuring that our Board and its various committees function effectively, including maintaining a relationship of trust among Board members. Our Chairman also ensures that our Board follows a sound decision-making process.

Individual directors are tasked to observe the fit and proper rule. They are expected to conduct fair business dealings, avoid conflict of interest, and observe confidentiality. They must act honestly, judiciously and in good faith, and uphold the best interest of our Bank and its stakeholders. They must also devote time and attention to their duties and responsibilities and contribute to our Board's decision-making process. They must exercise independent judgment and have a working knowledge of laws, rules and regulations applicable to our Bank.

All new members of the Board of Directors are furnished with a copy of their duties and responsibilities and are provided with a comprehensive training on corporate governance, as part of the BSP's requirements in confirming elected bank directors. Together with our principal officers, our directors attended in 2018 an annual refresher program on Corporate Governance (pursuant to SEC Memorandum Circular No. 20 s2013), including Anti-Money Laundering (AML), as conducted by the Institute of Corporate Governance (ICD), a SEC-accredited training provider.

Our Board has access to our Corporate Secretary who manages the flow of information to the Board prior to the meetings. The Office of the Corporate Secretary plays a significant role in supporting the Board in discharging its responsibilities. It administers, attends, prepares the agenda and minutes of Board meetings, and ensures that notices required under the By-Laws are given to all directors and stockholders.

Our Board also reviews and approves all manuals to ensure that regulatory changes and best practices are included. They have access to a permanent compilation of documents related to past Board activities. They can readily seek clarification from Senior Management should they have concerns about our Bank or any item submitted for their consideration.

Board Committees. A number of Board-level committees were created to aid our Board in its various tasks to ensure efficiency and provide greater focus. Four of these committees are in charge of governance oversight functions, as follows:

- The **Corporate Governance Committee (CGC)** is tasked to assist our Board in fulfilling its duties and responsibilities and monitoring our adherence to the corporate governance principles and guidelines set forth in our Corporate Governance Manual including the functions formerly assigned to the Nomination Committee and Compensation & Remuneration Committee which were both dissolved and integrated to this committee in 2017. It also oversees the development and effective implementation of our compliance system. The Committee is composed of three (3) Directors, all of whom are independent directors, including the committee chairperson. The Committee meets monthly and is supported by our Compliance Office (CO).

Committee	Committee Members	Position	Attendance	%
Corporate Governance Committee	Jose T. Pardo, *Independent Director*	Chairperson	12/12	100%
	Samson C. Lim, *Independent Director*	Member	11/12	92%
	Eduardo A. Sahagun, *Independent Director*	Member	11/12	92%
	Gilbert L. Nunag, *Chief Compliance Officer*	Secretary	12/12	100%

- The **Risk Oversight Committee (ROC**) is responsible for the development and oversight of our risk management program. The Committee is currently composed of three (3) members of the Board of Directors and one non-voting member appointed as advisor. Two (2) or majority of its voting members are independent directors, including its Chairperson. The ROC members possess a range of expertise and adequate knowledge of our risk exposures, which is needed to develop appropriate strategies for preventing or minimizing losses. The Committee meets monthly and is supported by our Risk Management Office (RMO).

Committee	Membership	Position	Attendance	% of Attendance
Risk Oversight Committee	Benedicto Jose R. Arcinas (Independent Director)	Chairman/Independent Director	11/12	92%
	Vicente R. Cuna, Jr.*	Member/Director	4/4	100%
	Edmund A. Go	Adviser	12/12	100%
	Jose Vicente L. Alde**	Member/Director	8/8	100%
	Eduardo A. Sahagun	Member/Independent Director	12/12	100%

**Member from January to May 2018*

***Appointed member in May 2018*

- The **AML Oversight Committee** is tasked to assist our Board in fulfilling its oversight responsibility over our AML compliance management. It ensures that we comply with the provisions of the AMLA, as amended, its Revised Implementing Rules and Regulations (RIRRs), and BSP AML regulations to the end that the Bank shall not be used as a vehicle to legitimize the proceeds of unlawful activity or to facilitate or finance terrorism. This committee is composed of three (3) Directors – an executive director, an independent director and a non-executive director as the Chairperson. The committee meets monthly and is supported by our Compliance Office (CO).

Committee	Committee Members	Position	Attendance	%
AML Oversight Committee	Amelia B. Cabal*	Chairperson	3/4	75%
	Jose Vicente L. Alde*	Member	4/4	100%
	Benedicto Jose R. Arcinas, *Independent Director*	Member	11/12	92%
	Vicente R. Cuna, Jr.**	Chairperson	6/8	75%
	Rosanna F. De Vera***	Member	7/8	88%
	Gilbert L. Nunag, *Chief Compliance Officer*	Secretary	12/12	100%

**Member from January to April 2018*

***Appointed as Chairperson in April 2018*

****Appointed as member in April 2018*

- The **Audit Committee** is designated to provide independent oversight for the Bank's financial reporting process, corporate governance, and system of internal control, risk management, internal and external audit functions, and monitoring of compliance with Bank policies, applicable laws, rules, regulations, and Code of Conduct. It is composed of three (3) Non-Executive Directors, majority of whom are independent, including the committee chairperson, who shall not be the chairperson of the Board of Directors or any other committees. The committee members have auditing, accounting, or related financial management expertise or experience commensurate with the size, complexity of operations, and risk profile of the Bank. The committee meets monthly and as needed, and is supported by our Internal Audit Group (IAG).

Committee	Committee Members	Position	Attendance	%
Audit Committee	Eduardo A. Sahagun, *Independent Director*	Chairman	13/14	93%
	Samson C. Lim, *Independent Director*	Member	12/14	86%
	Amelia B. Cabal*	Member	4/5	80%
	Vicente R. Cuna, Jr. **	Member	8/9	89%
	Emma B. Co, *Chief Audit Executive*	Secretary	13/14	93%

**Member from January to May 2018*

*** Appointed as member in April 2018*

Other Board-level committees are as follows:

- The **Executive Committee** is tasked to regularly review and approve credit proposals within its limits. It recommends additional conditions and requirements on loan applications for Board approval. The committee is composed of three (3) Executive Directors, including the President, and our Credit & Collections Sector Head.

Committee	Committee Members	Position	Attendance	%
Executive Committee	Arthur V. Ty	Chairman	7/9	78%
	Vicente R. Cuna, Jr.*	Member	2/2	100%
	Jose Vicente L. Alde	Member	9/9	100%
	Rosanna F. De Vera	Member	9/9	100%
	Mary Myleen M. Masanque, *PSBank Representative*	Member	8/9	89%
	Jose M. Manuel, Jr. Emmelyn B. De Pedro	Secretary Alternate Secretary	9/9	100%

**Membership ended in April 2018*

- The **Related Party Transactions Committee (RPTC)** is tasked to assist the Board in ensuring that transactions with related parties are reviewed, appropriate restrictions are followed, and corporate resources are judiciously used. The committee is composed of three (3) Non-executive Directors, two (2) or majority of whom are independent directors, including the committee chairperson. The committee meets monthly and is also supported by our Compliance Office (CO).

Committee	Committee Members	Position	Attendance	%
Related Party Transactions Committee	Samson C. Lim*, *Independent Director*	Chairperson	11/12	92%
	Jose T. Pardo **, *Independent Director*	Member	12/12	100%
	Amelia B. Cabal***	Member	3/4	75%
	Ma. Soledad D.S. De Leon****	Member	7/8	88%
	Emma B. Co, *Chief Audit Executive*	Resource Person	11/12	92%
	Gilbert L. Nunag, *Chief Compliance Officer*	Secretary	12/12	100%

**Appointed as Chairperson in April 2018*
***Term as Chairperson ended in April 2018*
****Member from January to April 2018*
*****Appointed as member in April 2018*

- The **Trust Committee** is a special committee tasked to be primarily responsible for overseeing the fiduciary activities of the Bank. It is composed of five (5) members: the President, the non-voting Trust Officer, a non-executive director, an independent director, and an independent professional who is the committee chairperson. It meets quarterly, and is supported by our Trust Division.

Committee	Committee Members	Position	Attendance	%
Trust Committee	Edmund A. Go	Chairman	4/4	100%
	Vicente R. Cuna, Jr. *	Member	1/1	100%
	Jose Vicente L. Alde **	Member	3/3	100%
	Ma. Soledad D.S. De Leon	Member	3/4	75%
	Benedicto Jose R. Arcinas	Member	4/4	100%
	Reuel R. Javier	Member	4/4	100%

** Member from January to March 2018*
*** Appointed as member in April 2018*

Board and Board Committee Meetings. In 2018, our Board had 12 regular meetings, in addition to the annual stockholders' and organizational meetings. Our directors logged a 95% attendance rate. Attendance records to Board and Board Committee meetings in 2018 are summarized as follows:

Directors	Position	Attendance	%	ASM
Jose T. Pardo	Chairman and Independent Director	12/12	100%	Yes
Arthur V. Ty	Vice Chairman	12/12	100%	Yes
Vicente R. Cuna, Jr.	Vice Chairman	11/12	92%	Yes
Samson C. Lim	Independent Director	11/12	100%	Yes
Benedicto Jose R. Arcinas	Independent Director	12/12	100%	Yes
Eduardo A. Sahagun	Independent Director	11/12	92%	Yes
Jose Vicente L. Alde	President /Director	12/12	100%	Yes
Amelia B. Cabal*	Director	3/3	100%	No
Ma. Soledad D.S. De Leon	Director	11/12	92%	Yes
Rosanna F. De Vera **	Director	9/9	100%	Yes

**Member from January to March 2018*
***Appointed as member in April 2018*

SENIOR MANAGEMENT OVERSIGHT

Senior Management. Our Senior Management Team, headed by our President as the Chief Executive Officer (CEO), consists of a core group of senior officers who manage our day-to-day operations and business affairs. They exercise good governance by ensuring that line managers under their respective areas of responsibility execute their activities in a manner consistent with Board-approved policies and procedures. These should be aligned with applicable laws, rules and regulations, as well as standards of good practice.

Management Committees. To achieve efficiency and provide greater focus for our Senior Management in overseeing key areas of banking operations, various Management-level committees were also maintained, as follows:

• The Assets and Liabilities Committee (ALCO) is tasked to manage our assets and liabilities consistent with our liquidity, capital adequacy, growth, risk tolerance and appetite, and profitability goals.

• The Credit Committee (CRECOM) is tasked to regularly review and approve credit proposals within the authority and limits set by our Board.

• The Anti-Money Laundering Compliance Committee (AMLCC) is designated by the Board to receive, evaluate, and decide whether or not a Suspicious Transaction Report (STR) and/or Report on Crimes and Losses (RCL) shall be filed with the Anti-Money Laundering Council Secretariat (AMLCS) and/or with the BSP for cases or incidents reported or elevated by various business or operating units of the Bank. It also provides support to the Bank's Compliance Office in terms of AML policy review/development, and in addressing AML deficiencies/adverse findings.

• The Outsourcing Oversight Committee (OOC) is tasked to oversee the accreditation of service providers, performance monitoring, post-implementation reviews and contract renewals in accordance with the Bank's Board-approved risk-based Outsourcing Policy Guidelines pursuant to existing BSP rules and regulations on outsourcing.

• The IT Steering Committee (ITSC) is tasked to cohesively monitor IT performance and institute appropriate actions to ensure achievement of desired results. It is accountable for designing and implementing our Board-approved Information Technology Risk Management System (ITRMS).

• The Emergency Committee (EMCOM) is tasked to manage and monitor the effective implementation of our Business Continuity Plan (BCP). It aims to provide our Bank with the capability to continue its critical functions and processes by identifying, assessing and managing emergency scenarios and other business interruptions.

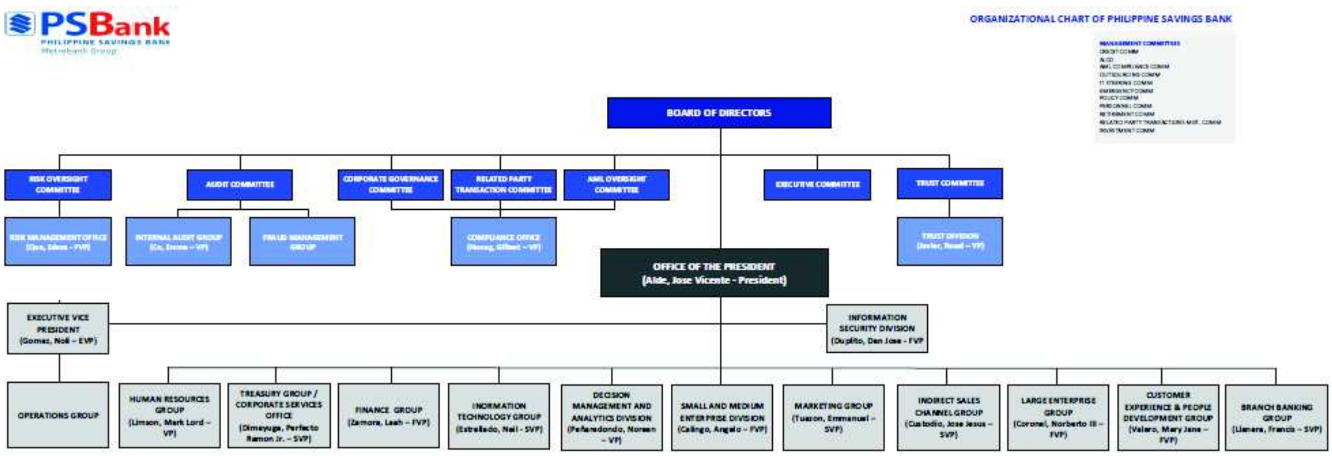
• The Policy Committee (POLCOM) is tasked to resolve policy-related issues that require escalation or cross-functional discussion for resolution.

- The Personnel Committee (PERCOM) is tasked to assist our Senior Management in evaluating the performance and career advancement of our employees, deciding on employee offenses/administrative cases, and in maintaining personnel policies and procedures, including the Bank's Code of Conduct.

- The Retirement Committee (RETCOM) is exclusively tasked to administer our Gratuity and Retirement Benefit Plan

• The Related Party Transactions Management Committee (RPTMC) is tasked to assist the Board-level RPTC and the Board of Directors in ensuring that transactions with related parties, with respect to those considered as "non-material" (i.e., within the set transaction materiality thresholds) are conducted at arm's length.

• The Investment Committee (IC) is tasked to establish investment guidelines and oversee the investment activities of the Bank. It monitors and reports the overall investment results and reviews compliance with investment objectives and guidelines.



OUR GOVERNANCE VANGUARDS

Our compliance, risk management, and internal audit functions are the forerunners in our relentless drive to promote and uphold the noblest tenets and highest standards of good corporate governance across all our business operations.

Compliance

Ensuring our compliance with applicable laws, rules and regulations, as a minimum requirement, is our collective duty and team effort. It begins with our Board and Senior Management at the top, and down the line to our various business and operating units in accordance with our Board- approved compliance system. The design and implementation of this program is administered and annually updated by our Compliance Office, led by our Chief Compliance Officer (CCO) who directly reports to our Corporate Governance Committee and to our Board.

Our Compliance Program adopts a three-pronged, risk-based approach to effectively manage our compliance risks by ensuring compliance with pertinent banking laws, rules and regulations, codes of conduct, policies and standards of good practice. Its priority, focus and compliance testing frequency depends on the pre-assessed level of risk the business/operating units are inherently exposed relative to the number and magnitude or severity of pertinent requirements applicable to them.

This three-pronged strategy is structured to be operated by three key players, namely:
1) The line units as the first line of defense being the risk owners and managers;
2) The Compliance Office (CO) as the second line of defense and the compliance risk overseers; and

3) The Internal Audit Group (IAG) as the third line of defense as the independent assurance provider.

Aside from monitoring and controlling compliance risk, our Chief Compliance Officer (CCO) also tracks our Bank's adherence to our Corporate Governance Manual, which is aligned with the SEC's Revised Code of Corporate Governance for Publicly Listed Companies, and embodies all CG-related rules and regulations of the BSP. Cases of non-compliance are required to be reported to our Board Chairman who ensures due process and determines appropriate sanctions. The Bank fully and continually complies with the requirements of the Corporate Governance Manual.

Our Compliance Office continually strives to maintain our strong compliance culture in the midst of an ever-dynamic banking regulatory landscape. It proactively identifies and monitors, assesses, and addresses emerging compliance issues, vigorously promotes continuing education through formal/informal trainings, compliance awareness testing, compliance checking, and advisory service through a clear and open communication line; and fosters good corporate governance culture by benchmarking against industry best practices and standards.

Internal Audit
Internal Audit Group (IAG) is established by the Board of Directors. Its responsibilities are defined by the Audit Committee (AuditCom) as part of their oversight function. The mission of internal auditing within an organization is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.

The role of the IAG is to assist the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's governance, risk management, and control processes. IAG is headed by the Chief Audit Executive (CAE) who reports functionally to the Board through the Audit Committee and administratively to the President. The CAE confirms annually to the Board the organizational independence of the internal audit activity.

IAG governs itself by adherence to The Institute of Internal Auditors' (IIA's) mandatory guidance which includes the Core Principles for the Professional Practice of Internal Auditing, the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

IAG, with strict accountability for confidentiality and safeguarding records and information, is authorized to:

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

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

OUR REMUNERATION POLICY

Our directors and officers are provided with an industry- competitive compensation package to attract, motivate, and retain highly qualified people. The salary scales of our officers are generally based on their position and rank. These are reviewed annually and adjusted as needed, based on performance.

We also grant fixed bonuses, including a 13th-month pay, in accordance with law. Our Board sees to it that this remuneration strategy is regularly reviewed to ensure that the policy is commensurate with corporate and individual performance, and benchmarked against our industry peers and other market considerations, while maintaining internal equity. The Bank's remuneration policy is applicable to all employees, including the President and its senior officers.

Each director receives a monthly professional fee for attending Board and committee meetings. This is also in consideration of their valuable contributions in the formulation of our Bank's overall strategy.

The total per diem and transportation allowance paid to directors for their attendance in Board meetings for the period January to December 2018 was PhP19.325 million.

Our remuneration policy for directors indicates that the Chairman, Vice Chairman, and each of the Directors receive reasonable per diems for attendance at any Board meeting. There is nothing in our by-laws that prevents any director from serving any other capacity and receiving compensation.

We have been consistent in preaching the philosophy of meritocracy, such that our compensation and rewards programs are geared towards providing incentives to employees who have contributed to the success of the Bank.

- **Merit Increase**. Annual increases are given to employees based on their relative performance within the organization.

- **President's Cup Award**. This productivity-based award is given quarterly and annually to an individual or group for achieving exceptional performance.

We also regularly review all our policies and programs to ensure that our organization is *at par* with what the industry is offering.

- **Job Evaluation**. We regularly conduct job evaluation on new positions resulting from our re-organization. This happens after a bank-wide job evaluation conducted every three years, which is aimed at measuring and benchmarking all Bank positions vis-à-vis the banking industry.

- **Salary Structure Program**. We conduct salary restructuring to ensure that the salaries of our employees are equitable to what the industry is offering.

OUR RETIREMENT AND SUCCESSION POLICY

As a matter of policy, the compulsory retirement age for the Bank's regular employees (officers and staff) is at fifty-five (55) years old. The Bank has instituted a succession program to ensure continuity and viability of the business. Positions that are critical to the business have identified "Ready Now" and "Ready Later" replacements, which is reviewed annually. Potential successors are subjected to Individual Development Plans, which is a combination of classroom training, cross postings, immersions, and development assignments. Furthermore, strategic workforce planning is also in effect annually to ensure that critical positions are filled up and that Talent Acquisition is ready to provide external talents if deemed necessary.

We are also considering setting an age limit for directors except for certain persons such as Filipino citizens with recognized stature, influence and reputation in the banking and business community and whose business practices stand as testimonies to good corporate governance. Upon the recommendation of the Corporate Governance Committee, said age limit for directors may also be waived by the Board if such a waiver is deemed to be for the best interest of the Bank. Further, the Bank's independent directors may serve for a maximum cumulative term of nine (9) years reckoned starting 2012. After which, the independent director shall be perpetually barred from re-election as such, but may continue to qualify for nomination and election as a non-independent/regular director. If the Bank wants to retain an independent director who has already served for nine (9) years, the Board should provide meritorious justification/s and seek shareholders' approval during the Annual Shareholders' Meeting. Succession or filling up any vacancies in the Board of Directors shall be made by the vote of at least a majority of the remaining directors, if still constituting a quorum. Vacancies occurring by reason of removal by the stockholders, by expiration of term, or by an increase in the number of directors, however, shall be filled by the stockholders in a regular or special meeting called for this purpose.

OUR DIVIDEND POLICY

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

Consistent with SEC rules, cash dividends declared by the Bank must have a record date of not less than 10 but not more than 30 business days from the date the cash dividends are declared/approved by the Board. With respect to stock dividends, the record date should not be less than 10 but not more than 30 business days from the date of the stockholders' approval; provided however, that the set record date should not be less than 10 business days after the Philippine Stock Exchange (PSE) has received the notice of declaration of stock dividend. BSP regulations have since allowed banks to fix the record date and payment date on the date of dividend declaration, and pay such dividends without prior BSP approval, with the exception of banks with major supervisory concerns. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the SEC.

Unless approved via majority vote of the Board of Directors at a different rate depending on the Bank's earnings/results of operations, cash flow, financial condition and other factors or otherwise restricted/prohibited from declaring/paying dividends, the Bank regularly declares out of its unrestricted retained earnings and pays cash dividends at a payout ratio of Php3.00 per share per annum or Php0.75 per share per quarter, provided that the regulatory requirements of both the SEC and the BSP are complied with. Circumstances which could restrict the payment of cash dividends include, but are not limited to, when the Bank undertakes major projects and developments requiring substantial cash expenditures or when it is restricted from paying cash dividends by its loan covenants.

Provided likewise that the Bank is not restricted/prohibited from declaring/paying dividends and that all such regulatory requirements are complied with, the Bank may also declare out of its unrestricted retained earnings and pay out special cash dividends (on top of its regular quarterly cash dividends) at such rate as may also be approved via majority vote of the Board of Directors.

The aggregate amount of quarterly cash dividends declared by the Bank in 2018 stood at PhP720.8 Million. Details are shown under Note 21 of the Audited Financial Statements section.

OUR GOVERNANCE EVALUATION

Every year, our Board, individual Directors, their respective oversight committees, and all other Board-level committees, as well as the President and all Management-level committees conduct annual self-rating exercises on their performance through the use of scorecards. This aims to gauge their effectiveness and determine areas of improvement vis-à-vis set performance standards that are consistent with the Bank's strategic objectives and business plans designed to continuously create value to all our stakeholders. Items subject to rating are the pertinent standards, as well as their duties and responsibilities, under a 3-point rating scale, to wit: "3"-Meets Standards (MS), "2"-Needs Improvement (NI), and "1"-Not Observed (NO), with an enjoinder to provide suggestions on how to address the deficiencies/improve performance on items rated either "1" or "2". The scorecard results are reviewed by our Corporate Governance Committee and reported to our Board of Directors. This annual performance rating exercises also include that of the Chairman of the Board, the Chief Risk Officer, the Chief Audit Executive, the Chief Compliance Officer, directors/officers with multiple/interlocking positions and of the entire Bank.

Corporate Social Responsibility

PSBank believes that Corporate Social Responsibility awareness starts with small initiatives that produce a culture of concern when combined.

Below are the Bank's continuing initiatives:

- Continued partnership with TREK (Trails to Empower Kids) where volunteer PSBankers go with other volunteer trekkers to remote mountain areas bringing school supplies and materials to indigenous and largely marginalized communities.

- Partnership with Manila Doctors Hospital on the Restoration of the Arroceros Park, Blood Letting Activities and Brigada Eskwela. PSBank adopted a portion of the Arroceros Park, touted as the last remaining rainforest in Metro Manila. PSBankers conducted clean-up in April 2018.

- Quarterly Bloodletting Activities in partnership with Philippine Children's Medical Center (PCMC). In 2018, the Bank was also able to assist five (5) PSBankers and their family members who were in need of blood, through PCMC.

- PSBank's Cebu-based employees reallocated their summer outing budget and collaborated with Lights of Hope – Cebu, a non-profit, non- government organization that promotes and provides renewable energy to secluded islands of the country, in providing fifty (50) solar lamps to less fortunate communities in Pangan-an Island, Mactan, Cebu. These solar lamps are made from recycled bottles and powered by solar energy cells, which our employees themselves assembled, after attending series of trainings and workshops.

Health, Safety and Welfare of Employees

PSBank advocates a work environment free of hazards, which is conducive to the well-being and professional development of employees. We continuously seek ways to reach out to our employees. The Bank's leadership, represented by our Senior Officers, goes around the branches to personally meet with employees to conduct engagement sessions, check on the employees' welfare and needs, as well as the kind of customer experience we provide to our customers. Facilities are also checked to see if they are in accordance with our occupational health and safety standards.

In addition, we strictly adhere and even go beyond general labor standards, such as:

- **Occupational Health and Safety Program (OHSP) and the Health and Safety Committee (HASCOM).** The OHSP provides for the organization of a local committee on Health and Safety found in the branches. This program ensures that adequate guidelines, programs, and measures are adopted to ensure employees' health and safety.

- **First Aid Certification Program.** Our HR Group regularly coordinates with the Philippine National Red Cross (PNRC) in conducting certification seminars for head office and branch employees, ensuring all branches have at least one certified First-Aider.

- **Fire and Earthquake Drills.** The Bank conducted Fire and Earthquake Drills which aim to strengthen the awareness of PSBank employees on what to do during emergencies, and test individual and organizational response during the occurrence of an emergency.

In June 2018, all Head Office employees performed the initial earthquake response of "duck-cover-hold" though there was no actual evacuation done.

In July 2018, the Head Office, with a total of 1,239 employees, participated in the Fire Drill and evacuated the building within 15 minutes, which is the standard evacuation time.

For the Branches, a total of 1,758 employees performed the initial earthquake response of "duck-cover-hold" and evacuated their branch within the 5- minute standard evacuation time.

PSBank supports a healthy and safe work environment through programs designed to safeguard the well- being of all employees. The Bank conducts regular branch visits and facilities check-ups see if all are in accordance with occupational health and safety standards.

Health and Wellness Programs. We ensure that employees have a healthy work-life balance by offering programs that would develop engagement, camaraderie, and healthy working environment. Activities like the Sportsfest, Paintball, Basketball, Volleyball, Bowling, and Badminton tournaments were some of the Bank's most anticipated events.

PSBank provides subsidies for Runs for a Cause like the Tytana Founders Run and World Vision Run. In 2018, employees also participated and represented PSBank in the Red Cross Run.

Health advisories on Frozen Shoulder/Stiff Neck, Malaria and Leptospirosis, as well as infomercials on Obesity, Caring for the Lungs, Nutrition, and Neutral Positioning of Fingers, were disseminated to all PSBankers for information and proper guidance. The annual physical exam was one way for the Bank to provide basic health care for all. Head office clinic is open daily for all employees. Intellicare doctors are available from Tuesday to Friday, while our nurses are on duty every day. On the other hand, PSBank branches are also equipped with first- aid kits.

PSBankers were also given a chance to exhibit their professionalism and sportsmanship through interbank competitions. These are:

- 2018 BAA Bowling Competition;
- 2018 PFA Bowling Tournament where PSBank's bowling team bagged the championship; and,
- 2018 Globe Badminton Tournament where the Bank's women players garnered the top award.

Spiritual Needs. The Celebration of the Holy Eucharist is held every First Friday and during Holy Days of Obligation such as Ash Wednesday and Immaculate Concepcion. Different groups sponsor each mass, while the PSBank Glee Club serves as the mass choir.

Family Welfare Program. PSBank is also a family-oriented institution with events such as the Kiddie Halloween in 2018, where employees and their children got to enjoy quality bonding time.

Employee Events. The Bank also supports its employees' interests and talents.

In 2018, the PSBank Glee Club joined the 9th Paulinian Choral Festival held at St. Paul University in Manila.

There was also the Spoken Poetry contest participated by eight (8) individuals. This activity was a hit among PSBankers that after the event, there was a clamor for another or similar activity.

A Mobile Legends tournament was also held both internally and among the Metrobank Group. It was participated by twelve (12) teams from four (4) subsidiaries.

LDE Trainings:
In 2018, PSBank was able to conduct 92 external trainings attended by 188 participants. We were also able to run 72 internal training programs on top of the usual trainings for New Employees, SPEED and XCEED.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31			Amount	%	Amount	%
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
ASSETS							
Cash and Other Cash Items	**₱3,776,087,269**	₱2,596,872,801	₱2,778,009,185	₱1,179,214,468	45.41%	₱(181,136,384)	-6.52%
Due from Bangko Sentral ng Pilipinas	**15,156,184,418**	15,265,387,772	13,986,784,696	(109,203,354)	-0.72%	1,278,603,076	9.14%
Due from Other Banks	**1,682,806,080**	1,508,489,309	1,838,630,022	174,316,771	11.56%	(330,140,713)	-17.96%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**1,891,820,000**	1,842,023,049	3,254,311,599	49,796,951	2.70%	(1,412,288,550)	-43.40%
Fair Value Through Profit or Loss (FVTPL) Investments	**10,107,022**	366,235,689	1,360,792,147	(356,128,667)	-97.24%	(994,556,457)	-73.09%
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	**12,931,601,524**	–	–	12,931,601,524	100.00%	–	–
Available-for-Sale Investments	–	16,925,485,941	13,115,812,858	(16,925,485,941)	-100.00%	3,809,673,083	29.05%
Investment Securities at Amortized Cost	**35,646,765,264**	–	–	35,646,765,264	100.00%	–	–
Held-to-Maturity Investments	–	29,473,724,384	23,156,886,629	(29,473,724,384)	-100.00%	6,316,837,755	27.28%
Loans and Receivables	**156,260,362,775**	144,964,513,221	127,221,847,151	11,295,849,554	7.79%	17,742,666,070	13.95%
Investment in a Joint Venture	**691,425,681**	607,162,821	727,176,484	84,262,860	13.88%	(120,013,663)	-16.50%
Property and Equipment	**2,257,379,905**	2,480,012,354	2,667,170,455	(222,632,449)	-8.98%	(187,158,101)	-7.02%
Investment Properties	**4,036,317,716**	3,930,317,479	3,861,708,308	106,000,237	2.70%	68,609,171	1.78%
Deferred Tax Assets	**1,327,667,084**	1,429,327,369	1,300,724,234	(101,660,285)	-7.11%	128,603,135	9.89%
Goodwill and Intangible Assets	**655,446,833**	714,924,056	505,165,868	(59,477,223)	-8.32%	209,758,188	41.52%
Other Assets	**1,405,320,467**	1,219,566,379	1,078,083,056	185,754,088	15.23%	141,483,323	13.12%
	₱237,729,292,038	₱223,324,042,624	₱196,853,102,692	14,405,249,414	6.45%	₱26,470,939,932	13.45%

(Forward)

	December 31			Amount	%	Amount	%
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	**₱20,367,043,344**	₱19,112,561,892	₱15,339,143,653	₱1,254,481,452	6.56%	₱3,773,418,239	24.60%
Savings	**33,399,725,991**	30,383,783,001	27,236,228,764	3,015,942,990	9.93%	3,147,554,237	11.56%
Time	**138,525,888,196**	136,042,056,714	115,811,946,185	2,483,831,482	1.83%	20,230,110,529	17.47%
Long-term Negotiable Certificates of Deposits	**8,395,281,852**	3,375,000,000	–	5,020,281,852	148.75%	3,375,000,000	100.00%
	200,687,939,383	188,913,401,607	158,387,318,602	11,774,537,776	6.23%	30,526,083,005	19.27%
Bills Payable	**2,968,567,431**	1,492,418,518	6,093,796,533	1,476,148,913	98.91%	(4,601,378,015)	-75.51%
Subordinated Notes	**2,981,673,382**	2,978,997,695	5,975,732,110	2,675,687	0.09%	(2,996,734,415)	-50.15%
Treasurer's, Cashier's and Manager's Checks	**1,615,520,188**	2,213,869,703	1,760,505,822	(598,349,515)	-27.03%	453,363,881	25.75%
Accrued Taxes, Interest and Other Expenses	**2,014,522,713**	1,658,423,304	1,193,816,372	356,099,409	21.47%	464,606,931	38.92%
Financial Liabilities at FVTPL	**2,895,073**	–	65,316,678	2,895,073	0.00%	(65,316,678)	-100.00%
Income Tax Payable	**637,607**	375,277	466,880	262,330	69.90%	(91,603)	-19.62%
Other Liabilities	**3,063,388,051**	3,673,232,353	3,338,477,499	(609,844,302)	-16.60%	334,754,854	10.03%
	213,335,143,828	200,930,718,457	176,815,430,496	12,404,425,371	6.17%	24,115,287,961	13.64%
Equity							
Common Stock	**2,402,524,910**	2,402,524,910	2,402,524,910	–	0.00%	–	0.00%
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506	2,818,083,506	–	0.00%	–	0.00%
Surplus Reserves	**1,035,899,409**	1,035,402,901	1,035,275,317	496,508	0.05%	127,584	0.01%
Surplus	**19,391,850,112**	17,097,046,504	15,163,512,433	2,294,803,608	13.42%	1,933,534,071	12.75%
Fair Value Reserves on Financial Assets at FVOCI	**(782,896,279)**	–	–	(782,896,279)	0.00%		
Net Unrealized Loss on Available-for-Sale Investments	–	(411,510,218)	(842,908,364)	411,510,218	-100.00%	431,398,146	-51.18%
Remeasurement Losses on Retirement Plan	**(470,611,677)**	(545,392,541)	(541,701,193)	74,780,864	-13.71%	(3,691,348)	0.68%
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**3,131,435**	1,245,144	1,443,599	1,886,291	151.49%	(198,455)	-13.75%
Cumulative Translation Adjustment	**(3,833,206)**	(4,076,039)	1,441,988	242,833	-5.96%	(5,518,027)	-382.67%
	24,394,148,210	22,393,324,167	20,037,672,196	2,000,824,043	8.93%	2,355,651,971	11.76%
	₱237,729,292,038	₱223,324,042,624	₱196,853,102,692	14,405,249,414	6.45%	₱26,470,939,932	13.45%

