



November 7, 2019

Philippine Stock Exchange

6/F PSE Tower,
28th Street corner 5th Avenue
Bonifacio Global City (BGC)
Taguig City

Attention: Ms. Janet A. Encarnacion
Head, Disclosure Department

Philippine Dealing & Exchange Corp.

37/F, Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas,
Makati City

Attention: Atty. Joseph B. Evangelista
Head, Issuer Compliance & Disclosure Department (ICDD)

Securities and Exchange Commission

G/F Secretariat Building
PICC Complex, Roxas Boulevard
Pasay City, 1307

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

Dear Ms. Encarnacion/Atty. Evangelista/Director Felizmenio, Jr.:

We hereby submit a copy of Philippine Savings Bank SEC Form 17-Q for the period ended September 30, 2019.

Very truly yours,

A handwritten signature in black ink, appearing to be 'JL Alde', written over the name and title of the signatory.

JOSE VICENTE L. ALDE
President



111072019002433



SECURITIES AND EXCHANGE COMMISSION

SEC Building, EDSA, Greenhills, Mandaluyong City, Metro Manila, Philippines
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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended : **September 30, 2019**
2. Commission identification number : **15552**
3. BIR tax identification number : **000-663-983-000**
4. Exact name of registrant as specified in its charter : **PHILIPPINE SAVINGS BANK**
5. Province, country or other jurisdiction of incorporation or organization : **City of Manila, Philippines**
6. Industry classification code : (SEC Use Only)
7. Address of registrant's principal office : **PSBank Center, 777 Paseo de Roxas
cor. Sedeño St., Makati City**
8. Registrant's telephone number, including area code : **(632) 885-8208**
9. Former name, former address and former fiscal year, if changed since last report : **Not applicable**
10. Securities registered pursuant to Sections 4 and 8 of the RSA:
- Title of each class : **Common Shares**
Number of shares of common stock outstanding : **383,109,416**
Amount of debt outstanding (Unpaid Subscriptions) : **None**
11. Are any or all of the securities listed on the Philippine Stock Exchange? : **Yes**
12. Indicate by check mark whether the registrant:
- (a) Has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).
Yes [] No []
- (b) Has been subject to such filing requirements for the past 90 days.
Yes [] No []

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Attached are the following:

Unaudited Interim Statements of Condition	Annex 1
Unaudited Interim Statements of Income	Annex 2
Unaudited Interim Statements of Comprehensive Income	Annex 3
Unaudited Interim Statements of Changes in Equity	Annex 4
Unaudited Interim Statements of Cash Flows	Annex 5
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Unaudited Schedule of Financial Soundness Indicators	Annex 7

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION

Unaudited Aging of Receivables Annex 8

Annex 9

PART II – OTHER INFORMATION

1. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of September 30, 2019:

Name of Stockholder	Outstanding Number of Shares	Percent to Total No. of Shares
Metropolitan Bank and Trust Co.	338,610,090	88.38%

As of September 30, 2019, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

Minimum Public Ownership

As of September 30, 2019, public ownership of the Bank was at 10.57%. Of the total shares issued, 2.45 million shares or 0.64% represents foreign ownership.

2. Legal Proceedings

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

3. Board Resolutions

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

SIGNATURES

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

PHILIPPINE SAVINGS BANK

By:


LEAH M. ZAMORA
First Vice President/Controller


JOSE VICENTE L. ALDE
President

Date: November 7, 2019

Philippine Savings Bank

Unaudited Interim Condensed Financial Statements
As of September 30, 2019

And for the nine-month periods ended
September 30, 2019 and 2018

(With Comparative Audited Statement of Condition
as at December 31, 2018)

Annex 1

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENT OF CONDITION

(With Comparative Audited Figures as at December 31, 2018)

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and Other Cash Items	₱2,298,360,474	₱3,776,087,269
Due from Bangko Sentral ng Pilipinas	10,427,589,796	15,156,184,418
Due from Other Banks	934,240,174	1,682,806,080
Interbank Loans Receivable and Securities Purchased		
Under Resale Agreements	2,700,000,000	1,891,820,000
Fair Value through Profit or Loss (FVTPL) Investments (Note 6)	3,738,924	10,107,022
Financial Assets at Fair Value through Other Comprehensive		
Income (FVOCI) (Note 6)	7,081,021,348	12,931,601,524
Investment Securities at Amortized Cost (Note 6)	34,732,027,545	35,646,765,264
Loans and Receivables (Note 7)	162,106,292,382	156,260,362,775
Investment in a Joint Venture	734,424,173	691,425,681
Property and Equipment (Note 8)	3,356,550,791	2,257,379,905
Investment Properties (Note 9)	3,946,333,703	4,036,317,716
Deferred Tax Assets	1,317,707,438	1,327,667,084
Goodwill and Intangible Assets	487,672,970	655,446,833
Other Assets (Note 10)	1,841,430,923	1,405,320,467
	₱231,967,390,641	₱237,729,292,038
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	₱21,953,654,448	₱20,367,043,344
Savings	34,956,744,927	33,399,725,991
Time	115,802,262,728	138,525,888,196
Long-term Negotiable Certificates of Deposits	8,406,238,007	8,395,281,852
	181,118,900,110	200,687,939,383
Bills Payable (Note 11)	2,984,074,247	2,968,567,431
Bonds Payable (Note 11)	6,247,984,992	-
Subordinated Notes (Note 11)	-	2,981,673,382
Treasurer's, Cashier's and Manager's Checks	1,392,440,232	1,615,520,188
Accrued Taxes, Interest and Other Expenses (Note 12)	1,447,360,594	2,014,522,713
Financial Liabilities at FVTPL (Note 6)	8,361,114	2,895,073
Income Tax Payable	79,656,335	637,607
Other Liabilities (Note 13)	4,211,825,089	3,063,388,051
	197,490,602,713	213,335,143,828
Equity		
Common Stock (Note 15)	3,831,094,160	2,402,524,910
Capital Paid in Excess of Par Value	9,287,650,873	2,818,083,506
Surplus Reserves	1,035,899,409	1,035,899,409
Surplus	20,705,000,216	19,391,850,112
Fair Value Reserves on Financial Assets at FVOCI (Note 6)	89,595,869	(782,896,279)
Remeasurement Losses on Retirement Plan	(470,611,677)	(470,611,677)
Equity in Remeasurement Gains on Retirement Plan		
of a Joint Venture	3,131,435	3,131,435
Cumulative Translation Adjustment	(4,972,357)	(3,833,206)
	34,476,787,928	24,394,148,210
	₱231,967,390,641	₱237,729,292,038

See accompanying Notes to Financial Statements.

Annex 2

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENT OF INCOME

	For the Quarter ended September 30		For the Nine-months ended September 30	
	2019	2018	2019	2018
INTEREST INCOME				
Loans and receivables (Note 7)	₱3,908,149,518	₱3,624,967,694	₱11,514,267,120	₱10,544,135,057
Financial assets at FVOCI and investment securities at amortized cost (Note 6)	451,772,255	497,028,536	1,477,393,635	1,486,600,973
Interbank loans receivable and securities purchased under resale agreements	9,668,172	22,790,369	15,525,635	49,909,491
Due from other banks	1,000,254	874,005	2,189,157	2,910,698
Due from Bangko Sentral ng Pilipinas	145,264	977,431	520,681	6,106,806
FVTPL investments (Note 6)	538	510,991	1,614	9,088,348
	4,370,736,001	4,147,149,026	13,009,897,842	12,098,751,373
INTEREST EXPENSE				
Deposit liabilities (Note 17)	1,229,236,595	1,289,097,975	4,280,100,233	3,269,906,677
Bills payable (Note 11)	77,418,270	3,325,556	256,661,135	42,306,996
Bonds Payable	72,579,573	–	72,579,573	–
Subordinated notes (Note 11)	41,223,324	41,923,527	125,118,285	125,742,684
Lease liabilities	28,163,730	–	86,228,436	–
	1,448,621,492	1,334,347,058	4,820,687,662	3,437,956,357
NET INTEREST INCOME	2,922,114,509	2,812,801,968	8,189,210,180	8,660,795,016
Service fees and commission income	472,620,917	397,594,001	1,503,496,013	1,190,380,659
Service fees and commission expense	23,953,351	25,692,644	62,379,254	71,103,797
NET SERVICE FEES AND COMMISSION INCOME	448,667,566	371,901,357	1,441,116,759	1,119,276,862
OTHER OPERATING INCOME (CHARGES)				
Gain (Loss) on foreclosure and sale of investment properties (Note 9)	269,681,826	159,503,047	503,468,649	328,338,071
Gain (Loss) on foreclosure and sale of chattel mortgage properties (Note 10)	(27,523,034)	(17,083,336)	(6,800,330)	212,713,417
Trading and securities gains (losses) - net (Note 6)	19,229,161	(6,614,196)	111,728,894	(122,089,639)
Foreign exchange gain - net	4,458,205	20,970,011	53,051,500	78,340,606
Gain on sale of property and equipment (Note 8)	1,477,429	4,234,712	4,936,406	4,321,203
Miscellaneous (Note 16)	142,650,875	138,518,670	423,494,283	489,938,796
	409,974,462	299,528,908	1,089,879,402	991,562,454
TOTAL OPERATING INCOME	3,780,756,537	3,484,232,233	10,720,206,341	10,771,634,332

(Forward)