PHILIPPINE SAVINGS BANK

STATEMENTS OF INCOME

	Years Ended December 31			Amount	%	Amount	%
	2018	2017	2016	2018 vs 2017		2017 vs 2016	
INTEREST INCOME							
Loans and receivables	**₱14,268,805,623**	₱12,477,133,237	₱11,066,862,854	1,791,672,386	14.36%	1,410,270,383	12.74%
Investment securities	**1,994,446,537**	1,823,591,316	1,347,949,127	170,855,221	9.37%	475,642,189	35.29%
Interbank loans receivable and securities purchased under				28,686,220	47.00%		
resale agreements	**89,723,370**	61,037,150	61,530,255			(493,105)	-0.80%
Due from Bangko Sentral ng Pilipinas	**16,662,587**	179,406,826	13,905,374	(162,744,239)	-90.71%	165,501,452	1190.20%
Due from other banks	**4,338,859**	2,608,271	2,222,421	1,730,588	66.35%	385,850	17.36%
	16,373,976,976	14,543,776,800	12,492,470,031			2,051,306,769	16.42%
INTEREST EXPENSE							
Deposit liabilities	**4,818,493,359**	3,214,665,720	2,409,979,204	1,603,827,639	49.89%	804,686,516	33.39%
Subordinated notes	**167,675,686**	191,058,261	361,766,713	(23,382,575)	-12.24%	(170,708,452)	-47.19%
Bills payable	**55,857,635**	58,953,437	56,801,997	(3,095,802)	-5.25%	2,151,440	3.79%
	5,042,026,680	3,464,677,418	2,828,547,914	1,577,349,262	45.53%	636,129,504	22.49%
NET INTEREST INCOME	**11,331,950,296**	11,079,099,382	9,663,922,117	252,850,914	2.28%	1,415,177,265	14.64%
Service fees and commission income	**1,721,745,423**	1,470,202,440	1,226,015,157	251,542,983	17.11%	244,187,283	19.92%
Service fees and commission expense	**96,107,664**	94,428,291	89,667,951	1,679,373	1.78%	4,760,340	5.31%
NET SERVICE FEES AND COMMISSION INCOME	**1,625,637,759**	1,375,774,149	1,136,347,206	249,863,610	18.16%	239,426,943	21.07%
OTHER OPERATING INCOME (CHARGES)							
Gain on foreclosure and sale of investment properties - net	**421,975,957**	348,813,362	364,392,867	73,162,595	20.97%	(15,579,505)	-4.28%
Gain on foreclosure and sale of chattel mortgage properties - net	**232,063,012**	584,947,874	351,721,775	(352,884,862)	-60.33%	233,226,099	66.31%
Trading and securities gains (losses) - net	**(133,297,506)**	(65,237,826)	509,665,576	(68,059,680)	104.33%	(574,903,402)	-112.80%
Foreign exchange gain - net	**88,032,388**	56,483,920	23,992,498	31,548,468	55.85%	(908,303)	-34.41%
Gain on sale of property and equipment	**7,918,569**	1,731,001	2,639,304	6,187,568	357.46%	(574,903,402)	-112.80%
Miscellaneous	**624,299,435**	507,510,359	426,147,878	116,789,076	23.01%	81,362,481	19.09%
	1,240,991,855	1,434,248,690	1,678,559,898	(193,256,835)	-13.47%	(244,311,208)	-14.55%
TOTAL OPERATING INCOME	**14,198,579,910**	13,889,122,221	12,478,829,221	309,457,689	2.23%	1,410,293,000	11.30%

(Forward)

	Years Ended December 31			Amount	%	Amount	%
	2018	2017	2016	**2018 vs 2017**		**2017 vs 2016**	
OTHER EXPENSES							
Compensation and fringe benefits	**₱3,363,828,408**	₱3,260,605,852	₱2,922,900,798	₱103,222,556	3.17%	₱337,705,054	11.55%
Provision for credit and impairment losses	**2,137,972,532**	2,270,178,805	2,222,503,257	(132,206,273)	-5.82%	47,675,548	2.15%
Taxes and licenses	**1,627,741,446**	1,268,907,979	1,058,437,943	358,833,467	28.28%	210,470,036	19.88%
Occupancy and equipment-related costs	**763,766,590**	740,050,501	710,941,317	23,716,089	3.20%	29,109,184	4.09%
Depreciation	**622,182,083**	635,436,103	557,648,750	(13,254,020)	-2.09%	77,787,353	13.95%
Security, messengerial and janitorial services	**493,737,524**	477,533,030	383,670,587	16,204,494	3.39%	93,862,443	24.46%
Amortization of intangible assets	**159,089,068**	135,432,343	111,160,451	23,656,725	17.47%	24,271,892	21.84%
Miscellaneous	**2,140,897,722**	2,251,333,506	1,876,476,264	(110,435,784)	-4.91%	374,857,242	19.98%
	11,309,215,373	11,039,478,119	9,843,739,367	269,737,254	2.44%	1,195,738,752	12.15%
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**2,889,364,537**	2,849,644,102	2,635,089,854	39,720,435	1.39%	214,554,248	8.14%
SHARE IN NET INCOME OF A JOINT VENTURE	**82,376,569**	71,836,533	35,466,690	10,540,036	14.67%	36,369,843	102.55%
INCOME BEFORE INCOME TAX	**2,971,741,106**	2,921,480,635	2,670,556,544	50,260,471	1.72%	250,924,091	9.40%
PROVISION FOR (BENEFIT FROM) INCOME TAX							
Current	**381,369,781**	394,082,636	295,879,413	(12,712,855)	-3.23%	98,203,223	33.19%
Deferred	**(71,774,541)**	(127,021,129)	(76,166,179)	55,246,588	-43.49%	(50,854,950)	66.77%
	309,595,240	267,061,507	219,713,234	42,533,733	15.93%	47,348,273	21.55%
NET INCOME	**₱2,662,145,866**	₱2,654,419,128	₱2,450,843,310	7,726,738	0.29%	203,575,818	8.31%
Basic/Diluted Earnings Per Share	**₱11.08**	₱11.05	₱10.20				

Part III. Management Discussion and Analysis

A. Analysis of Statements of Condition

As of December 31, 2018 and 2017

The Bank's Total Assets for the year ended December 31, 2018 stood at ₱237.73 billion. This is 6.45% or ₱14.41 billion higher compared to the December 2017 level of ₱223.32 billion due to the continued expansion of its loan portfolio and investment securities.

Loans and Receivables, net of allowance and unearned interest and discounts, representing 65.73% of total assets was higher by 7.79% to ₱156.26 billion from ₱144.96 billion in 2017. Auto Loans increased by ₱5.55 billion to ₱87.86 billion in 2018 from ₱82.32 billion last year. Mortgage Loans also climbed to ₱49.58 billion in 2018 from ₱45.96 billion in 2017.

Cash and Other Cash Items increased by ₱1.18 billion or 45.41% to ₱3.78 billion from ₱2.60 billion. Due from Other Banks also increased by ₱174.32 million or 11.56% compared to last year's level of ₱1.51 billion. Meanwhile, Due from BSP went down by ₱109.20 million to ₱15.16 billion from ₱15.27 billion in 2017.

Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) rose by ₱49.80 million or 2.70% to ₱1.89 billion from ₱1.84 billion in 2017 due to the increase in overnight and term placements with BSP as of December 31, 2018.

As of December 31, 2018, Investment Securities at Amortized Cost representing 14.99% of total assets was recorded at ₱35.65 billion. On the other hand, Held-to-Maturity (HTM) Investments stood at ₱29.47 billion as of December 31, 2017.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) representing 5.44% of total assets amounted to ₱12.93 billion as of December 31, 2018 and Available-for-Sale (AFS) Investments was recorded at ₱16.93 billion as of December 31, 2017.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱10.11 million as of December 31, 2018 under PFRS 9.

These investments securities represent 20.44% of total assets as of December 31, 2018.

As results 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 Investment Securities at Amortized Cost business model or FVOCI belonging to portfolios managed under a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. On the other hand, debt securities held under HTM investments as of December 31, 2017, the Bank classified them as either Investment Securities at Amortized Cost business model, at FVOCI or at FVTPL.

Investment in a Joint Venture increased by ₱84.26 million or 13.88% to ₱691.43 million from ₱607.16 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), which is a joint venture between PSBank and Sumitomo Corporation.

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

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

Property and Equipment decreased by 8.98% or ₱222.63 million to ₱2.26 billion as of December 31, 2018 from ₱2.48 billion as of December 31, 2017. On the other hand, Investment Properties increased by 2.70% to ₱4.04 billion from ₱3.93 billion.

Deferred Tax Assets declined by ₱101.66 million to ₱1.33 billion as of December 31, 2018.

Goodwill and Intangible Assets including software cost and license fees went down by 8.32% or ₱59.48 million to ₱655.45 million from ₱714.92 million posted last year. Other Assets increased by 15.23% or ₱185.75 million to ₱1.41 billion from ₱1.22 billion last year.

The Bank's deposits representing 94.07% of total liabilities was higher by 6.23% or ₱11.77 billion to ₱200.69 billion from ₱188.91 billion posted in December 2017. Savings Deposits and Demand deposits improved by 6.56% and 9.93%, respectively to ₱20.37 billion and ₱33.40 billion, respectively. Time Deposits went up by 1.83% or ₱2.48 billion to ₱138.53 billion.

In August 2018, the Bank successfully issued its Long Term Negotiable Certificate of Time Deposits (LTNCTD) with an aggregate principal amount of ₱5.08 billion due on February 9, 2024, with fixed interest rate of 5.0% per annum. As of December 31, 2018, LTNCTD, net of issuance cost amounted ₱8.40 billion.

Subordinated Notes, net of debt issuance cost amounted to ₱2.98 billion. The Tier II Notes issued in May 2014 qualified as Tier II capital in the BSP's revised risk-based capital adequacy framework in line with BASEL III standards. The issuance has a loss absorption feature to conform with BASEL III requirements. PSBank has an issuer rating of PRS Aaa (corp.) from Philratings.

On December 10, 2018, the Bank issued its Medium term fixed rate notes (MTFN) amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. As of December 31, 2018, Bills Payable representing MTFN, net of debt issuance cost amounted to ₱2.97 billion.
Financial Liabilities at FVTPL stood at ₱2.90 million as of December 31, 2018. Accrued Taxes, Interest and Other Expenses increased by ₱356.10 million or 21.47% to ₱2.01 billion.

Treasurer's, Cashier's and Manager's Checks decreased by 27.03% to ₱1.62 billion from ₱2.21 billion last year. Income tax payable was higher at ₱0.64 million versus ₱0.38 million a year-ago. Meanwhile, Other Liabilities which include Accounts Payables, Withholding tax payables and Net Retirement Liability were lower at ₱3.06 billion from ₱3.67 billion.

As of December 31, 2018, Capital funds stood at ₱24.39 billion, 8.93% higher than last year's level of ₱22.39 billion due to the higher net income booked during the year and effect of the adoption of PFRS 9.

Net Unrealized Loss on Financial Assets at FVOCI amounted to ₱782.90 million in December 2018.

As of December 31, 2018 Capital adequacy Ratio (CAR) was at 13.88%. This is above the minimum regulatory requirement of 10%. The Bank recorded loss on 'Cumulative Translation Adjustment' under equity amounting to ₱3.83 million, 5.96% lower against December 31, 2017 of ₱4.08 million.

The Bank recorded Remeasurement Losses on Retirement Plan of ₱470.61 million in December 2018. On the other hand, the Bank's share in the Remeasurement Gains on Retirement Plan of its joint venture was posted at ₱3.13 million from ₱1.25 million in December 2017.

Meanwhile Return on Average Equity (ROAE) decreased to 11.38% in 2018 versus 12.51% in 2017. Return on Average Assets (ROAA) also decreased to 1.15% in 2018 from 1.26% in 2017.

As of December 31, 2017 and 2016

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

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

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

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

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

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

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

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

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

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

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

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

As of end of 2017, Total Capital Adequacy Ratio (CAR) was at 13.87%, this is above the minimum regulatory requirement of 10%. As of December 31, 2017, the Bank recorded a loss on its 'Cumulative Translation Adjustment' under equity amounting to ₱4.08 million from ₱1.44 million Cumulative Translation Adjustment gain last year.

Meanwhile, Return on Average Equity (ROAE) improved to 12.51% in 2017 versus 12.50% in 2016. Return on Average Assets (ROAA) also decreased to 1.26% in 2017 from 1.34% in 2016.

B. Discussion of Results of Operations

For the years ended December 31, 2018 and 2017

The Bank registered a net income after tax of ₱2.66 billion higher than the ₱2.65 billion recorded for the same period last year.

Total Interest Income increased by 12.58% or ₱1.83 billion, better than the ₱14.54 billion recorded last year.

Interest income on Loans and Receivables showed a 14.36% improvement or an increase of ₱1.79 billion. Interest income on Investment Securities went up to ₱1.99 billion from ₱1.82 billion due to higher investment portfolios in 2018. Meanwhile, Interest earned from Interbank Loans Receivable and SPURA increased by 47.00% or ₱28.69 million to ₱89.72 million versus ₱61.04 million in 2017. Interest earned from deposits with BSP slid by ₱162.74 million or 90.71% while interest income from other banks was up by 66.35% to ₱4.34 million.

Interest Expense on the Bank's deposit liabilities increased by 49.89% to ₱4.82 billion compared to ₱3.21 billion during the same period last year due to higher cost of funds in 2018 and overall rise in total deposit in 2018 by 6.23%. Interest Expense on Subordinated Notes decreased by ₱23.38 million to ₱167.68 million from ₱191.06 million in 2016. This was due to the redemption of the Bank's ₱3 Billion Unsecured Subordinated (Tier 2) Notes issued in 2012 last February 2017.

The Bank also posted ₱55.86 million Interest Expense on Bills Payable as of December 2018 from ₱58.95 million in 2017.

As of December 2018, Net Interest Income rose by 2.28% to ₱11.33 billion from ₱11.08 billion in 2017.

Net Service Fees and Commission Income increased by 18.16% to ₱1.63 billion from ₱1.38 billion in 2017.

Other Operating Income was lower in 2018 compared with previous year due to lower net gain on foreclosure and sale of chattel mortgage properties in 2018. As a result, Operating Income slid by 13.47% to ₱1.24 billion. Also, the Bank registered a net trading and securities loss of ₱133.30 million in 2018.

The Bank recorded a net gain on foreclosure and sale of investment properties amounting to ₱421.98 million, ₱73.16 million higher compared with the ₱348.81 million during the same period last year. On the other hand, net gain on foreclosure and sale of chattel mortgage properties decreased by ₱352.88 million to ₱232.06 million from ₱584.95 million in 2017.

Income from the sale of property and equipment in 2018 was higher at ₱7.92 million versus ₱1.73 million in 2017.

Foreign Exchange gain was posted at ₱88.03 million from ₱56.48 million. Miscellaneous Income was higher by ₱116.79 million to ₱624.30 million from ₱507.51million during the same period last year.

Other Operating Expenses, excluding provision for impairment, increased by 4.58% to ₱9.17 billion from the year ago level of ₱8.77 billion. In line with the Bank's thrust to further strengthen its balance sheet, the Bank set aside a total of ₱2.14 billion provisions for credit loss in 2018.

Occupancy and equipment-related costs increased by 3.20% or ₱763.77 million to ₱740.05 million. Amortization of Software Cost increased by 17.47% to ₱159.09 million. On the other hand, Depreciation and amortization of Bank's properties and leasehold improvements were down to ₱622.18 million from ₱635.44 million. Taxes and Licenses increased by 28.28% or ₱1.63 billion due to higher Documentary Stamp and gross receipt taxes paid in 2018. Meanwhile, Compensation and Fringe Benefits went up by 3.17% to ₱3.36 billion Miscellaneous Expenses went down by 4.91% to ₱2.14 billion due to lower insurance and advertising expenses. Security, messengerial, and janitorial services were recorded at

₱493.74 million.

The Bank also recorded income from its investment in Sumisho Motor Finance Corporation (SMFC) amounting to ₱82.38 million in the same period last year. This was higher by 14.67% versus the same period last year.

For the years ended December 31, 2017 and 2016

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

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

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

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

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

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

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

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

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

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

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

Other Operating Expenses, excluding provision for impairment, was up by 15.06% to ₱8.77 billion from ₱7.62 billion a year ago. Compensation and Fringe Benefits was posted at ₱3.26 billion while Occupancy and equipment-related costs increased by ₱29.11 million or 4.09% to ₱740.05 million.

Depreciation and amortization of Bank's properties and leasehold improvements were ₱635.44 million from ₱557.65 million in 2016. Meanwhile, security, messengerial and janitorial services were recorded at ₱477.53 million. Amortization of intangible assets was recorded at ₱135.43 million. Miscellaneous Expenses were higher by 19.98% at ₱2.25 billion from ₱1.88 billion last year. Taxes and Licenses went up by 19.88% compared to last year to ₱1.27 billion.

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

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

C. Analysis of Key Performance Indicators

		2018	2017	2016
Return on Average Equity	ROAE	**11.38%**	12.51%	12.50%
Return on Average Assets	ROAA	**1.15%**	1.26%	1.34%
Net Interest Margin on Average Earning Assets	NIM	**5.79%**	6.10%	6.17%
Earnings per share	EPS	**₱11.08**	₱11.05	₱10.20
Capital-to-Risk Assets Ratio	CAR	**13.88%**	13.87%	14.07%
Liquidity Ratio	LR	**23.47%**	20.70%	23.46%
Debt-Equity Ratio	DER	**8.75:1**	8.97:1	8.82:1
Asset-to-Equity Ratio	AER	**9.75:1**	9.97:1	9.82:1
Interest Rate Coverage Ratio	IRC	**1.59:1**	1.84:1	1.94:1

2018 vs. 2017 Comparative highlights on key performance indicators

1. Return on Average Equity (ROAE) decreased from 12.51% in 2017 to 11.38% in 2018. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the net income by the year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) decreased to 1.15% in December 2018 from 1.26% in 2017. ROAA is calculated by dividing the net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) went down from 6.10% in 2017 to 5.79% in 2018. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) improved to ₱11.08 in 2018 from ₱11.05 in 2017. EPS is the net profit the Bank has generated per common share. It is computed by dividing the net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) increased from 13.87% to 13.88% in 2018. 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) increased in 2018 at 23.47% compared to 20.70% in 2017 as excess funds were placed in higher yielding investment securities. LR measures the Bank's ability to meet its short-term liabilities. It is derived from dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) decreased to at 8.75:1 as of December 2018 versus 8.97:1in 2017. DER measures the Bank's financial leverage. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) decreased to 9.75:1 in 2018 versus 9.97:1 in 2017. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRC) decreased to 1.59:1 as of December 31, 2018 from 1.84:1 the same period last year. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

2017 vs. 2016 Comparative highlights on key performance indicators

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

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

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

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

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

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

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

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

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

D. 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:

	2018	2017	2016
Trust department accounts	**₱6,400,841,134**	₱5,596,171,367	₱3,991,172,047
Swap forward exchange - sold	**2,602,710,000**	2,653,256,032	–
Stand-by credit lines	**70,500,000**	81,664,196	83,660,385
Late deposits/payments received	**9,521,669**	5,625,757	62,929,377
Items held for safekeeping	**296,024**	1,298,438	695,408
Spot foreign exchange contracts - sold	–	–	49,720,000
Others	**124,429**	519,297	472,843

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 expenditures in 2018 included expenses for fifteen (15) new on-site & off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses. Capital expenditures were sourced from the Bank's capital.

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).

Changes in Accounting Policies and Disclosures

The Bank applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank. The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2018:

<u>*New Standards*</u>

PFRS 9, *Financial Instruments*
The Bank has adopted PFRS 9 effective January 1, 2018 using a modified retrospective approach. This approach allows the entity not to restate prior periods, however, adjustments are made at the beginning balance of the annual reporting period that includes the date of initial adoption. PFRS 9 replaces Philippine Accounting Standard (PAS 39), *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The Bank adopted the requirements of the standard as follows:

a. Classification and Measurement
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following measurement categories:

- financial assets measured at amortized cost;
- financial assets (debt instruments) measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- financial assets (equity investments) measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss; and
- financial assets measured at FVTPL.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments that do not pass this test are automatically classified as FVTPL investments.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model
The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel.

b. Impairment
The Bank recognizes expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

ECL methodology

The application of ECL significantly changed the Bank's credit loss methodology and models. ECL 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 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 are 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. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model under PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminate the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

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 as the Bank does not apply hedge accounting.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 classification as at January 1, 2018 is presented below. The Bank's adoption of PFRS 9 did not have any impact on its financial liabilities:

	PAS 39		PFRS 9	
	Category	Amount	Category	Amount
Financial Assets				
Loans and advances to banks				
Due from BSP	L&R	₱15,265,387,772	Amortized cost	₱15,265,387,772
Due from other banks		1,508,489,309		1,508,489,309
Interbank loans receivable and SPURA		1,842,023,049		1,842,023,049
FVTPL investments				
Debt	FVTPL	293,076,128	FVTPL	293,076,128
Derivatives	FVTPL	73,159,561	FVTPL	73,159,561
		₱366,235,689		₱366,235,689
AFS investments				
Debt	AFS	₱16,915,483,077	FVOCI	₱10,722,539,600
			Amortized cost b/	6,492,759,818
		16,915,483,077		17,215,299,418
Equity	AFS	10,002,864	FVOCI d/	12,191,529
		₱16,925,485,941		₱17,227,490,947
HTM investments				
	HTM	₱29,473,724,384	Amortized cost	₱26,950,889,737
			FVTPL a/	1,173,070,399
			FVOCI c/	1,418,511,383
		₱29,473,724,384		₱29,542,471,519
Loans and receivables (L&R)				
	L&R	₱144,964,513,221	Amortized cost e/	₱145,433,610,836
Other assets				
	L&R	₱191,357,704	Amortized cost	₱191,357,704
Nonfinancial Assets				
Deferred tax assets		₱1,429,327,369		₱1,287,941,486

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Bank on January 1, 2018:

- Certain debt investment securities of the Bank previously classified as AFS investments with carrying value of ₱6.2 billion were classified as investment securities at amortized cost as the business model is to collect contractual cash flows until the instruments' corresponding maturities.
- Certain debt investment securities of the Bank previously classified as HTM investments with carrying value of ₱1.1 billion were classified as FVTPL investments to maximize short-term returns through asset price movements.
- Certain debt investment securities of the Bank previously classified as HTM investments with carrying value of ₱1.4 billion were classified as FVOCI in compliance with the defined business model.

As of December 31, 2018, the fair value of investment securities at amortized cost which were transferred out of AFS investments upon adoption of PFRS 9 amounted to ₱6.6 billion. Had there been retained to be measured at fair value, fair value losses that would have been recognized in the 2018 OCI amounted to ₱337.7 million.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

	PAS 39 Allowance December 31, 2017	Remeasurement	PFRS 9 ECL January 1, 2018
Receivables from customers			
Consumption loans	₱1,957,363,383	₱463,699,371	₱2,421,062,754
Real estate loans	632,101,864	(127,110,938)	504,990,926
Commercial loans	789,926,706	(656,719,015)	133,207,691
Personal loans	596,107,599	(6,857,683)	589,249,916
Other receivables			
Accrued interest receivable	169,856,142	(35,840,711)	134,015,431
Accounts receivable	466,463,415	(98,426,531)	368,036,884
Sales contract receivables	33,836,104	(7,842,108)	25,993,996
Bills purchased	1,302,902	–	1,302,902
	₱4,646,958,115	(₱469,097,615)	₱4,177,860,500

The impact on the Bank's surplus and other components of equity upon adoption of PFRS 9 are as follows:

	Surplus	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on AFS Investments	Total
Classification of financial assets			
a/ Reclassification from HTM investments to FVTPL investments	₱24,011,325	₱–	₱24,011,325
b/ Reclassification from AFS investments to investment securities amortized cost	–	299,816,341	299,816,341
c/ Reclassification from HTM investments to financial assets at FVOCI	–	44,735,810	44,735,810
d/ Derecognition of allowance for impairment losses on AFS equity securities	1,532,066	(2,188,665)	(656,599)
	25,543,391	342,363,486	367,906,877
Expected credit losses			
e/ ECL adjustment, gross of tax	469,097,615	–	469,097,615
Tax effect	140,729,284	–	140,729,284
ECL adjustment, net of tax	328,368,331	–	328,368,331
	₱353,911,722	**₱342,363,486**	**₱696,275,208**

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank applied PFRS 15 on its revenue arrangements (e.g., service charges, trust fees and commissions) that are scoped in the new standard. The Bank has assessed that the effect of these changes is immaterial.

Amendments

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Information on Independent Accountant and Other Related Matters

SyCip Gorres Velayo & Co. (SGV & Co.), independent certified public accountants, audited the Bank's financial statements without qualification and in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation upon completion of its examination, in its report to the stockholders and Board of Directors.

The following table sets out the aggregate fees billed for each of the years ended December 31, 2018 and 2017 for professional services rendered by SGV & Co for the audit of the Bank's annual financial statements.

	2018	2017
Audit and Audit-Related Fees:	₱2,587,200	
Fees for services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements		₱2,587,200

Tax and All Other Fees for Services of External Auditor

The Bank has engaged the services of external auditor for compliance, advice, planning and any other form of services during the last three (3) years. The collective fees for each year ended December 31, 2018, 2017 and 2016 amounted to ₱4,468,800, ₱8,495,200 and ₱3,089,234, respectively.

Fees for Services of other Tax Consultant

The Bank also engaged the services of Du-Baladad and Associates for tax consultancy. The collective fees amounted to ₱891,352, ₱288,288 and ₱696,696 for 2018, 2017 and 2016, respectively.

Audit Committee's Approval Policies and Procedures for Above Services

As Metrobank subsidiary, the Bank adopted the Parent's policies and procedures on audit engagement contract for external auditors. The same was discussed and approved by the Audit Committee.

Included in the duties and responsibilities of the Audit Committee as provided for in the Audit Committee Charter are to recommend to the Board the appointment, re-appointment and dismissal of external auditors; to review and evaluate the external auditors' qualifications, performance, independence, and objectivity; and to review the external auditors' audit plan and scope among others.

The following are the members of Bank's Audit Committee:

Name	Position
Eduardo A. Sahagun, Independent Director	Chairman
Samson C. Lim, Independent Director	Member
Vicente R. Cuna, Jr., Director	Member

PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

SECURITIES AND EXCHANGE COMMISSION
G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Philippine Savings Bank** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

JOSE T. PARDO	**JOSE VICENTE L. ALDE**	**LEAH M. ZAMORA**
Chairman of the Board	President	Controller

Signed this 15th day of February 2019.

REPUBLIC OF THE PHILIPPINES
CITY OF MAKATI) S.S.

SUBSCRIBED AND SWORN TO before me this_____________ affiants exhibiting to me their passports as follow:

Name	[redacted]	[redacted]	Place of Issue
Jose T. Pardo	[redacted]	[redacted]	Manila
Jose Vicente L. Alde	[redacted]	[redacted]	Manila
Leah M. Zamora	[redacted]	[redacted]	Manila

Doc. No. 177
Page No. 37
Book No. 06
Series of 2019.

ATTY. ROMEO S. MASANGYA, JR.
NOTARY PUBLIC FOR MAKATI CITY
APPOINTMENT NO. M-72 UNTIL DECEMBER 31, 2020
MCLE COMPLIANCE NO. VI-0014090, APRIL 14, 2022
IBP LIFETIME NO. 0186663, 01/03/2018 MAKATI CITY
PTR NO. 7333054, 01/03/2019 MAKATI CITY
17TH FLR. PSBANK CENTER NO. 777 PASEO DE ROXAS
COR. SEDENO ST. MAKATI CITY
TEL NO. (02)511-8042
ROLL NO. 45164

SGV
Building a better working world

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6760 Ayala Avenue
1226 Makati City
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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño Street
Makati City

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Philippine Savings Bank (the Bank) as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 15, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Bank's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68.1 and Securities and Exchange Commission Memorandum Circular No. 11, Series of 2008 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332525, January 3, 2019, Makati City

February 15, 2019

PHILIPPINE SAVINGS BANK
RECONCILIATION OF RETAINED EARNINGS
AVAILABLE FOR DIVIDEND DECLARATION
As of December 31, 2018

Unappropriated Retained Earnings, beginning, 12/31/2017		**₱17,097,046,504**
Effect of the adoption of PFRS 9		353,911,722
Adjusted Unappropriated Retained Earnings, 01/01/2018		**17,450,958,226**
Prior year adjustments		
Less: Non-accrual/unrealized income net of tax		
Equity in net income of a joint venture	(103,280,750)	
Unrealized foreign exchange gains - net	(420,641,428)	
Unrealized gains on investment properties	(825,312,834)	
Recognized deferred tax assets	(1,335,360,830)	
Mark to market gains on FVTPL	(18,335,581)	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	(52,981,190)	(2,755,912,613)
Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning		**14,695,045,613**
Net Income during the period closed to Retained Earnings		2,662,145,866
Less: Non-accrual/unrealized income net of tax		
Equity in net income of a joint venture	(82,376,569)	
Unrealized foreign exchange gains - net	(164,070,394)	
Mark to market gains on FVTPL	11,859,240	
Recognized deferred tax assets	(71,774,541)	
Unrealized gains on investment properties	(115,381,397)	(421,743,661)
Net income actually earned during the period		**2,240,402,205**
Less:		
Dividend declarations during the period		(720,757,473)
Retained earnings available for dividend distribution		**₱16,214,690,345**

Note: The computation of surplus available for dividend declaration in accordance with Securities and Exchange Commission (SEC) Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following Bangko Sentral ng Pilipinas (BSP) guidelines.

Even after the regular dividend declaration, the Bank's Capital Adequacy Ratio (CAR) is still above the minimum ten percent (10%) requirement.