	For the Quarter ended September 30		For the Nine-months ended September 30	
	2019	2018	2019	2018
OTHER EXPENSES				
Compensation and fringe benefits	₱907,827,202	₱864,895,357	₱2,611,111,871	₱2,548,244,699
Provision for credit and impairment losses	545,349,740	434,914,687	1,693,756,980	1,542,797,924
Taxes and licenses	409,013,048	407,744,417	1,169,512,388	1,191,636,320
Depreciation (Note 8)	230,319,817	157,631,843	684,259,277	477,387,762
Security, messengerial and janitorial services	117,518,014	114,690,986	325,556,333	374,178,491
Occupancy and equipment-related costs	79,987,493	188,521,466	243,780,060	570,623,452
Amortization of intangible assets	34,266,121	39,477,096	103,384,346	121,702,754
Miscellaneous (Note 17)	531,610,642	546,544,165	1,459,670,714	1,634,175,974
	2,855,892,077	2,754,420,017	8,291,031,969	8,460,747,376
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND				
INCOME TAX	924,864,460	729,812,216	2,429,174,372	2,310,886,956
SHARE IN NET INCOME OF A JOINT VENTURE	30,569,332	18,533,815	82,358,473	54,573,580
INCOME BEFORE INCOME TAX	955,433,792	748,346,031	2,511,532,845	2,365,460,536
PROVISION FOR (BENEFIT FROM) INCOME TAX				
Current	113,612,086	85,201,860	318,571,050	302,440,475
Deferred	28,785,709	(13,944,914)	17,815,505	56,619,681
	142,397,795	71,256,946	336,386,555	359,060,156
NET INCOME	₱813,035,997	₱677,089,085	₱2,175,146,290	₱2,006,400,380
Basic/Diluted Earnings Per Share	₱2.17	₱2.67*	₱5.80	₱7.92*

*Restated to show the effect of stock rights issued in January 2019
See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the Quarter ended September 30		For the Nine-months ended September 30	
	2019	2018	2019	2018
NET INCOME	₱813,035,997	₱677,089,085	₱2,175,146,290	₱2,006,400,380
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that recycle to profit or loss in subsequent periods:</i>				
Fair value reserves on debt securities at FVOCI (Note 6)	173,566,332	15,877,146	872,492,148	(688,841,780)
Cumulative translation adjustment (Note 6)	2,131,123	3,578,199	(1,139,151)	10,134,875
	175,697,455	19,455,345	871,352,997	(678,706,905)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	₱988,733,452	₱696,544,430	₱3,046,499,287	₱1,327,693,475

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at January 1, 2019	₱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
Issuance of stock rights	1,428,569,250	6,469,567,367	-	-	-	-	-	-	7,898,136,617
Total comprehensive income (loss) for the period	-	-	-	2,175,146,290	872,492,148	-	-	(1,139,151)	3,046,499,287
Cash dividends (Note 15)	-	-	-	(861,996,186)	-	-	-	-	(861,996,186)
Balance at September 30, 2019	₱3,831,094,160	₱9,287,650,873	₱1,035,899,409	₱20,705,000,216	₱89,595,869	(₱470,611,677)	₱3,131,435	(₱4,972,357)	₱34,476,787,928
Balance at January 1, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,450,958,226	(₱69,146,732)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱23,089,599,375
Total comprehensive income (loss) for the period	-	-	-	2,006,400,380	(688,841,780)	-	-	10,134,875	1,327,693,475
Cash dividends (Note 15)	-	-	-	(540,568,102)	-	-	-	-	(540,568,102)
Balance at September 30, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱18,916,790,504	(₱757,988,512)	(₱545,392,541)	₱1,245,144	₱6,058,836	₱23,876,724,748

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENT OF CASH FLOWS

	For the Nine-months ended September 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱2,511,532,845	₱2,365,460,536
Adjustments to reconcile income before income tax to net cash provided (used) by operations:		
Provision for credit and impairment losses	1,693,756,980	1,542,797,924
Depreciation (Note 8)	684,259,277	477,387,762
Amortization of premium on financial assets at fair value through other comprehensive income (FVOCI) and investment securities at amortized cost	506,422,003	329,900,396
Gain on foreclosure and sale of:		
Investment properties (Note 9)	(503,468,649)	(328,338,071)
Chattel mortgage properties (Note 10)	6,800,330	(212,713,417)
Amortization of:		
Intangible assets	103,384,346	121,702,754
Debt issuance costs	38,320,104	1,992,685
Lease liabilities	86,228,436	-
Realized gain on sale of financial assets at FVOCI (Note 6)	(111,719,721)	(81,067,979)
Share in net income of a joint venture	(82,358,473)	(54,573,580)
Fair value gains on fair value through profit or loss (FVTPL) investments (Note 6)	(9,173)	16,944,658
Gain on sale of property and equipment (Note 8)	(4,936,406)	(4,321,203)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
FVTPL investments	11,843,312	397,639,709
Loans and receivables	(10,100,695,797)	(11,057,479,585)
Other assets	(257,065,988)	(286,301,379)
Increase (decrease) in:		
Deposit liabilities	(19,569,600,221)	8,755,698,554
Treasurer's, cashier's and manager's checks	(223,079,956)	(742,221,694)
Accrued taxes, interest and other expenses	(378,071,454)	34,908,217
Other liabilities	(307,376,856)	(648,315,465)
Cash used in operations	(25,895,835,061)	629,100,822
Income taxes paid	(239,552,322)	(81,956,108)
Dividends received	39,359,981	-
Net cash (used in) provided by operating activities	(26,096,027,402)	547,144,714
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Financial assets at FVOCI	(1,866,413,912)	(9,061,972,252)
Investment securities at amortized cost	-	(6,674,105,244)
Property and equipment	(102,515,229)	(122,698,846)
Other intangible assets	(19,902,283)	(85,824,431)
Payment of lease liabilities	(326,410,069)	-
Proceeds from sale/maturities of:		
Financial assets at FVOCI	8,622,395,068	14,212,941,928
Investment securities at amortized cost	454,758,000	-
Chattel mortgage properties	1,891,891,301	1,858,578,643
Investment properties	913,426,552	490,433,435
Other intangible assets	84,291,800	-
Property and equipment	20,262,853	29,285,385
Net cash provided by investing activities	9,671,784,081	646,638,618
(Forward)		

	For the Nine-months ended September 30	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	₱362,565,861,855	₱270,029,949
Settlement of bills payable	(362,565,861,855)	(1,492,418,517)
Settlement of unsecured subordinated debt	(3,000,000,000)	-
Dividends paid (Note 15)	(861,996,186)	(540,568,105)
Issuance of bonds payable	6,243,498,322	-
Issuance of stock rights – net of issue cost (Note 15)	7,898,136,617	-
Net cash provided by (used in) financing activities	10,279,638,753	(1,762,956,673)
Effect of exchange rate differences	(21,502)	241,356
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,144,626,070)	(568,931,985)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	3,776,087,269	2,596,872,801
Due from Bangko Sentral ng Pilipinas	15,156,184,418	15,265,387,772
Due from other banks	1,682,806,080	1,508,489,309
Interbank loans receivable and securities purchased under resale agreements	1,891,820,000	1,842,023,049
	22,506,897,767	21,212,772,931
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	2,298,360,474	2,736,594,300
Due from Bangko Sentral ng Pilipinas	10,429,498,652	14,334,085,640
Due from other banks	934,412,571	1,623,161,006
Interbank loans receivable and securities purchased under resale agreements	2,700,000,000	1,950,000,000
	₱16,362,271,697	₱20,643,840,946
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	₱5,196,300,170	₱4,534,096,518
Interest received	13,762,444,285	18,470,075,490

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 September 30, 2019 and December 31, 2018, the Bank had 250 branches. The Bank had 266 Automated Teller Machines (ATMs) on-site and 293 off-site, bringing its total number of ATMs to 559 as of September 30, 2019 and 575 as of December 31, 2018.

The Bank’s original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on September 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 September 30, 2009, for another 50 years or up to September 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 a majority vote of the BOD and by stockholders representing two-thirds of the outstanding capital stock, the amendment of Article VI of its Amended Articles of Incorporation reducing the number of directors from a maximum of eleven (11) to a maximum of nine (9) has been approved. This was approved by the SEC on August 26, 2010.

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

As of September 30, 2019 and December 31, 2018, Metropolitan Bank & Trust Company (MBTC), the Bank’s ultimate parent, owned eighty-eight percent (88%) and eighty-three percent (83%) of the Bank, respectively.

2. Significant Accounting Policies

Basis of Preparation

The accompanying interim condensed 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) and financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The unaudited interim condensed financial statements are presented in Philippine peso (₱), and all values are rounded to the nearest ₱, except when otherwise indicated.

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

Statement of Compliance

The accompanying interim condensed financial statements as of September 30, 2019 and for the nine-month periods ended September 30, 2019 and 2018 have been prepared in accordance with PAS 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Bank's annual audited financial statements as at and for the year ended December 31, 2018.

Seasonality or Cyclicity of Interim Operations

Seasonality or cyclicity of interim operations is not applicable to the Bank's type of business.

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 14.

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 accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the audited annual financial statements as of and for the year ended December 31, 2018, except for the adoption of the following new amendments and improvements to Philippine Financial Reporting Standards (PFRSs) which are effective beginning January 1, 2019.

PFRS 16, *Leases* supersedes PAS 17 *Leases*, Philippine Interpretation IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact on leases where the Bank is the lessor.

The Bank elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 at the date of initial application. The Bank also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of the adoption of PFRS 16 as at January 1, 2019 follows:

	Increase (Decrease)
ASSETS	
Right-of-use Assets under 'Property and Equipment'	₱1,442,283,639
LIABILITIES	
Lease Liabilities under 'Other Liabilities'	₱1,631,376,370
Accrued Taxes, Interest and Other Expenses*	(189,092,731)
	₱1,442,283,639

*Pertains to accrued rent recognized under PAS 17

Nature of the effect of adoption of PFRS 16

Upon adoption of PFRS 16, the Bank applied a single recognition and measurement approach for all leases (as lessee) except for short-term leases and leases of low-value assets. The Bank recognized lease liabilities representing lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments). The lease payments also include payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Leases previously classified as finance leases

The Bank did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under PAS 17). The requirements of PFRS 16 was applied to these leases as at January 1, 2019.

Leases previously classified as operating leases

The Bank recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied practical expedient wherein it applied the short-term leases exemptions to leases with lease term that ends within 12 months from the date of initial application.

Set out below are the new accounting policies of the Bank upon adoption of PFRS 16, which have been applied from the date of initial application:

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e. ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that are within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Amounts recognized in the unaudited statement of financial position and statement of income

Set out below are the carrying amounts of the Bank's right-of-use assets and lease liabilities and the movements during the period:

	Right-of-use Assets (Note 8)	Lease Liabilities (Note 13)
As at January 1, 2019	₱1,442,283,639	₱1,631,376,370
Addition	86,841,249	86,841,249
Depreciation during the period	(277,884,060)	-
Amortization during the period	-	86,228,436
Retirement	(6,196,869)	(22,225,108)
Payments	-	(326,410,069)
As at September 30, 2019	₱1,245,043,959	₱1,455,810,878

Set out below are the amounts recognized in the unaudited interim statement of income:

	Nine-month ended September 30, 2019
Depreciation expense of right-of-use assets	₱277,884,060
Interest expense on lease liabilities	86,228,436
Rent expense - leases of low-value assets	72,280,152
Total amounts recognized in the statement of income	₱436,392,648

The Bank continues to refine and improve its newly implemented accounting and financial reporting processes, controls and governance structure as a result of adopting PFRS 16. Therefore, the estimation of impact is subject to change until the finalization of the audited financial statements for the year ending December 31, 2019.

Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by the tax authority
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

Upon the adoption of the interpretation, the Bank considered whether it has any uncertain tax positions. The interpretation did not have an impact on the interim condensed financial statements of the Bank as it has determined that its current tax treatments are in accordance with the rules and regulations of the Bureau of Internal Revenue.

The adoption of the following pronouncements did not have any significant impact on the Bank's financial position or performance:

- Amendments to PFRS 9, *Financial Instruments, Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investment in Associates and Joint Ventures, Long-term Interests in Associates and Joint Ventures*
- *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 Taxes, Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
 - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Summary of Significant Accounting Policies

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 3.

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 reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (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

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.

Financial Instruments – Classification and Subsequent Measurement

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 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 the 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 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.

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 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 is 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.

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 that 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.

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.

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 transactions.

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.

Impairment of Financial Assets

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.

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 significant increase in credit risk (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 through 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 was 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).

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 is 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, right-of-use assets, 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
Right-of-use assets	3-30 years, depending on the term of the lease
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.

Leases

The Bank has lease contracts for various office spaces used as branch offices. Before the adoption of PFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Bank; otherwise, it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense under 'Occupancy Expense' in the interim condensed statement of income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under 'Prepaid expenses' lodged in other assets and 'Accrued Other Expense', lodged in accrued expenses, respectively.

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.

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 from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. 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.

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.

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'.

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.

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 September 30, 2019 and December 31, 2018, 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 5. The Bank's assets generating revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities

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

Subsequent Events

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

Standards issued but not yet effective

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

Effective beginning on or after January 1, 2020

- *Amendments to PFRS 3, Definition of a Business*
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.
- *Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- *PFRS 17, Insurance Contracts*
PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 Financial Instruments and PFRS 15 Revenue from Contracts with Customers.

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*
Amendments to PFRS 10, Consolidated Financial Statements and PAS 28, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture. The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Fair Value Measurement

Financial Instruments

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

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

Debt investments - Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services, or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology, using rates currently available for debt on similar terms, credit risk and remaining maturities.

Equity investments - Fair values are based on quoted prices published in markets.

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.

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 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):

	September 30, 2019 (Unaudited)				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	₱43	₱43	₱-	₱-	₱43
Derivative assets	3,696	-	3,696	-	3,696
Financial assets at FVOCI					
Government debt securities	3,884,714	3,353,809	530,905	-	3,884,714
Private debt securities	3,184,846	2,327,930	856,916	-	3,184,846
Equity securities	11,462	10,409	1,052	-	11,461
	₱7,084,761	₱5,692,191	₱1,392,569	₱-	₱7,084,760
Financial Liabilities					
Financial liabilities at FVTPL	₱8,361	₱-	₱8,361	₱-	₱8,361
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	₱31,149,953	₱20,955,571	₱10,681,522	₱-	₱31,637,093
Private	3,582,075	2,625,734	943,307	-	3,569,041
Loans and receivables					
Receivables from customers					
Consumption loans	91,736,102	-	-	112,898,588	112,898,588
Real estate loans	51,649,344	-	-	75,334,470	75,334,470
Commercial loans	13,435,561	-	-	15,884,817	15,884,817
Personal loans	3,123,596	-	-	3,468,887	3,468,887
Sales contract receivable	49,285	-	-	54,143	54,143
Security deposits	179,738	-	-	246,511	246,511
Non-Financial Assets					
Investment properties	3,946,334	-	-	5,797,123	5,797,123
	₱198,851,988	₱23,581,305	₱11,624,829	₱213,684,539	₱248,890,673
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱115,802,263	₱-	₱-	₱117,938,465	₱117,938,465
Deposit liabilities – LTNCD	8,406,238	8,582,271	-	-	8,582,271
Bills payable	2,984,074	-	-	3,202,582	3,202,582
Bonds payable	6,247,985	6,377,525	-	-	6,377,525
	₱133,440,560	₱14,959,796	₱-	₱121,141,047	₱136,100,843

December 31, 2018 (Audited)					
	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
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

As of September 30, 2019 and December 31, 2018, there were no transfers on Financial assets at FVOCI between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

4. 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 by the Bank's Head of Credit and Collections, and tracked and reviewed at least annually 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 credit rating 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 based on Board-approved impairment models. The impairment models are validated at least annually by the Credit Risk Management Unit and revisions are proposed as needed.

The Bank carries out stress testing analyses using Board-approved statistical models relating the default trends to macroeconomic indicators.

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.

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 demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI debt instruments, assuming a parallel shift in the yield curve.

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Change in basis points	Sensitivity of equity	Change in basis points	Sensitivity of equity
Currency				
PHP	+10	(P401,986,933)	+10	(P121,688,936)
USD	+10	27,955,922	+10	(27,912,113)
Currency				
PHP	-10	(370,337,536)	-10	(41,463,520)
USD	-10	56,699,809	-10	27,537,680

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):

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
As of year-end	P1,132	P864
Average	624	919
High	1,297	3,641
Low	8	116

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.

5. Segment Information

The Bank's operating segments are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit that offers different products and serves different markets. The Bank's reportable segments are as follows:

- Consumer Banking - principally provides consumer-type loans generated by the Home Office;
- Corporate Banking - principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
- Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
- 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 nine-month periods ended September 30, 2019 and 2018 and for the year ended December 31, 2018 follow (in thousands):

	For the Nine-month period ended September 30, 2019 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱3,418,485	₱191,279	₱6,480,993	₱2,919,141	₱13,009,898
Service fees and commission	616,366	32	887,098	–	1,503,496
Other operating income	417,997	19,016	488,086	164,780	1,089,879
Total operating income	4,452,848	210,327	7,856,177	3,083,921	15,603,273
Non-cash expenses					
Provision for credit and impairment losses	1,567,172	5,212	121,373	–	1,693,757
Depreciation	174,109	2,960	506,116	1,074	684,259
Amortization of intangible assets	36,218	1,435	64,440	1,291	103,384
Total non-cash expenses	1,777,499	9,607	691,929	2,365	2,481,400
Interest expense	–	–	2,490,159	2,330,529	4,820,688
Service fees and commission expense	25,574	–	36,805	–	62,379
Subtotal	25,574	–	2,526,964	2,330,529	4,883,067
Compensation and fringe benefits	667,813	55,382	1,858,828	29,089	2,611,112
Taxes and licenses	366,536	24,956	485,682	292,338	1,169,512
Occupancy and equipment-related costs	59,644	725	182,956	455	243,780
Security, messengerial and janitorial services	103,232	2,269	219,249	806	325,556
Miscellaneous	456,236	18,057	881,172	104,206	1,459,671
Subtotal	1,653,461	101,389	3,627,887	426,894	5,809,631

(Forward)

For the Nine-month period ended September 30, 2019 (Unaudited)					
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Income before share in net income of a joint venture and income tax	₱996,314	₱99,331	₱1,009,397	₱324,133	2,429,175
Share in net income of a joint venture					82,358
Income before income tax					2,511,533
Provision for income tax					336,387
Net income					₱2,175,146
Segment assets	₱109,483,686	₱400,178	₱71,457,905	₱48,573,491	229,915,260
Investment in a joint venture					734,424
Deferred tax assets					1,317,707
Total assets					₱231,967,391
Segment liabilities	₱994,480	₱39,339	₱142,987,028	₱53,469,756	₱197,490,603

For the year ended December 31, 2018 (Audited)					
	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

For the Nine-month period ended September 30, 2018 (Unaudited)					
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,095,314	₱245,841	₱5,372,844	₱2,384,752	₱12,098,751
Service fees and commission	468,999	30,258	691,124	–	1,190,381
Other operating income	526,566	16,775	467,958	(19,738)	991,561
Total operating income	5,090,879	292,874	6,531,926	2,365,014	14,280,693
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	1,558,430	(65,313)	49,681	–	1,542,798
Depreciation	183,057	3,413	290,028	890	477,388
Amortization of intangible assets	43,985	1,831	75,093	794	121,703
Total non-cash expenses	1,785,472	(60,069)	414,802	1,684	2,141,889

(Forward)

For the Nine-month period ended September 30, 2018 (Unaudited)					
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Interest expense	₱-	₱-	₱1,373,195	₱2,064,761	₱3,437,956
Service fees and commission expense	28,015	1,807	41,282	-	71,104
Subtotal	28,015	1,807	1,414,477	2,064,761	3,509,060
Compensation and fringe benefits	645,605	50,615	1,828,345	23,680	2,548,245
Taxes and licenses	323,343	24,696	410,785	432,812	1,191,636
Occupancy and equipment-related costs	59,113	832	510,387	291	570,623
Security, messengerial and janitorial services	127,635	3,015	242,824	704	374,178
Miscellaneous	502,231	21,149	975,183	135,613	1,634,176
Subtotal	1,657,927	100,307	3,967,524	593,100	6,318,858
Income (loss) before share in net income of a joint venture and income tax	1,619,465	250,829	735,123	(294,531)	2,310,886
Share in net income of a joint venture					54,574
Income before income tax					2,365,460
Provision from income tax					359,060
Net income					₱2,006,400
Segment assets	₱122,020,321	₱7,951,300	₱44,664,328	₱54,561,774	229,197,723
Investments in a joint venture					661,735
Deferred tax assets					1,231,322
Total assets					₱231,090,780
Segment liabilities	₱1,588,936	₱91,583	₱129,372,698	₱76,160,838	₱207,214,055

6. Investment Securities

FVTPL Investments

Fair value through profit or loss investments consist of the following:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Derivatives with positive fair value	₱3,695,861	₱10,073,132
Investment securities at FVTPL	43,063	33,890
Financial assets at FVTPL	₱3,738,924	₱10,107,022
Derivatives with negative fair value	₱8,361,114	₱2,895,073
Financial liabilities at FVTPL	₱8,361,114	₱2,895,073

Financial Assets at FVOCI

Financial assets at FVOCI consist of the following:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Debt securities		
Government	₱3,884,714,127	₱8,956,764,357
Private	3,184,845,673	3,964,611,802
Equity securities	11,461,548	10,225,365
	₱7,081,021,348	₱12,931,601,524

As of September 30, 2019 and December 31, 2018, the ECL on debt securities at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱5.9 million and ₱10.0 million, respectively.