PHILIPPINE SAVINGS BANK
Schedule of All the Effective Standards and Interpretations
December 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		**Adopted**	**Not Adopted/Not Early Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		✓		
PFRSs Practice Statement Management Commentary		✓		
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemption for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
	Amendment to PFRS 1: Meaning of Effective PFRSs			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
	Amendments to PFRS 2: Definition of Vesting Condition			✓
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions			✓
PFRS 3	Business Combinations			✓
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Arrangements			✓
	Amendment to PFRS 3: Definition of a Business		Effective (01/01/20)	
PFRS 4	Insurance Contracts			✓
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			✓
	Amendment to PFRS 5: Changes in methods of disposal			✓
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
	Amendments to PFRS 7: Additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in PFRS 9			✓
	Amendments to PFRS 7: Servicing Contracts and Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments	✓		
	Amendments to PFRS 8: Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets	✓		
PFRS 9	Financial Instruments: Classification and Measurement of Financial Assets	✓		
	Financial Instruments: Classification and Measurement of Financial Liabilities	✓		
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
	PFRS 9, Financial Instruments (Hedge Accounting and amendments to PFRS 9, PFRS 7 and PAS 39)	✓		
	PFRS 9, Financial Instruments	✓		
	Amendments to PFRS 9, Prepayment Features with Negative Compensation		Effective (01/01/19)	
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PFRS 10: Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture*			✓
PFRS 11	Joint Arrangements	✓		
	Amendments to PFRS 11: Transition Guidance	✓		
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
	Amendments to PFRS 11: Joint Arrangements, Previously Held Interest in a Joint Operation			✓
PFRS 12	Disclosures of Interests in Other Entities	✓		
	Amendments to PFRS 12: Transition Guidance	✓		
	Amendments to PFRS 12: Investment Entities	✓		
	Amendments to PFRS 12: Investment Entities Applying the Consolidation Exception			✓
PFRS 13	Fair Value Measurement	✓		
	Amendments to PFRS 13: Short-term Receivables and Payables	✓		
	Amendments to PFRS 13: Portfolio Exception			✓
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
	Amendments to PFRS 15, Clarifications to PFRS 15	✓		
PFRS 16	Leases		Effective (01/01/19)	
PFRS 17	Insurance Contracts		Effective (01/01/21)	
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosure	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendments to PAS 1 (Revised): Disclosure Initiative	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
	Amendments to PAS 1: Presentation of Financial Statements		Effective (01/01/20)	
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
	Amendments to PAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material		Effective (01/01/20)	
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12: Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses		✓	
	Amendments to PAS 12: Income Tax Consequences of Payments on Financial Instruments Classified as Equity		Effective (01/01/19)	
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Revaluation Method – Proportionate Restatement of Accumulated Depreciation on Revaluation			✓
	Amendments to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendments to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contribution	✓		
	Amendments to PAS 19: Discount Rate: Regional Market Issue	✓		
	Amendments to PAS 19: Employee Benefits, Plan Amendment, Curtailment or Settlement		Effective (01/01/19)	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendments to PAS 21: Net Investment in a Foreign Operation			✓
PAS 23 (Revised)	Borrowing Costs	✓		
	Amendments to PAS 23: Borrowing Costs, Borrowing Costs Eligible for Capitalization		Effective (01/01/19)	
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendments to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Amended)	Separate Financial Statements	✓		
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28 (Amended): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture			✓
	Amendments to PAS 28 (Amended): Investment Entities: Applying the Consolidation Exception			✓
	Amendments to PAS 28 (Amended), Measuring an Associate or Joint Venture at Fair Value			✓
	Amendments to PAS 28, Long-term Interests in		Effective	

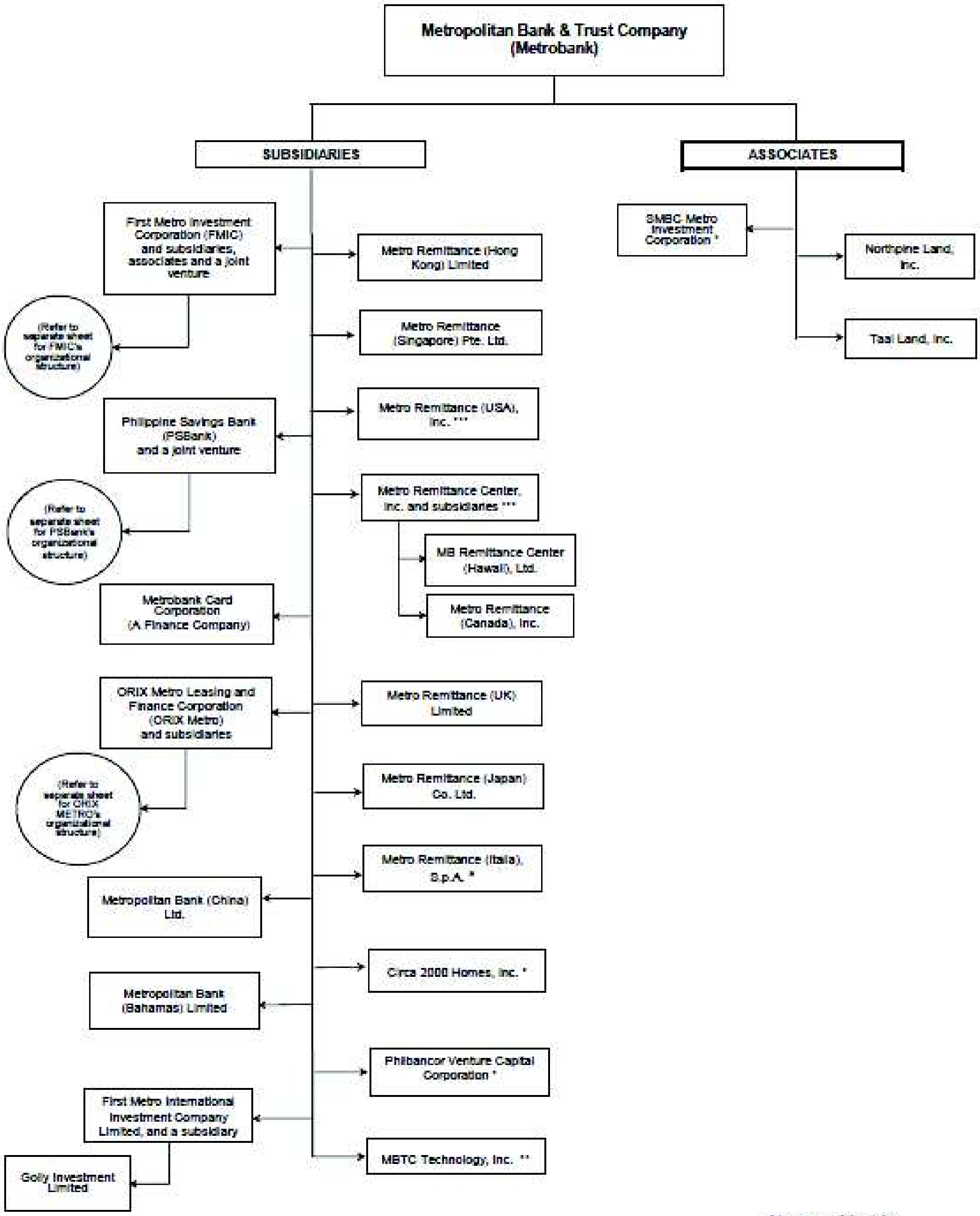
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
	Associates and Joint Ventures		(01/01/2019)	
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
	Amendments to PAS 34: Disclosure of information 'Elsewhere in the Interim financial report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendments to PAS 38 : Revaluation Method – Proportionate Restatement Of Accumulated Amortization			✓
	Amendments to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-Occupied Property	✓		
	Amendments to PAS 40: Investment Property, Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
	Amendments to PAS 41: Bearer Plants			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 11	PFRS 2 – Group and Treasury Share Transactions (replaced by amendments to PFRS 2)			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement	✓		
IFRIC 16	Hedges of a net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 18	Transfers of Assets from Customers			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
IFRIC 22	Foreign Currency Transactions and Advance Consideration	✓		
IFRIC 23	Uncertainty over Income Tax Treatments		Effective (01/01/2019)	
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC- 12	Consolidation – Special Purpose Entities Amendments to SIC-12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities – Non Monetary Contributions by Venturers			✓
SIC-15	Operating Leases – Incentives	✓		
SIC-25	Income Taxes – Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs			✓

**Original effective date of January 1, 2016 of the amendment was postponed by the FRSC on January 13, 2016, until the IASB has completed its broader review of the research project on equity accounting.*

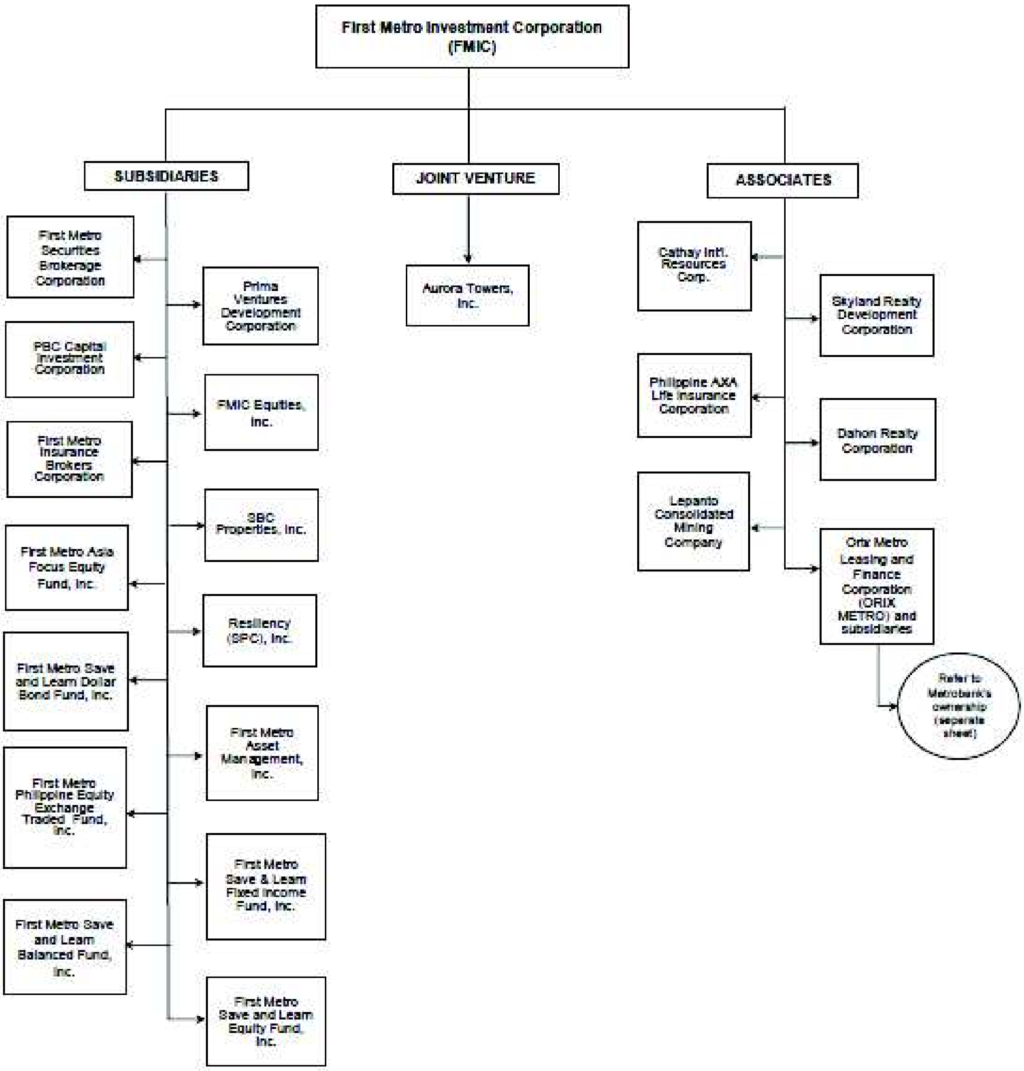
Standards and Interpretations applicable to annual periods beginning on or after January 1, 2019 (where early application is allowed) will be adopted by the Bank as they become effective.

Metropolitan Bank & Trust Company
Subsidiaries and Associates
As of December 31, 2017

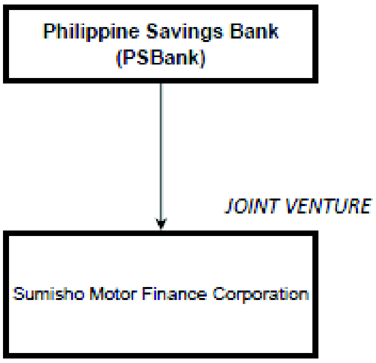


** In process of dissolution*
*** In process of liquidation*
**** With approved agreement of merger*

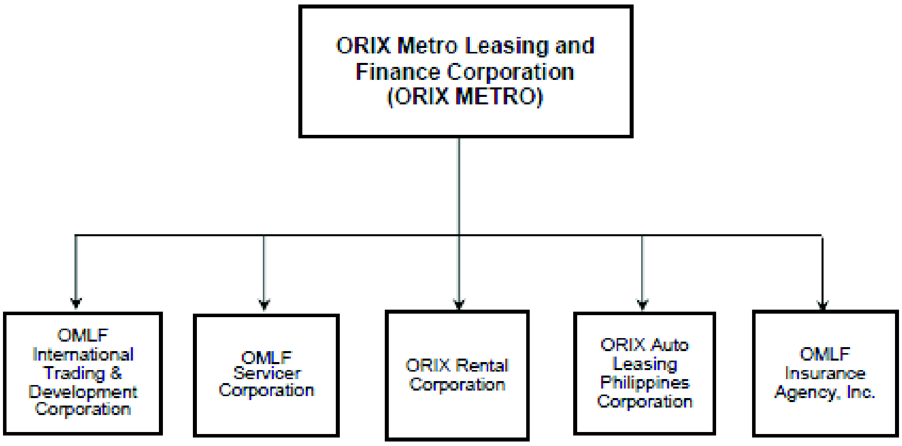
First Metro Investment Corporation
Subsidiaries, Joint Venture and Associates
As of December 31, 2017



Philippine Savings Bank
Joint Venture
As of December 31, 2017



ORIX Metro Leasing and Finance Corporation (ORIX METRO)
Subsidiaries
As of December 31, 2017



PHILIPPINE SAVINGS BANK
SHCEDULE OF FINANCIAL PERFORMANCE INDICATORS

	December 31, 2018	December 31, 2017
PROFITABILITY RATIOS		
Return on Assets (Annualized)		
Net Income / Average Total Resources	1.15%	1.26%
Return on Equity (Annualized)		
Net Income (Annualized) / Average Stockholders' Equity	11.38%	12.51%
Net Interest Margin		
Net Interest Income / Average Earning Assets	5.79%	6.10%
Cost to Income Ratio		
Operating Expenses Excluding Provision for Probable Losses and Income Taxes / Net Interest Income + Operating Income	64.83%	63.06%
SOLVENCY RATIOS		
Debt to Equity Ratio		
Total Liabilities / Total Stockholders' Equity	8.75:1	8.97:1
Asset-to-Equity Ratio		
Total Assets / Total Stockholders' Equity	9.75:1	9.97:1
Interest Rate Coverage Ratio		
Earnings Before Interest and Taxes / Interest Expense	1.59:1	1.84:1
LIQUIDITY RATIOS		
Liquidity Ratio		
Current Assets / Current Liabilities	23.47%	20.70%
Loans to Deposit Ratio		
Gross Loans / Total Deposits	78.08%	77.46%
Capital Adequacy Ratio		
Total Qualifying Capital / Total Risk-Weighted Assets	13.88%	13.87%

PHILIPPINE SAVINGS BANK
SCHEDULE A – FINANCIAL ASSETS
As of December 31, 2018

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at end of reporting period (iii)	Income accrued
Fair Value Through Profit or Loss (FVTPL) Investments				
Government Bonds	₱46,521	₱33,890	₱33,890	₱669
Derivatives with positive fair value	10,073,132	10,073,132	10,073,132	–
	₱10,119,653	**₱10,107,022**	**₱10,107,022**	**₱669**
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)				
Debt Securities				
Government Bonds				
Peso – denominated	₱3,563,606,467	₱3,405,346,136	₱3,405,346,136	₱22,837,195
Dollar – denominated	4,164,336,000	5,551,418,221	5,551,418,221	137,756,642
	7,727,942,467	8,956,764,357	8,956,764,357	160,593,837
Private Corporation				
Peso – denominated	3,755,300,000	3,492,783,279	3,492,783,279	38,134,068
Dollar – denominated	462,704,000	471,828,523	471,828,523	7,853,115
	4,218,004,000	3,964,611,802	3,964,611,802	45,987,183
Equity Securities	6,594,720	10,225,365	10,225,365	–
	₱11,952,541,187	**₱12,931,601,524**	**₱12,931,601,524**	**₱206,581,020**
Investment Securities at Amortized Cost				
Government Bonds				
Peso – denominated	₱26,603,652,560	₱31,580,028,111	₱28,024,025,069	₱513,810,432
Private Corporation				
Peso – denominated	2,591,950,000	2,601,348,340	2,368,966,334	20,264,600
Dollar – denominated	1,422,183,840	1,465,388,813	1,435,137,769	19,262,419
	4,014,133,840	4,066,737,153	3,804,104,103	39,527,019
	₱30,617,786,400	**₱35,646,765,264**	**₱31,828,129,172**	**₱553,337,451**

i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.

ii. State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.

iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK

SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES, AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)

As of December 31, 2018

Name and Designation of Debtor (i)	Balance at Beginning of the Period	Additions	Amounts Collected (ii)	Amounts Written-off (iii)	Current	Not Current	Balance at End of the Period

NONE TO REPORT

Note: Transactions to these parties are made in the ordinary course of business.

i. Show separately accounts receivables and note receivable. In case of notes receivable, indicate pertinent information such as the due date, interest rate, terms or repayment and collateral, if any.
ii. If collection was other than in cash, explain.
iii. Give reasons for write-off.

PHILIPPINE SAVINGS BANK

SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
As of December 31, 2018

Name and Designation of debtors	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of the period

NOT APPLICABLE

(i) If collection was other than in cash, explain.
(ii) Give reasons for write off.

PHILIPPINE SAVINGS BANK
SCHEDULE D – INTANGIBLE ASSETS
As of December 31, 2018

Description (i)	Beginning Balance	Additions at Cost (ii)	Charge to cost and expenses	Charge to other accounts	Other changes additions (deductions) (iii)	Ending Balance
Goodwill	₱53,558,338	₱–	₱–	₱–	₱–	₱53,558,338
Software Costs	624,241,981	99,611,845	-159,089,068	–	–	564,764,758
Branch Licenses	37,123,737	–	–	–	–	37,123,737
	₱714,924,056	**₱99,611,845**	**(₱159,089,068)**	**₱–**	**₱–**	**₱655,446,833**

(i) All items presented are classified as Intangible Assets and no item is classified as Other Assets
(ii) All additions to costs represents acquisitions made by the Bank and are paid in cash and some are in installment basis.
(iii) If provision for amortization of intangible assets is credited in the books directly to intangible asset account, the amounts shall be stated with explanations including the accounts charged. Clearly state the nature of deductions if these represent anything other than regular amortization.

PHILIPPINE SAVINGS BANK
SCHEDULE E – LONG TERM DEBT
As of December 31, 2018

Title of Issue and type of obligation (i)	Amount authorized by indenture	Amount shown under caption "Current portion of Long-Term Debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rate	Maturity Date
Subordinated Debt	₱3,000,000,000	–	₱2,981,673,382	5.50%	Aug. 23, 2024
Medium Term Fixed rate Notes (MTFNs)	₱3,000,000,000	–	₱2,968,567,431	7.07%	Jun. 10, 2020

(i) Include in this column each type of obligation authorized.
(ii) This column is to be totaled to correspond to the related balance sheet caption.
(iii) Include in this column details as to interest rates, amounts or number of periodic installments, and maturity dates.

PHILIPPINE SAVINGS BANK

SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
(LONG TERM LOANS FROM RELATED PARTIES)
As of December 31, 2018

Name of Related Party (i)	Balance at Beginning of the Period	Balance at the End of the Period (ii)

NONE TO REPORT

(i) The related parties named shall be grouped as in Schedule D. The information called for shall be stated separately for any persons whose investments were shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance sheet at either the beginning or end of the period.

PHILIPPINE SAVINGS BANK
SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUES
As of December 31, 2018

Name of issuing entity of securities guaranteed by the company for which the statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement if filed	Nature of guarantee (ii)

NONE TO REPORT

i. Each issue shall be stated separately, except that reasonable grouping, without enumeration may be made of (a) securities issued or guaranteed by the Philippine Government or its agencies and (b) securities issued by others for which the amounts in the aggregate are not more than two percent of total assets.
ii.State the basis of determining the amounts shown in the column. This column shall be totaled to correspond to the respective balance sheet caption or captions.
iii. This column may be omitted if all amounts that would be shown are the same as in the immediate preceding column.

PHILIPPINE SAVINGS BANK
SCHEDULE H – CAPITAL STOCK
As of December 31, 2018

Title of Issue (i)	Number of Shares Authorized	Number of Shares Issued and Outstanding at shown under related Balance Sheet caption	Number of Shares reserved for Options, Warrants, Conversion and Other Rights	Number of Shares Held by related parties (ii)	Directors, Officers, and Employees	Others (iii)
Common Stock - P10 par value	425,000,000	240,252,491	–	198,629,513	4,002,569	37,620,409

(i) Include each type of issue authorized.
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in consolidated financial statements, other than the issuer of the particular security.
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

Philippine Savings Bank

Financial Statements
December 31, 2018 and 2017
and for the Years Ended December 31, 2018,
2017 and 2016

and

Independent Auditor's Report

SGV
Building a better
working world

A member firm of Ernst & Young Global Limited

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Tel: (632) 891 0307
Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Savings Bank

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Philippine Savings Bank ("the Bank"), which comprise the statements of condition as at December 31, 2018 and 2017 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2018 and 2017, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2018, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Adoption of PFRS 9, *Financial Instruments*

On January 1, 2018, the Bank adopted PFRS 9, *Financial Instruments*, which replaced Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Bank adopted the modified retrospective approach in adopting PFRS 9.

1. Classification and Measurement of Financial Assets

   As at January 1, 2018 (the transition date), the Bank classified its financial assets based on its business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased surplus and other comprehensive income by ₱25.5 million and ₱342.4 million, respectively, for the Bank. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

   The Bank's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

   The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

   Audit Response

   We obtained an understanding of the Bank's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board-approved business models for the Bank's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Bank. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

   We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

2. Expected Credit Loss (ECL)

The Bank's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Bank's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The application of the ECL model decreased the Bank's allowance for credit losses and increased surplus by ₱469.1 million and ₱328.4 million, respectively. Provision for credit losses of the Bank in 2018 using the ECL model amounted to ₱2.1 billion.

Refer to Notes 2 and 15 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit response

We obtained an understanding of the board-approved methodologies and models used for the Bank's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information. We also inspected and considered the results of PFRS 9 model validation performed by management's specialist.

We (a) assessed the Bank's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place; (c) tested the Bank's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Bank's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Bank's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018, but does not include the financial statements and our auditor's report thereon. The SEC Form 17-A, SEC Form 20-IS (Definitive Information Statement) and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 36 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine Savings Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Miguel U. Ballelos, Jr.

SYCIP GORRES VELAYO & CO.

Miguel U. Ballelos, Jr.

Miguel U. Ballelos, Jr.
Partner
CPA Certificate No. 109950
SEC Accreditation No. 1566-A (Group A),
June 9, 2016, valid until June 9, 2019
Tax Identification No. 241-031-088
BIR Accreditation No. 08-001998-114-2019,
January 28, 2019, valid until January 27, 2022
PTR No. 7332525, January 3, 2019, Makati City

February 15, 2019

PHILIPPINE SAVINGS BANK
STATEMENTS OF CONDITION

	December 31	
	2018	2017
ASSETS		
Cash and Other Cash Items	**₱3,776,087,269**	₱2,596,872,801
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,156,184,418**	15,265,387,772
Due from Other Banks (Note 29)	**1,682,806,080**	1,508,489,309
Interbank Loans Receivable and Securities Purchased Under Resale Agreements (Note 7)	**1,891,820,000**	1,842,023,049
Fair Value Through Profit or Loss (FVTPL) Investments (Note 8)	**10,107,022**	366,235,689
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 8)	**12,931,601,524**	–
Available-for-Sale Investments (Note 8)	–	16,925,485,941
Investment Securities at Amortized Cost (Note 8)	**35,646,765,264**	–
Held-to-Maturity Investments (Note 8)	–	29,473,724,384
Loans and Receivables (Note 9)	**156,260,362,775**	144,964,513,221
Investment in a Joint Venture (Notes 10 and 29)	**691,425,681**	607,162,821
Property and Equipment (Note 11)	**2,257,379,905**	2,480,012,354
Investment Properties (Note 12)	**4,036,317,716**	3,930,317,479
Deferred Tax Assets (Note 27)	**1,327,667,084**	1,429,327,369
Goodwill and Intangible Assets (Note 13)	**655,446,833**	714,924,056
Other Assets (Note 14)	**1,405,320,467**	1,219,566,379
	₱237,729,292,038	₱223,324,042,624

LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Note 16)		
Demand	**₱20,367,043,344**	₱19,112,561,892
Savings	**33,399,725,991**	30,383,783,001
Time	**138,525,888,196**	136,042,056,714
Long-term Negotiable Certificates of Deposits	**8,395,281,852**	3,375,000,000
	200,687,939,383	188,913,401,607
Bills Payable (Note 17)	**2,968,567,431**	1,492,418,518
Subordinated Notes (Note 17)	**2,981,673,382**	2,978,997,695
Treasurer's, Cashier's and Manager's Checks	**1,615,520,188**	2,213,869,703
Accrued Taxes, Interest and Other Expenses (Note 18)	**2,014,522,713**	1,658,423,304
Financial Liabilities at FVTPL (Note 8)	**2,895,073**	–
Income Tax Payable	**637,607**	375,277
Other Liabilities (Note 19)	**3,063,388,051**	3,673,232,353
	213,335,143,828	200,930,718,457

(Forward)

	December 31	
	2018	2017
Equity		
Common Stock (Note 21)	**₱2,402,524,910**	₱2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves (Note 30)	**1,035,899,409**	1,035,402,901
Surplus (Note 21)	**19,391,850,112**	17,097,046,504
Fair Value Reserves on Financial Assets at FVOCI (Note 8)	**(782,896,279)**	–
Net Unrealized Loss on Available-for-Sale Investments (Note 8)	**–**	(411,510,218)
Remeasurement Losses on Retirement Plan (Note 24)	**(470,611,677)**	(545,392,541)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	**3,131,435**	1,245,144
Cumulative Translation Adjustment	**(3,833,206)**	(4,076,039)
	24,394,148,210	22,393,324,167
	₱237,729,292,038	₱223,324,042,624

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF INCOME

	Years Ended December 31		
	2018	2017	2016
INTEREST INCOME			
Loans and receivables (Note 9)	**₱14,268,805,623**	₱12,477,133,237	₱11,066,862,854
Financial assets at FVOCI/AFS investments and investment securities at amortized cost/HTM investments (Note 8)	**1,985,357,651**	1,773,020,358	1,263,277,990
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**89,723,370**	61,037,150	61,530,255
Due from Bangko Sentral ng Pilipinas	**16,662,587**	179,406,826	13,905,374
FVTPL investments (Note 8)	**9,088,886**	50,570,958	84,671,137
Due from other banks	**4,338,859**	2,608,271	2,222,421
	16,373,976,976	14,543,776,800	12,492,470,031
INTEREST EXPENSE			
Deposit liabilities (Note 16)	**4,818,493,359**	3,214,665,720	2,409,979,204
Subordinated notes (Note 17)	**167,675,686**	191,058,261	361,766,713
Bills payable (Note 17)	**55,857,635**	58,953,437	56,801,997
	5,042,026,680	3,464,677,418	2,828,547,914
NET INTEREST INCOME	**11,331,950,296**	11,079,099,382	9,663,922,117
Service fees and commission income (Note 22)	**1,721,745,423**	1,470,202,440	1,226,015,157
Service fees and commission expense (Note 22)	**96,107,664**	94,428,291	89,667,951
NET SERVICE FEES AND COMMISSION INCOME	**1,625,637,759**	1,375,774,149	1,136,347,206
OTHER OPERATING INCOME (CHARGES)			
Gain on foreclosure and sale of investment properties - net (Note 12)	**421,975,957**	348,813,362	364,392,867
Gain on foreclosure and sale of chattel mortgage properties - net (Note 14)	**232,063,012**	584,947,874	351,721,775
Trading and securities gains (losses) - net (Note 8)	**(133,297,506)**	(65,237,826)	509,665,576
Foreign exchange gain - net	**88,032,388**	56,483,920	23,992,498
Gain on sale of property and equipment (Note 11)	**7,918,569**	1,731,001	2,639,304
Miscellaneous (Notes 12, 23 and 25)	**624,299,435**	507,510,359	426,147,878
	1,240,991,855	1,434,248,690	1,678,559,898
TOTAL OPERATING INCOME	**14,198,579,910**	13,889,122,221	12,478,829,221
OTHER EXPENSES			
Compensation and fringe benefits (Notes 24 and 29)	**3,363,828,408**	3,260,605,852	2,922,900,798
Provision for credit and impairment losses (Note 15)	**2,137,972,532**	2,270,178,805	2,222,503,257
Taxes and licenses	**1,627,741,446**	1,268,907,979	1,058,437,943
Occupancy and equipment-related costs (Note 25)	**763,766,590**	740,050,501	710,941,317
Depreciation (Note 11)	**622,182,083**	635,436,103	557,648,750
Security, messengerial and janitorial services	**493,737,524**	477,533,030	383,670,587
Amortization of intangible assets (Note 13)	**159,089,068**	135,432,343	111,160,451
Miscellaneous (Notes 12 and 26)	**2,140,897,722**	2,251,333,506	1,876,476,264
	11,309,215,373	11,039,478,119	9,843,739,367
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**2,889,364,537**	2,849,644,102	2,635,089,854
SHARE IN NET INCOME OF A JOINT VENTURE (Notes 10 and 29)	**82,376,569**	71,836,533	35,466,690
INCOME BEFORE INCOME TAX	**2,971,741,106**	2,921,480,635	2,670,556,544
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 27)			
Current	**381,369,781**	394,082,636	295,879,413
Deferred	**(71,774,541)**	(127,021,129)	(76,166,179)
	309,595,240	267,061,507	219,713,234
NET INCOME	**₱2,662,145,866**	₱2,654,419,128	₱2,450,843,310
Basic/Diluted Earnings Per Share (Note 28)	**₱11.08**	₱11.05	₱10.20

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2018	2017	2016
NET INCOME	**₱2,662,145,866**	₱2,654,419,128	₱2,450,843,310
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that recycle to profit or loss in subsequent periods:			
Fair value reserves on debt securities at FVOCI (Note 8)	**(713,972,048)**	–	–
Cumulative translation adjustment	**242,833**	(5,518,027)	44,573,963
Net unrealized gain (loss) from Available-for-sale investments (Note 8)	–	431,398,146	(843,088,139)
	(713,729,215)	425,880,119	(798,514,176)
Items that do not recycle to profit or loss in subsequent periods:			
Remeasurement gains (losses) on retirement plan (Note 24)	**106,829,806**	(5,273,354)	(100,471,688)
Equity in remeasurement gains (losses) on retirement plan of a joint venture (Note 10)	**1,886,291**	(198,455)	1,375,957
Fair value reserves on equity securities at FVOCI (Note 8)	**222,501**	–	–
Income tax effect (Note 27)	**(32,048,942)**	1,582,006	30,141,506
	76,889,656	(3,889,803)	(68,954,225)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX	**(636,839,559)**	421,990,316	(867,468,401)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱2,025,306,307**	₱3,076,409,444	₱1,583,374,909

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY

	Common Stock (Note 21)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 30)	Surplus (Note 21)	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on Available-for-Sale Investments (Note 8)	Remeasurement Losses on Retirement Plan (Note 24)	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture (Note 10)	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**
Effect of the adoption of PFRS 9 (Note 2)	–	–	–	**353,911,723**	**342,363,486**	–	–	–	**696,275,209**
Balance at January 1, 2018, as restated	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,450,958,227**	**(₱69,146,732)**	**(₱545,392,541)**	**₱1,245,144**	**(₱4,076,039)**	**₱23,089,599,376**
Total comprehensive income (loss) for the year	–	–	–	**2,662,145,866**	**(713,749,547)**	**74,780,864**	**1,886,291**	**242,833**	**2,025,306,307**
Cash dividends (Note 21)	–	–	–	**(720,757,473)**	–	–	–	–	**(720,757,473)**
Appropriation of surplus to trust business (Note 30)	–	–	**496,508**	**(496,508)**	–	–	–	–	–
Balance at December 31, 2018	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,899,409**	**₱19,391,850,112**	**(₱782,896,279)**	**(₱470,611,677)**	**₱3,131,435**	**(₱3,833,206)**	**₱24,394,148,210**
Balance at January 1, 2017	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196
Total comprehensive income (loss) for the year	–	–	–	2,654,419,128	431,398,146	(3,691,348)	(198,455)	(5,518,027)	3,076,409,444
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Appropriation of surplus to trust business (Note 30)	–	–	127,584	(127,584)	–	–	–	–	–
Balance at December 31, 2017	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,097,046,504	(₱411,510,218)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱22,393,324,167
Balance at January 1, 2016	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱13,433,426,596	₱179,775	(₱471,371,011)	₱67,642	(₱43,131,975)	₱19,175,054,760
Total comprehensive income (loss) for the year	–	–	–	2,450,843,310	(843,088,139)	(70,330,182)	1,375,957	44,573,963	1,583,374,909
Cash dividends (Note 21)	–	–	–	(720,757,473)	–	–	–	–	(720,757,473)
Balance at December 31, 2016	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**₱2,971,741,106**	₱2,921,480,635	₱2,670,556,544
Adjustments to reconcile income before income tax to net cash provided by operations:			
Provision for credit and impairment losses (Note 15)	**2,137,972,532**	2,270,178,805	2,222,503,257
Depreciation (Note 11)	**622,182,083**	635,436,103	557,648,750
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**(565,582,794)**	–	–
Gain on foreclosure and sale of:			
Investment properties (Note 12)	**(421,975,957)**	(348,813,361)	(364,392,867)
Chattel mortgage properties (Note 14)	**(232,063,012)**	(584,947,873)	(351,721,775)
Amortization of:			
Intangible assets (Note 13)	**159,089,068**	135,432,343	111,160,451
Debt issuance costs (Note 17)	**12,466,263**	3,265,585	23,680,529
Realized loss on sale of financial assets at fair value through other comprehensive income (FVOCI) (Note 8)	**92,278,733**	–	–
Share in net income of a joint venture (Note 10)	**(82,376,569)**	(71,836,533)	(35,466,690)
Fair value loss (gains) on fair value through profit or loss investments (Note 8)	**16,941,771**	(12,181,153)	(9,808,773)
Gain on sale of property and equipment (Note 11)	**(7,918,569)**	(1,731,001)	(2,639,304)
Amortization of premium (discount) on available-for-sale investments and held-to-maturity investments	**–**	345,911,497	(490,197,593)
Realized loss (gain) on sale of available-for-sale investments (Note 8)	**–**	49,756,366	(456,628,139)
Loss on sale of a joint venture	**–**	2,052,642	–
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Fair value through profit or loss investments	**1,512,257,295**	941,420,934	1,538,682,890
Loans and receivables	**(15,682,534,934)**	(22,428,511,076)	(17,801,956,529)
Other assets	**(177,995,072)**	(35,731,437)	(31,545,443)
Increase (decrease) in:			
Deposit liabilities	**11,765,973,830**	30,523,557,488	24,091,609,813
Treasurer's, cashier's and manager's checks	**(598,349,515)**	453,363,881	411,884,412
Accrued taxes, interest and other expenses	**356,099,813**	464,596,545	143,049,544
Other liabilities	**(500,120,437)**	329,104,407	232,467,904
Cash generated from operations	**1,378,085,635**	15,591,804,797	12,458,886,981
Income taxes paid	**(381,107,451)**	(394,158,858)	(303,467,934)
Net cash provided by operating activities	**996,978,184**	15,197,645,939	12,155,419,047
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of:			
Financial assets at FVOCI	**(6,318,566,676)**	–	–
Investment securities at amortized cost	**(1,863,449,350)**	–	–
Property and equipment (Note 11)	**(182,350,588)**	(227,119,984)	(319,030,433)
Other intangible assets (Note 13)	**(99,611,845)**	(345,190,531)	(171,866,198)
Available-for-sale investments	**–**	(9,380,635,227)	(40,630,855,364)
Held-to-maturity investments	**–**	(6,917,136,761)	(8,051,001,534)

(Forward)

	Years Ended December 31		
	2018	2017	2016
Proceeds from sale/maturities of:			
Financial assets at FVOCI (Note 8)	**₱4,919,018,184**	₱–	₱–
Chattel mortgage properties (Note 14)	**2,346,032,425**	2,146,956,711	1,564,228,669
Investment properties (Note 12)	**701,479,408**	784,512,544	520,225,812
Property and equipment (Note 11)	**45,609,973**	24,120,404	32,128,996
Available-for-sale investments (Note 8)	**–**	5,879,947,979	36,425,024,948
Held to maturity investments (Note 8)	**–**	324,545,000	–
Investment in a joint venture (Note 10)	**–**	189,960,000	–
Net cash used in investing activities	**(451,838,469)**	(7,520,039,865)	(10,631,145,104)
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable (Note 32)	**87,840,542,536**	–	127,696,110,553
Settlement of bills payable (Note 32)	**(86,365,497,487)**	(4,601,585,608)	(126,096,897,354)
Dividends paid (Note 21)	**(720,757,473)**	(720,757,473)	(720,757,473)
Settlement of subordinated notes (Note 17)	**–**	(3,000,000,000)	–
Net cash provided by (used in) financing activities	**754,287,576**	(8,322,343,081)	878,455,726
Effect of exchange rate differences	**6,116**	(225,564)	1,713,236
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,299,433,407**	(644,962,571)	2,404,442,905
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**2,596,872,801**	2,778,009,185	3,934,496,578
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,265,387,772**	13,986,784,696	11,143,781,766
Due from other banks	**1,508,489,309**	1,838,630,022	1,861,110,141
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**1,842,023,049**	3,254,311,599	2,513,904,112
	21,212,772,931	21,857,735,502	19,453,292,597
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**3,776,087,269**	2,596,872,801	2,778,009,185
Due from Bangko Sentral ng Pilipinas (Note 16)	**15,159,012,316**	15,265,387,772	13,986,784,696
Due from other banks	**1,685,106,753**	1,508,489,309	1,838,630,022
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**1,892,000,000**	1,842,023,049	3,254,311,599
	₱22,512,206,338	₱21,212,772,931	₱21,857,735,502

OPERATIONAL CASH FLOWS FROM INTEREST			
Interest paid	**₱4,669,014,050**	₱5,012,646,483	₱2,772,406,654
Interest received	**15,413,717,174**	10,936,013,646	11,911,931,701

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philippine Savings Bank (the Bank) was incorporated in the Philippines primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange (PSE). The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that mainly serve the retail and consumer markets. On September 6, 1991, the Bank was authorized to perform trust functions.