Movements in the fair value reserves on financial assets at FVOCI are as follow:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Balance at beginning of the period	(₱782,896,279)	(₱69,146,732)
Fair value gain (loss) recognized in OCI	988,310,282	(815,985,665)
Changes in allowance for ECL	(4,098,413)	9,957,385
Loss/(Gain) from sale of financial assets at FVOCI realized in profit or loss	(111,719,721)	92,278,733
Balance at end of the period	₱89,595,869	(₱782,896,279)

Investment Securities at Amortized Cost

Investment securities at amortized cost consist of the following:

	September 30, 2019	December 31, 2018
	(Unaudited)	(Audited)
Debt securities		
Government	₱31,174,095,406	₱31,604,530,066
Private	3,584,062,570	4,071,281,345
	34,758,157,976	35,675,811,411
Less allowance for credit losses	26,130,431	29,046,147
	₱34,732,027,545	₱35,646,765,264

Interest income on investment securities consists of:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Interest income recognized using EIR		
Investment securities at amortized cost	₱1,074,716,262	₱1,065,747,018
Financial assets at FVOCI	402,677,373	420,853,955
	1,477,393,635	1,486,600,973
Interest income recognized using nominal interest rates		
FVTPL investments	1,614	9,088,348
	₱1,477,395,249	₱1,495,689,321

Trading and securities gains (losses) - net on investment securities consist of:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Financial assets at FVOCI	₱111,719,721	(₱81,067,979)
FVTPL investments	9,173	(41,021,660)
	₱111,728,894	(₱122,089,639)

7. Loans and Receivables

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Receivables from customers		
Consumption loans	₱94,060,064,794	₱90,291,868,218
Real estate loans	52,028,360,588	49,972,645,933
Commercial loans	13,585,387,920	12,902,967,013
Personal loans	3,717,426,320	3,525,922,782
	163,391,239,622	156,693,403,946
Less unearned discounts	813,673	130,275
	163,390,425,949	156,693,273,671
Other receivables		
Accrued interest receivable	2,063,851,045	2,306,049,469
Accounts receivable	881,632,555	1,526,155,791
Sales contract receivables	49,956,566	71,508,163
Bills purchased	111,276,957	13,077,760
	166,497,143,072	160,610,064,854
Less allowance for credit losses	4,390,850,690	4,349,702,079
	₱162,106,292,382	₱156,260,362,775

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

Receivables from customers earned interest income at an effective interest rate ranging from 9.02% to 9.64% and 8.76% to 9.46%, for the periods ended September 30, 2019 and December 31, 2018, respectively.

Interest income on loans and receivables consists of:

	For the Nine-months ended September 30	
	2019 (Unaudited)	2018 (Unaudited)
Receivables from customers		
Consumption loans	₱6,819,762,543	₱6,388,796,462
Real estate loans	2,938,369,235	2,552,870,225
Personal loans	1,061,184,264	1,033,532,558
Commercial loans	688,748,472	563,526,885
Other receivables		
Sales contract receivables	6,202,606	5,408,927
	₱11,514,267,120	₱10,544,135,057

8. Property and Equipment

The composition of and movements in this account follow:

	September 30, 2019 (Unaudited)					Total
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-use Assets	
Cost						
Balance at beginning of the period, as previously reported	₱976,443,676	₱1,125,200,479	₱2,814,449,530	₱1,012,800,699	₱-	₱5,928,894,384
Effect of the adoption of PFRS 16 (Note 2)	-	-	-	-	1,442,283,639	1,442,283,639
Balance at beginning of the period, as restated	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	1,442,283,639	7,371,178,023
Acquisitions/Additions	-	1,147,900	86,329,008	15,038,321	86,841,249	189,356,478
Disposals/Retirement	-	-	(52,361,173)	-	(28,877,419)	(81,238,592)
Balance at end of the period	976,443,676	1,126,348,379	2,848,417,365	1,027,839,020	1,500,247,469	7,479,295,909
Accumulated Depreciation						
Balance at beginning of the period	-	454,610,927	2,401,654,413	815,249,139	-	3,671,514,479
Depreciation	-	26,695,299	125,646,742	64,691,575	277,884,060	494,917,676
Disposals	-	-	(21,006,487)	-	(22,680,550)	(43,687,037)
Balance at end of the period	-	481,306,226	2,506,294,668	879,940,714	255,203,510	4,122,745,118
Net Book Value	₱976,443,676	₱645,042,153	₱342,122,697	₱147,898,306	₱1,245,043,959	₱3,356,550,791

	December 31, 2018 (Audited)					Total
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements		
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

The adoption of PFRS 16 resulted in an increase in property and equipment amounting to ₱1.2 billion as of September 30, 2019 (Note 2).

Gain on sale of property and equipment amounted to ₱4.9 million and ₱4.3 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

The details of depreciation under the statements of income follow:

	For the Nine-months ended September 30	
	2019 (Unaudited)	2018 (Unaudited)
Property and equipment	₱494,917,676	₱285,294,303
Chattel mortgage properties (Note 10)	117,911,745	116,798,887
Investment properties (Note 9)	71,429,856	75,294,572
	₱684,259,277	₱477,387,762

9. Investment Properties

The composition of and movements in this account follow:

September 30, 2019 (Unaudited)			
	Land	Building Improvements	Total
Cost			
Balance at beginning of the period	₱1,656,342,069	₱3,061,707,089	₱4,718,049,158
Additions	161,424,629	428,988,913	590,413,542
Disposals	(252,965,844)	(490,083,530)	(743,049,374)
Balance at end of the period	1,564,800,854	3,000,612,472	4,565,413,326
Accumulated Depreciation			
Balance at beginning of the period	-	438,004,523	438,004,523
Depreciation (Note 8)	-	71,429,856	71,429,856
Disposals	-	(72,603,398)	(72,603,398)
Balance at end of the period	-	436,830,981	436,830,981
Allowance for Impairment Losses			
Balance at beginning of the period	76,490,196	167,236,723	243,726,919
Reversals for the year	(4,791,669)	(986,507)	(5,778,176)
Disposals	(35,555,003)	(20,145,098)	(55,700,101)
Balance at end of the period	36,143,524	146,105,118	182,248,642
Net Book Value	₱1,528,657,330	₱2,417,676,373	₱3,946,333,703

December 31, 2018 (Audited)			
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,626,841,652	₱2,930,621,176	₱4,557,462,828
Additions	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	-	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	(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

The details of the net book value of investment properties follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Real estate properties acquired in settlement of loans and receivables	₱3,855,048,285	₱3,942,199,973
Bank premises leased to third parties and held for capital appreciation	91,285,418	94,117,743
	₱3,946,333,703	₱4,036,317,716

Gain on foreclosure of investment properties amounted to ₱204.8 million and ₱226.7 million for the nine-month periods ended September 30, 2019 and 2018, respectively. The Bank realized gain on sale of investment properties amounting to ₱298.7 million and ₱101.7 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

10. Other Assets

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Chattel mortgage properties - net	₱907,507,617	₱720,607,271
Prepayments	281,192,641	265,513,919
Documentary stamps on hand	183,722,555	136,098,118
Security deposits	179,738,457	205,925,406
Net retirement assets	142,261,172	-
Creditable withholding tax	63,235,367	5,083,497
Stationeries and supplies on hand	44,069,456	42,188,585
RCOCI	38,935,896	19,517,854
Sundry debits	184,904	9,690,932
Others	582,858	694,885
	₱1,841,430,923	₱1,405,320,467

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. Others include interoffice float items, other investments, shortages, and postage stamps.

The movements in chattel mortgage properties - net follow:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Cost		
Balance at beginning of the period	₱813,592,771	₱806,325,646
Additions	2,354,732,191	2,592,446,719
Disposals	(2,179,341,845)	(2,585,179,594)
Balance at the end of the period	988,983,117	813,592,771
Accumulated Depreciation		
Balance at beginning of the period	92,569,663	93,217,346
Depreciation (Note 8)	117,911,745	155,549,227
Disposals	(129,134,735)	(156,196,910)
Balance at the end of the period	81,346,673	92,569,663
Allowance for Impairment Losses		
Balance at beginning of the period	415,837	260,045
Provision	556,931	1,689,227
Disposals	(843,941)	(1,533,435)
Balance at the end of the period	128,827	415,837
Net Book Value	₱907,507,617	₱720,607,271

Gain on foreclosure of chattel mortgage properties amounted to ₱150.7 million and ₱278.5 million for the nine-month periods ended September 30, 2019 and 2018, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱157.5 million and ₱65.8 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

11. Bills Payable, Bonds Payable and Subordinated Notes

Bills Payable

This account consists of the following:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Medium term fixed rate notes (MTFNs)	₱2,984,074,247	₱2,968,567,431
	₱2,984,074,247	₱2,968,567,431

Interest expense on bills payable for the nine-month periods ended September 30, 2019 and 2018 amounted to ₱256.7 million and ₱42.3 million, respectively.

Bonds Payable

On July 24, 2019, the Bank issued Fixed Rate Bonds amounting to ₱6.3 billion with a of tenor two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million and in increments of ₱0.1 million thereafter.