As of December 31, 2018 and 2017, the Bank had 250 branches. In 2018, the Bank had 309 Automated Tellering Machines (ATMs) in Metro Manila and 266 in provincial locations, bringing its total number of ATMs to 575 as of December 31, 2018 and 610 as of December 31, 2017.

The Bank's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on June 30, 1959. On March 28, 2006, the Board of Directors (BOD) of the Bank approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate term of the Bank, which expired on June 30, 2009, for another 50 years or up to June 30, 2059. This was subsequently approved by stockholders representing at least two-thirds of the outstanding capital stock of the Bank on April 25, 2006. The Amended Articles of Incorporation was approved by the SEC on September 27, 2006.

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

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

As of December 31, 2018 and 2017, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) of the Bank.

2. **Significant Accounting Policies**

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) and available-for-sale (AFS) investments that have been measured at fair value. All values are rounded to the nearest peso unless otherwise stated.

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine Peso (PHP) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso (see accounting policy on Foreign Currency Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

The financial statements provide comparative information in respect of the previous period. In addition, the Bank presents an additional statement of condition at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

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

Presentation of Financial Statements
The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 20.

Financial assets and financial liabilities are offset and the net amount is reported in the statements of condition only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of solvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statements of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures
The Bank applied, for the first time, the following applicable new and revised accounting standards. Unless otherwise indicated, these new and revised accounting standards have no impact to the Bank. The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2018:

New Standards

PFRS 9, *Financial Instruments*
The Bank has adopted PFRS 9 effective January 1, 2018 using a modified retrospective approach. This approach allows the entity not to restate prior periods, however, adjustments are made at the beginning balance of the annual reporting period that includes the date of initial adoption. PFRS 9 replaces Philippine Accounting Standard (PAS 39), *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The Bank adopted the requirements of the standard as follows:

a. Classification and Measurement
   Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following measurement categories:
   - financial assets measured at amortized cost;
   - financial assets (debt instruments) measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss;

- financial assets (equity investments) measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss; and
- financial assets measured at FVTPL.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments that do not pass this test are automatically classified as FVTPL investments.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model
The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel.

b. Impairment
The Bank recognizes expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

ECL methodology
The application of ECL significantly changed the Bank's credit loss methodology and models. ECL 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 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 are 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. The lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model under PAS 39 recognizes lifetime credit losses only when there is objective evidence of impairment while ECL model eliminate the threshold or trigger event required under the incurred loss model, and lifetime ECL are recognized earlier.

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 as the Bank does not apply hedge accounting.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 classification as at January 1, 2018 is presented below. The Bank's adoption of PFRS 9 did not have any impact on its financial liabilities:

	PAS 39		PFRS 9	
	Category	Amount	Category	Amount
Financial Assets				
Loans and advances to banks				
Due from BSP	L&R	₱15,265,387,772	Amortized cost	₱15,265,387,772
Due from other banks		1,508,489,309		1,508,489,309
Interbank loans receivable and SPURA		1,842,023,049		1,842,023,049
FVPL investments				
Debt	FVPL	293,076,128	FVTPL	293,076,128
Derivatives	FVPL	73,159,561	FVTPL	73,159,561
		₱366,235,689		₱366,235,689
AFS investments				
Debt	AFS	₱16,915,483,077	FVOCI	₱10,722,539,600
			Amortized cost b/	6,492,759,818
		16,915,483,077		17,215,299,418
Equity	AFS	10,002,864	FVOCI d/	12,191,529
		₱16,925,485,941		₱17,227,490,947
HTM investments				
	HTM	₱29,473,724,384	Amortized cost	₱26,950,889,737
			FVTPL a/	1,173,070,399
			FVOCI c/	1,418,511,383
		₱29,473,724,384		₱29,542,471,519
Loans and receivables (L&R)				
	L&R	₱144,964,513,221	Amortized cost e/	₱145,433,610,836
Other assets				
	L&R	₱191,357,704	Amortized cost	₱191,357,704
Nonfinancial Assets				
Deferred tax assets		₱1,429,327,369		₱1,287,941,486

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Bank on January 1, 2018:

- Certain debt investment securities of the Bank previously classified as AFS investments with carrying value of ₱6.2 billion were classified as investment securities at amortized cost as the business model is to collect contractual cash flows until the instruments' corresponding maturities.
- Certain debt investment securities of the Bank previously classified as HTM investments with carrying value of ₱1.1 billion were classified as FVTPL investments to maximize short-term returns through asset price movements.
- Certain debt investment securities of the Bank previously classified as HTM investments with carrying value of ₱1.4 billion were classified as FVOCI in compliance with the defined business model.

As of December 31, 2018, the fair value of investment securities at amortized cost which were transferred out of AFS investments upon adoption of PFRS 9 amounted to ₱6.6 billion. Had these been retained to be measured at fair value, fair value losses that would have been recognized in the 2018 OCI amounted to ₱337.7 million.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

	PAS 39 Allowance December 31, 2017	Remeasurement	PFRS 9 ECL January 1, 2018
Receivables from customers			
Consumption loans	₱1,957,363,383	₱463,699,371	₱2,421,062,754
Real estate loans	632,101,864	(127,110,938)	504,990,926
Commercial loans	789,926,706	(656,719,015)	133,207,691
Personal loans	596,107,599	(6,857,683)	589,249,916
Other receivables			
Accrued interest receivable	169,856,142	(35,840,711)	134,015,431
Accounts receivable	466,463,415	(98,426,531)	368,036,884
Sales contract receivables	33,836,104	(7,842,108)	25,993,996
Bills purchased	1,302,902	–	1,302,902
	₱4,646,958,115	(₱469,097,615)	₱4,177,860,500

The impact on the Bank's surplus and other components of equity upon adoption of PFRS 9 are as follows:

	Surplus	Fair Value Reserves on Financial Assets at FVOCI / Net Unrealized Loss on AFS Investments (Note 8)	Total
Classification of financial assets			
a/ Reclassification from HTM investments to FVTPL investments	₱24,011,325	₱–	₱24,011,325
b/ Reclassification from AFS investments to investment securities amortized cost	–	299,816,341	299,816,341
c/ Reclassification from HTM investments to financial assets at FVOCI	–	44,735,810	44,735,810
d/ Derecognition of allowance for impairment losses on AFS equity securities	1,532,066	(2,188,665)	(656,599)
	25,543,391	342,363,486	367,906,877
Expected credit losses			
e/ ECL adjustment, gross of tax	469,097,615	–	469,097,615
Tax effect	140,729,284	–	140,729,284
ECL adjustment, net of tax	328,368,331	–	328,368,331
	₱353,911,722	**₱342,363,486**	**₱696,275,208**

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank applied PFRS 15 on its revenue arrangements (e.g., service charges, trust fees and commissions) that are scoped in the new standard. The Bank has assessed that the effect of these changes is immaterial.

Amendments

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

Summary of Significant Accounting Policies

Foreign Currency Translation
The financial statements are presented in PHP, which is the Bank's functional and presentation currency.

The books of accounts of the RBU are maintained in PHP, while those of the FCDU are maintained in USD.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated in PHP based on the Philippine Dealing System (PDS) closing rate prevailing at the statement of condition date, and foreign currency-denominated income and expenses, at the exchange rates as at the dates of the transactions. Foreign exchange differences arising from restatements of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU
As at the reporting date, the assets and liabilities of the FCDU are translated to the Bank's presentation currency (PHP) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated using the exchange rates as at the dates of the transactions. Exchange differences arising on translation to the presentation currency are taken to the statements of comprehensive income under 'Cumulative translation adjustment'. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of comprehensive income is recognized in the statements of income.

Fair Value Measurement
The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 4.

Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price between the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 − Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 − Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability and the level of the fair value hierarchy as explained above.

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes

in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments, including trading and investment securities and loans and receivables, are initially measured at fair value. Except for FVPL investments and liabilities, the initial measurement of financial instruments includes transaction costs.

Investments at FVTPL

Financial assets or 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 held-for-trading

Other financial assets or financial liabilities held for trading (HFT) are recorded in the statements of condition at fair value. Included in this classification are debt securities which have been acquired principally for the purpose of selling in the near term. Changes in fair value relating to the HFT positions are recognized in 'Trading and securities gains (losses) - net'. Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded in other operating income under 'Miscellaneous' when the right to receive payment has been established.

Derivatives recorded at FVTPL

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 statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. As of December 31, 2018 and 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.

Financial Instruments – Classification and Subsequent Measurement

Policies applicable beginning January 1, 2018

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Bank may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. As a second step of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test).

Financial Assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, investment securities at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of financial assets at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statements of comprehensive income as 'Fair value reserves on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatements on foreign currency-denominated debt securities at FVOCI, is reported in the statements of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statements of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statements of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statements of income.

Equity securities designated at FVOCI are those that the Bank made an irrevocable election to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statements of income as 'Dividends' when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statements of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statements of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Investment securities at amortized cost' and 'Loans and receivables'.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest 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 effective interest rate (EIR). The amortization is included in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL are recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Policies applicable prior to January 1, 2018
Prior to January 1, 2018, the Bank classifies its financial assets in the following categories: FVTPL investments, AFS investments, held-to-maturity (HTM) investments, and loans and receivables, while financial liabilities are classified as financial liabilities at FVTPL and financial liabilities at amortized cost. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

AFS investments
AFS investments include equity and debt securities. Equity investments classified as AFS are those which are neither classified as HFT nor designated at FVPL. Debt securities in this category are intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in market conditions. The Bank has not designated any loans and receivables as AFS.

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

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gains (losses) - net' in the statement of income. Where the Bank holds more than one investment in the same security, these are deemed to be disposed on a weighted average basis. Interest earned on holding AFS debt investments are reported as interest income using the EIR. Dividends earned on holding AFS equity investments are recognized in the statements 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 statements of income and removed from 'Net unrealized gain (loss) from AFS investments' in OCI.

HTM investments
HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank's management has the positive intention and ability to hold until maturity. After initial measurement, HTM investments are subsequently measured at amortized cost using the effective interest amortization method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income on investment securities' in the statement of income. The losses arising from impairment of such investments are recognized in the statement of income under 'Provision for credit and impairment losses'. The effects of restatement on foreign currency-denominated HTM investments are recognized in the statement of income.

If the Bank were to sell or reclassify more than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would be reclassified as AFS investments. Furthermore, the Bank would be prohibited from classifying any financial asset as HTM investments during the two preceding financial years.

Loans and receivables
This accounting policy relates to the Bank's 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable and 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 statements of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statements 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.

Financial Guarantees and Undrawn Loan Commitments
The Bank issues financial guarantees and loan commitments. Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract/agreement. Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. Starting January 1, 2018, these

contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life.

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a 'pass-through' arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor is transferred control over the asset, the asset 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.

The Bank's accounting policy for write-offs and recoveries after write-offs of financial assets under PFRS 9 remains the same as it was under PAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

Financial liabilities

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

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase (SSURA) at a specified future date ('repos') are not derecognized from the statements 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 statements of condition as a loan to the Bank under 'Bills Payable', reflecting the economic substance of such transaction.

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

Reclassification of Financial Assets
The Bank may reclassify, in rare circumstances, non-derivative financial assets out of the HFT investments category and into the AFS financial assets, HTM financial assets or Loans and Receivables categories.

A financial asset that is reclassified out of the HFT category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in the statement of comprehensive income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS financial assets category, any previous gain or loss on the asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest method.

If the asset is subsequently determined to be impaired, the amount recorded in the OCI is recycled to the statement of income.

If, as a result of a change in intention or ability, it is no longer appropriate to classify an investment as HTM, it shall be reclassified as AFS and remeasured at fair value on the date of reclassification, and the difference between its carrying amount and fair value shall be recognized in other comprehensive income.

There was no reclassification of financial assets in 2017.

Impairment of Financial Assets
Policies applicable beginning January 1, 2018

PFRS 9 requires the Bank to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now 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 result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Definition of "default" and "cure"
As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

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 above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Significant increase in credit risk (SICR)
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 quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, 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, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 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 amortized 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, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that

results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with the BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months full payments.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD) with each of the parameter independently modelled.

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 historical 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 historical 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 the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs, such as gross domestic product (GDP) growth, gross international reserves (GIR) change, consumer price index (CPI) change, Philippine Stock exchange (PSE) indices, foreign exchange rates and other 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 address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Policies applicable prior January 1, 2018
The Bank assesses at each statement of financial position date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty,

default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, which includes loans and receivables, due from banks and investment securities at amortized cost, the Bank first assesses individually at each statement of condition date whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment for impairment. Assets individually assessed for impairment for which no impairment loss was measured are also collectively assessed for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral have been realized. If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recovery of charged-off assets' under 'Miscellaneous income' in the statement of income.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as industry and age of receivables.

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

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

Restructured loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement on new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due.

Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subjected to an individual or collective impairment assessment, calculated using the loan's original EIR if the original loan has a fixed interest rate and the current repriced rate if the original loan is repriceable. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the applicable interest rate, is recognized in 'Provision for credit and impairment losses' in the statement of income.

AFS investments
For AFS investments, the Bank assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments classified as AFS investments, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded as impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of income.

Future interest income continues to be accrued based on the reduced carrying amount using the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statement of income.

In the case of equity investments classified as AFS investments, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investments below its cost. The Bank treats 'significant' generally as 20.00% and 'prolonged' generally as longer than twelve (12) months. When there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized in the statement of comprehensive income.

Investment in a Joint Venture
A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Bank's investment in its joint venture is accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Bank's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The statement of income reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Bank recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Bank and joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of a joint venture are prepared for the same reporting period as the Bank. The length of the reporting period is the same from period to period. When necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each statement of condition date, the Bank determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Bank calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, then recognizes the loss as 'Share in net income (loss) of a joint venture' in the statement of income.

Upon loss of joint control over the joint venture, the Bank measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

Property and Equipment
Land is stated at cost less any impairment in value, while depreciable properties, including building, furniture, fixtures and equipment, and leasehold improvements, are stated at cost less accumulated depreciation and any accumulated impairment losses. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance, are normally charged against profit or loss in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained

from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of property and equipment.

Depreciation is calculated using the straight-line method to write down the cost of the property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	25-50 years
Furniture, fixtures and equipment	3-5 years, depending on the type of assets
Leasehold improvements	5 years or the term of the related lease, whichever is shorter

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year-end to ensure that these are consistent with the expected pattern of economic benefits from the items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the asset is written down to its recoverable amount.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under investment properties from foreclosure date. Expenditures incurred after the investment properties are recognized, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation and impairment in value, except for land which is stated at cost less impairment in value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the investment properties.

The estimated useful life of building and condominium units ranges from 10 to 40 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in 'Gain on foreclosure and sale of investment properties - net' in the year of retirement or disposal.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Chattel Mortgage Properties
Chattel mortgage properties comprise of repossessed vehicles. Chattel mortgage properties are stated at cost less accumulated depreciation and impairment in value. Chattel mortgage properties acquired are initially recognized at fair value. Depreciation is calculated using the straight-line method over the remaining useful lives from the time of acquisition of the vehicles. The useful lives of chattel mortgage properties are estimated to be five years.

Intangible Assets
The Bank's intangible assets include branch licenses and computer software. An intangible asset is recognized only when the cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and they are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income under 'Amortization of intangible assets'.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Branch licenses
Branch licenses arise from the acquisition of branches from local banks and licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any impairment in value. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, it is likely that their useful life is short. Software costs are amortized on a

straight-line basis over five years but maybe shorter depending on the period over which the Bank expects to use the asset.

Impairment of Non-financial Assets

Property and equipment, investment properties and chattel mortgage properties

At each statement of condition date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators.

An impairment loss is charged to operations in the year in which it arises.

An assessment is made at each statement of condition date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been previously recognized. Such reversal is recognized in the statement of income. After such reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGU) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGU) is less than the carrying amount of the CGU (or group of CGU) to which goodwill has been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Bank performs its annual impairment test of goodwill as at December 31 of each year.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at December 31 of each year, either individually or at the CGU level, as appropriate.

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Investment in a joint venture
After application of the equity method, the Bank determines whether it is necessary to recognize an impairment loss on the Bank's investment in a joint venture. The Bank determines at each statement of condition date whether there is any objective evidence that the investment a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as being the difference between the fair value of the investment in the joint venture and the carrying amount and recognizes such amount in the statement of income.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or,
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gives rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Bank as a lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Bank as a lessor
Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as income in the period in which they are earned.

Common Stock
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Capital Paid in Excess of Par Value' in the statement of condition. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Revenue Recognition
Revenue is recognized to the extent that it is probable that future economic benefits will flow to the Bank and revenue can be measured reliably, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms and payment excluding taxes or duty. The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

The Bank concluded that it is acting as a principal in all of its revenue arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period, as the customer simultaneously receives and consumes the benefits provided by the bank. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These include charges from usage of ATM, charges for returned checks, charges for below minimum maintaining balance, and commission income.

The Bank assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI and AFS investments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Income from sale of property and equipment, investment property and chattel mortgage properties
Income from sale of properties is recognized upon completion of the earning process when the control over the goods have passed to the buyer and the collectibility of the sales price is reasonably assured.

Trading and securities gains (losses) - net
Trading and securities gain (loss) represents results arising from trading activities, including all gains and losses from changes in the fair values of FVTPL investments. It also includes gains and losses realized from sale of debt securities at FVOCI and AFS investments.

Realized gains and losses on disposals of FVTPL investments are calculated using weighted average method. It represents the difference between an instrument's initial carrying amount and disposal amount.

Rental income
Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous' in other operating income.

Dividend income
Dividend income is recognized when the Bank's right to receive payment is established, which is generally when shareholders approve the dividend.

Expense Recognition
Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense
Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Bank. Expenses are recognized when incurred.

Business Combination and Goodwill
Business combinations are accounted for using the acquisition method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities and excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill.

If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the statement of income in the year of acquisition.

Goodwill is initially measured at cost being the excess of the acquisition cost over the share in the net fair value of the acquired identifiable assets, liabilities and contingent liabilities. The Bank's goodwill arose from past purchases of branch business/offices from the Parent Company.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired is, from the acquisition date, allocated to each of the CGU or group of CGUs that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Retirement Cost
Defined Benefit Plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the statement of condition date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The present value of the defined benefit obligation is calculated annually by an independent actuary. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:
a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on Philippine government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefits
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are included in the measurement basis of the underlying debt instruments and are amortized as an adjustment to the interest on the underlying debt instruments using the effective interest method.

Income Taxes
Income tax on profit or loss for the year comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in the statement of comprehensive income.

Current tax
Current income tax is the expected tax payable on the taxable income for the period, using the tax rates enacted at the statement of condition date, together with adjustments to tax payable in respect to prior years.

Deferred tax
Deferred income tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences and carry forward of unused tax losses and tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences and carry forward of unused tax losses and MCIT can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

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

Current income tax and deferred income tax relating to items recognized directly in OCI is also recognized in OCI and not in the statement of income.

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year, after giving retroactive effect to stock dividends declared, stock rights exercised and stock splits, if any, declared during the year. As of December 31, 2018, 2017 and 2016, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Dividends on Common Shares

Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Bank. Dividends for the year that are approved after the statement of condition date are dealt with as subsequent events.

Segment Reporting

The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments is presented in Note 6. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements, where the Bank acts in a fiduciary capacity such as nominee, trustee or agent.

Subsequent Events

Post year-end events that provide additional information about the Bank's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards issued but not yet effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect the future adoption of the said pronouncements to have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

- PFRS 16, *Leases*

  PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, Leases. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.
  A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Bank is currently assessing the impact of adopting PFRS 16.

- Amendments to PFRS 9, Prepayment Features with Negative Compensation
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *Annual Improvements to PFRSs* 2015-2017 Cycle
  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in accordance with PFRS requires the management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent assets and contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets and liabilities affected in future periods. The effects of any change in judgments, estimates and assumptions are reflected in the financial statements as they become reasonably determinable.

Judgments, estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

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

(a) *Fair value of financial instruments*

When the fair values of financial assets and financial liabilities in the statement of condition cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility for longer-dated derivatives and discount rates, prepayments and default rates assumptions. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The fair values of the Bank's financial instruments are disclosed in Note 4.

(b) *Classification of financial assets*

As discussed in Note 2, beginning January 1, 2018, the Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors such as:

- Performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel
- Risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- Compensation of business units whether based on the fair value of the assets managed or on the contractual cash flows collected
- Expected frequency, value and timing of sales

In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows, leverage features, prepayment and extension terms and other features that may modify the consideration for the time value of money.

(c) *Classification of HTM investments (Prior to January 1, 2018)*
The classification to HTM investment requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

Estimates and Assumptions
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

(a) *ECL of financial assets (Beginning January 1, 2018)*
The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:
- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- The criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The gross carrying amounts of financial assets subject to ECL as of December 31, 2018 and the related allowance for credit losses are disclosed in Notes 5 and 15, respectively.

(b) *Credit losses on loans and receivables (Prior to January 1, 2018)*
The Bank reviews its loans and receivables at each statement of condition date to assess whether an impairment loss should be recorded in the statement of income. In particular, for provisions calculated on an individual basis, judgment made by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors including the assessment of the financial condition of the counterparty, and estimated net selling prices of collateral, and actual results may differ, at which event, the Bank adjusts the impairment loss and ensures that allowance for it remains adequate (Note 5).

In addition to specific allowance against individually significant loans and receivables, the Bank also provides a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance takes into consideration historical loss rates, recovery rates and net flow rates.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 9 and 15, respectively.

(c) *Impairment of investment properties and chattel mortgage properties*
The Bank assesses impairment on its non-financial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the fair value less costs to sell for property and equipment, investment properties and chattel mortgage properties. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The carrying values of the Bank's investment properties and chattel mortgage properties are disclosed in Notes 11, 12 and 14, respectively.

(d) *Present value of retirement obligation*
The cost of defined benefit pension plans as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of condition date.

In determining the appropriate discount rate, management considers the interest rates of Philippine government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The details of assumptions used in the actuarial valuation and carrying value of the net pension liability are disclosed in Note 24.

(e) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be

recognized, based upon the availability of future taxable income in reference to financial forecast, tax strategies and expected future market or economic conditions.

Estimates of future taxable income indicate that temporary differences will be realized in the future. The carrying values of net deferred tax assets are disclosed in Note 27.

(f) Contingent liabilities

The Bank is a defendant in legal actions arising from its normal business activities. Management believes that the ultimate liability, if any, resulting from these cases will not have a material effect on the Bank's financial statements are disclosed in Note 31.

4. Fair Value Measurement

Financial Instruments

The following describes the methodologies and assumptions used to determine the fair values of financial instruments:

Cash and other cash items, due from BSP, due from other banks, interbank loans receivable and SPURA, accounts receivable, accrued interest receivable, bills purchased, RCOCI, shortages, and petty cash fund - Carrying amounts approximate fair values due to the relatively short-term maturities of these assets.

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities. The discount rates used range from 2.47% to 8.14% and from 2.69% to 6.15% in 2018 and 2017, respectively.

Equity investments - Fair values are based on quoted prices published in markets. In 2017, for unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost, net of impairment, if any.

Derivative instruments (included under investments and financial liabilities 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. The discount rates used range from 6.00% to 36.10% and 6.00% to 30.00% in 2018 and 2017, respectively.

Demand deposits, savings deposits, 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.

Bills payable, subordinated notes and time deposits - Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The discount rates used for bills payable is 7.32% and ranges from 9.00% to 33.00% in 2018 and 2017, respectively. The discount rates used for subordinated notes are 5.50% and 5.22% in 2018 and 2017 respectively. The discount rates used for time deposits range from 0.50% to 3.50% and 0.25% to 1.75% in 2018 and 2017, respectively.

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

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

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

The 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 Assets

Investment properties - Fair values of the investment properties have been determined based on valuations performed by independent external and in-house appraisers using valuation technique with significant inputs that are not based on observable market data (Level 3). The valuation of investment properties was based on the Sales Comparison Approach and considered recent sales of similar or substitute properties in the same areas where the investment properties are located, taking into account the economic conditions prevailing at the time of the valuation. Other factors considered were the location and shape of the properties, environmental issues, development controls such as the height restriction, building coverage and floor area ratio restrictions among others. Other significant unobservable inputs include shape, location, time element, discount and corner influence. The fair value of investment properties is based on its highest and best use, which is its current use.

The following tables summarize the carrying amount and fair values of the Bank's financial instruments and investment properties, analyzed based on the hierarchy described in Note 2 (in thousands):

	December 31, 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	₱34	₱34	₱–	₱–	₱34
Derivative assets	10,073	–	10,073	–	10,073
Financial assets at FVOCI					
Government debt securities	8,956,764	6,500,415	2,456,349	–	8,956,764
Private debt securities	3,964,612	3,964,612	–	–	3,964,612
Equity securities	10,225	9,143	1,082	–	10,225
	₱12,941,708	₱10,474,204	₱2,467,504	₱–	₱12,941,708
Liabilities measured at fair value:					
Financial Liabilities					
Financial liabilities at FVTPL	₱2,895	₱–	₱2,895	₱–	₱2,895

(Forward)

	December 31, 2018				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	**₱31,580,028**	**₱28,024,025**	**₱–**	**₱–**	**₱28,024,025**
Private	**4,066,737**	**3,804,104**	**–**	**–**	**3,804,104**
Loans and receivables					
Receivables from customers					
Consumption loans	**87,864,557**	**–**	**–**	**108,704,174**	**108,704,174**
Real estate loans	**49,579,245**	**–**	**–**	**70,892,858**	**70,892,858**
Commercial loans	**12,770,619**	**–**	**–**	**15,483,984**	**15,483,984**
Personal loans	**2,954,408**	**–**	**–**	**4,217,287**	**4,217,287**
Sales contract receivable	**70,543**	**–**	**–**	**78,449**	**78,449**
Security deposits	**205,925**	**–**	**–**	**313,724**	**313,724**
Non-Financial Assets					
Investment properties	**4,036,318**	**–**	**–**	**5,898,975**	**5,898,975**
	₱193,128,380	**₱31,828,129**	**₱–**	**₱205,589,451**	**₱237,417,580**
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	**₱138,525,888**	**₱–**	**₱–**	**₱139,187,100**	**₱139,187,100**
Deposit liabilities – LTNCD	**8,395,282**			**7,634,981**	**7,634,981**
Subordinated notes	**2,981,673**	**–**	**–**	**2,242,507**	**2,242,507**
Bills payable	**2,968,567**	**–**	**–**	**3,009,851**	**3,009,851**
	₱152,871,410	**₱–**	**₱–**	**₱152,074,439**	**₱152,074,439**

	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	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	₱188,945,834
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱136,042,057	₱–	₱–	₱137,797,790	₱137,797,790
Deposit liabilities – LTNCD	3,375,000	–	–	3,198,056	3,198,056
Subordinated notes	2,978,998	–	–	3,046,819	3,046,819
Bills payable	1,492,419	–	–	1,492,419	1,492,419
	₱143,888,474	₱–	₱–	₱145,535,084	₱145,535,084

As of December 31, 2018 and 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 measurement.

As of December 31, 2018 and 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.

5. Financial Risk Management Policies and Objectives

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Organization risk management structure continues to be a top-down organization, with the BOD at the helm of all major initiatives.

Discussed below are the relevant sections on roles and responsibilities from the Risk Oversight Committee (ROC) Charter:

BOD
The corporate powers of the Bank are vested in and are exercised by the BOD, who conducts its business and controls its property. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the ROC.

ROC
The ROC is composed of at least three members of the Board, the majority of whom are independent directors including its Chairperson. The ROC Chairperson is not the Chairperson of the Board or of any other committee. Members of the ROC possess a range of expertise and adequate knowledge of the Bank's risk exposures to be able to develop appropriate strategies for preventing losses and minimizing the impact of losses when they occur.

The BOD may also appoint non-directors to the ROC as part of the Metrobank Group risk oversight measures. However, only Bank directors shall be considered as voting members of the ROC. Non-voting members are appointed in an advisory capacity.

The ROC oversees the system of limits to discretionary authority that the BOD delegates to the management and ensures that the system remains effective, the limits are observed, and that immediate corrective actions are taken whenever limits are breached.

The ROC meets on a monthly basis and is supported by the Risk Management Office (RMO). In the absence of the ROC Chairman, another Independent Director shall preside. ROC resolutions, which require the concurrence of the majority of its voting members, are presented to the BOD for confirmation.

RMO

The RMO, headed by the Chief Risk Officer, is a function that is independent from executive functions and business line responsibilities, operations and revenue-generating functions. It reports directly to the BOD, through the ROC. The RMO assists the ROC in carrying out its responsibilities by:

- analyzing, communicating, implementing, and maintaining the risk management policies approved by the ROC and the BOD;
- spearheading the regular review of the Bank's risk management policy manual and making or elevating recommendations that enhance the risk management process to the ROC and the BOD, for their approval; and
- ensuring that the risks arising from the Bank's activities are identified, measured, analyzed, reported to and understood by risk takers, management, and the board. The RMO analyzes limit exceptions and recommends enhancements to the limits structure.

The RMO does not assume risk-taking accountability nor does it have approving authority. The RMO's role is to act as liaison and to provide support to the BOD, ROC, the President, management committees, risk takers and other support and control functions on risk-related matters.

The Risk Management Function is responsible for:

- identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its trust operations;
- monitoring the risk exposures and determining the corresponding capital requirement in accordance with the Basel capital adequacy framework and based on the Bank's internal capital adequacy assessment on an on-going basis;
- monitoring and assessing decisions to accept particular risks whether these are consistent with BOD-approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measures; and
- reporting on a regular basis to Senior Management and the BOD the results of assessment and monitoring.

President

The President is the Chief Executive Officer of the Bank and has the primary responsibility of carrying out the policies and objectives of the BOD. The President exercises the authorities delegated to him by the BOD and may recommend such policies and objectives he deems necessary for the continuing progress of the Bank.

Risk management

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and RMO. These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

Credit Approval
Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified, tracked and reviewed at least annually by the Bank's Head of Credit and Collections together with the Credit Risk Manager.

Borrower Eligibility
The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.
The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure
The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

In 2018, the bank transitioned to using PFRS 9 compliant models to meet the requirements set forth under BSP Circulars No. 912 and 1011. These mandated all Philippine banks to adopt a forward looking ECL model approach in measuring credit impairment. In response to this, the Bank created quantitative models thru statistical, economic, financial and mathematical techniques to calculate credit impairment provisions. These models were implemented effective January 1, 2018. Furthermore, policy and governance over the new models were updated accordingly.

Maximum Exposure to Credit Risk

The tables below show the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where the carrying values as reflected in the statement of condition and related notes already represent the financial instrument's maximum exposure to credit risk, after taking into account collateral held or other credit enhancements (in thousands):

	2018			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Due from other banks	**₱1,682,806**	**₱2,601,234**	**₱542,984**	**₱1,139,822**
SPURA	**1,891,820**	**1,883,225**	**8,595**	**1,883,225**
Receivables from customers				
Consumption loans	**87,864,557**	**122,910,470**	**45,918**	**87,818,639**
Real estate loans	**49,579,245**	**88,139,827**	**9,625,425**	**39,953,820**
Commercial loans	**12,770,619**	**16,641,755**	**6,403,206**	**6,367,413**
Other receivables				
Accrued interest receivable	**1,949,715**	**1,936,820**	**12,895**	**1,936,820**
Sales contract receivable	**70,543**	**207,185**	**25,953**	**44,590**
Total credit exposure	**₱155,809,305**	**₱234,320,516**	**₱16,664,976**	**₱139,144,329**

	2017			
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Financial Effect of Collateral or Credit Enhancement
Due from other banks	₱1,508,489	₱2,841,821	₱593,135	₱915,354
Interbank loans receivable and SPURA	1,842,023	577,932	–	1,842,023
Receivables from customers				
Consumption loans	82,319,091	102,691,262	21,424	82,297,667
Real estate loans	45,961,973	52,201,023	5,526,038	40,435,935
Commercial loans	11,185,778	13,138,025	2,716,368	8,469,410
Other receivables				
Accrued interest receivable	1,741,516	3,644,411	732,020	1,009,496
Sales contract receivable	72,892	104,882	46,235	26,657
Total credit exposure	₱144,631,762	₱175,199,356	₱9,635,220	₱134,996,542

An analysis of the maximum credit risk exposure relating to financial assets under Stage 3 as of December 31, 2018 is shown below:

	2018			
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	**Financial Effect of Collateral or Credit Enhancement**
Receivables from customers				
Consumption loans	**₱2,770,196**	**₱5,316,765**	**₱256**	**₱2,769,940**
Real estate loans	**1,462,410**	**2,555,014**	**412,669**	**1,049,741**
Commercial loans	**129,732**	**192,911**	**–**	**129,732**
Other receivables				
Accrued interest receivable	**60,837**	**514,118**	**–**	**60,837**
Sales contract receivable	**26,346**	**62,185**	**–**	**26,346**
Total credit exposure	**₱4,449,521**	**₱8,640,993**	**₱412,925**	**₱4,036,596**

Collateral and Other Credit Enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding acceptability of types of collateral and valuation parameters.

The main types of collaterals obtained are as follows:
- For Due from other banks: investment securities
- For SPURA: investment securities
- For commercial lending: mortgages over real estate properties, deposit accounts and securities
- For consumer lending: mortgages over real estate and chattel

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for credit and impairment losses.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion and proceeds are used to repay or reduce the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees, and other registered securities over assets. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing and generally are updated every two years and when a loan is assessed to be impaired, whenever applicable. The Bank is not allowed to sell or re-pledge collateral held under SPURA in the absence of default by the counterparty. Collateral is usually not held against holdings in investment securities, and no such collateral was held as of December 31, 2018 and 2017.

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of December 31, 2018 and 2017, the maximum credit exposure to any borrower amounted to ₱1.8 billion, before taking into account any collateral or other credit enhancement.

The distribution of the Bank's financial assets before taking into account any collateral held or other credit enhancements can be analyzed by the following geographical regions (in thousands):

	2018				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Luzon	**₱137,515,389**	**₱18,736,119**	**₱48,617,520**	**₱277,840**	**₱205,146,868**
Visayas	**11,060,264**	**–**	**–**	**13,209**	**11,073,473**
Mindanao	**12,034,412**	**–**	**–**	**5,146**	**12,039,558**
	160,610,065	**18,736,119**	**48,617,520**	**296,195**	**228,259,899**
Less allowance for credit and impairment losses	**4,349,702**	**5,309**	**29,046**	**–**	**4,384,057**
Total	**₱156,260,363**	**₱18,730,810**	**₱48,588,474**	**₱296,195**	**₱223,875,842**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱70.5 million.

	2017				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Luzon	₱129,574,601	₱18,612,324	₱46,755,443	₱273,268	₱195,215,636
Visayas	9,422,015	1,106	–	–	9,423,121
Mindanao	10,614,855	2,470	–	–	10,617,325
	149,611,471	18,615,900	46,755,443	273,268	215,256,082
Less allowance for credit and impairment losses	4,646,958	–	–	–	4,646,958
Total	₱144,964,513	₱18,615,900	₱46,755,443	₱273,268	₱210,609,124

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱82.1 million.

Additionally, the tables below show the distribution of the Bank's financial assets and off-balance sheet items before taking into account any collateral or other credit enhancements analyzed by industry sector as of December 31, 2018 and 2017 (in thousands):

	2018				
	Loans and Receivables	**Loans and Advances to Banks***	**Investment Securities****	**Others*****	**Total**
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	**₱96,744,990**	**₱–**	**₱–**	**₱–**	**₱96,744,990**
Real estate activities	**45,387,781**	**–**	**–**	**–**	**45,387,781**
Financial and insurance activities	**1,391,987**	**18,736,119**	**48,617,520**	**225,695**	**68,971,321**
Wholesale and retail trade; repair of motor vehicles and motorcycles	**2,975,766**	**–**	**–**	**–**	**2,975,766**
Electricity, gas, steam and air-conditioning supply	**1,974,413**	**–**	**–**	**–**	**1,974,413**
Transportation and storage	**1,185,771**	**–**	**–**	**–**	**1,185,771**
Manufacturing	**980,150**	**–**	**–**	**–**	**980,150**
Construction	**880,713**	**–**	**–**	**53,000**	**933,713**
Administrative and support service activities	**833,096**	**–**	**–**	**–**	**833,096**
Information and communication	**566,813**	**–**	**–**	**–**	**566,813**
Accommodation and food service activities	**352,248**	**–**	**–**	**–**	**352,248**
Human health and social work activities	**288,099**	**–**	**–**	**–**	**288,099**
Water supply, sewage, waste management and remediation activities	**237,473**	**–**	**–**	**–**	**237,473**
Education	**218,540**	**–**	**–**	**–**	**218,540**
Professional, scientific and technical services	**142,147**	**–**	**–**	**–**	**142,147**
Agricultural, forestry and fishing	**91,150**	**–**	**–**	**–**	**91,150**
Arts, entertainment and recreation	**87,772**	**–**	**–**	**–**	**87,772**
Mining and quarrying	**16,169**	**–**	**–**	**–**	**16,169**
Other service activities	**6,254,987**	**–**	**–**	**17,500**	**6,272,487**
	160,610,065	**18,736,119**	**48,617,520**	**296,195**	**228,259,899**
Less allowance for credit and impairment losses	**4,349,702**	**5,309**	**29,046**	**–**	**4,384,057**
Total	**₱156,260,363**	**₱18,730,810**	**₱48,588,474**	**₱296,195**	**₱223,875,842**

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVTPL investments, financial assets at FVOCI (excluding equity securities not exposed to credit risk) and investment securities at amortized cost.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱70.5 million.

	2017				
	Loans and Receivables	Loans and Advances to Banks*	Investment Securities**	Others***	Total
Activities of private households as employers and undifferentiated goods and services and producing activities of households for own use	₱90,543,668	₱–	₱–	₱–	₱90,543,668
Real Estate activities	42,251,639	–	–	–	42,251,639
Financial and insurance activities	4,068,627	18,615,900	46,755,443	191,162	69,631,132
Wholesale and retail trade; repair of motor vehicles and motorcycles	2,421,117	–	–	–	2,421,117
Electricity, gas, steam and air-conditioning supply	1,749,765	–	–	–	1,749,765
Transportation and storage	963,123	–	–	–	963,123
Manufacturing	644,735	–	–	–	644,735
Construction	801,242	–	–	56,000	857,242
Administrative and support service activities	996,493	–	–	–	996,493
Information and communication	592,890	–	–	–	592,890
Accommodation and food service activities	372,653	–	–	–	372,653
Human health and social work activities	326,297	–	–	–	326,297
Water supply, sewage, waste management and remediation activities	237,078	–	–	–	237,078
Education	198,609	–	–	–	198,609
Professional, scientific and technical services	137,853	–	–	–	137,853
Agricultural, forestry and fishing	25,302	–	–	–	25,302
Arts, entertainment and recreation	85,099	–	–	–	85,099
Mining and quarrying	7,230	–	–	–	7,230
Other service activities	3,188,051	–	–	26,106	3,214,157
	149,611,471	18,615,900	46,755,443	273,268	215,256,082
Less allowance for credit and impairment losses	4,646,958	–	–	–	4,646,958
Total	₱144,964,513	₱18,615,900	₱46,755,443	₱273,268	₱210,609,124

* Composed of due from BSP, due from other banks, interbank loans receivable and SPURA.
** Composed of FVPL investments, AFS investments (excluding equity securities not exposed to credit risk) and HTM investments.
*** Composed of financial assets classified under other assets (such as RCOCI, security deposits and shortages) and stand-by credit lines amounting to ₱82.1 million.

Credit Quality

The Bank uses the standard below in defining credit quality.

Beginning January 1, 2018

High Grade exposures show low levels of expected loss. For loans, these accounts should neither be past due nor impaired. The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2).

Standard Grade exposures show moderate levels of expected loss. For loans, these accounts should neither be past due nor impaired.

Sub Standard Grade requires a special degree of attention given the increased risk of default. For loans, these accounts should neither be past due nor impaired.

Past Due but Not Credit Impaired are applicable to loan accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date.

Past Due and Credit Impaired. These include loan accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941.

Description of the internal credit rating system for loans, receivables and stand-by credit lines:

Internal Credit Rating System (ICRS)
The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved credit ratings which utilize the expected credit loss and qualitative assessments. ICRS rating assessment considers both borrower and facility features.

Neither Past Due nor Impaired
The Bank classifies those accounts under current or 1 to 30 days past due status and are not impaired (Stage 1 & 2) having the following credit ratings:

High Grade (ICRS Rating 1 - 4)
1 - Excellent
An excellent rating is given to a borrower with a very low probability of going into default and/or low loss given default. The Bank's internal rating system has given an outstanding rating to the borrower, indicative of excellent ability to meet credit obligation in full and consistently meet payment commitments. Accounts with excellent rating may have collateral, further diminishing any losses in case of a default.

2 - Strong
This rating is given to borrowers with low probability of going into default in the coming year with low to moderate loss given default. The Bank's internal rating system has given a high rating to the borrower. The borrower has the ability to meet credit obligation in full, except that the borrower may have a history of missing a payment.

3 – Good
This rating is given to borrowers with low to moderate probability of going into default in the coming year with moderate loss given default. These are largely characterized by borrowers with good rating and have historically missed several payments.

4 – Satisfactory
A 'satisfactory' rating is given to a borrower where clear risk elements exist and probability of default is somewhat greater with moderate to high loss given default. These are characterized by borrowers with good rating with a history of default.

Standard Grade (ICRS Rating 5 - 6)
5 – Acceptable
An 'acceptable' rating is given to a borrower whose risk elements are sufficiently pronounced although borrower should still be expected to meet their credit obligations in full. These are characterized by borrowers with moderate rating.

6 - Loan Especially Mentioned
An account assessed to have potential weaknesses which when left uncorrected, may affect the repayment of the account and thus increase credit risk to the Bank, will be assigned this rating.

Substandard Grade (ICRS Rating 7 - 8)
7 - 8 Substandard
These accounts or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These accounts show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the account liquidation.

Past Due but Not Credit Impaired
These are accounts which are classified as delinquent (31-90 days past due) but are not subject to impairment (Stage 2) as of statement of condition date regardless of ICRS rating.

Past Due and Credit Impaired
These include accounts considered to be delinquent (91+ days past due), non-performing as defined by BSP Circular No. 941 regardless of ICRS rating. The following credit ratings will always be classified as credit impaired:

9 - Doubtful
Given to an account assessed to have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
Given to an account assessed to loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of receivables from customers, gross of allowance for credit losses, as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans:							
High Grade	₱–	₱67,561,479	₱–	₱8,102,917	₱–	₱–	₱75,664,396
Standard Grade	–	33,906	–	5,892,126	–	–	5,926,032
Sub-standard Grade	–	6,462	–	1,557,240	–	–	1,563,702
Past due but not Impaired	–	–	–	3,300,992	–	–	3,300,992
Non-performing Individually Impaired	–	–	–	–	3,836,616	–	3,836,616
	–	67,601,847	–	18,853,275	3,836,616	–	90,291,738
Real Estate Loans:							
High Grade	–	39,421,911	–	6,181,000	–	–	45,602,911
Standard Grade	–	32,809	–	784,798	–	–	817,607
Sub-standard Grade	–	–	–	69,703	–	–	69,703
Past due but not Impaired	–	–	–	1,855,478	–	–	1,855,478
Non-performing Individually Impaired	–	–	–	–	1,626,947	–	1,626,947
	–	39,454,720	–	8,890,979	1,626,947	–	49,972,646
Commercial Loans:							
High Grade	–	10,902,498	–	–	–	–	10,902,498
Standard Grade	–	794,963	–	758,263	–	–	1,553,226
Sub-standard Grade	–	528	–	198,359	–	–	198,887
Past due but not Impaired	–	–	–	32,823	–	–	32,823
Non-performing Individually Impaired	–	–	–	–	215,533	–	215,533
	–	11,697,989	–	989,445	215,533	–	12,902,967
Personal Loans:							
High Grade	–	859,055	–	344,658	–	–	1,203,713
Standard Grade	–	1,664	–	1,434,140	–	–	1,435,804
Sub-standard Grade	–	6,325	–	419,598	–	–	425,923
Past due but not Impaired	–	–	–	71,285	–	–	71,285
Non-performing Individually Impaired	–	–	–	–	389,198	–	389,198
	–	867,044	–	2,269,681	389,198	–	3,525,923
Total Receivables from Customer:							
High Grade	–	118,744,943	–	14,628,575	–	–	133,373,518
Standard Grade	–	863,342	–	8,869,327	–	–	9,732,669
Sub-standard Grade	–	13,315	–	2,244,900	–	–	2,258,215
Past due but not Impaired	–	–	–	5,260,578	–	–	5,260,578
Non-performing Individually Impaired	–	–	–	–	6,068,294	–	6,068,294
	₱–	₱119,621,600	₱–	₱31,003,380	₱6,068,294	₱–	₱156,693,274

The credit quality of other receivables, gross of allowance for credit losses, as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable:							
High Grade	₱–	₱1,548,575	₱–	₱120,224	₱–	₱–	₱1,668,799
Standard Grade	–	3,649	–	98,554	–	–	102,203
Sub-standard Grade	–	65	–	25,573	–	–	25,638
Past due but not Impaired	–	–	–	95,255	–	–	95,255
Non-performing Individually Impaired	–	–	–	–	414,154	–	414,154
	–	1,552,289	–	339,606	414,154	–	2,306,049
Accounts Receivable:							
High Grade	–	1,030,278	–	9,693	–	–	1,039,971
Standard Grade	–	15	–	2,630	–	–	2,645
Sub-standard Grade	–	1,307	–	652	–	–	1,959
Past due but not Impaired	–	–	–	21,950	–	–	21,950
Non-performing Individually Impaired	–	–	–	–	459,631	–	459,631
	–	1,031,600	–	34,925	459,631	–	1,526,156
Sales Contract Receivable:							
High Grade	–	44,600	–	–	–	–	44,600
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	26,908	–	26,908
	–	44,600	–	–	26,908	–	71,508
Bills Purchased:							
High Grade	–	13,078	–	–	–	–	13,078
Standard Grade	–	–	–	–	–	–	–
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
	–	13,078	–	–	–	–	13,078
Total Other Receivables:							
High Grade	–	2,636,531	–	129,917	–	–	2,766,448
Standard Grade	–	3,664	–	101,184	–	–	104,848
Sub-standard Grade	–	1,372	–	26,225	–	–	27,597
Past due but not Impaired	–	–	–	117,205	–	–	117,205
Non-performing Individually Impaired	–	–	–	–	900,693	–	900,693
	₱–	₱2,641,567	₱–	₱374,531	₱900,693	₱–	₱3,916,791

The credit quality of other financial assets which include RCOCI, security deposits and shortage, gross of allowance for credit losses amounting as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Other Financial Assets							
High Grade	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Standard Grade	–	296,195	–	–	–	–	296,195
Sub-standard Grade	–	–	–	–	–	–	–
Past due but not Impaired	–	–	–	–	–	–	–
Non-performing Individually Impaired	–	–	–	–	–	–	–
Total	₱–	₱296,195	₱–	₱–	₱–	₱–	₱296,195

Movements of receivables from customers during the year are as follows:

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of January 1, 2018	₱–	₱66,453,274	₱–	₱14,489,537	₱3,333,643	₱–	₱84,276,454
New assets originated	–	27,181,775	–	7,414,477	608,224	–	35,204,476
Assets derecognized or repaid	–	(17,585,423)	–	(4,237,513)	(1,702,722)	–	(23,525,658)
Amounts written off	–	–	–	(12,088)	(446,738)	–	(458,826)
Transfers to Stage 1	–	4,676,363	–	(4,519,004)	(157,359)	–	–
Transfers to Stage 2	–	(10,707,703)	–	11,125,263	(417,560)	–	–
Transfers to Stage 3	–	(1,344,377)	–	(1,994,265)	3,338,642	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(1,072,062)	–	(3,413,131)	(719,515)	–	(5,204,708)
Balance at December 31, 2018	–	67,601,847	–	18,853,276	3,836,615	–	90,291,738
Real Estate Loans							
Balance as of January 1, 2018	–	36,429,563	–	8,662,410	1,502,102	–	46,594,075
New assets originated	–	9,518,100	–	649,312	72,752	–	10,240,164
Assets derecognized or repaid	–	(4,234,324)	–	(1,443,073)	(383,767)	–	(6,061,164)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	2,534,278	–	(2,436,788)	(97,490)	–	–
Transfers to Stage 2	–	(4,296,965)	–	4,595,056	(298,091)	–	–
Transfers to Stage 3	–	(332,558)	–	(562,791)	895,349	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(163,373)	–	(573,148)	(63,908)	–	(800,429)
Balance at December 31, 2018	–	39,454,721	–	8,890,978	1,626,947	–	49,972,646
Commercial Loans							
Balance as of January 1, 2018	–	10,900,908	–	920,702	154,095	–	11,975,705
New assets originated	–	4,296,949	–	145,216	18,086	–	4,460,251
Assets derecognized or repaid	–	(3,266,364)	–	(199,485)	(48,086)	–	(3,513,935)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	94,625	–	(94,625)	–	–	–
Transfers to Stage 2	–	(232,635)	–	234,465	(1,830)	–	–
Transfers to Stage 3	–	(76,598)	–	(10,560)	87,158	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(18,895)	–	(6,270)	6,111	–	(19,054)
Balance at December 31, 2018	–	11,697,990	–	989,443	215,534	–	12,902,967
Personal Loans							
Balance as of January 1, 2018	–	824,536	–	2,005,831	655,701	–	3,486,068
New assets originated	–	239,357	–	884,333	30,616	–	1,154,306
Assets derecognized or repaid	–	(224,595)	–	(431,093)	(124,358)	–	(780,046)
Amounts written off	–	(1,875)	–	(65,983)	(160,195)	–	(228,053)
Transfers to Stage 1	–	259,095	–	(249,242)	(9,853)	–	–
Transfers to Stage 2	–	(72,015)	–	163,232	(91,217)	–	–
Transfers to Stage 3	–	(10,608)	–	(83,780)	94,388	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(146,926)	–	46,384	(5,810)	–	(106,352)
Balance at December 31, 2018	–	866,969	–	2,269,682	389,272	–	3,525,923
Total Receivable from Customer							
Balance at January 1, 2018	–	114,608,281	–	26,078,480	5,645,541	–	146,332,302
New assets originated	–	41,236,181	–	9,093,338	729,678	–	51,059,197
Assets derecognized or repaid	–	(25,310,706)	–	(6,311,164)	(2,258,933)	–	(33,880,803)
Amounts written off	–	(1,875)	–	(78,071)	(606,933)	–	(686,879)
Transfers to Stage 1	–	7,564,361	–	(7,299,659)	(264,702)	–	–
Transfers to Stage 2	–	(15,309,318)	–	16,118,016	(808,698)	–	–
Transfers to Stage 3	–	(1,764,141)	–	(2,651,396)	4,415,537	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(1,401,256)	–	(3,946,165)	(783,122)	–	(6,130,543)
Balance at December 31, 2018	₱–	₱119,621,527	₱–	₱31,003,379	₱6,068,368	₱–	₱156,693,274

Movements of other receivables during the year are as follows:

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of January 1, 2018	₱–	₱1,475,109	₱–	₱296,665	₱139,598	₱–	₱1,911,372
New assets originated	–	263,010	–	96,041	359,381	–	718,432
Assets derecognized or repaid	–	(103,946)	–	(58,114)	(307,313)	–	(469,373)
Amounts written off	–	–	–	–	(270)	–	(270)
Transfers to Stage 1	–	62,942	–	(60,408)	(2,534)	–	–
Transfers to Stage 2	–	(104,109)	–	110,595	(6,486)	–	–
Transfers to Stage 3	–	(21,485)	–	(57,338)	78,823	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(19,231)	–	12,164	152,955	–	145,888
Balance at December 31, 2018	–	1,552,290	–	339,605	414,154	–	2,306,049
Accounts Receivable							
Balance as of January 1, 2018	–	776,670	–	11,442	462,475	–	1,250,587
New assets originated	–	1,016,495	–	24,229	4,883	–	1,045,607
Assets derecognized or repaid	–	(758,174)	–	(15,173)	(2,414)	–	(775,761)
Amounts written off	–	–	–	–	(8)	–	(8)
Transfers to Stage 1	–	1,977	–	(513)	(1,464)	–	–
Transfers to Stage 2	–	(909)	–	5,034	(4,125)	–	–
Transfers to Stage 3	–	(5,201)	–	(558)	5,759	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	741	–	10,464	(5,474)	–	5,731
Balance at December 31, 2018	–	1,031,599	–	34,925	459,632	–	1,526,156
Sales Contract Receivable							
Balance at January 1, 2018	–	84,465	–	10,308	11,955	–	106,728
New assets originated	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(24,627)	–	(4,264)	(2,406)	–	(31,297)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(265)	–	–	(3,658)	–	(3,923)
Balance at December 31, 2018	–	46,188	–	3,246	22,074	–	71,508
Bills Purchased							
Balance at January 1, 2018	–	10,482	–	–	–	–	10,482
New assets originated	–	2,596	–	–	–	–	2,596
Balance at December 31, 2018	–	13,078	–	–	–	–	13,078
Total Other Receivables							
Balance at January 1, 2018	–	2,346,726	–	318,415	614,028	–	3,279,169
New assets originated	–	1,282,101	–	120,270	364,264	–	1,766,635
Assets derecognized or repaid	–	(886,747)	–	(77,551)	(312,133)	–	(1,276,431)
Amounts written off	–	–	–	–	(278)	–	(278)
Transfers to Stage 1	–	64,946	–	(60,948)	(3,998)	–	–
Transfers to Stage 2	–	(105,018)	–	115,629	(10,611)	–	–
Transfers to Stage 3	–	(40,098)	–	(60,667)	100,765	–	–
Changes to contractual cash flows due to modifications not resulting in derecognition	–	(18,755)	–	22,628	143,823	–	147,696
Balance at December 31, 2018	₱–	₱2,643,155	₱–	₱377,776	₱895,860	₱–	₱3,916,791

Prior to January 1, 2018

Master Loan Classifications

The Bank rates accounts on a scale of 1 to 10, with 1 being the best, based on the Board-approved loan classifications which utilize the credit scoring results, credit experience and qualitative assessments.

Neither Past Due nor Individually Impaired
The Bank classifies those accounts under current status having the following master loan classification grades:

High Grade (Master Loan Classification 1 - 4)
1 - Excellent
This is considered as normal risk by the Bank. An excellent rating is given to a borrower who has the ability to meet credit obligation in full and is never delinquent.

2 - Strong
This is also considered as normal risk by the Bank. Borrower has the ability to meet credit obligation in full, except that the borrower had history of 1-29 days delinquency at worst.

3 - Good
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Loan Especially Mentioned rating (rating=7) at worst.

4 - Satisfactory
This rating is given to a borrower who has the ability to meet credit obligation in full, except that the borrower had history of Substandard rating (rating=8) at worst.

Standard Grade (Master Loan Classification 5 - 7)
5 - Acceptable
An acceptable rating is given to a borrower who meets present obligations, except that the borrower had history of Doubtful rating (rating=9) at worst.

6 - Watchlist
This rating is given to a borrower who meets present obligations, except that the borrower had history of Loss rating (rating=10) at worst.

7 - Loan Especially Mentioned
This rating is given to a borrower who has potential weaknesses which when left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

Substandard Grade (Master Loan Classification 8)
8 - Substandard
A substandard rating is given to a borrower whose loan or portion thereof involves a substantial and an unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. These loans show possibility of future loss to the Bank unless given closer supervision and well-defined weaknesses that jeopardize the loan liquidation.

Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Past Due but Not Individually Impaired
These are accounts which are classified as delinquent but are not subject to individual impairment as of statement of condition date.

9 - Doubtful
This rating is given to a borrower whose loans have characteristics where collection and liquidation in full is highly improbable and in which substantial loss is probable.

10 - Loss
This rating is given to a borrower whose loans or portions thereof are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

Individually Impaired
Accounts which are subject to individual impairment as of statement of condition date.

The table below shows the credit quality per class of financial assets (in thousands)*:

	2017						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
Loans and advances to banks							
Due from BSP	₱15,265,388	₱–	₱–	₱–	₱–	₱–	₱15,265,388
Due from other banks	–	1,508,489	–	–	–	–	1,508,489
Interbank loans receivable and SPURA	–	1,842,023	–	–	–	–	1,842,023
Receivables from customers							
Consumption loans	72,426,514	218,182	19,887	–	11,611,871	–	84,276,454
Real estate loans	40,436,431	690,957	124,237	–	4,311,333	1,031,117	46,594,075
Commercial loans	10,867,915	565,472	216,548	–	180,164	145,606	11,975,705
Personal loans	2,822,044	62,340	57,011	–	544,674	–	3,486,069
Other receivables							
Accrued interest receivable	881,262	680,976	4,693	–	296,242	48,199	1,911,372
Accounts receivable	723,178	99	198	–	341,973	185,139	1,250,587
Sales contract receivable	86,935	483	93	–	19,218	–	106,729
Bills purchased	–	–	–	10,482	–	–	10,482
Other assets							
Security deposits	–	–	–	179,996	–	–	179,996
RCOCI	–	–	–	10,349	–	–	10,349
Shortages	–	–	–	1,012	–	–	1,012
Total	₱143,509,667	₱5,569,021	₱422,667	₱201,839	₱17,305,475	₱1,410,061	₱168,418,730

*Shown gross of allowance for credit and impairment losses, net of unearned discount

External Ratings
For investment securities, in ensuring quality investment portfolio, the Bank uses the credit risk rating from published data providers like Moody’s, Standard & Poor’s (S&P) or other reputable rating agencies.

Presented here is Moody’s rating – equivalent S&P rating and other rating agencies applies:

Credit Quality					**External Rating**					
High grade	Aaa	Aa1	Aa2	Aa3	A1	A2	A3	Baa1	Baa2	Baa3
Standard grade	Ba1	Ba2	Ba3	B1	B2	B3				
Substandard grade	Caa1	Caa2	Caa3	Ca	C					

High grade - represents those investments which fall under any of the following grade:

Aaa - fixed income obligations are judged to be of the highest quality, with the smallest degree of risk.

Aa1, Aa2, Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1, A2, A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable. Standard grade - represents those investments which fall under any of the following grade:

Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.

Substandard grade - represents those investments which fall under any of the following grade:

Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.

Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.

C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

As of December 31, 2018, the following tables show the credit quality of loans and advances to banks (in thousands).

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
High Grade	**₱15,159,012**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,159,012**
Due from other banks							
High Grade	**1,685,107**	–	–	–	–	–	**1,685,107**
Interbank loans receivable							
High Grade	**1,892,000**	–	–	–	–	–	**1,892,000**
Total Loans and Advances to Banks							
High Grade	**₱18,736,119**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱18,736,119**

As of December 31, 2018, the following table shows the credit quality of the Bank's investment securities (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
FVTPL – Government Debt Securities							
High Grade	**₱34**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱34**
FVTPL – Derivative Asset							
High Grade	**10,073**	–	–	–	–	–	**10,073**
	10,107	–	–	–	–	–	**10,107**
FVOCI – Government Debt Securities							
High Grade	**8,956,765**	–	–	–	–	–	**8,956,765**
	8,956,765	–	–	–	–	–	**8,956,765**
FVOCI – Private Debt Securities							
High Grade	**3,964,612**	–	–	–	–	–	**3,964,612**
	3,964,612	–	–	–	–	–	**3,964,612**
Investment Securities at Amortized Cost							
Government Debt Securities							
High Grade	**31,604,530**	–	–	–	–	–	**31,604,530**
	31,604,530	–	–	–	–	–	**31,604,530**

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	**Collective**	**Individual**	**Collective**	**Stage 3**	**POCI**	**Total**
Investment Securities at Amortized Cost							
Private Debt Securities							
Standard Grade	**₱4,071,281**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,071,281**
	4,071,281	**–**	**–**	**–**	**–**	**–**	**4,071,281**
Total Investment Securities							
High Grade	**48,607,295**	**–**	**–**	**–**	**–**	**–**	**48,607,295**
	₱48,607,295	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱48,607,295**

All of the Bank's loan commitments and financial guarantees amounting to ₱70.5 million as of December 31, 2018 are classified as high grade under Stage 1.

The table below shows the credit quality per class of investment securities (in thousands)*:

	2017						
	Neither Past Due nor Individually Impaired				Past Due but not Individually Impaired	Individually Impaired	Total
	High Grade	Standard Grade	Substandard Grade	Unrated			
FVPL							
HFT - government securities	₱293,076	₱–	₱–	₱–	₱–	₱–	₱293,076
Derivative asset	–	73,160	–	–	–	–	73,160
AFS investments							
Government debt securities	10,762,411	–	–	–	–	–	10,762,411
Private debt securities	3,777,708	2,375,363	–	–	–	–	6,153,071
HTM investments							
Government debt securities	25,460,778	–	–	–	–	–	25,460,778
Private debt securities	2,606,038	1,406,909	–	–	–	–	4,012,947
Total	₱42,900,011	₱3,855,432	₱–	₱–	₱–	₱–	₱46,755,443

*Shown gross of allowance for credit and impairment losses

<u>ECL Methodology Overview</u>
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Two modelling approaches were employed to build a consistent framework for the development of all ECL models of the Bank. Both modeling approaches consider past events, current conditions and forecast of economic conditions in assessing impairment.

The complex model approach is used for portfolios with a significant number of historical defaults. This approach was applied to the consumer loan portfolios. These quantitative models are built by applying statistical, economic, financial or mathematical theories, techniques and assumptions to calculate provisions. Where historical data are insufficient to develop statistical models, such as for Business Loans, Account Receivables, Sales Contract Receivables, etc. the simplified ECL approach was employed. The Bank observed the historical PD and LGD of the portfolio, and applied forward looking economic data on PD to calculate the ECL.

Default and Cure

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in BSP Circular No. 941. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions (1) impaired under existing accounting standards, (2) classified as doubtful or loss, (3) in litigation, (4) and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are (5) unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. (6) Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due. (7) Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Defaults are characterized by financial assets that have objective evidence of impairment at the reporting date and as such classified under Stage 3 ECL treatment.

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 above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

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 quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, 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, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 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, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

The Bank implements a curing policy for restructured accounts compliant with the BSP Circular No. 1011. Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months full payments.