Interest expense incurred on bonds payable amounted to ₱72.6 million for the period ended September 30, 2019.

Subordinated Notes

This account consists of the following Peso Notes:

Maturity Date	Face Value	Carrying Value	
		September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
August 23, 2024	₱3,000,000,000	₱-	₱2,981,673,382

Interest expense incurred on these notes amounted to ₱125.1 million and ₱125.7 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

On February 15, 2019, the Board of Directors approved the Bank's option to call the Tier 2 Notes issued in 2014 on its fifth year anniversary or on August 23, 2019. The request of the Bank to exercise the same was approved by the BSP on April 24, 2019. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.0 Billion, which had an original maturity of ten years or until 2024.

On August 23, 2019 the Bank exercised its call option and paid ₱3.0 billion to all noteholders.

12. Accrued Taxes, Interest and Other Expenses

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Accrued interest payable	₱486,272,803	₱900,205,415
Accrued other taxes and licenses payable	119,038,119	134,131,140
Accrued other expenses payable	842,049,672	980,186,158
	₱1,447,360,594	₱2,014,522,713

Accrued other expenses payable consist of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Litigation	₱333,526,457	₱272,126,457
Compensation and fringe benefits	229,792,541	141,027,847
Insurance	91,230,395	200,274,397
Security, messengerial and janitorial	59,039,732	48,448,406
Information technology	44,891,045	34,328,559
Advertising	23,493,791	35,563,037
Professional and consultancy fees	8,621,061	14,599,349
ATM maintenance	6,732,019	11,894,674
Membership, fees & dues	5,161,321	5,161,321
Lease payable	-	190,565,729
Miscellaneous	39,561,310	26,196,382
	₱842,049,672	₱980,186,158

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.

13. Other Liabilities

This account consists of:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Accounts payable	₱1,774,122,388	₱2,072,599,423
Lease liabilities (Note 2)	1,455,810,878	-
Sundry credits	457,821,942	417,299,168
Other credits	167,769,879	245,406,847
Bills purchased - contra	111,276,957	13,077,760
Withholding taxes payable	107,750,496	128,716,646
Undrawn portion of committed credit lines	57,609,928	-
Due to the Treasurer of the Philippines	24,206,645	16,150,662
SSS, Medicare, ECP and HDMF premium payable	11,232,869	9,640,813
Net retirement liability	-	112,659,016
Miscellaneous	44,223,107	47,837,716
	₱4,211,825,089	₱3,063,388,051

Accounts payable includes payable to suppliers and service providers, and loan payments and other charges received from customers in advance.

Lease liabilities arose from adoption of PFRS 16.

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, Due to Bangko Sentral ng Pilipinas, overages and ECL on the undrawn loan commitments that will be drawn over the expected life.

14. 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):

	September 30, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	₱2,298,360	₱-	₱2,298,360	₱3,776,087	₱-	₱3,776,087
Due from BSP - gross	10,429,499	-	10,429,499	15,159,012	-	15,159,012
Due from other banks - gross	934,413	-	934,413	1,685,107	-	1,685,107
Interbank loans receivable and SPURA - gross	2,700,000	-	2,700,000	1,892,000	-	1,892,000
FVTPL investments	3,739	-	3,739	10,107	-	10,107
Financial assets at FVOCI	910,477	6,170,544	7,081,021	2,973,540	9,958,062	12,931,602
Investment securities at amortized cost - gross	1,371,067	33,387,091	34,758,158	563,506	35,112,306	35,675,812
Loans and receivables - gross	16,753,881	149,744,076	166,497,957	16,343,496	144,266,699	160,610,195
Other assets - gross*	49,748	169,044	218,792	34,213	191,482	225,695
	₱35,451,184	₱189,470,755	₱224,921,939	₱42,437,068	₱189,528,549	₱231,965,617
Non-financial Assets						
Investment in a joint venture	₱-	₱734,424	₱734,424	₱-	₱691,426	₱691,426
Property and equipment - gross	-	7,479,296	7,479,296	-	6,053,435	6,053,435
Investment properties - gross	-	4,565,413	4,565,413	-	4,718,049	4,718,049
Deferred tax assets	-	1,317,707	1,317,707	-	1,327,667	1,327,667
Goodwill and intangible assets	-	1,519,903	1,519,903	-	1,618,734	1,618,734
Other assets - gross**	572,872	1,131,244	1,704,116	399,424	873,186	1,272,610
	572,872	16,747,987	17,320,859	₱399,424	₱15,282,497	15,681,921
Less: Allowance for credit and impairment losses (Notes 6, 7, 9, and 10)			4,601,440			4,628,199
Accumulated depreciation (Notes 8, 9, and 10)			5,673,153			5,289,917
Unearned discounts (Note 7)			814			130
			10,275,407			9,918,246
			₱231,967,391			₱237,729,292

* 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.

	September 30, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	₱157,109,118	₱24,009,782	₱181,118,900	₱175,904,910	₱24,783,029	₱200,687,939
Bills payable	2,984,074	-	2,984,074	-	2,968,567	2,968,567
Bonds payable	-	6,247,985	6,247,985	-	-	-
Subordinated notes	-	-	-	-	2,981,673	2,981,673
Financial liabilities at FVTPL	8,361	-	8,361	2,895	-	2,895
Treasurer's, cashier's and manager's checks	1,392,440	-	1,392,440	1,615,520	-	1,615,520
Accrued other expenses payable	842,050	-	842,050	980,186	-	980,186
Accrued interest payable	486,273	-	486,273	900,206	-	900,206
Other liabilities						
Accounts payable	1,774,122	-	1,774,122	2,072,599	-	2,072,599
Other credits	167,770	-	167,770	245,406	-	245,406
Bills purchased - contra	111,277	-	111,277	13,078	-	13,078
Due to the Treasurer of the Philippines	24,207	-	24,207	16,151	-	16,151
Deposits for keys - SDB	795	-	795	798	-	798
Others*	14,566	1,443,442	1,458,008	6,352	-	6,352
	₱164,915,053	₱31,701,209	₱196,616,262	₱181,758,101	₱30,733,269	₱212,491,370
Non-financial Liabilities						
Accrued other taxes and licenses payable	₱119,038	₱-	₱119,038	₱134,131	₱-	₱134,131
Income tax payable	79,656	-	79,656	638	-	638
Withholding taxes payable	107,750	-	107,750	128,717	-	128,717
Other liabilities**	567,897	-	567,897	467,628	112,659	580,287
	874,341	₱-	874,341	731,114	112,659	843,773
	₱165,789,394	₱31,701,209	₱197,490,603	₱182,489,215	₱30,845,928	₱213,335,143

* 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.

15. Equity

Issued Capital

The movement in 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		
Beginning Balance, January 1 and December 31, 2018	240,252,491	₱2,402,524,910
Stock right issuance	142,856,925	1,428,569,250
Ending Balance, September 30, 2019	383,109,416	₱3,831,094,160

The Bank became listed in the 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 September 30, 2019 and December 31, 2018, the total number of stockholders is 1,459 and 1,465, respectively.

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. The Bank successfully completed ₱8.0 billion Stock Rights Offer and shares were listed on January 18, 2019 in the PSE.

Dividends Paid and Proposed

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

Date of declaration	Cash Dividends		Record date	Payment date
	Per share	Total amount		
October 21, 2016	0.75	180,189,368.3	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368.3	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	August 6, 2018	August 20, 2018
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019
April 15, 2019	0.75	287,332,062.0	May 3, 2019	May 15, 2019
July 19, 2019	0.75	287,332,062.0	August 5, 2019	August 19, 2019

*The Bank's stock price closed at ₱58.50 per share as of September 30, 2019.

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.

The following table presents information used to calculate basic EPS:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
a. Net income	₱2,175,146,290	₱2,006,400,380
b. Weighted average number of common shares for basic EPS	375,028,051	253,332,198*
c. Basic/Diluted EPS (a/b)	₱5.80	₱7.92

*Restated to reflect the stock rights issued in January 2019

As of September 30, 2019 and 2018, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Effect of Existing or Probable Government Regulations

Capital Adequacy

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.

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. 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.

In 2017, the general loan loss provision is limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof is deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio. Meanwhile, the credit-risk weighted asset is net of general loan loss provision, in excess of the amount permitted to be included in Tier 2.

On August 14, 2018, the BSP issued Circular No. 1011 covering guidelines on the adoption of the PFRS 9, *Financial Instruments*. Under the said circular, banks shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. Banks are not required to provide a one percent (1%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments. Banks shall use “Retained Earnings Reserve-Others” as temporary account of “Retained Earnings-General Provision (RE-GP)”. As a temporary presentation in CAR reports, the retained earnings (RE) included in CET/Core Tier 1 shall be net of RE-GP. In computing Tier 2 Capital, the GLLP shall include the RE-GP. However, the GLLP added back to on-balance sheet assets subject to risk-weight shall not include the RE-GP since when appropriating the RE, total assets is not affected. The Bank is compliant with the BSP Circular No. 1011.

In 2018, the computation of GLLP is in compliance with BSP Circular No. 1011, wherein the Bank developed ECL parameters and methodologies for each portfolio of its loans and receivables, using historical data as well as forward-looking inputs and assumptions.

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (PNG) and those guarantors and exposures with highest credit rating. Third party credit assessments were based on the ratings by Standard & Poor’s, Moody’s, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates. The Bank has no exposures to securitization structures. Further, it has no structured products issued or purchased.

The Bank uses the standardized approach to compute the market risk exposures for the Capital Adequacy Ratio.

The Bank uses the Basic Indicator Approach in computing for the operational risk capital charge.

As of September 30, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements and 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 September 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.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies).

As of September 30, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	September 30, 2019	December 31, 2018
A. Capital Measure	₱29,067	₱18,688
B. Exposure Measure	228,166	234,510
C. Basel III Leverage Ratio (A/B)	12.74%	7.97%

Summary Comparison of Accounting Assets and Common Disclosure vs. Leverage Ratio Exposures as of September 30, 2019 and December 31, 2018 are shown in the table below (in millions):

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	September 30, 2019	December 31, 2018	Common Disclosure vs. Leverage Ratio Exposure	September 30, 2019	December 31, 2018
Total consolidated assets	₱230,881	₱236,775	On-balance sheet exposures	₱225,420	₱231,911
Adjustments for derivative financial instruments	11	26	Derivative exposures	15	36
Adjustments for securities financial transactions	-	-	Securities financing transaction exposures	2,700	1,892
Adjustments for off-balance sheet items	31	671	Other off-balance sheet exposures	31	671
Other adjustments	(2,757)	(2,962)	Tier 1 capital	29,067	18,688
			Total Leverage Ratio exposures	₱228,166	₱234,510
Leverage Ratio Exposures	₱228,166	₱234,510	Basel III Leverage Ratio	12.74%	7.97%

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. Under a normal situation, the value of the ratio shall be not lower than 100% on an ongoing basis. While the LCR is expected to be met in a single currency (i.e., in peso equivalent terms of all currencies), banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

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 BSP.

The Monetary Board of the BSP, in its Resolution No. 301 dated February 21, 2019, approved the: (1) extension of the observation period of the minimum Basel III LCR requirement to December 31, 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), and (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period to be applied in 2019. Starting January 1, 2020, the minimum LCR is set at 100%.

The implementation of the minimum LCR shall be phased in to help ensure that the banks concerned can meet the standard through reasonable measures without disrupting credit extension and financial market activities.

Net Stable Funding Ratio

On June 6, 2018, the BSP issued Circular No. 1007, *Implementing 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 Monetary Board of the BSP, in its Resolution No. 300 dated February 21, 2019, approved the extension of the observation period for the Basel III Framework on Liquidity Standards - NSFR for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs). Starting January 1, 2020, the minimum NSFR is set at 100%.

The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities.

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
- 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.

Applicable Tax Regulations

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 2019 and 2018.

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 2019 and 2018.

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.

Financial Soundness

The following basic ratios measure the financial performance of the Bank:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Return on average equity	9.85%	11.38%
Return on average assets	1.23%	1.15%
Net interest margin on average earning assets	5.52%	5.79%
Liquidity ratio	21.73%	23.47%
Debt-to-equity ratio	5.73:1	8.75:1
Asset-to-equity ratio	6.73:1	9.75:1
Interest rate coverage ratio	1.52:1	1.59:1

16. Miscellaneous Income

This account consists of:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Recovery of charged-off assets	P240,186,013	P237,563,816
Insurance commission income	103,542,408	121,635,933
Rental income	27,715,245	37,429,965
Others	52,050,617	93,309,082
	P423,494,283	P489,938,796

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

Others include income from renewal fees, checkbook charges and other miscellaneous income.

17. Interest Expense on Deposit Liabilities and Miscellaneous Expenses

Interest expense on deposit liabilities consists of:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Time	P3,721,773,306	P2,916,492,638
LTNCD	293,321,572	93,535,098
Demand	152,028,729	145,846,502
Savings	112,976,626	114,032,439
	P4,280,100,233	P3,269,906,677

Miscellaneous expense consists of:

	For the Nine-months ended September 30	
	2019	2018
	(Unaudited)	(Unaudited)
Insurance	₱393,737,802	₱440,992,126
Information technology	321,766,246	240,662,386
Litigation	203,275,913	240,892,186
Communications	132,158,983	144,590,005
Repairs and maintenance	79,185,674	98,422,709
Transportation and traveling	71,717,108	72,348,783
Fines, penalties and other charges	65,750,525	170,718,981
Supervision and examination fees	57,641,586	51,673,180
Stationery and supplies	37,042,548	52,427,890
Advertising	35,101,655	53,022,507
Management and professional fees	19,262,067	18,852,402
Donations and charitable contributions	8,252,405	6,705,000
Training and seminars	6,303,112	10,109,951
Meeting allowance	3,771,118	4,956,452
Banking activities expenses	3,664,963	8,200,615
Rewards and incentives	2,431,884	5,018,427
Membership fees and dues	2,382,311	4,474,934
Entertainment, amusement and recreation (EAR)	1,155,360	1,670,497
Others	15,069,454	8,436,943
	₱1,459,670,714	₱1,634,175,974

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱274.4 million and ₱297.6 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

Other expenses include home free loan expenses, appraisal fees and notarial fees.

18. 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 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 following table shows the amount of outstanding balances of related party transactions of the Bank and Sumisho Motor Finance Corporation (SMFC) with the retirement plan of the employees of the Bank as of September 30, 2019 and December 31, 2018:

<u>Related Party</u>	<u>Nature of Transaction</u>	<u>September 30, 2019 (Unaudited)</u>	
		<u>Statement of Condition</u>	<u>Statement of Income</u>
Philippine Savings Bank	Savings Deposit	₱3,921,269	
	Investment in Money Market Fund*	26,095,184	
	Income from UITF		₱1,658,094
	Interest income		13,902
First Metro ETF	Equity investment	24,942,532	
*Includes fair value gains of ₱0.3 million			
		<u>December 31, 2018 (Audited)</u>	
<u>Related Party</u>	<u>Nature of Transaction</u>	<u>Statement of Condition</u>	<u>Statement of Income</u>
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			

Transactions relating to the Bank's retirement plan are approved by its Retirement Committee. The voting right over the investments in the Bank's capital stocks is exercised by a member of the Retirement Committee as approved by all members of the Retirement Committee, whom are senior officers of the Bank.

Remunerations of Directors and Other Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

Total remunerations of key management personnel (covering assistant vice presidents and up) included under 'Compensation and fringe benefits' in the statements of income are as follows:

	September 30, 2019	September 30, 2018
	(Unaudited)	(Unaudited)
Short-term employee benefits	₱216,686,511	₱147,883,049
Post-employment pension benefits	34,551,165	8,833,298
	₱251,237,676	₱156,716,347

Short-term employee benefits include salaries and other non-monetary benefits. Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱12.2 million and ₱12.9 million for the nine-month periods ended September 30, 2019 and 2018, respectively.

The Bank also provides banking services to directors and other key management personnel and persons connected to them.

Other Related Party Transactions

Other related party transactions of the Bank by category of related party are presented below. The following tables show the amount and outstanding balances included in the financial statements (in thousands):

Category	September 30, 2019 (Unaudited)		Nature, Terms and Conditions
	Amount/ Volume	Outstanding Balance	
Significant Investor			
Due from other banks	(₱578,323)	₱537,466	Peso-denominated lending with 2.50% fixed interest rates
Interbank loans receivable		–	Peso-denominated lending with 4.28% - 5.09% fixed interest rates and with 1 day maturity
Placements	4,390,000	–	
Maturities	(4,390,000)	–	
Investment securities at amortized cost	(9,628)	56,868	Pledged for security of payroll account with MBTC.
Accounts receivable	(1,318)	3,415	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	71	Security deposits on lease contracts
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	(12,216)	22,113	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	25,991	–	Income on deposits and interbank loans receivables
Rental income	3,346	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	25,047	–	Income received from ATM service fees, rental and utilities
Trading gain	62,733	–	Gain from securities transactions
Information technology expense	214,511	–	Payment of information technology expenses
Securities transactions			
Interest Expense	6,156	–	Interest expense on IBCL borrowing
Outright purchases	1,697,094	–	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	(4,073,104)	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	734,424	Capital investment in SMFC
Share in net income of a joint venture	82,358	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	3,131	3,131	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(367)	1,366	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	7,552	22,492	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	10,425	–	Income from leasing agreements
Interest expense	187	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 4.06% to 5.16% fixed daily interest rate with maturity terms from 1 to 3 days
Placements	21,670,000	–	
Maturities	(21,670,000)	–	
Receivable from customers		998,925	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Availments	991,162	–	
Maturities	(994,361)	–	
Miscellaneous assets	1,548	2,981	Three months advance security deposits
Accounts receivable	3,586	6,249	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	(2,061)	2,981	Payment for various policy renewals
Deposit liabilities	438,796	483,319	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 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	23,221,000	–	
Maturities	(23,221,000)	–	
Accrued Other Expense Payable (Forward)	–	1,388	Outstanding group life insurance

September 30, 2019 (Unaudited)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable	(P387)	P3,426	Various personal and car insurance payable
Miscellaneous liabilities	-	3,530	Advance payment of security deposits from various tenants
Interest income	31,035	-	Income on receivables from customers and interbank loans receivables
Rental income	11,327	-	Income from leasing agreements with various lease terms
Bank commission	2,170	-	Commission income on ATM service fees
Miscellaneous income	617	-	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	37,607	-	Payment of insurance premium
Interest expense	28,650	-	Interest on deposit liabilities and bills payable
Rent expense	4,856	-	Payment of rent expense to various lessors
Key Personnel			
Receivables from customers	-	6,040	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	558	-	
Maturities	(7,649)	-	
Interest income	436	-	Interest income from loans

December 31, 2018 (Audited)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	P203,044	P1,115,789	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, FVOCI and investment at amortized cost
Outright sales	(1,274,420)	-	Outright sale of FVTPL and FVOCI investments
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	3,131	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)	-	

(Forward)

December 31, 2018 (Audited)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Receivable from customers	₱-	₱1,002,125	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Availments	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 FVOCI investments
Outright sales	(50,000)	-	Outright sale of FVTPL and FVOCI 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
Availments	3,761	-	
Maturities	(3,700)	-	
Interest income	1,065	-	Interest income from loans

19. 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:

	September 30, 2019 (Unaudited)	December 31, 2018 (Audited)
Trust department accounts	₱6,839,272,605	₱6,400,841,134
Swap forward exchange - sold	399,637,375	2,602,710,000
Swap spot exchange - bought	399,637,375	-
Forward exchange - sold	310,980,000	-
Stand-by credit lines	71,500,000	70,500,000
Spot foreign exchange contracts - sold	-	-
Late deposits/payments received	9,521,669	9,521,669
Items held for safekeeping	415,699	296,024
Others	469,279	124,429

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.

20. **Subsequent Events**

Cash Dividend Declaration

On October 14, 2019, the BOD of the Bank approved the declaration of a 7.5% Regular Cash Dividend for the third quarter of 2019 for stockholders on record as of October 29, 2019 amounting to ₱287.33 million or ₱0.75 per share to be paid on November 13, 2019.