ECL Parameters and Calculation
ECL is a function of the PD, EAD and LGD with each of the parameters independently modelled.

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 historical 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 based on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. Two EAD modelling approaches were employed, namely, balance-based models and CCF-based EAD models. Loans with fixed term facility use balance-based EAD models. The outstanding balance can be taken as the maximum exposure of the Bank for the facility as it typically decreases thru periodic payments as the loan approaches maturity. CCF-based models are used for revolving facilities, under which borrowers can withdraw any time up to their assigned limit. The final EAD estimate for CCF-based models includes the current balance of the loan and the estimated amount to be withdrawn in the event of a 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. LGD recoveries generally come in the form of payments. In addition, secured loans also consider recoveries coming from the sale of the collateral. Cost inputs to the models include expenses associated with collections and additionally, for secured loans, all direct expenses associated with obtaining and selling of assets. EIR were used in the discounting of costs and recoveries.

Economic Overlays
The Bank's incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs, such as GDP, GIR change, CPI change, PSE indices, foreign exchange rates and other 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 address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Classification of Individual/Collective Impairment
The Bank calculates provisions either in a collective or individual basis.

Collective impairment calculates risk provisions by grouping exposures into smaller homogeneous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the expected credit loss models. All Stage 1 and 2 accounts of the Bank are categorized under collective impairment.

Individual impairment is applicable for all accounts under Stage 3 or accounts deemed as significant exposures and show objective evidence of impairment. The indicators may be default in payment, restructuring, litigation or probable foreclosure.

As of December 31, 2018, an analysis by past due status of receivables from customers wherein the SICR is based only on the past due information is as follows:

	2018					
	Number of days past due					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	**₱651,578**	**₱2,754,634**	**₱1,121,446**	**₱1,248,078**	**₱1,360,688**	**₱7,136,424**
Real estate loans	**631,142**	**1,407,772**	**381,450**	**329,619**	**703,352**	**3,453,335**
Commercial loans	**464,354**	**30,784**	**2,097**	**74,564**	**136,357**	**708,156**
Personal loans	**224,070**	**26,490**	**16,215**	**41,650**	**296,123**	**604,548**
Other receivables						
Accrued interest receivable	**1,647**	**64,813**	**29,717**	**32,119**	**40,791**	**169,087**
Accounts receivable	**1,099**	**207,607**	**4,301**	**5,220**	**460,808**	**679,035**
Sales contract receivable	**14,709**	**551**	**–**	**–**	**11,648**	**26,908**
Total	**₱1,988,599**	**₱4,492,651**	**₱1,555,226**	**₱1,731,250**	**₱3,009,767**	**₱12,777,493**

Aging Analysis of Past Due but not Individually Impaired Loans per Class of Financial Assets
The succeeding table shows the total aggregate amount of gross past due but not individually impaired loans and receivables per delinquency bucket as of December 31, 2017. PFRS defines that a financial asset is past due when the counterparty has failed to make a payment when contractually due (in thousands)*:

	2017					
	Past Due but not Individually Impaired					
	Up to 30 days	31-60 days	61-90 days	91-180 days	180 days	Total
Loans and receivables						
Receivables from customers						
Consumption loans	₱5,460,605	₱2,435,353	₱1,176,061	₱1,291,281	₱1,248,571	₱11,611,871
Real estate loans	2,867,064	1,003,026	338,875	55,809	46,559	4,311,333
Commercial loans	140,750	16,268	15,540	–	7,606	180,164
Personal loans	124,835	29,533	19,024	45,412	325,870	544,674
Other receivables						
Accrued interest receivable	106,760	57,664	33,829	42,008	55,981	296,242
Accounts receivable	5,522	7,919	9,905	311,571	7,056	341,973
Sales contract receivable	3,083	4,180	–	2,719	9,236	19,218
Total	₱8,708,619	₱3,553,943	₱1,593,234	₱1,748,800	₱1,700,879	₱17,305,475

*Shown gross of allowance for impairment and credit losses

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated fixed income securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

The Bank's interest rate VaR follows (in thousands):

	December 31, 2018[1]		December 31, 2017	
	Peso	**USD**	Peso	USD
Year-end	**2**	**–**	8,644	–
Average	**495**	**855**	9,328	9,108
High	**12,171**	**12,141**	30,309	39,341
Low	**1**	**-**	3	466

Using METRISK Historical Simulation VaR

Non-trading activities

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year or capital whichever is lower. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EaR and stress testing reports are prepared on a monthly basis.

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks.

The table below demonstrate the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI and AFS debt instruments, assuming a parallel shift in the yield curve.

	2018		2017	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(₱121,688,936)**	+10	(₱53,429,706)
USD	**+10**	**(27,912,113)**	+10	(61,335,975)
Currency				
PHP	**-10**	**(41,463,520)**	-10	54,019,588
USD	**-10**	**27,537,680**	-10	62,192,804

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	2018[1]	2017[1]
As of year-end	**₱864**	₱1,140
Average	**919**	883
High	**3,641**	1,302
Low	**116**	175

[1] *Using METRISK Historical Simulation VaR*

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2018 and 2017. Included in the table are the Bank's assets and liabilities at carrying amounts (in thousands):

	2018	2017
Assets		
Cash	**$4**	$3
Due from other banks	**6,700**	381
Financial Assets at FVOCI	**45,083**	–
Other Assets	**1,113**	–
Total assets	**52,900**	384
Liabilities		
Deposit liabilities		
Savings	**128**	56
Time	**3**	43
Other liabilities	**4,023**	290
Total liabilities	**4,154**	389
Net exposure	**$48,746**	($5)

Liquidity Risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there is enough high quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

Financial assets
Analysis of equity and debt securities at FVTPL and financial assets at FVOCI/AFS investments into maturity groupings is based on the expected date on which these assets will be realized. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date and does not consider the behavioral pattern of the creditors. When the counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

Analysis of Financial Assets and Liabilities by Remaining Maturities

The tables below show the maturity profile of the Bank's financial assets and liabilities based on contractual undiscounted repayment obligations (in millions):

	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVTPL investments								
HFT - government securities	₱–	₱–	₱–	₱–	₱–	₱–	₱–	₱–
Derivatives	–	3	7	–	–	10	–	10
Financial assets at FVOCI								
Government securities	–	67	20	40	2,201	2,328	9,834	12,162
Private securities	–	1	40	25	1,113	1,179	3,916	5,095
Quoted equity securities	–	–	–	–	–	–	10	10
Investment securities at amortized cost								
Government bonds	–	26	109	159	800	1,094	41,785	42,879
Private securities	–	1	18	205	505	729	4,102	4,831
Loans and receivables								
Loans and advances to banks								
Due from BSP	15,159	–	–	–	–	15,159	–	15,159
Due from other banks	1,685	–	–	–	–	1,685	–	1,685
Interbank loans receivable and SPURA	1,892	–	–	–	–	1,892	–	1,892
Receivables from customers								
Consumption loans	145	1,205	2,485	4,042	9,308	17,185	120,679	137,864
Real estate loans	126	421	1,019	1,630	3,532	6,728	82,479	89,207
Commercial loans	604	1,002	1,110	924	1,513	5,153	11,576	16,729
Personal loans	1,026	157	349	554	1,376	3,462	1,746	5,208
Other receivables								
Accrued interest receivable	649	855	358	377	67	2,306	–	2,306
Accounts receivable	987	19	5	6	30	1,047	480	1,527
Sales contract receivable	4	–	–	–	2	6	65	71
Bills purchased	13	–	–	–	–	13	–	13
Other assets								
Security deposits	–	2	2	5	6	15	191	206
RCOCI	20	–	–	–	–	20	–	20
	₱22,310	₱3,759	₱5,522	₱7,967	₱20,453	₱60,011	₱276,863	₱336,874

(Forward)

	2018							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Liabilities								
Deposit liabilities								
Demand	₱20,367	₱–	₱–	₱–	₱–	₱20,367	₱–	₱20,367
Savings	33,400	–	–	–	–	33,400	–	33,400
Time	–	70,024	34,425	13,799	4,143	122,391	16,796	139,187
LTNCD	–	–	–	–	–	–	9,792	9,792
	53,767	70,024	34,425	13,799	4,143	176,158	26,588	202,746
Bills payable	–	–	53	53	106	212	3,188	3,400
Subordinated notes	–	–	41	41	83	165	3,784	3,949
Treasurer's, cashier's and manager's checks	1,616	–	–	–	–	1,616	–	1,616
Accrued interest payable	–	–	900	–	–	900	–	900
Accrued other expenses payable	–	589	191	200	–	980	–	980
Other liabilities								
Accounts payable	–	–	–	2,073	–	2,073	–	2,073
Other credits	245	–	–	–	–	245	–	245
Bills purchased - contra	13	–	–	–	–	13	–	13
Due to the Treasurer of the Philippines	16	–	–	–	–	16	–	16
Deposit for keys	1	–	–	–	–	1	–	1
Overages	6	–	–	–	–	6		6
	₱55,664	₱70,613	₱35,610	₱16,166	₱4,332	₱182,385	₱33,560	₱215,945

	2017							
	On demand	Up to 1 month	Over 1 to 3 months	Over 3 to 6 months	Over 6 to 12 months	Total within 1 year	Beyond 1 year	Total
Financial Assets								
FVPL								
HFT - government securities	₱306	₱–	₱–	₱–	₱–	₱306	₱–	₱306
Derivatives	–	–	73	–	–	73	–	73
AFS investments								
Government securities	–	110	192	147	422	871	21,782	22,653
Quoted equity securities	–	–	–	–	–	–	8	8
Unquoted equity securities	–	–	–	–	–	–	1	1
HTM investments								
Government bonds	–	227	347	196	766	1,536	39,290	40,826
Loans and receivables								
Loans and advances to banks								
Due from BSP	15,265	–	–	–	–	15,265	–	15,265
Due from other banks	1,508	–	–	–	–	1,508	–	1,508
Interbank loans receivable and SPURA	–	1,842	–	–	–	1,842	–	1,842
Receivables from customers								
Consumption loans	121	1,117	2,332	3,749	8,378	15,697	114,129	129,826
Real estate loans	111	385	945	1,582	3,434	6,457	75,848	82,305
Commercial loans	575	463	1,367	716	1,260	4,381	10,918	15,299
Personal loans	1,046	172	341	532	1,378	3,469	1,661	5,130
Other receivables								
Accrued interest receivable	36	20	19	33	75	183	1,729	1,912
Accounts receivable	4	721	5	9	490	1,229	21	1,250
Sales contract receivable	5	1	1	2	6	15	124	139
Other assets								
Security deposits	–	–	–	–	–	–	–	–
RCOCI	10	–	–	–	–	10	–	10
Shortages	179	–	–	–	–	179	–	179
	₱19,166	₱5,058	₱5,622	₱6,966	₱16,209	₱53,021	₱265,511	₱318,532
Financial Liabilities								
Deposit liabilities								
Demand	₱19,113	₱–	₱–	₱–	₱–	₱19,113	₱–	₱19,113
Savings	30,384	–	–	–	–	30,384	–	30,384
Time	–	13,556	50,086	20,331	31,039	115,012	24,674	139,686
LTNCD	-	30	-	30	58	118	3,759	3,877
	49,497	13,586	50,086	20,361	31,097	164,627	28,433	193,060
Bills payable	–	1,497	–	–	–	1,497	–	1,497
Subordinated notes	–	–	41	41	83	165	3,990	4,155
Treasurer's, cashier's and manager's checks	2,214					2,214		2,214
Accrued interest payable	–	–	518	22	–	540	–	540
Accrued other expenses payable	1,119	–	–	–	–	1,119	–	1,119
Other liabilities								
Accounts payable	2,080	–	–	–	–	2,080	–	2,080
Other credits	–	–	–	–	–	–	1,146	1,146
Bills purchased - contra	10	–	–	–	–	10	–	10
Due to the Treasurer of the Philippines	–	–	–	–	–	–	17	17
Deposit for keys	1	–	–	–	–	1	–	1
Overages	6	–	–	–	–	6	–	6
	₱54,927	₱15,083	₱50,645	₱20,424	₱31,180	₱172,259	₱33,586	₱205,845

6. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking -principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the years ended December 31, 2018, 2017 and 2016 follows (in thousands):

	2018				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱5,605,523**	**₱350,615**	**₱6,733,222**	**₱3,684,617**	**₱16,373,977**
Service fees and commission	**675,356**	**42,309**	**1,004,080**	**–**	**1,721,745**
Other operating income	**648,822**	**23,260**	**614,175**	**(45,265)**	**1,240,992**
Total operating income	**6,929,701**	**416,184**	**8,351,477**	**3,639,352**	**19,336,714**
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	**2,021,119**	**(66,778)**	**139,320**	**44,312**	**2,137,973**
Depreciation	**240,779**	**4,522**	**375,577**	**1,304**	**622,182**
Amortization of other intangible assets	**56,911**	**2,368**	**98,568**	**1,242**	**159,089**
Total non-cash expenses	**2,318,809**	**(59,888)**	**613,465**	**46,858**	**2,919,244**
Interest expense	**–**	**–**	**1,956,224**	**3,085,803**	**5,042,027**
Service fees and commission expense	**37,698**	**2,362**	**56,048**	**–**	**96,108**
Subtotal	**37,698**	**2,362**	**2,012,272**	**3,085,803**	**5,138,135**
Compensation and fringe benefits	**814,171**	**72,626**	**2,443,558**	**33,473**	**3,363,828**
Taxes and licenses	**456,707**	**31,165**	**585,031**	**554,838**	**1,627,741**
Occupancy and equipment-related costs	**77,577**	**1,074**	**684,687**	**429**	**763,767**
Security, messengerial and janitorial services	**168,186**	**4,306**	**320,250**	**996**	**493,738**
Miscellaneous	**691,451**	**26,730**	**1,242,453**	**180,263**	**2,140,897**
Subtotal	**2,208,092**	**135,901**	**5,275,979**	**769,999**	**8,389,971**
Income (loss) before share in net income of a joint venture and income tax	**₱2,365,102**	**₱337,809**	**₱449,761**	**(₱263,308)**	**₱2,889,364**
Share in net income of a joint venture					**82,377**
Income before income tax					**2,971,741**
Provision for income tax					**309,595**
Net income					**₱2,662,146**
Segment assets	**₱125,143,953**	**₱7,969,875**	**₱45,507,895**	**₱57,088,476**	**₱235,710,199**
Investment in a joint venture					**691,426**
Deferred tax assets					**1,327,667**
Total assets					**₱237,729,292**
Segment liabilities	**₱1,591,964**	**₱98,175**	**₱130,004,402**	**₱81,640,603**	**₱213,335,144**

	2017				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,811,338	₱321,494	₱6,777,057	₱2,633,888	₱14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income	898,009	15,705	529,289	(8,754)	1,434,249
Total operating income	6,270,783	377,681	8,174,630	2,625,134	17,448,228
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,111,031	(36,167)	195,315	–	2,270,179
Depreciation	242,252	5,852	386,310	1,022	635,436
Amortization of other intangible assets	50,347	2,638	81,673	774	135,432
Total non-cash expenses	2,403,630	(27,677)	663,298	1,796	3,041,047
Interest expense	–	–	1,653,833	1,810,844	3,464,677
Service fees and commission expense	36,060	2,600	55,768	–	94,428
Subtotal	36,060	2,600	1,709,601	1,810,844	3,559,105
Compensation and fringe benefits	802,955	63,842	2,365,493	28,316	3,260,606
Taxes and licenses	410,454	31,874	438,575	388,005	1,268,908
Occupancy and equipment-related costs	68,023	1,022	670,795	211	740,051
Security, messengerial and janitorial services	115,856	4,649	355,784	1,244	477,533
Miscellaneous	709,485	37,715	1,336,751	167,383	2,251,334
Subtotal	2,106,773	139,102	5,167,398	585,159	7,998,432
Income before share in net income of a joint venture and income tax	₱1,724,320	₱263,656	₱634,333	₱227,335	₱2,849,644
Share in net income of a joint venture					71,837
Income before income tax					2,921,481
Provision for income tax					267,062
Net income					₱2,654,419
Segment assets	₱113,797,984	₱8,297,700	₱39,017,294	₱60,174,574	₱221,287,552
Investment in a joint venture					607,163
Deferred tax assets					1,429,327
Total assets					223,324,042
Segment liabilities	₱1,123,077	₱77,620	₱119,740,151	₱79,989,870	₱200,930,718

	2016				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,202,897	₱293,441	₱5,895,983	₱2,100,149	₱12,492,470
Service fees and commission	480,075	31,697	714,243	–	1,226,015
Other operating income	595,208	17,873	531,821	533,658	1,678,560
Total operating income	5,278,180	343,011	7,142,047	2,633,807	15,397,045
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	3,209,361	(390,094)	(596,764)	–	2,222,503
Depreciation	185,943	5,839	365,680	187	557,649
Amortization of other intangible assets	40,057	2,327	68,521	255	111,160
Total non-cash expenses	3,435,361	(381,928)	(162,563)	442	2,891,312
Interest expense	–	–	1,606,743	1,221,805	2,828,548
Service fees and commission expense	35,112	2,318	52,238	–	89,668
Subtotal	35,112	2,318	1,658,981	1,221,805	2,918,216
Compensation and fringe benefits	721,231	56,789	2,127,091	17,790	2,922,901
Taxes and licenses	335,734	23,487	426,654	272,563	1,058,438
Occupancy and equipment-related costs	67,678	1,449	641,813	2	710,942
Security, messengerial and janitorial services	79,717	2,627	300,718	609	383,671
Miscellaneous	564,947	31,680	1,181,358	98,491	1,876,476
Subtotal	1,769,307	116,032	4,677,634	389,455	6,952,428
Income before share in net income of a joint venture and income tax	₱38,400	₱606,589	₱967,995	₱1,022,105	₱2,635,089
Share in net income of a joint venture					35,467
Income before income tax					2,670,556
Benefit from income tax					219,713
Net income					₱2,450,843
Segment assets	₱94,193,769	₱8,891,632	₱39,281,097	₱52,458,705	₱194,825,203
Investment in a joint venture					727,176
Deferred tax assets					1,300,724
Total assets					₱196,853,103
Segment liabilities	₱1,365,551	₱110,204	₱108,983,331	₱66,356,344	₱176,815,430

7. Interbank Loans Receivable and Securities Purchased Under Resale Agreements

This account consists of the following:

	2018	2017
SPURA	**₱1,892,000,000**	₱578,250,730
Interbank call loans (IBCL) receivable	–	1,263,772,319
	1,892,000,000	1,842,023,049
Less allowance for impairment losses (Note 15)	**180,000**	–
	₱1,891,820,000	₱1,842,023,049

SPURA are lending to counterparties collateralized by government securities ranging from one to four days. As of December 31, 2018 and 2017, fair value of government securities held as collateral amounted to ₱1.9 billion and ₱577.9 million, respectively. The Bank is not permitted to sell or repledge the related collateral in the absence of default by the counterparty.

IBCL represents short-term lending with counterparty banks and other financial institutions. These are highly liquid instruments which mature within one to five days. As of December 31, 2017, outstanding balance of IBCL consists of both foreign currency-denominated and peso-denominated receivables amounting to ₱763.8 million and ₱500.0 million, respectively.

SPURA of the Bank bears annual interest rate ranging from 3.00% to 4.75% in 2018 and 3.00% in 2017, while peso-denominated IBCL of the Bank bear annual interest rate ranging from 3.03% to 5.06% in 2018 and 2.50% to 3.30% in 2017. Foreign currency-denominated IBCL bear annual interest rates ranging from 1.25% to 2.18% and 1.00% to 1.25% in 2018 and 2017 respectively. The Bank has no peso and foreign currency-denominated interbank loans as of December 31, 2016.

Interest income on SPURA and IBCL are as follows:

	2018	2017	2016
IBCL (Note 29)	**₱57,403,569**	₱11,798,252	₱4,795,139
SPURA	**32,319,801**	49,238,898	56,735,116
	₱89,723,370	₱61,037,150	₱61,530,255

8. Investment Securities

Fair Value Through Profit or Loss (FVTPL) Investments
Fair value through profit or loss investments consist of the following:

	2018	2017
Derivatives with positive fair value	**₱10,073,132**	₱73,159,561
Investment securities at FVTPL	**33,890**	293,076,128
Financial assets at FVTPL	**₱10,107,022**	₱366,235,689
Derivatives with negative fair value	**₱2,895,073**	₱–
Financial liabilities at FVTPL	**₱2,895,073**	₱–

On August 19, 2009, the BSP approved the Bank's application for Type 3 Limited User Authority for plain vanilla foreign exchange (FX) forwards, which is limited to outright buying or selling of FX forwards at a specific price and date in the future and do not include non-deliverable forwards.

In 2018 and 2017, the Bank entered into foreign currency swaps and forwards. As of December 31, 2018 and 2017, the aggregate notional amounts of the outstanding foreign currency swaps with positive fair value amounted to $30.7 million and $53.1 million, respectively. For December 31, 2018, the aggregate notional amounts of the outstanding foreign currency swaps with negative fair value amounted to $18.8 million.

Movements in fair value changes of derivative with positive fair value are as follows:

	2018	2017
Balance at beginning of year	**₱73,159,561**	₱499,211
Fair value changes during the year	**83,811,949**	315,056,848
Settled transactions	**(146,898,378)**	(242,396,498)
Balance at end of year	**₱10,073,132**	₱73,159,561

Movements in fair value changes of derivative with negative fair value are as follows:

	2018	2017
Balance at beginning of year	**₱–**	(₱65,316,678)
Fair value changes during the year	**(97,713,762)**	(70,477,805)
Settled transactions	**94,818,689**	135,794,483
Balance at end of year	**(₱2,895,073)**	₱–

As of December 31, 2018 and 2017, the Bank has outstanding ROP paired warrants amounting to $1.5 million which give the Bank the option or right to exchange its holdings of ROP Global Bonds (Paired Bonds) into peso-denominated government securities upon occurrence of a pre-determined credit event. Paired Bonds shall be risk weighted at 0.00%, provided that the 0.00% risk weight shall be applied only to the Bank's holdings of Paired Bonds equivalent to not more than 50.00% of the total qualifying capital. Further, the Bank's holdings of said warrants, booked in the FVTPL category, are likewise exempted from capital charge for market risk as long as said instruments are paired with ROP Global Bonds up to a maximum of 50.00% of the total qualifying capital. As a result of the sale of its paired bonds in 2013, the Bank is holding ROP warrants without paired instruments and with no active market. As of December 31, 2018 and 2017, the Bank determined the market value of its warrants to be zero.

The unrealized portion of the trading securities gains (losses) on FVTPL investments amounted to (₱16.9 million), ₱12.2 million and ₱9.8 million for 2018, 2017 and 2016, respectively.

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

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

	2018	2017
Financial Assets at FVOCI		
Debt securities		
Government	**₱8,956,764,357**	₱–
Private	**3,964,611,802**	–

(Forward)

	2018	2017
Equity securities		
Quoted	**₱10,225,365**	₱–
AFS Investments		
Debt securities		
Government (Notes 29 and 30)	–	10,762,411,432
Private	–	6,153,071,645
Equity securities		
Quoted	–	7,954,322
Unquoted	–	2,048,542
	₱12,931,601,524	₱16,925,485,941

As of December 31, 2018, the ECL on financial assets at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱10.0 million (Note 15).

Movements in the fair value reserves on financial assets at FVOCI / net unrealized loss on AFS investments follow:

	2018	2017
Balance at beginning of year, as previously reported	**(₱411,510,218)**	(₱842,908,364)
Effect of the adoption of PFRS 9 (Note 2)	**342,363,486**	–
Balance at beginning of year, as restated	**(69,146,732)**	(₱842,908,364)
Loss from sale of financial assets at FVOCI/AFS investments realized in profit or loss	**92,278,733**	49,756,366
Changes in allowance for ECL (Note 15)	**9,957,385**	–
Fair value gain (loss) recognized in OCI	**(815,985,665)**	381,641,780
Balance at end of year	**(₱782,896,279)**	(₱411,510,218)

As of December 31, 2017, AFS investments include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱50.2 million (Note 29).

As of December 31, 2018 and 2017, the Bank deposited financial assets at FVOCI with total carrying value of ₱84.2 million and AFS investments with total carrying value of ₱64.5 million, respectively, in the form of government bonds, in compliance with trust regulations (Note 30).

As of December 31, 2018, there are no financial assets at FVOCI in the form of government bonds pledged as collateral for its bills payable. As of December 31, 2017, the carrying value of AFS investments in the form of government bonds pledged as collateral for its bills payable amounted to ₱751.8 million (Note 17).

Investment Securities at Amortized Cost / Held-to-Maturity (HTM) Investments

Investment securities at amortized cost / held-to-maturity investments consist of the following:

	2018	2017
Investment Securities at Amortized Cost		
Debt securities		
Government	**₱31,604,530,066**	₱–
Private	**4,071,281,345**	–

(Forward)

	2018	2017
HTM Investments		
Debt securities		
Government	**₱–**	₱25,460,777,587
Private	**–**	4,012,946,797
	35,675,811,411	29,473,724,384
Less allowance for credit losses (Note 15)	**29,046,147**	–
	₱35,646,765,264	₱29,473,724,384

As of December 31, 2018, investment securities at amortized cost include Bureau of Treasury bonds pledged by the Bank to MBTC to secure its payroll account with MBTC with total carrying value of ₱66.5 million.

As of December 31, 2018, there are no investment securities at amortized cost in the form of government bonds pledged by the Bank as collateral for bills payable. As of December 31, 2017, the carrying values of HTM Investments in the form of government bonds pledged by the Bank as collateral for bills payable amounted to ₱1.0 billion (Note 17).

Interest income on investment securities consists of:

	2018	2017	2016
Interest income recognized using EIR			
Investment securities at amortized cost	**₱1,429,497,897**	₱–	₱–
Financial assets at FVOCI	**555,859,754**	–	–
HTM investments	**–**	1,165,451,432	776,516,116
AFS investments	**–**	607,568,926	486,761,874
	1,985,357,651	1,773,020,358	1,263,277,990
Interest income recognized using nominal interest rates			
FVTPL investments	**9,088,886**	50,570,958	84,671,137
	₱1,994,446,537	₱1,823,591,316	₱1,347,949,127

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 2.13% to 8.13% in 2018, 2.13% to 9.50% in 2017 and 2.13% to 8.13% in 2016 while foreign currency-denominated FVOCI/AFS investments bear nominal annual interest rates ranging from 3.00% to 10.63% in 2018, 3.70% to 9.50% in 2017 and 1.63% to 10.63% in 2016.

EIR on financial assets at FVOCI/AFS investments as of December 31, 2018, 2017, and 2016 range from 2.47% to 8.14%, 2.69% to 6.15% and 1.58% to 8.14%, respectively.

On the other hand, peso-denominated investment securities at amortized cost/HTM investments bear EIR ranging from 3.70% to 4.87% in 2018, 3.70% to 5.61% in 2017 and 3.44% to 4.77% in 2016, while foreign currency-denominated HTM investments bear EIR ranging from 3.00% to 4.75%, 2.46% to 4.96%, and 2.75% to 4.78% in 2018, 2017 and 2016, respectively.

Trading and securities gains (losses) - net on investment securities consist of:

	2018	2017	2016
FVTPL investments (Note 29)	**(₱41,018,773)**	(₱15,481,460)	₱53,037,437
Financial assets at FVOCI	**(92,278,733)**	–	–
AFS investments	–	(49,756,366)	456,628,139
	(₱133,297,506)	(₱65,237,826)	₱509,665,576

9. Loans and Receivables

This account consists of:

	2018	2017
Receivables from customers		
Consumption loans	**₱90,291,868,218**	₱84,276,599,224
Real estate loans	**49,972,645,933**	46,594,075,046
Commercial loans	**12,902,967,013**	11,975,704,903
Personal loans (Note 29)	**3,525,922,782**	3,486,068,122
	156,693,403,946	146,332,447,295
Less unearned discounts	**130,275**	145,142
	156,693,273,671	146,332,302,153
Other receivables		
Accrued interest receivable	**2,306,049,469**	1,911,372,461
Accounts receivable (Note 29)	**1,526,155,791**	1,250,586,507
Sales contract receivables	**71,508,163**	106,727,770
Bills purchased (Note 19)	**13,077,760**	10,482,445
	160,610,064,854	149,611,471,336
Less allowance for credit losses (Note 15)	**4,349,702,079**	4,646,958,115
	₱156,260,362,775	₱144,964,513,221

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

As of December 31, 2018, 2017 and 2016, 39.93%, 40.02% and 42.95%, respectively, of the total receivables from customers are subject to periodic interest repricing with average EIR of 7.41%, 14.06% and 13.78% in 2018, 2017 and 2016. Remaining receivables earn average annual fixed interest rates of 14.90%, 14.81% and 15.06% in 2018, 2017 and 2016, respectively.

Receivables from customers earned interest income at an effective interest rate ranging from 8.76% to 9.46%, 8.94% to 9.17%, and 8.55% to 9.70% for the periods ended December 31, 2018, 2017 and 2016, respectively.

Interest income on loans and receivables consists of:

	2018	2017	2016
Receivables from customers			
Consumption loans	**₱8,608,117,368**	₱7,624,465,526	₱6,326,845,090
Real estate loans	**3,482,931,036**	3,273,928,199	3,149,014,794
Personal loans (Note 29)	**1,388,759,417**	820,957,546	838,015,354
Commercial loans	**781,469,660**	749,518,594	741,347,084
Other receivables			
Sales contract receivables	**7,528,142**	8,263,372	11,640,532
	₱14,268,805,623	₱12,477,133,237	₱11,066,862,854

Interest income from restructured loans amounted to ₱8.9 million, ₱11.0 million and ₱34.4 million in 2018, 2017 and 2016, respectively.

BSP Reporting
The breakdown of loans and receivables from customers (gross of unearned discounts and allowance for credit losses) as to secured and unsecured and as to type of security follows:

	2018	%	2017	%
Secured by:				
Chattel	**₱90,291,940,808**	**57.62**	₱84,276,599,224	57.59
Real estate	**35,067,463,726**	**22.38**	31,276,232,123	21.37
Deposit hold-out	**739,239,948**	**0.47**	599,229,388	0.41
Others	**12,409,828**	**0.01**	–	0.00
	126,111,054,310	**80.48**	116,152,060,735	79.37
Unsecured	**30,582,349,636**	**19.52**	30,180,386,560	20.63
	₱156,693,403,946	**100.00**	₱146,332,447,295	100.00

Details of non-performing loans (NPL) follow:

	2018	2017
Secured	**₱4,947,136,614**	₱3,357,179,140
Unsecured	**1,668,789,592**	1,413,353,220
	₱6,615,926,206	₱4,770,532,360

Generally, NPL refer to loans, investments, receivables, or any financial asset, even without any missed contractual payments, that satisfy any of the following conditions:
1. Impaired under existing accounting standards;
2. Classified as doubtful or loss;
3. In litigation, and/or;
4. There is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are:
1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.
2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The NPLs of the Bank not fully covered by allowance for credit losses follow:

	2018	2017
Total NPLs	**₱6,615,926,206**	₱4,770,532,360
Less NPLs fully covered by allowance for credit losses	**1,703,235,253**	967,848,231
	₱4,912,690,953	₱3,802,684,129

Restructured loans as of December 31, 2018 and 2017 amounted to ₱128.5 million and ₱157.7 million, respectively. The Bank's loan portfolio includes non-risk loans as defined under BSP regulations totaling ₱2.6 billion and ₱1.2 billion as of December 31, 2018 and 2017, respectively.

Loan concentration as to economic activity follows (gross of unearned discounts and allowance for credit losses):

	2018	%	2017	%
Activities of households as employers and undifferentiated goods-and-services producing activities of households for own use	**₱95,549,749,865**	60.98	₱89,619,513,953	61.24
Real estate activities	**45,068,932,504**	28.76	41,988,414,397	28.69
Wholesale and retail trade, repair of motor vehicles and motorcycles	**2,958,370,016**	1.89	2,406,750,036	1.64
Electricity, gas, steam and air-conditioning supply	**1,937,172,270**	1.24	1,729,067,501	1.18
Transportation and storage	**1,177,545,617**	0.75	955,988,018	0.65
Financial and insurance activities	**1,098,179,781**	0.70	2,076,032,590	1.42
Manufacturing	**974,159,507**	0.62	641,017,094	0.44
Construction	**872,655,404**	0.56	794,540,357	0.54
Administrative and support service activities	**825,978,162**	0.53	988,927,513	0.68
Information and communication	**565,650,294**	0.36	591,624,626	0.40
Accommodation and food service activities	**348,588,610**	0.22	369,461,368	0.25
Human health and social work activities	**283,481,970**	0.18	321,458,626	0.22
Water supply, sewerage, waste management and remediation activities	**233,874,590**	0.15	233,548,432	0.16
Education	**216,428,300**	0.14	196,750,868	0.13
Professional, scientific and technical activities	**141,462,881**	0.09	137,424,796	0.09
Agriculture, forestry and fishing	**87,215,580**	0.06	24,481,568	0.04
Arts, entertainment and recreation	**87,032,281**	0.06	84,598,346	0.06
Mining and quarrying	**16,087,623**	0.01	7,206,617	0.01
Others	**4,250,838,691**	2.70	3,165,640,589	2.16
	₱156,693,403,946	100.00	₱146,332,447,295	100.00

Others relate to other service activities including the activities of membership organizations, repair of computers, personal and household goods and a variety of personal service activities not covered elsewhere in the classification above.