21. **Other Disclosures**

- a) There are no unusual items of asset, liability, equity, net income or cash flow.
- b) No material items of changes were noted in the comparison of actual results with estimated amounts.
- c) No unregistered securities were sold or offered for sale by the Bank as of September 30, 2019.
- d) The Bank was not engaged in any business combinations, acquisitions or disposal of subsidiaries and long-term investments.

Annex 7

PHILIPPINE SAVINGS BANK

**UNAUDITED SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF AND FOR THE PERIOD ENDED SEPTEMBER 30, 2019 AND 2018**

	September 30	
	2019	2018
PROFITABILITY RATIOS		
Return on Assets		
<u>Net Income *</u>	1.23%	1.18%
Average Total Resources		
Return on Equity		
<u>Net Income *</u>	9.85%	11.56%
Average Stockholders' Equity		
Net Interest Margin		
<u>Net Interest Income</u>	5.52%	6.02%
Average Earning Assets		
Cost to Income Ratio		
Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes	61.76%	64.46%
Net Interest Income + Operating Income		
SOLVENCY RATIOS		
Debt to Equity Ratio		
<u>Total Liabilities</u>	5.73:1	8.68:1
Total Stockholders' Equity		
Asset-to-Equity Ratio		
<u>Total Assets</u>	6.73:1	9.68:1
Total Stockholders' Equity		
Interest Rate Coverage Ratio		
<u>Earnings Before Interest and Taxes</u>	1.52:1	1.69:1
Interest Expense		
LIQUIDITY RATIOS		
Liquidity Ratio		
<u>Current Assets</u>	21.73%	20.89%
Current Liabilities		
Loans to Deposit Ratio		
<u>Gross Loans</u>	90.21%	77.85%
Total Deposits		
Capital Adequacy Ratio		
<u>Total Qualifying Capital</u>	17.41%	13.79%
Total Risk-Weighted Assets		

*Computed based on annualized net income

PHILIPPINE SAVINGS BANK

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition

As of September 30, 2019 (Unaudited) and December 31, 2018 (Audited)

The Bank's Total Assets as of September 30, 2019 stood at ₱231.97 billion which was 2.42% or ₱5.76 billion lower than the December 31, 2018 level of ₱237.73 billion.

Cash and Other Cash Items declined by 39.13% from ₱3.78 billion as of December 31, 2018 to ₱2.30 billion as of September 30, 2019. Due from Other Banks went down by ₱748.57 million as of September 30, 2019 from ₱1.68 billion as of December 31, 2018. Due from BSP decreased by 31.20% or ₱4.73 billion to ₱10.43 billion as of September 30, 2019 compared from ₱15.16 billion as of December 31, 2018. On the other hand, Interbank Loans Receivable and Securities Purchased under Resale Agreements as of September 30, 2019 grew by 42.72% or ₱808.18 million to ₱2.70 billion as of September 30, 2019 from ₱1.89 billion in December 31, 2018.

Total investment securities which consists of Financial Assets at Fair Value through Profit or Loss (FVTPL), Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) and Investment Securities at Amortized Cost represents 18.03% and 20.44% of total assets as of September 30, 2019 and December 31, 2018, respectively. FVTPL went down to ₱3.74 million as of September 30, 2019 from ₱10.11 million as of December 31, 2018. FVOCI decreased by 45.24% or ₱5.85 billion to ₱7.08 billion as of September 30, 2019 compared from ₱12.93 billion as of December 31, 2018. Investment Securities at Amortized Cost declined by 2.57% from ₱35.65 billion as of December 31, 2018 to ₱34.73 billion as of September 30, 2019.

Loans and Receivables, net of allowance and unearned interest discounts, representing 69.88% of total assets stood at ₱162.11 billion as of September 30, 2019. This was ₱5.85 billion higher than the December 31, 2018 level of ₱156.26 billion. Consumption loans and Real Estate Loans improved by ₱3.77 billion and ₱2.06 billion, respectively.

Investment in a Joint Venture increased by ₱43.00 million to ₱734.42 million from ₱691.43 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.

Property and Equipment increased by 48.69% or ₱1.10 billion to ₱3.36 billion as of September 30, 2019 from ₱2.26 billion as of December 31, 2018. The increase is due to the adoption of PFRS 16, Leases (Note 2). On the other hand, Investment Properties decreased by 2.23% or ₱89.98 million to ₱3.95 billion as of September 30, 2019 compared from ₱4.04 billion as of December 31, 2018.

Deferred Tax Assets declined by ₱9.96 million to ₱1.32 billion as of September 30, 2019 from ₱1.33 billion as of December 31, 2018. Goodwill and Intangible Assets went down by 25.60% or ₱167.77 million to ₱487.67 million as of September 30, 2019 from ₱655.45 million as of December 31, 2018.

Other Assets went up by 31.03% or ₱436.11 million to ₱1.84 billion as of September 30, 2019 from ₱1.41 billion as of December 31, 2018, due to the increase of chattel mortgage properties-net, net retirement assets and creditable withholding tax.

Total Liabilities registered ₱197.49 billion as of September 30, 2019 was lower by 7.43% or ₱15.84 billion from ₱213.34 billion as of December 31, 2018.

The Bank's deposits representing 91.71% of total liabilities was lower by 9.75% or ₱19.57 billion to ₱181.12 billion from ₱200.69 billion posted in December 31, 2018. Demand Deposits and Savings Deposits increased by 7.79% and 4.66%, respectively to ₱21.95 billion and ₱34.96 billion, respectively. Meanwhile, Time Deposits decreased by 16.40% or ₱22.72 billion to ₱115.80 billion as of September 30, 2019 from ₱138.53 billion as of December 31, 2018.

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. The Bank's LTNCDS is ₱8.41 billion and ₱8.40 billion as of September 30, 2019 and December 31, 2018, respectively.

As of September 30, 2019, Bills payable increased by 0.52% or ₱15.51 million to ₱2.98 billion compared from ₱2.97 billion as of December 31, 2018. On December 10, 2018, the Bank issued MTFNs amounting to ₱3.00 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.

On July 24, 2019, the Bank issued Fixed Rate Bonds amounting to ₱6.3 billion with a tenor two (2) years and due on July 24, 2021 with interest rate of 5.6% per annum payable quarterly. The minimum investment size for the bonds payable is ₱0.5 million and in increments of ₱0.1 million thereafter. The Bank registered Bonds Payable, net of debt issuance cost amounted to ₱6.25 billion as of September 30, 2019.

On February 15, 2019, the Board of Directors approved the Bank's option to call the Tier 2 Notes issued in 2014 on its fifth year anniversary or on August 23, 2019. The request of the Bank to exercise the same was approved by the BSP on April 24, 2019. The redemption falls under the call provisions of the Tier 2 Notes worth ₱3.00 Billion, which had an original maturity of ten years or until 2024. On August 23, 2019 the Bank exercised its call option and paid ₱3.00 billion to all noteholders.

Treasurer's, Cashier's and Manager's Checks decreased by ₱223.08 million to ₱1.39 billion as of September 30, 2019 from ₱1.62 billion last December 31, 2018. Meanwhile, Other Liabilities increased by ₱1.15 billion to ₱4.21 billion from ₱3.06 billion due to the adoption of PFRS 16, Leases (Note 2) and the effect of implementation of ECL requirements under PFRS 9 where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over the expected life.

The Bank's Equity stood at ₱34.48 billion, 41.33% higher than the end-December 2018 level of ₱24.39 billion mainly due to the ₱8.0 billion Stock Rights Offer listed on January 18, 2019 in Philippine Stock Exchange (PSE) and higher net income booked during the period.

As of September 30 2019, Capital Adequacy Ratio (CAR) was at 17.41%. This is above the minimum regulatory requirement of 10%.

Discussion of Results of Operations

For the nine months ended September 30, 2019 (Unaudited) and September 30, 2018 (Unaudited)

For the nine months ended September 30, 2019, the Bank recorded a Net Income after Tax of ₱2.18 billion an increased by 8.41% or ₱168.75 million from ₱2.01 billion posted during the same period last year.

Net interest Income declined to ₱8.19 billion from ₱8.66 billion during the same period last year.

Total Interest Income for the nine months ended September 30, 2019 increased by 7.53% or ₱911.15 million higher than the ₱12.10 billion recorded during the same period last year. Interest income on Loans and Receivables was 9.20% higher at ₱11.51 billion from ₱10.54 billion. On the other hand, Interest Income on Investment Securities decreased by 1.22% or ₱18.30 million to ₱1.48 billion from ₱1.50 billion. Interest income from other banks went down by 24.79% to ₱2.19 million from ₱2.91 million. Interest income on Interbank Loans Receivable and SPURA slid by ₱34.38 million to ₱15.53 million from ₱49.91 million. Interest Income on deposits with BSP declined by ₱5.59 million to ₱0.52 million from ₱6.11 million.

Total Interest Expense for the nine months ended September 30, 2019 increased by 40.22% or ₱1.38 billion higher than the ₱3.44 billion recorded during the same period last year. Interest Expense on the Bank's deposit liabilities increased by 30.89% to ₱4.28 billion from ₱3.27 billion while Interest Expense on Bills Payable increased to ₱256.66 million from ₱42.31 million due to the issuance of MFTNs last December 10, 2018. The Interest expense on Bonds payable is ₱72.58 million as of September 30, 2019 while Interest Expense on Finance Lease for the nine months ended September 30, 2019 is ₱86.23 million due to the adoption of PFRS 16, Leases (Note 2). On the other hand, Interest on Subordinated Debt decreased by ₱0.62 million to ₱125.12 million from ₱125.74 million.

Net Service Fees and Commission Income went up to ₱1.44 billion, 28.75% higher than ₱1.12 billion recorded during the same period last year due to the increase of Service Fees and Commission Income by ₱313.12 million to ₱1.50 billion from ₱1.19 billion and decrease of Service Fees and Commission Expense by 12.27% or ₱8.72 million from ₱71.10 million posted last year.