10. **Investment in a Joint Venture**

The Bank's investment in a joint venture represents its 30.00% interest in Sumisho Motor Finance Corporation (SMFC) as of December 31, 2018 and 2017.

SMFC is engaged in the business of lending or leasing to retail customers for their purchase of motorcycles.

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

As a result of the sale, the Bank's ownership interest in SMFC was reduced from 40.00% to 30.00%. Management has assessed that the Bank continues to have joint control over SMFC together with GT Capital, Sumitomo Japan and Sumitomo Corporation of the Philippines (Sumitomo Group), as all investors are bound by all terms and conditions of the original Joint Venture Agreement between the Bank and Sumitomo Group, where unanimous consent is required from all the parties for SMFC's recent activities.

As of December 31, 2018 and 2017, the Bank's investment in a joint venture amounted to ₱691.4 million and ₱607.2 million, respectively.

The following table illustrates the summarized financial information of SMFC (in thousands):

	2018	2017
Current assets	**₱4,904,097**	₱3,415,192
Non-current assets	**149,507**	118,675
Current liabilities	**(2,689,159)**	(1,485,946)
Non-current liabilities	**(59,692)**	(24,045)
Net assets	**₱2,304,753**	₱2,023,876

	2018	2017	2016
Revenues	**₱1,104,277**	₱818,915	₱661,242
Costs and expenses	**701,455**	524,426	539,530
	402,822	294,489	121,712
Provision for income tax	**128,231**	89,062	35,687
Net income	**274,591**	205,427	86,025
Other comprehensive income	**6,288**	541	3,440
Total comprehensive income	**₱280,879**	₱205,968	₱89,465

Movement in this account follows (in thousands):

	2018	2017
Balance at beginning of year	**₱607,163**	₱727,176
Share in net income (Note 29)	**82,377**	71,837
Share in unrealized gain on remeasurement of retirement liability (Note 29)	**1,886**	162
Carrying value of investment sold	**–**	(192,012)
Ending balance	**₱691,426**	₱607,163

Cost of the investment as of December 31, 2018 and 2017 amounted to ₱600.0 million.

SMFC is a private company and there is no quoted market price available for its shares. The net assets of SMFC consist mainly of financial assets and financial liabilities.

The Bank has no share in any contingent liabilities or capital commitments of SMFC as of December 31, 2018 and 2017. There are also no agreements entered into by SMFC that may restrict dividends and other capital contributions to be paid, loans and advances to be made or repaid to or from the Bank as of the said dates.

Movement in equity in remeasurement gains (losses) on retirement plan of a joint venture amounted to ₱1.9 million, (₱0.2 million) and ₱1.4 million in 2018, 2017 and 2016, respectively.

11. **Property and Equipment**

The composition of and movements in this account follow:

			2018		
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,126,593,369**	**₱2,721,454,277**	**₱976,140,270**	**₱5,800,631,592**
Acquisitions	**–**	**2,802,669**	**142,887,490**	**36,660,429**	**182,350,588**
Disposals	**–**	**(4,195,559)**	**(49,892,237)**	**–**	**(54,087,796)**
Balance at end of year	**976,443,676**	**1,125,200,479**	**2,814,449,530**	**1,012,800,699**	**5,928,894,384**
Accumulated Depreciation					
Balance at beginning of year	**–**	**416,470,260**	**2,185,390,898**	**718,758,080**	**3,320,619,238**
Depreciation	**–**	**38,163,929**	**232,636,645**	**96,491,059**	**367,291,633**
Disposals	**–**	**(23,262)**	**(16,373,130)**	**–**	**(16,396,392)**
Balance at end of year	**–**	**454,610,927**	**2,401,654,413**	**815,249,139**	**3,671,514,479**
Net Book Value	**₱976,443,676**	**₱670,589,552**	**₱412,795,117**	**₱197,551,560**	**₱2,257,379,905**

			2017		
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,125,080,642	₱2,599,237,687	₱910,425,844	₱5,611,187,849
Acquisitions	–	1,512,727	159,892,831	65,714,426	227,119,984
Disposals	–	–	(37,676,241)	–	(37,676,241)
Balance at end of year	976,443,676	1,126,593,369	2,721,454,277	976,140,270	5,800,631,592
Accumulated Depreciation					
Balance at beginning of year	–	380,990,516	1,937,538,765	625,488,113	2,944,017,394
Depreciation	–	35,479,744	263,138,971	93,269,967	391,888,682
Disposals	–	–	(15,286,838)	–	(15,286,838)
Balance at end of year	–	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Net Book Value	₱976,443,676	₱710,123,109	₱536,063,379	₱257,382,190	₱2,480,012,354

Gain on sale of property and equipment amounted to ₱7.9 million, ₱1.7 million and ₱2.6 million in 2018, 2017 and 2016, respectively.

The details of depreciation under the statements of income follow:

	2018	2017	2016
Property and equipment	**₱367,291,633**	₱391,888,682	₱368,444,657
Investment properties (Note 12)	**99,341,223**	93,249,037	85,649,120
Chattel mortgage properties (Note 14)	**155,549,227**	150,298,384	103,554,973
	₱622,182,083	₱635,436,103	₱557,648,750

As of December 31, 2018 and 2017, property and equipment of the Bank with gross carrying amounts of ₱1.8 billion and ₱1.5 billion, respectively, are fully depreciated but are still being used.

12. **Investment Properties**

The composition of and movements in this account follow:

	2018		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,626,841,652**	**₱2,930,621,176**	**₱4,557,462,828**
Additions (Note 32)	**259,427,845**	**532,358,484**	**791,786,329**
Disposals	**(229,927,428)**	**(401,272,571)**	**(631,199,999)**
Balance at end of year	**1,656,342,069**	**3,061,707,089**	**4,718,049,158**
Accumulated Depreciation			
Balance at beginning of year	–	**397,625,717**	**397,625,717**
Depreciation (Note 11)	–	**99,341,223**	**99,341,223**
Disposals	–	**(58,962,417)**	**(58,962,417)**
Balance at end of year	–	**438,004,523**	**438,004,523**
Allowance for Impairment Losses			
Balance at beginning of year	**166,817,379**	**62,702,253**	**229,519,632**
Provisions (reversals) for the year (Note 15)	**(87,113,024)**	**116,039,818**	**28,926,794**
Disposals	**(3,214,159)**	**(11,505,348)**	**(14,719,507)**
Balance at end of year	**76,490,196**	**167,236,723**	**243,726,919**
Net Book Value	**₱1,579,851,873**	**₱2,456,465,843**	**₱4,036,317,716**

	2017		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,738,547,376	₱2,742,910,089	₱4,481,457,465
Additions (Note 32)	263,873,034	604,407,391	868,280,425
Disposals	(375,578,758)	(416,696,304)	(792,275,062)
Balance at end of year	1,626,841,652	2,930,621,176	4,557,462,828
Accumulated Depreciation			
Balance at beginning of year	–	366,374,975	366,374,975
Depreciation (Note 11)	–	93,249,037	93,249,037
Disposals	–	(61,998,295)	(61,998,295)
Balance at end of year	–	397,625,717	397,625,717
Allowance for Impairment Losses			
Balance at beginning of year	181,407,122	71,967,060	253,374,182
Provisions (reversals) for the year (Note15)	–	(1,201,346)	(1,201,346)
Disposals	(14,589,743)	(8,063,461)	(22,653,204)
Balance at end of year	166,817,379	62,702,253	229,519,632
Net Book Value	₱1,460,024,273	₱2,470,293,206	₱3,930,317,479

The details of the net book value of investment properties follow:

	2018	2017
Real estate properties acquired in settlement of loans and receivables	**₱3,942,199,973**	₱3,832,340,181
Bank premises leased to third parties and held for capital appreciation	**94,117,743**	97,977,298
	₱4,036,317,716	₱3,930,317,479

As of December 31, 2018 and 2017, the aggregate fair value of investment properties amounted to ₱5.9 billion and ₱4.9 billion, respectively. Fair value of the properties was determined using sales comparison approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱278.0 million, ₱271.9 million and ₱350.4 million in 2018, 2017 and 2016, respectively. The Bank realized gain on sale of investment properties amounting to ₱144.0 million, ₱76.9 million and ₱14.0 million in 2018, 2017 and 2016, respectively.

Rental income on investment properties included in miscellaneous income amounted to ₱49.9 million, ₱48.7 million and ₱53.8 million in 2018, 2017 and 2016, respectively (Notes 23 and 25).

Operating expenses incurred in maintaining investment properties (included under miscellaneous expense - 'Repairs and maintenance') amounted to ₱21.4 million, ₱20.5 million and ₱18.8 million in 2018, 2017 and 2016, respectively (Note 26).

13. **Goodwill and Intangible Assets**

This account consists of:

	2018	2017
Goodwill	**₱53,558,338**	₱53,558,338
Intangible assets		
Software costs	**564,764,758**	624,241,981
Branch licenses	**37,123,737**	37,123,737
	601,888,495	661,365,718
	₱655,446,833	₱714,924,056

The movements in intangible assets follow:

	2018		
	Software Costs	**Branch Licenses**	**Total**
Balance at beginning of year	**₱624,241,981**	**₱37,123,737**	**₱661,365,718**
Additions	**99,611,845**	–	**99,611,845**
Amortization	**(159,089,068)**	–	**(159,089,068)**
Balance at end of year	**₱564,764,758**	**₱37,123,737**	**₱601,888,495**

	2017		
	Software Costs	Branch Licenses	Total
Balance at beginning of year	₱414,483,793	₱37,123,737	₱451,607,530
Additions	345,190,531	–	345,190,531
Amortization	(135,432,343)	–	(135,432,343)
Balance at end of year	₱624,241,981	₱37,123,737	₱661,365,718

14. **Other Assets**

This account consists of:

	2018	2017
Chattel mortgage properties - net	**₱720,607,271**	₱712,848,255
Prepayments (Note 29)	**265,513,919**	139,556,053
Security deposits (Note 29)	**205,925,406**	179,996,425
Documentary stamps on hand	**136,098,118**	103,123,771
Stationeries and supplies on hand	**42,188,585**	41,788,037
RCOCI	**19,517,854**	10,349,423
Sundry debits	**9,690,932**	23,766,185
Creditable withholding tax	**5,083,497**	6,675,985
Others	**694,885**	1,462,245
	₱1,405,320,467	₱1,219,566,379

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

The movements in chattel mortgage properties - net follow:

	2018	2017
Cost		
Balance at beginning of year	**₱806,325,646**	₱683,799,123
Additions (Note 32)	**2,592,446,719**	2,577,163,081
Disposals	**(2,585,179,594)**	(2,454,636,558)
Balance at the end of year	**813,592,771**	806,325,646
Accumulated Depreciation		
Balance at beginning of year	**93,217,346**	76,086,898
Depreciation (Note 11)	**155,549,227**	150,298,384
Disposals	**(156,196,910)**	(133,167,936)
Balance at the end of year	**92,569,663**	93,217,346
Allowance for Impairment Losses (Note 15)		
Balance at beginning of year	**260,045**	616,090
Provision	**1,689,227**	–
Disposals	**(1,533,435)**	(356,045)
Balance at end of year	**415,837**	260,045
Net Book Value	**₱720,607,271**	₱712,848,255

Gain on foreclosure of chattel mortgage properties amounted to ₱313.5 million, ₱759.1 million and ₱458.4 million in 2018, 2017 and 2016, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱81.4 million, ₱174.2 million and ₱106.7 million in 2018, 2017 and 2016, respectively.

15. Allowance for Credit and Impairment Losses

An analysis of changes in the ECL allowances for loans and advances to banks as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Due from BSP							
Balance as of January 1, 2018	₱–	₱–	₱–	₱–	₱–	₱–	₱–
New assets originated or purchased	2,828	–	–	–	–	–	2,828
Balance at December 31, 2018	**2,828**	**–**	**–**	**–**	**–**	**–**	**2,828**
Due from other banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	2,301	–	–	–	–	–	2,301
Balance at December 31, 2018	**2,301**	**–**	**–**	**–**	**–**	**–**	**2,301**
Interbank loans receivable							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	180	–	–	–	–	–	180
Balance at December 31, 2018	**180**	**–**	**–**	**–**	**–**	**–**	**180**
Total loans and advances to banks							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	5,309	–	–	–	–	–	5,309
Balance at December 31, 2018	**₱5,309**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱5,309**

An analysis of changes in the ECL allowances for investment securities as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Financial assets at FVOCI							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	₱9,957	₱–	₱–	₱–	₱–	₱–	₱9,957
Balance at December 31, 2018	**9,957**	**–**	**–**	**–**	**–**	**–**	**9,957**
Investment at amortized cost							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	29,046	–	–	–	–	–	29,046
Balance at December 31, 2018	**29,046**	**–**	**–**	**–**	**–**	**–**	**29,046**
Total investment securities							
Balance at January 1, 2018	–	–	–	–	–	–	–
New assets originated or purchased	39,003	–	–	–	–	–	39,003
Balance at December 31, 2018	**₱39,003**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱39,003**

An analysis of changes in the ECL allowances for receivables from customers as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Consumption Loans							
Balance as of December 31, 2017	₱–	₱604,615	₱–	₱678,710	₱674,038	₱–	₱1,957,363
PFRS 9 transition	–	(209,356)	–	165,955	507,100	–	463,699
Balance at January 1, 2018	–	395,259	–	844,665	1,181,138	–	2,421,062
New assets originated or purchased	–	248,741	–	498,898	100,480	–	848,119
Assets derecognized or repaid	–	(221,513)	–	(232,491)	(256,253)	–	(710,257)
Amounts written off	–	–	–	(12,087)	(446,738)	–	(458,825)
Transfers to Stage 1	–	310,554	–	(285,869)	(24,685)	–	–
Transfers to Stage 2	–	(60,846)	–	128,797	(67,951)	–	–
Transfers to Stage 3	–	(11,758)	–	(131,677)	143,435	–	–

(Forward)

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Impact on year-end ECL exposures transferred between stages during the year	₱–	(₱289,942)	₱–	₱180,029	₱436,995	₱–	₱327,082
Balance at December 31, 2018	–	370,495	–	990,265	1,066,421	–	2,427,181
Real Estate Loans							
Balance as of December 31, 2017	–	335,661	–	189,022	107,419	–	632,102
PFRS 9 transition	–	(263,276)	–	72,271	63,894	–	(127,111)
Balance at January 1, 2018	–	72,385	–	261,293	171,313	–	504,991
New assets originated or purchased	–	16,085	–	20,521	6,635	–	43,241
Assets derecognized or repaid	–	(30,573)	–	(107,437)	(50,164)	–	(188,174)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	70,341	–	(62,540)	(7,801)	–	–
Transfers to Stage 2	–	(6,485)	–	29,762	(23,277)	–	–
Transfers to Stage 3	–	(638)	–	(20,034)	20,672	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(66,126)	–	52,311	47,158	–	33,343
Balance at December 31, 2018	–	54,989	–	173,876	164,536	–	393,401
Commercial Loans							
Balance as of December 31, 2017	–	458,851	–	46,178	284,898	–	789,927
PFRS 9 transition	–	(433,518)	–	(40,815)	(182,386)	–	(656,719)
Balance at January 1, 2018	–	25,333	–	5,363	102,512	–	133,208
New assets originated or purchased	–	28,322	–	1,323	10,658	–	40,303
Assets derecognized or repaid	–	(11,817)	–	(1,353)	(35,022)	–	(48,192)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	681	–	(681)	–	–	–
Transfers to Stage 2	–	(841)	–	2,186	(1,345)	–	–
Transfers to Stage 3	–	(323)	–	(85)	408	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(189)	–	(1,372)	8,590	–	7,029
Balance at December 31, 2018	–	41,166	–	5,381	85,801	–	132,348
Personal Loans							
Balance as of December 31, 2017	–	21,186	–	147,906	427,016	–	596,108
PFRS 9 transition	–	(7,289)	–	(26,496)	26,927	–	(6,858)
Balance at January 1, 2018	–	13,897	–	121,410	453,943	–	589,250
New assets originated or purchased	–	4,811	–	100,691	19,790	–	125,292
Assets derecognized or repaid	–	(14,250)	–	(3,319)	(14,831)	–	(32,400)
Amounts written off	–	(1,875)	–	(65,983)	(160,195)	–	(228,053)
Transfers to Stage 1	–	20,081	–	(14,525)	(5,556)	–	–
Transfers to Stage 2	–	(3,483)	–	52,138	(48,655)	–	–
Transfers to Stage 3	–	(645)	–	(9,957)	10,602	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(2,947)	–	23,629	96,744	–	117,426
Balance at December 31, 2018	–	15,589	–	204,084	351,842	–	571,515
Total Receivable from Customer							
Balance as of December 31, 2017	–	1,420,313	–	1,061,816	1,493,371	–	3,975,500
PFRS 9 transition	–	(913,439)	–	170,915	415,535	–	(326,989)
Balance at January 1, 2018	–	506,874	–	1,232,731	1,908,906	–	3,648,511
New assets originated or purchased	–	297,959	–	621,433	137,563	–	1,056,955
Assets derecognized or repaid	–	(278,153)	–	(344,600)	(356,270)	–	(979,023)
Amounts written off	–	(1,875)	–	(78,070)	(606,933)	–	(686,878)
Transfers to Stage 1	–	401,657	–	(363,615)	(38,042)	–	–
Transfers to Stage 2	–	(71,655)	–	212,883	(141,228)	–	–
Transfers to Stage 3	–	(13,364)	–	(161,753)	175,117	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(359,204)	–	254,597	589,487	–	484,880
Balance at December 31, 2018	₱–	₱482,239	₱–	₱1,373,606	₱1,668,600	₱–	₱3,524,445

An analysis of changes in the ECL allowances for other receivables as of December 31, 2018 follows (in thousands):

	2018						
	Stage 1		Stage 2				
	Individual	Collective	Individual	Collective	Stage 3	POCI	Total
Accrued Interest Receivable							
Balance as of December 31, 2017	₱–	₱15,678	₱–	₱11,363	₱142,815	₱–	₱169,856
PFRS 9 transition	–	–	–	–	(35,841)	–	(35,841)
Balance at January 1, 2018	–	15,678	–	11,363	106,974	–	134,015
New assets originated or purchased	–	72	–	639	5,770	–	6,481
Assets derecognized or repaid	–	(14,312)	–	(2,114)	(151,619)	–	(168,045)
Amounts written off	–	–	–	–	(270)	–	(270)
Transfers to Stage 1	–	1,494	–	(970)	(524)	–	–
Transfers to Stage 2	–	(1,041)	–	2,304	(1,263)	–	–
Transfers to Stage 3	–	(225)	–	(1,903)	2,128	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(1,666)	–	6,693	379,126	–	384,153
Balance at December 31, 2018	–	–	–	16,012	340,322	–	356,334
Accounts Receivable							
Balance as of December 31, 2017	–	34,929	–	8,963	422,571	–	466,463
PFRS 9 transition	–	–	–	(8,883)	(89,544)	–	(98,427)
Balance at January 1, 2018	–	34,929	–	80	333,027	–	368,036
New assets originated or purchased	–	54,758	–	9,016	3,165	–	66,939
Assets derecognized or repaid	–	(31,095)	–	(2,672)	(13,994)	–	(47,761)
Amounts written off	–	–	–	–	(8)	–	(8)
Transfers to Stage 1	–	1,116	–	(4)	(1,112)	–	–
Transfers to Stage 2	–	(26)	–	3,240	(3,214)	–	–
Transfers to Stage 3	–	(2,366)	–	(1)	2,367	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(23,278)	–	(38)	102,765	–	79,449
Balance at December 31, 2018	–	34,038	–	9,621	422,996	–	466,655
Sales Contract Receivable							
Balance as of December 31, 2017	–	19,754	–	2,743	11,339	–	33,836
PFRS 9 transition	–	–	–	–	(7,842)	–	(7,842)
Balance at January 1, 2018	–	19,754	–	2,743	3,497	–	25,994
New assets originated or purchased	–	–	–	–	–	–	–
Assets derecognized or repaid	–	(5,952)	–	–	(3,264)	–	(9,216)
Amounts written off	–	–	–	–	–	–	–
Transfers to Stage 1	–	27	–	(27)	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–
Transfers to Stage 3	–	(13,412)	–	(2,771)	16,183	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(15)	–	55	(15,853)	–	(15,813)
Balance at December 31, 2018	–	402	–	–	563	–	965
Bills Purchased							
Balance at January 1, 2018	–	1,303	–	–	–	–	1,303
Balance at December 31, 2018	–	1,303	–	–	–	–	1,303
Total Other Receivables							
Balance as of December 31, 2017	–	71,664	–	23,069	576,725	–	671,458
PFRS 9 transition	–	–	–	(8,883)	(133,227)	–	(142,110)
Balance at January 1, 2018	–	71,664	–	14,186	443,498	–	529,348
New assets originated or purchased	–	54,830	–	9,655	8,935	–	73,420
Assets derecognized or repaid	–	(51,359)	–	(4,786)	(168,877)	–	(225,022)
Amounts written off	–	–	–	–	(278)	–	(278)
Transfers to Stage 1	–	2,637	–	(1,001)	(1,636)	–	–
Transfers to Stage 2	–	(1,067)	–	5,544	(4,477)	–	–
Transfers to Stage 3	–	(16,003)	–	(4,675)	20,678	–	–
Impact on year-end ECL exposures transferred between stages during the year	–	(24,959)	–	6,710	466,038	–	447,789
Balance at December 31, 2018	₱–	₱35,743	₱–	₱25,633	₱763,881	₱–	₱825,257

The details of provisions under the statements of income follow:

	2018
Loans and Receivables	**₱2,063,044,408**
Investment Securities	**39,003,532**
Investment Properties	**28,926,794**
Due from BSP	**2,827,898**
Due from Other Banks	**2,300,673**
Chattel Mortgage	**1,689,227**
Interbank Loans Receivable	**180,000**
	₱2,137,972,532

An analysis of the allowance for credit and impairment losses as of December 31, 2017 follows (in thousands):

	2017					
	AFS Investments – Equity Securities (Note 8)		Loans and Receivables	Investment Properties	Other Assets	
	Quoted	Unquoted	(Note 9)	(Note 12)	(Note 14)	Total
Balance at beginning of year	₱1,220,000	₱968,665	₱4,762,733,222	₱253,374,182	₱616,090	₱5,018,912,159
Provision (reversal) for credit and impairment losses	–	–	2,271,380,151	(1,201,346)	–	2,270,178,805
Reversal of allowance on assets sold/settled	–	–	(1,413,816,082)	(22,653,204)	(356,045)	(1,436,825,331)
Accounts written off	–	–	(973,339,176)	–	–	(973,339,176)
Balance at end of year	₱1,220,000	₱968,665	₱4,646,958,115	₱229,519,632	₱260,045	₱4,878,926,457

A reconciliation of the allowance for credit losses by class of loans and receivables as of December 31, 2017, is as follows (in thousands):

	2017								
	Receivables from Customers				Other Receivables				
	Consumption	Real Estate	Commercial	Personal	Accrued Interest Receivable	Accounts Receivable	Sales Contract Receivable	Bills Purchased	Total
Balance as of December 31, 2017	₱2,049,703	₱505,499	₱881,296	₱666,010	₱158,626	₱466,460	₱33,836	₱1,303	₱4,762,733
PFRS 9 transition	1,950,817	126,603	(91,369)	227,854	57,398	77	–	–	2,271,380
Balance as of January 1, 2018	(1,413,816)	–	–	–	–	–	–	–	(1,413,816)
Provisions for the year charged against profit or loss	(629,341)	–	–	(297,756)	(46,168)	(74)	–	–	(973,339)
Reversal of allowance	1,957,363	632,102	789,927	596,108	169,856	466,463	33,836	1,303	4,646,958
Amounts written off	–	487,884	103,431	–	48,199	185,139	–	–	824,653
Reclassification/Transfers	1,957,363	144,218	686,496	596,108	121,657	281,324	33,836	1,303	3,822,305
Balance at end of year	₱1,957,363	₱632,102	₱789,927	₱596,108	169,856	₱466,463	₱33,836	₱1,303	4,646,958

16. **Deposit Liabilities**

Interest expense on deposit liabilities consists of:

	2018	2017	2016
Time (Note 29)	**₱4,239,706,713**	₱2,792,840,772	₱2,158,092,448
Demand (Note 29)	**195,685,212**	167,111,638	131,686,232
Savings	**152,239,685**	138,804,756	120,200,524
LTNCD	**230,861,749**	115,908,554	–
	₱4,818,493,359	₱3,214,665,720	₱2,409,979,204

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 7.56% in 2018 and 0.25% to 6.00% in 2017 and 0.25% to 9.00% in 2016, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.25% to 3.05% in 2018, 0.50% to 2.00% in 2017 and 0.01% to 2.13% in 2016. Effective interest rates on deposit liabilities range from 1.94% to 3.28% as of December 31, 2018 and from 0.25% to 1.75% as of December 31, 2017 and 2016.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to reserves equivalent to 8.00%. As of December 31, 2018 and 2017, the Bank is in compliance with such regulations. As of December 31, 2018 and 2017, Due from BSP amounting to ₱14.8 billion and ₱13.9 billion, respectively, was set aside as reserves for deposit liabilities, as reported to the BSP.

On December 8, 2016, the BSP authorized the Bank to issue LTNCDs up to ₱10.0 billion through one or multiple tranches over a period of one year. On January 30, 2017, the Bank issued the first tranche of LTNCDs amounting to ₱3.4 billion with a tenor of five (5) years and three (3) months and due April 30, 2022 with interest rate of 3.50% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On August 09, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion with a tenor of five (5) years and six (6) months and due February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

As of December 31, 2018, deferred financing cost on LTNCDs amounted to ₱64.2 million. Amortization of deferred financing cost amounted to ₱8.7 million in 2018.

17. **Bills Payable and Subordinated Notes**

Bills Payable
This account consists of the following:

	2018	2017
Medium term fixed rate notes (MTFNs)	**₱2,968,567,431**	₱–
Securities sold under repurchase agreements (SSURA)	–	1,492,418,518
	₱2,968,567,431	₱1,492,418,518

On December 10, 2018, the Bank issued MTFNs amounting to ₱3.0 billion with a tenor of one (1) year and six (6) months and due on June 10, 2020 with interest rate of 7.07% per annum payable quarterly. Interest payment dates shall commence on March 10, 2019 and up to and including the maturity date. The minimum investment size for the MTFNs is ₱10.0 million with increments of ₱0.1 million thereafter.

Bills payable – SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 5 to 33 days. Details of securities pledged under bills payable – SSURA as of December 31, 2017 is as follow:

Collateral Pledge	Face Value	Carrying Value	Fair Value
HTM Investments (Note 8)	₱748,950,000	₱1,010,100,200	₱1,009,137,727
AFS Investments (Note 8)	439,300,000	751,808,493	751,808,493

The Bank has no pledge under bills payable – SSURA as of December 31, 2018.

Peso-denominated interbank borrowings of the Bank bear annual interest ranging from 3.00% to 4.69% in 2018, 2.50% in 2017 and ranging from 2.50% to 2.56% in 2016. Foreign currency-denominated interbank borrowings bear annual interest ranging from 1.28% to 2.38%, 1.00% to 1.55%, and 0.88% to 1.94% in 2018, 2017, and 2016, respectively. Annual interest rate on dollar-denominated SSURA ranges from 1.00% to 2.35%, 1.05% to 1.75%, and 0.25% to 1.65% in 2018, 2017, and 2016, respectively.

As of December 31, 2018, deferred financing cost on MTFNs amounted to ₱31.4 million. Amortization of deferred financing cost amounted to ₱1.1 million in 2018.

Interest expense on bills payable in 2018, 2017 and 2016 amounted to ₱55.9 million, ₱59.0 million and ₱56.8 million, respectively (Note 29).

Subordinated Notes
This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**2018**	2017
August 23, 2024	₱3,000,000,000	**₱2,981,673,382**	₱2,978,997,695

Unamortized debt issuance costs on these notes amounted to ₱18.3 million and ₱21.0 million as of December 31, 2018 and 2017, respectively.

5.50%, ₱3.0 Billion Unsecured Subordinated Notes
On April 14, 2014, the Bank obtained approval from the BSP to issue and sell ₱3.0 billion in Unsecured Subordinated Notes due August 23, 2024 (the Notes) and issued them on May 23, 2014 with an interest rate of 5.50%.

Among the significant terms and conditions of the issuance of the Notes are:

a. Issue price at 100.00% of the face value of each Note;

b. The Notes bear interest at the rate of 5.50% per annum from and including May 23, 2014 to but excluding August 23, 2024. Unless the Notes are earlier redeemed upon at least 30 days prior notice to August 23, 2019, the Call Option Date. Interest shall be payable quarterly in arrears at the end of each Interest Period on August 23, November 23, February 23 and May 23 of each year, commencing on August 23, 2014 until the Maturity Date;

c. The Notes will constitute direct, unconditional and unsecured obligations of the Bank. The Notes will be subordinated in right of payment of principal and interest to all depositors and other creditors of the Bank and will rank pari passu and without any preference among themselves, but in priority to the rights and claims of holders of all classes of equity securities of the Bank, including holders of preferred shares, if any;

d. The Notes have a loss absorption feature, which means the Notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions set out in the “Terms and Conditions of the Notes - Loss Absorption Due to Non-Viability Event; Non-Viability Write-Down”, when the Bank or its parent company is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or the inability of the Bank or its parent company to continue business or any other event as determined by the BSP, whichever comes earlier. A Non-Viability Trigger Event shall be deemed to have occurred if the BSP notifies the Bank in writing that it has determined that a: i) Write-Down of the Notes and other capital instruments of the Bank is necessary because, without such write-down, the Bank would become non-viable, ii) public sector injection of capital, or equivalent support, is necessary because, without such injection or support, the Bank would become non-viable, or iii) write-down of the Notes and other capital instruments of the Bank is necessary, because, as a result of the closure of the Bank, the latter has become non-viable;

e. Unless previously converted, and provided a Non-Viability Trigger Event has not occurred and subject to regulations, the Bank shall have the option but not the obligation, upon securing all required regulatory approvals, to redeem the Notes as a whole, but not in part, in the following circumstances: i) at the Call Option Amount, on the Call Option Date, subject to the prior approval of the BSP and the compliance by the Issuer with Regulations and prevailing requirements for the granting by the BSP of its consent, ii) prior to the stated maturity and on any Interest Payment Date at par plus accrued but unpaid interest thereon if or when payments of principal or interest due on the Notes become subject to additional or increased taxes, other than any taxes and rates of such taxes prevailing as of the Issue Date, as a result of certain changes in law, rule, or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank or iii) the non-qualification of the Notes as Tier 2 capital as determined by the BSP. Incremental tax, if any, that may be due on the interest income already earned under the Notes as a result of the exercise by the Bank of its option for early redemption, shall be for its own account. Call Option Amount shall be based on the principal amount of the Note plus accrued interest covering the accrued and unpaid interest as of but excluding the Call Option Date.

As of December 31, 2018 and 2017, the Bank is in compliance with the terms and conditions upon which the subordinated notes have been issued.

Interest expense incurred on these notes amounted to ₱167.7 million, ₱191.1 million and ₱361.8 million in 2018, 2017 and 2016, respectively, net of amortization of deferred financing cost amounting to ₱2.7 million, ₱3.3 million and ₱23.7 million, respectively.

18. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2018	2017
Accrued interest payable	**₱900,205,415**	₱539,659,048
Accrued other taxes and licenses payable	**134,131,140**	121,804,006
Accrued other expenses payable (Note 29)	**980,186,158**	996,960,250
	₱2,014,522,713	₱1,658,423,304

Accrued other expenses payable consist of:

	2018	2017
Litigation	**₱272,126,457**	₱209,942,489
Insurance (Note 29)	**200,274,397**	193,075,730
Lease payable	**190,565,729**	188,338,698
Compensation and fringe benefits	**141,027,847**	141,725,665
Security, messengerial and janitorial	**48,448,406**	76,800,392
Advertising	**35,563,037**	68,640,771
Information technology (Note 29)	**34,328,559**	37,731,731
Professional and consultancy fees	**14,599,349**	2,830,174
ATM maintenance	**11,894,674**	15,568,755
Membership, fees & dues	**5,161,321**	4,993,929
Miscellaneous	**26,196,382**	57,311,916
	₱980,186,158	₱996,960,250

Compensation and fringe benefits include salaries and wages, as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

19. Other Liabilities

This account consists of:

	2018	2017
Accounts payable (Note 29)	**₱2,072,599,423**	₱2,080,276,358
Sundry credits	**417,299,168**	207,190,555
Other credits	**245,406,847**	698,347,392
Withholding taxes payable	**128,716,646**	94,051,921

(Forward)

	2018	2017
Net retirement liability (Note 24)	**₱112,659,016**	₱515,852,989
Due to the Treasurer of the Philippines	**16,150,662**	16,959,070
Bills purchased - contra (Note 9)	**13,077,760**	10,482,445
SSS, Medicare, ECP and HDMF premium payable	**9,640,813**	9,122,722
Miscellaneous (Note 29)	**47,837,716**	40,948,901
	₱3,063,388,051	₱3,673,232,353

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱19.4 million and ₱18.2 million as of December 31, 2018 and 2017, respectively.

20. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	December 31					
	2018			2017		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱3,776,087**	**₱–**	**₱3,776,087**	₱2,596,873	₱–	₱2,596,873
Due from BSP - gross	**15,159,012**	**–**	**15,159,012**	15,265,388	–	15,265,388
Due from other banks - gross	**1,685,107**	**–**	**1,685,107**	1,508,489	–	1,508,489
Interbank loans receivable and SPURA - gross (Note 7)	**1,892,000**	**–**	**1,892,000**	1,842,023	–	1,842,023
FVTPL investments (Note 8)	**10,107**	**–**	**10,107**	366,236	–	366,236
AFS investments - gross (Note 8)	**–**	**–**	**–**	565,979	16,361,696	16,927,675
Financial assets at FVOCI (Note 4)	**2,973,540**	**9,958,062**	**12,931,602**	–	–	–
HTM investments (Note 8)	**–**	**–**	**–**	–	29,473,724	29,473,724
Investment securities at amortized cost (Note 8)	**563,506**	**35,112,306**	**35,675,812**	–	–	–
Loans and receivables - gross (Note 9)	**16,343,496**	**144,266,699**	**160,610,195**	14,576,182	135,035,434	149,611,616
Other assets - gross* (Note 14)	**34,213**	**191,482**	**225,695**	–	191,358	191,358
	₱42,437,068	**₱189,528,549**	**₱231,965,617**	₱36,721,170	₱181,062,212	₱217,783,382
Nonfinancial Assets						
Investment in a joint venture (Note 10)	**₱–**	**₱691,426**	**₱691,426**	–	607,163	607,163
Property and equipment - gross (Note 11)	**–**	**6,053,435**	**6,053,435**	–	5,800,632	5,800,632
Investment properties - gross (Note 12)	**–**	**4,718,049**	**4,718,049**	–	4,557,463	4,557,463
Deferred tax assets (Note 27)	**–**	**1,327,667**	**1,327,667**	–	1,429,327	1,429,327
Goodwill and intangible assets (Note 13)	**–**	**1,618,734**	**1,618,734**	–	714,924	714,924
Other assets - gross** (Note 14)	**399,424**	**873,186**	**1,272,610**	315,324	806,362	1,121,686
	₱399,424	**₱15,282,497**	**15,681,921**	₱315,324	₱13,915,871	14,231,195
Less: Allowance for credit and impairment losses (Note 15)			**4,628,199**			4,878,926
Accumulated depreciation (Notes 11, 12 and 14)			**5,289,917**			3,811,463
Unearned discounts (Note 9)			**130**			145
			9,918,246			8,690,534
			₱237,729,292			₱223,324,043

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.

** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	December 31					
	2018			2017		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities (Note 16)	**₱175,904,910**	**₱ 24,783,029**	**₱ 200,687,939**	₱170,432,096	₱18,481,306	₱188,913,402
Bills payable (Note 17)	**–**	**2,968,567**	**2,968,567**	1,492,419	–	1,492,419
Subordinated notes (Note 17)	**–**	**2,981,673**	**2,981,673**	–	2,978,998	2,978,998
Financial liabilities at FVTPL (Note 8)	**2,895**	**–**	**2,895**	–	–	–
Treasurer's, cashier's and manager's checks	**1,615,520**	**–**	**1,615,520**	2,213,870	–	2,213,870
Accrued other expenses payable (Note 18)	**980,186**	**–**	**980,186**	996,960	–	996,960
Accrued interest payable (Note 18)	**900,206**	**–**	**900,206**	539,659	–	539,659
Other liabilities (Note 19)	**–**	**–**	**–**			
Accounts payable	**2,072,599**	**–**	**2,072,599**	2,080,276	–	2,080,276
Other credits	**245,406**	**–**	**245,406**	698,347	–	698,347
Bills purchased - contra	**13,078**	**–**	**13,078**	10,482	–	10,482
Due to the Treasurer of the Philippines	**16,151**	**–**	**16,151**	16,959	–	16,959
Deposits for keys – SDB	**798**	**–**	**798**	806	–	806
Others*	**6,352**	**–**	**6,352**	5,585	–	5,585
	₱181,758,101	**₱30,733,269**	**₱212,491,370**	₱178,487,459	₱21,460,304	₱199,947,763
Nonfinancial Liabilities						
Accrued other taxes and licenses payable (Note 18)	**₱134,131**	**₱–**	**₱134,131**	₱121,804	₱–	₱121,804
Income tax payable	**638**	**–**	**638**	375	–	375
Withholding taxes payable (Note 19)	**128,717**	**–**	**128,717**	94,052	–	94,052
Other liabilities (Note 19)**	**467,628**	**112,659**	**580,287**	250,871	515,853	766,724
	731,114	**112,659**	**843,773**	467,102	515,853	982,955
	₱182,489,215	**₱30,845,928**	**₱213,335,143**	₱178,954,561	₱21,976,157	₱200,930,718

* Others under financial liabilities comprise payment orders payable and overages.

** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

21. Equity

Issued Capital

As of December 31, 2018 and 2017, the Bank's capital stock consists of:

	Shares	Amount
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**
Issued and outstanding		
Balance at beginning and end of year (Note 28)	**240,252,491**	**₱2,402,524,910**

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of December 31, 2018 and 2017, the total number of stockholders is 1,465 and 1,483, respectively.

Dividends Paid and Proposed

Details of the Bank's dividend distributions as approved by the Bank's BOD and the BSP follow:

	Cash Dividends			
Date of declaration	Per share	Total amount	Record date	Payment date
January 19, 2016	₱0.75	₱180,189,368	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368	May 09, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368	August 06, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368	October 30, 2018	November 14, 2018

On October 9, 2015, the BSP issued Circular No. 888, *Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments*, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB. Otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration (Note 10) until receipt of cash dividends from the investee.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and maximize returns for its shareholders. The Bank considers its paid in capital and surplus as its capital.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payments to shareholders or issue capital securities. The major activities in this area include the following:

- The Bank issued additional common shares for its qualified stockholders in 2008 and 2006 through stock rights offerings that raised ₱2.0 billion and ₱750.0 million in capital, respectively.

- On October 21, 2016, the Bank's BOD approved the Bank's updated Dividend Policy which provides, among others, the declaration and payment of cash dividends at a rate of ₱0.75 per share on a quarterly basis unless approved by a majority vote of the BOD at a different rate or otherwise restricted/prohibited from declaring/paying dividends.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The CAR of the Bank as of December 31, as reported to the BSP, based on BSP Circular No. 781 and BSP Circular No. 538, respectively, are shown in the table below (amounts in millions).

	2018	2017
Tier 1 capital	**₱22,132**	₱20,898
Tier 2 capital	**4,323**	4,346
Gross qualifying capital	**26,455**	25,244
Less required deductions	**3,444**	3,583
Total qualifying capital	**23,011**	21,661
Risk weighted assets	**₱165,836**	₱156,140
Tier 1 capital adequacy ratio	**11.27%**	11.09%
Capital adequacy ratio	**13.88%**	13.87%

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt (refer to Note 17). Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

As of December 31, 2018 and 2017, the Bank has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.

On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

Liquidity Coverage Ratio

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the Bangko Sentral.

Net Stable Funding Ratio
On June 6, 2018, the BSP issued Circular No. 1007, lmplementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile. The covered bank shall maintain an NSFR of at least 100.0 percent at all times. Compliance with this requirement was phased-in effective July 1, 2018, with full implementation of the minimum NSFR on January 1, 2019.

Basel III Countercyclical Capital Buffer
On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine Adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:
- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Financial Performance
The following basic ratios measure the financial performance of the Bank:

	2018	2017	2016
Return on average equity	**11.38%**	12.51%	12.50%
Return on average assets	**1.15%**	1.26%	1.34%
Net interest margin on average earning assets	**5.79%**	6.10%	6.17%
Liquidity ratio	**23.47%**	20.70%	23.46%
Debt-to-equity ratio	**8.75:1**	8.97:1	8.82:1
Asset-to-equity ratio	**9.75:1**	9.97:1	9.82:1
Interest rate coverage ratio	**1.59:1**	1.84:1	1.94:1

22. Net Service Fees and Commission Income

This account consists of:

	2018	2017	2016
Service Fees and Commission Income			
Credit-related fees and commissions	**₱1,147,242,321**	₱1,002,687,070	₱731,435,587
Deposit-related and other fees received (Note 29)	**542,791,633**	441,197,668	473,979,270
Trust fees	**31,711,469**	26,317,702	20,600,300
	1,721,745,423	1,470,202,440	1,226,015,157
Service Fees and Commission Expense			
Commissions	**89,813,087**	83,211,656	83,156,492
Brokerage	**6,294,577**	11,216,635	6,511,459
	96,107,664	94,428,291	89,667,951
Net Service Fees and Commission Income	**₱1,625,637,759**	₱1,375,774,149	₱1,136,347,206

23. **Miscellaneous Income**

This account consists of:

	2018	2017	2016
Recovery of charged-off assets	**₱309,707,677**	₱325,476,107	₱296,241,762
Insurance commission income	**156,867,388**	113,868,238	63,948,168
Rental income (Notes 12, 25 and 29)	**50,548,338**	50,137,646	55,505,274
Others (Note 29)	**107,176,032**	18,028,368	10,452,674
	₱624,299,435	₱507,510,359	₱426,147,878

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

Others include income from renewal fees, checkbook charges, dividend income, breakfunding cost and other miscellaneous income.

24. **Retirement Benefits**

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation.

The plan administered by the Retirement Committee is composed of five (5) members appointed by the BOD of the Bank. The Retirement Committee have all the powers necessary or useful in the discharge of its duties of administration including, but not limited to determining the rights of Members under the Plan. The Retirement Committee may adopt such rules and regulations as it deems necessary and desirable, including those governing the establishment of procedures, the use of necessary forms, and the setting up of minimum periods where notice is required. The Retirement Committee may seek advice of counsel, and may appoint an independent accountant to audit the Plan and actuary to value the plan periodically, whose professional fees and expenses may be charged to the Fund.

Under the existing regulatory framework, Republic Act No. 7641, *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The date of the latest actuarial valuation is December 31, 2018.

The amounts of pension expense included in 'Compensation and fringe benefits' in the statements of income follow:

	2018	2017
Current service cost	**₱225,888,075**	₱217,415,312
Net interest cost	**17,710,397**	30,210,252
	₱243,598,472	₱247,625,564

The net retirement liability shown under 'Other liabilities' recognized in the Bank's statements of condition follows (in thousands):

	2018											
						Remeasurements in other comprehensive income						
		Net benefit cost										
	January 1, 2018	**Current service cost**	**Net Interest**	**Subtotal**	**Benefits paid**	**Return on plan assets (excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contribution by employer**	**December 31, 2018**
Present value of defined benefit obligation	**₱2,415,551**	**₱225,888**	**₱130,937**	**₱356,825**	**(₱171,324)**	**₱–**	**(₱24,119)**	**₱–**	**(₱124,474)**	**(₱148,593)**	**₱–**	**₱2,452,459**
Fair value of plan assets	**(1,899,698)**	**–**	**(113,227)**	**(113,227)**	**171,324**	**41,763**	**–**	**–**	**–**	**41,763**	**(539,962)**	**(2,339,800)**
Net defined benefit liability	**₱515,853**	**₱225,888**	**₱17,710**	**₱243,598**	**₱–**	**₱41,763**	**(₱24,119)**	**₱–**	**(₱124,474)**	**(₱106,830)**	**(539,962)**	**₱112,659**

	2017											
						Remeasurements in other comprehensive income						
		Net benefit cost										
	January 1, 2017	Current service cost	Net Interest	Subtotal	Benefits paid	Return on plan assets (excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contribution by employer	December 31, 2017
Present value of defined benefit obligation	₱2,222,652	₱217,415	₱114,127	₱331,542	(₱88,676)	₱–	₱87,389	(₱48,863)	(₱88,493)	(₱49,967)	₱–	₱2,415,551
Fair value of plan assets	(1,473,808)	–	(83,917)	(83,917)	88,676	55,241	–	–	–	55,240	(485,889)	(1,899,698)
Net defined benefit liability	₱748,844	₱217,415	₱30,210	₱247,625	₱–	₱55,241	₱87,389	(₱48,863)	(₱88,493)	₱5,273	(₱485,889)	₱515,853

The maximum economic benefit available is a combination of expected refunds from the plan and reductions in future contributions.

The Bank expects to contribute ₱425.8 million to its noncontributory defined benefit plan in 2019.

The fair values of plan assets by each class as at the statements of condition date are as follows:

	2018	2017
Investment in other debt securities	**₱1,379,868,233**	₱1,240,305,685
Cash and cash equivalents		
Special deposit account	**859,638,302**	554,889,479
Unit Investment Trust Fund (UITF)	**50,585,860**	66,781,376
Investment in equity securities	**37,503,773**	26,368,915
Other assets	**18,679,990**	12,961,335
	2,346,276,158	1,901,306,790
Expected withdrawals	**4,470,674**	–
Other liabilities	**2,004,942**	1,608,492
	6,475,616	1,608,492
	₱2,339,800,542	₱1,899,698,298

The person exercising voting right for the foregoing equity instruments is currently a senior officer of the Bank.

The principal actuarial assumptions used in determining retirement liability as of December 31, 2018 and 2017 are shown below:

	2018	2017
Discount rate	**7.33%**	5.73%
Turnover rate	**5.00%**	5.00%
Future salary increases	**6.00%**	5.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	December 31, 2018		December 31, 2017	
	Possible Fluctuations	**Increase (decrease)**	Possible Fluctuations	Increase (decrease)
Discount rate	**+1.00%**	**(₱212,902,648)**	+1.00%	(₱193,153,254)
	-1.00%	**246,261,251**	-1.00%	223,084,719
Turnover rate	**+1.00%**	**(4,634,269)**	+1.00%	(10,645,594)
	-1.00%	**4,868,884**	-1.00%	10,953,731
Future salary increase rate	**+1.00%**	**264,768,869**	+1.00%	238,335,111
	-1.00%	**(232,248,283)**	-1.00%	(209,707,814)

The Retirement Committee ensures that there will be sufficient assets to pay pension benefits as they fall due and maintains the plan on an actuarially sound basis considering the benefits to members.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2018	2017
Less than one year	**₱130,213,096**	₱260,863,815
One to less than five years	**788,373,808**	728,232,134
Five to less than 10 years	**1,698,994,154**	1,673,064,174
10 to less than 15 years	**2,395,814,240**	1,991,238,250
15 to less than 20 years	**3,546,955,267**	2,001,828,082
20 years and above	**5,280,083,077**	4,280,297,426

The average duration of the expected benefit payments at the statement of condition date is 16.69 years.

25. **Leases**

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10.00%. Rentals charged against profit or loss under these lease contracts amounting to ₱579.9 million, ₱579.9 million and ₱559.9 million in 2018, 2017 and 2016, respectively, are shown under 'Occupancy and equipment-related costs' in the statements of income (Note 29).

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2018	2017
Within one year	**₱353,722,853**	₱361,756,475
After one year but not more than five years	**984,118,502**	1,078,413,962
More than five years	**348,364,200**	461,169,886
	₱1,686,205,555	₱1,901,340,323

The Bank has also entered into commercial property leases on its surplus office space. These non-cancelable leases have remaining non-cancelable lease terms between 1 and 5 years. As of December 31, 2018 and 2017, there is no contingent rental income. Rental income of the Bank related to these property leases amounting to ₱49.9 million, ₱48.7 million, and ₱53.8 million in 2018, 2017 and 2016, respectively are shown under 'Miscellaneous income' in the statements of income (Notes 12 and 23).

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2018	2017
Within one year	**₱32,955,174**	₱54,489,372
After one year but not more than five years	**35,863,669**	64,053,882
	₱68,818,843	₱118,543,254

26. **Miscellaneous Expenses**

This account consists of:

	2018	2017	2016
Insurance (Note 29)	**₱595,158,658**	₱646,175,766	₱531,430,943
Litigation	**297,754,941**	311,326,367	231,158,922
Information technology (Note 29)	**297,643,153**	300,919,189	342,296,763
Fines, penalties and other charges	**234,341,527**	193,083,359	18,411,698
Communications	**179,193,852**	171,980,030	154,193,467
Repairs and maintenance (Note 12)	**135,470,468**	145,685,402	139,952,788
Transportation and traveling	**95,921,603**	108,019,662	115,592,190
Supervision and examination fees	**70,287,368**	59,666,717	49,247,092
Advertising	**69,805,497**	134,701,913	102,412,588
Stationery and supplies	**65,109,689**	61,923,426	58,283,090
Management and professional fees	**23,735,142**	29,477,993	23,062,585
Banking activities expenses	**12,549,672**	9,032,636	8,004,469
Training and seminars	**12,134,080**	19,158,180	18,007,677
Donations and charitable contributions	**10,490,700**	11,391,445	10,920,000
Rewards and incentives	**7,167,172**	6,595,774	3,181,297
Meeting allowance	**6,325,640**	6,731,295	4,074,588
Membership fees and dues	**5,671,411**	3,508,422	5,816,084
Entertainment, amusement and recreation (EAR) (Note 27)	**2,504,229**	3,492,739	3,407,845
Others	**19,632,920**	28,463,191	57,022,178
	₱2,140,897,722	₱2,251,333,506	₱1,876,476,264

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱398.4 million, ₱368.2 million, and ₱289.5 million in 2018, 2017 and 2016, respectively.

Other expenses include sponsorship expenses, home free loan expenses, appraisal fees and notarial fees. It also includes payments to union members amounting to ₱10.7 million, ₱10.8 million and ₱10.6 million in 2018, 2017 and 2016, respectively, for the successful completion of the collective bargaining agreement.

27. **Income and Other Taxes**

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2018 and 2017.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or offshore banking units (OBU) and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2018 and 7.50% in 2017.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	2018	2017	2016
Current:			
Final tax	**₱260,261,959**	₱259,181,580	₱148,514,787
RCIT	**121,107,822**	134,901,056	147,364,626
	381,369,781	394,082,636	295,879,413
Deferred	**(71,774,541)**	(127,021,129)	(76,166,179)
	₱309,595,240	₱267,061,507	₱219,713,234

Net deferred tax assets consist of the following tax effects:

	2018	2017
Deferred tax assets on:		
Allowance for credit and impairment losses	**₱1,367,526,527**	₱1,414,817,274
Unamortized pension cost contribution	**175,312,814**	122,630,722
Difference between book base and tax base of investment property	**131,401,357**	104,430,509
Accrued rent	**57,169,719**	57,352,453
Net pension liability	**33,797,705**	154,755,897
	1,765,208,122	1,853,986,855
Deferred tax liabilities on:		
Net unrealized gain on investment properties	**(388,319,920)**	(353,705,501)
Unrealized foreign exchange gains	**(49,221,118)**	(58,604,137)
Others	**–**	(12,349,848)
	(437,541,038)	(424,659,486)
	₱1,327,667,084	₱1,429,327,369

As of December 31, 2018 and 2017, the Bank did not recognize deferred tax assets on allowance for credit losses amounting to ₱23.9 million and ₱48.9 million, respectively. Income tax effect recognized in OCI amounted to (₱32.0) million, ₱1.6 million and ₱30.1 million in 2018, 2017 and 2016, respectively.

The reconciliation between the statutory income tax and effective income tax follows (in thousands):

	2018	2017	2016
Statutory income tax	**₱891,522**	₱876,444	₱801,167
Tax effect of:			
Tax-paid and tax-exempt income	**(675,048)**	(688,672)	(677,956)
Nondeductible expenses	**364,875**	365,298	336,301
FCDU income	**(67,360)**	(97,955)	(206,632)
Others	**(204,394)**	(188,053)	(33,167)
Effective income tax	**₱309,595**	₱267,062	₱219,713

28. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2018	2017	2016
a. Net income	**₱2,662,145,866**	₱2,654,419,128	₱2,450,843,310
b. Weighted average number of common shares for basic earnings per share	**240,252,491**	240,252,491	240,252,491
c. Basic/Diluted EPS (a/b)	**₱11.08**	₱11.05	₱10.20

As of December 31, 2018, 2017 and 2016, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

29. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e., 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;

- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties, and are usually settled in cash. These transactions also did not involve more than the nominal risk of collectability or present other unfavorable conditions.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank. The total fair value of the retirement fund as of December 31, 2018 and 2017 amounted to ₱2.3 billion and ₱1.9 billion, respectively. The details of the assets of the fund as of December 31, 2018 and 2017 are disclosed in Note 24.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of December 31, 2018 and 2017:

		2018	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱10,286**	
	Investment in Money Market Fund*	**50,122,781**	
	Income from UITF		**₱900,961**
	Interest income		**7,816**
First Metro ETF	Equity investment	**25,019,522**	

*Includes fair value gains of ₱0.5 million

		2017	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	**₱684**	
	Investment in Money Market Fund*	**66,781,376**	
	Loss on sale of equity securities		**₱10,040,000**
	Income from 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:

	2018	2017
Short-term employee benefits	**₱281,675,167**	₱253,953,306
Post-employment pension benefits	**40,976,332**	7,858,066
	₱322,651,499	₱261,811,372

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

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱19.3 million, ₱19.3 million, and ₱16.7 million in 2018, 2017 and 2016, respectively.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

	December 31, 2018		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Due from other banks	**₱203,044**	**₱1,115,789**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		–	Peso-denominated lending with 3.13% to 4.75% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**66,800,000**	–	
Maturities	**(66,800,000)**	–	
Investment securities at amortized cost	**66,496**	**66,496**	Pledged for security of payroll account with MBTC.
Accounts receivable	**(12,919)**	**4,732**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	**781**	Security deposits on lease contracts
Miscellaneous liabilities	–	**6,242**	Advance payments of security deposits
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	**400,000,000**	–	
Withdrawals/maturities	**(400,000,000)**	–	
Accrued other expense payable	**(3,403)**	**34,329**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**11,012**	–	Income on deposits and interbank loans receivables
Rental income	**20,140**	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**16,368**	–	Income received from ATM service fees, rental and utilities
Information technology expense	**(150,406)**	–	Payment of information technology expenses
Trading and security loss	**(11,934)**	–	Loss from securities transactions
Interest expense	**33**	–	Interest expense on bills payable
Securities transactions			
Outright purchases	**4,115,480**	–	Outright purchase of FVTPL, AFS and HTM investments
Outright sales	**(1,274,420)**	–	Outright sale of FVTPL and AFS investments

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2018		
Joint Venture			
Investment in a joint venture	**₱–**	**₱691,426**	Capital investment in SMFC
Share in net income of a joint venture	**82,377**	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	**1,886**	**1,886**	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	**(247)**	**1,733**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**1,618**	**14,939**	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	**4,630**	Payment of security deposits
Rental income	**13,900**	–	Income from leasing agreements
Interest expense	**198**	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 2.50% to 3.25% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	**189,042,000**	–	
Maturities	**(189,542,000)**	–	
Receivable from customers		**1,002,125**	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Placements	**998,406**	–	
Maturities	**6,522**		
Miscellaneous assets	**43**	**1,433**	Three months advance security deposits
Accounts receivable	**192**	**2,662**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	**917**	**14,568**	Payment for various policy renewals
Deposit liabilities	**(690,572)**	**922,115**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	**1,195**	**3,812**	Various personal and car insurance payable
Miscellaneous liabilities	**361**	**3,530**	Advance payment of security deposits from various tenants
Interest income	**60,746**	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**16**	–	Loss from securities transactions
Rental income	**14,388**	–	Income from leasing agreements with various lease terms
Bank commission	**3,388**	–	Commission income on ATM service fees
Miscellaneous income	**18,353**	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**42,458**	–	Payment of insurance premium
Interest expense	**13,139**	–	Interest on deposit liabilities and bills payable
Rent expense	**3,263**	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**100,000**	–	Outright purchase of FVTPL and AFS investments
Outright sales	**(50,000)**	–	Outright sale of FVTPL and AFS investments
Key Personnel			
Receivables from customers	–	**13,130**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**3,761**	–	
Maturities	**(3,700)**	–	
Interest income	**1,065**	–	Interest income from loans

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2017		
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
AFS investments	50,188	50,188	Pledged for security of payroll account with MBTC
Accounts receivable	10,802	17,651	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 3 days
Deposits/placements	1,285,000	–	
Withdrawals/maturities	1,285,000	–	
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	–	37,732	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	2,494	–	Income on deposits and interbank loans receivables
Rental income	18,384	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	7,502	–	Income received from ATM service fees, rental and utilities
Information technology expense	95,662	–	Payment of information technology expenses
Trading and security loss	(3,898)	–	Loss from securities transactions
Interest expense	256	–	Interest expense on bills payable
Securities transactions			
Outright purchases	8,493,345	–	Outright purchase of FVPL, AFS and HTM investments
Outright sales	(4,920,695)	–	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	–	607,163	Capital investment in SMFC after sale of 10% ownership to GT Capital Inc.
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
Share in unrealized gain on remeasurement of retirement liability	162	162	30% share in SMFC retirement liability remeasurement taken up in OCI
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
Interest expense	75	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable	–	500,000	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	59,900,000	–	
Maturities	(59,400,000)	–	
Receivable from customers		10,241	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	3,723	–	
Maturities	(2,817)		
Miscellaneous assets	–	1,390	Three months advance security deposits
Accounts receivable	16	2,470	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense		4,125	Payment for various policy renewals
Deposit liabilities	5,073,694	1,612,687	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable			Peso-denominated borrowing with fixed interest rate of 2.50% and maturities ranging from 1 to 4 days
Deposits/placements	4,750,000	–	
Withdrawals/maturities	4,750,000	–	
Accounts payable	–	2,617	Various personal and car insurance payable
Miscellaneous liabilities	–	3,169	Advance payment of security deposits from various tenants
Interest income	3,445	–	Income on receivables from customers and interbank loans receivables

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2017		
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
Rent expense	1,025	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	2,065,340	–	Outright purchase of FVPL and AFS investments
Outright sales	(1,000,000)	–	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers		13,069	Unsecured, no impairment, with annual fixed interest
Placements	2,815	–	rates of 6.00% and maturities ranging from 2 to 10 years
Maturities	(3,554)	–	
Interest income	973	–	Interest income from loans

Regulatory Reporting

As required under existing BSP rules and regulations, the Bank discloses loans and other credit accommodations granted to its Directors, Officers, Stockholders and Related Interests (DOSRI). These loans and other credit accommodations were made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing banking regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00% of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15.00% of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30.00% of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2018 and 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 December 31, 2018 and 2017:

	2018	2017
Total outstanding DOSRI accounts	**₱1,376,123,192**	₱1,201,916,069
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**0.88%**	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	**16.39%**	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 ₱5.8 million in 2018 and 2017, and ₱26.6 million in 2016.

30. Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not assets of the Bank.

As of December 31, 2018 and 2017, the Bank deposited government securities with carrying value of ₱84.2 million and ₱64.5 million in compliance with trust regulations, respectively (Note 8).

In compliance with existing banking regulations, the Bank transferred from surplus to surplus reserve the amount of ₱0.5 million and ₱0.1 million which corresponds to 10.00% of the net income realized from the Bank's Trust Department in 2018 and 2017, respectively.

31. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

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

	2018	2017
Trust department accounts (Note 30)	**₱6,400,841,134**	₱5,596,171,367
Swap forward exchange - sold	**2,602,710,000**	2,653,256,032
Stand-by credit lines	**70,500,000**	81,664,196
Late deposits/payments received	**9,521,669**	5,625,757
Items held for safekeeping	**296,024**	1,298,438
Others	**124,429**	519,297

Also, several suits and claims, in behalf or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

32. **Notes to Statements of Cash flows**

The following is a summary of principal non-cash activities that relate to the analysis of the statements of cash flows:

	2018	2017	2016
Additions to chattel mortgage in settlement of loans (Note 14)	**₱2,592,446,719**	₱2,577,163,081	₱1,925,310,853
Fair value changes in financial assets at FVOCI / Change in net unrealized gain/loss on AFS investments (Note 8)	**(815,985,665)**	381,641,780	(386,460,000)
Additions to investment properties in settlement of loans (Note 12)	**791,786,329**	868,280,425	1,125,389,300
Cumulative translation adjustment	**(6,116)**	(5,292,411)	(42,860,727)

The table below provides for the changes in liabilities arising from financing activities in 2018 and 2017 (in millions):

	Subordinated Notes	**Bills Payable**	**Total Liabilities from Financing Activities**
January 1, 2018	**₱2,979**	**₱1,492**	**₱4,471**
Cash flows from availments	–	**87,841**	**87,841**
Cash flows from settlement	–	**(86,365)**	**(86,365)**
Foreign exchange movement	–	–	–
Others	**3**	**1**	**4**
December 31, 2018	**₱2,982**	**₱2,969**	**₱5,951**

	Subordinated Notes	Bills Payable	Total Liabilities from Financing Activities
January 1, 2017	₱5,976	₱6,094	₱12,070
Cash flows from settlement	(3,000)	(4,602)	(7,602)
Foreign exchange movement	–	–	–
Others	3	–	3
December 31, 2017	₱2,979	₱1,492	₱4,471

Others include amortization of subordinated notes.

As of December 31, 2018 and 2017, the Bank recognized an allowance for credit losses from ‘Due from BSP’, ‘Due from other banks’ and ‘Interbank loans receivable and SPURA’ as follows:

	2018	2017
Due from BSP	**₱2,827,898**	₱–
Due from other banks	**2,300,673**	–
Interbank loans receivable and SPURA	**180,000**	–
	₱5,308,571	₱–

33. Offsetting of Financial Assets and Liabilities

PFRS 7 requires the Bank to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

December 31, 2018						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	**Gross carrying amounts (before offsetting) [a]**	**Gross amounts offset in accordance with the offsetting criteria [b]**	**Net amount presented in statement of condition [a-b] [c]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d] [e]**
				[d]		
Derivative Assets (Note 8)	**₱1,620,584,984**	**₱1,610,511,852**	**₱10,073,132**	**₱2,895,073**	**₱–**	**₱7,178,059**
SPURA (Note 7)	**1,892,000,000**	–	**1,892,000,000**	–	**1,883,224,805**	**8,775,195**

December 31, 2017						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at the end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments	Fair value of financial collateral	Net exposure [c-d] [e]
				[d]		
Derivative Assets (Note 8)	₱2,723,211,637	₱2,650,052,076	₱73,159,561	₱–	₱–	₱73,159,561
SPURA (Note 7)	578,250,730	–	578,250,730	–	577,931,536	319,194

Financial liabilities

December 31, 2018						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)** [a]	**Gross amounts offset in accordance with the offsetting criteria** [b]	**Net amount presented in statement of condition [a-b]** [c]	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]** [e]
				[d]		
Derivative Liabilities (Note 8)	**₱985,290,611**	**₱982,395,538**	**₱2,895,073**	**₱10,073,132**	**₱–**	**₱–**

As of December 31, 2018, there was no SSURA.

December 31, 2017						
				Effect of remaining rights of set-off (including rights to set-off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting) [a]	Gross amounts offset in accordance with the offsetting criteria [b]	Net amount presented in statement of condition [a-b] [c]	Financial instruments	Fair value of financial collateral	Net exposure [c-d] [e]
				[d]		
SSURA (Note 17)	₱1,492,418,518	₱–	₱1,492,418,518	₱–	₱1,760,946,220	₱286,527,702

** Included in 'Bills Payable' in the Statement of Condition*

34. Subsequent Events

Stock Right Offering
On November 28, 2018, the Exchange approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion.

As of January 15, 2019, the Bank has complied with all applicable listing requirements of the Exchange.

Cash Dividend Declaration
On January 17, 2019, the BOD of the Bank approved the declaration of a 7.50% regular cash dividend for the fourth quarter of 2018 for stockholders on record as of February 1, 2019 amounting to ₱287.3 million or ₱0.75 per share to be paid on February 18, 2019.

Exercise of Call Option on Unsecured Subordinated Notes
On February 15, 2019, the BOD of the Bank approved to exercise the option to call on the Bank's unsecured subordinated notes amounting to ₱3.0 billion, issued on May 23, 2014, subject to approval by the BSP.

35. Approval for the Release of the Financial Statements

The accompanying comparative financial statements were reviewed by the Audit Committee and approved by the BOD in its meeting on February 15, 2019.

36. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 to amend certain provisions of RR No. 21-2002. The regulations provide that starting 2010, the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
For the taxable year ended December 31, 2018, taxes and licenses of the Bank consist of:

Documentary stamps tax	₱784,333,006
Gross receipts tax	754,385,142
Local taxes	78,219,716
Fringe benefit tax	10,798,305
Others	5,277
	₱1,627,741,446

Withholding Taxes

Details of total remittances of withholding taxes in 2018 are as follows:

Withholding taxes on compensation and benefits	₱422,247,397
Final withholding taxes	795,322,035
Expanded withholding taxes	99,773,523
	₱1,317,342,955

The Bank has no ongoing tax assessment as of December 31, 2018.