Other Operating Income rose by 9.92% or ₱98.32 million to ₱1.09 billion from ₱991.56 million due to increase of trading and securities gain by ₱233.82 million, gain on foreclosure and sale of investment properties by ₱175.13 and gain on sale of property and equipment by ₱0.62 million. On the other hand, the Bank registered a decreased on gain on foreclosure and sale of chattel mortgage properties by ₱219.51 million. Foreign Exchange gain was posted at ₱53.05 million compared to the ₱78.34 million recorded a year ago while Miscellaneous Income also went down by 13.56% or ₱66.44 million to ₱423.49 million from ₱489.94 million.

Other Operating Expenses, excluding provision for impairment, was lower by 4.64% or ₱320.67 million to ₱6.60 billion from ₱6.92 billion. Occupancy and equipment-related costs decreased by 57.28% compared from ₱570.62 million recorded last year. Security, messengerial and janitorial services went down from ₱374.18 million to ₱325.56 million. Taxes and Licenses decreased by ₱22.12 million to ₱1.17 billion from ₱1.19 billion. Amortization of intangible assets was recorded at ₱103.38 million lower by 15.05% during the same period last year. Miscellaneous Expenses was registered at ₱1.46 billion versus ₱1.63 billion during the same period last year. Meanwhile, Depreciation and amortization expense increased by ₱206.87 million to ₱684.26 million from ₱477.39 million, due to the adoption of PFRS 16, Leases (Note 2). Compensation and Fringe Benefits amounted to ₱2.61 billion for the nine months ended September 30, 2019 compared to ₱2.55 billion for the nine months ended September 30, 2018.

For the nine months ended September 30, 2019, the Bank recognized ₱1.69 billion provisions for credit and impairment losses and ₱336.39 million provisions for income tax.

For the nine months ended September 30, 2019, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱82.36 million from ₱54.57 million during the same period last year.

For the quarter ended September 30, 2019 vs. September 30, 2018 (Unaudited)

For the quarter ended September 30, 2019, the Bank reflected a Net Income after Tax of ₱813.04 million, a 20.08% or ₱135.95 million higher than the ₱677.09 million reported for the same quarter last year.

Net interest Income went up by ₱109.31 million to ₱2.92 billion from ₱2.81 billion during the same quarter last year.

Total Interest Income for the third quarter of 2019 registered at ₱4.37 billion, 5.39% higher than the ₱4.15 billion recorded in the same quarter last year. Interest income on Loans and Receivables increased by 7.81% or ₱283.18 million to ₱3.91 billion compared from ₱3.62 billion posted during same quarter last year. Interest income from other banks went up by 14.44% to ₱1.00 million from ₱0.87 million. On the other hand, Interest Income on Investment Securities decreased by ₱45.77 million to ₱451.77 million from ₱497.54 million. Interest income on Interbank Loans Receivable and SPURA slid by ₱13.12 million to ₱9.67 million from ₱22.79 million. Interest Income on deposits with BSP declined by 85.14% from ₱0.98 million recorded during the same quarter last year.

Total Interest Expense went up by 8.56% to ₱1.45 billion from ₱1.33 billion posted during the same quarter last year. Interest Expense on Bills Payable increased to ₱77.42 million from ₱3.33 million due to the issuance of MFTNs last December 10, 2018. For the third quarter of 2019, Interest expense on Bonds payable and Interest Expense on Finance Lease were recorded at ₱72.58 million and ₱28.16 million, respectively. On the other hand, Interest Expense on the Bank's deposit liabilities declined by 4.64% or ₱59.86 million to ₱1.23 billion from ₱1.29 billion while Interest on Subordinated Debt decreased by 1.67% to ₱41.22 million from ₱41.92 million.

Net Service Fees and Commission Income rose by ₱76.77 million from ₱371.90 million recorded during the same quarter last year due to the increased of Service Fees and Commission Income by 18.87% to ₱472.62 million from ₱397.59 million and decreased of Service Fees and Commission Expense by 6.67% from ₱25.69 million to ₱23.95 million.

Other Operating Income went up by 36.87% to ₱409.97 million from ₱299.53 million during the same quarter last year due to the increase of Gain on foreclosure and sale of investment properties by 69.08% to ₱269.68 million, Gain on Trading and Securities increased to ₱19.23 million and Miscellaneous Income by 2.98% to ₱142.65 million. On the other hand, Foreign Exchange gain decreased by ₱16.51 million to ₱4.46 million. Also, the Bank registered a decreased on gain on foreclosure and sale of chattel mortgage properties by ₱10.44 million, while gain on sale of property and equipment declined by ₱2.76 million.

Other Operating Expenses, excluding provision for impairment, was lower by ₱8.96 million to ₱2.31 billion from ₱2.32 billion. Occupancy and equipment-related costs decreased by 57.57% compared from ₱188.52 million during the same quarter last year. Miscellaneous Expenses was registered at ₱531.61 million versus ₱546.54 million. Amortization of intangible assets was recorded at ₱34.27 million lower by 13.20% during the same quarter last year. Meanwhile, Depreciation and amortization expense increased by ₱72.69 million to ₱230.32 million from ₱157.63 million, due to the adoption of PFRS 16, Leases (Note 2). Compensation and Fringe Benefits amounted to ₱907.83 million for the quarter ended September 30, 2019 compared to ₱864.90 million for the quarter ended September 30, 2018. Security, messengerial and janitorial services went up to ₱117.52 million from ₱114.69 million. Taxes and Licenses rose by ₱1.27 million to ₱409.01 million from ₱407.74 million.

For the third quarter of 2019, the Bank recognized ₱545.35 million provisions for credit and impairment losses and ₱142.40 million provisions for income tax.

For the quarter ended September 30, 2019, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱30.57 million from ₱18.53 million recorded on the third quarter of 2018.

Analysis of Key Soundness Indicators

September 2019 vs. September 2018 Comparative highlights on key soundness indicators

The following ratios measure the financial performance of the Bank:

		September 30, 2019	September 30, 2018 (Unaudited)	December 31, 2018 (Audited)
Return on Average Equity*	ROAE	9.85%	11.56%	11.38%
Return on Average Assets*	ROAA	1.23%	1.18%	1.15%
Net Interest Margin on Average Earning Assets	NIM	5.52%	6.02%	5.79%
Earnings per share	EPS	₱5.80	₱7.92	₱11.08
Capital-to-Risk Assets Ratio	CAR	17.41%	13.79%	13.88%
Liquidity Ratio	LR	21.73%	20.89%	23.47%
Debt-Equity Ratio	DER	5.73:1	8.68:1	8.75:1
Asset-to-Equity Ratio	AER	6.73:1	9.68:1	9.75:1
Interest Rate Coverage Ratio	IRCR	1.52:1	1.69:1	1.59:1

* computed based on annualized/normalized net income

1. Return on Average Equity (ROAE) in September 30, 2019 decreased to 9.85% from 11.56% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of shareholders' equity at the beginning and ending of the period.
2. Return on Average Assets (ROAA) was 1.23% and 1.18% for the nine month period ended September 30, 2019 and 2018, respectively. ROAA is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of total assets at the beginning and ending of the period.
3. Net Interest Margin on Average Earning Assets (NIM) was 5.52% and 6.02% for the comparative periods of September 30, 2019 and 2018, respectively. NIM is calculated by dividing the net interest income by the average earning assets. An average interest-earning asset is based on outstanding balances at the beginning and ending of the period divided by two. (Earning assets comprised of Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable and Securities Purchased Under Resale Agreements, Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables, Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive (FVOCI) and Investment at amortized cost.
4. Earnings per Share (EPS) was lower at ₱5.80 as of September 30, 2019 compared to the ₱7.92 adjusted EPS as of September 30, 2018 due to the stock right offer (Note 15). EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.
5. Capital-to-Risk Assets Ratio (CAR) increased to 17.41% in September 2019 versus 13.79% in September 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) was higher at 21.73% in September 2019 from 20.89% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.
7. Debt-to-Equity Ratio (DER) was lower at 5.73:1 in September 2019 from 8.68:1 in September 2018. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.
8. Asset-to-Equity Ratio (AER) decreased to 6.73:1 as of September 30, 2019 from 9.68:1 as of September 30, 2018. AER is computed by dividing the total assets by total shareholder's equity.
9. Interest Rate Coverage Ratio (IRCR) went down to 1.52:1 this year from 1.69:1 in September 2018. 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.

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 2019.

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

Material Commitments for Capital Expenditures

The Bank's capital expenditure target in 2019 includes projected expenses for new off-site ATMs, upgrade of bank premises including infrastructure, furniture, fixtures and equipment, IT-related activities on systems and licenses.

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

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

Known Trends, Events or Uncertainties or Seasonal Aspects

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

PHILIPPINE SAVINGS BANK
UNAUDITED AGING OF RECEIVABLES

As of September 30, 2019								
TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE & ITEMS IN LITIGATION	PAST DUE				ITEMS IN LITIGATION	
			90 Days or Less	91-180 Days	181 Days to 1 Year	More Than 1 Year		
Trade Receivables								
Loans and Discounts	₱163,172,154,924	₱151,755,048,389	₱11,417,106,535	₱2,623,812,017	₱1,318,977,942	₱634,788,470	₱5,664,169,847	₱1,175,358,259
Agri / Agrarian Reform Loans	108,017,866	95,374,986	12,642,880	12,642,880	-	-	-	-
Bills Purchased	111,276,957	111,276,957	-	-	-	-	-	-
Restructured Loans	111,066,832	42,142,615	68,924,217	63,715,365	-	-	2,892,592	2,316,260
Total Trade Receivables	163,502,516,579	152,003,842,947	11,498,673,632	2,700,170,262	1,318,977,942	634,788,470	5,667,062,439	1,177,674,519
Less :								
Allowance For Probable Losses	3,445,901,220	-	-	-	-	-	-	-
Other Deferred Credits	813,673	-	-	-	-	-	-	-
Net Trade Receivable	160,055,801,686	152,003,842,947	11,498,673,632	2,700,170,262	1,318,977,942	634,788,470	5,667,062,439	1,177,674,519
Non-Trade Receivables								
Accounts Receivables	881,632,555	864,169,048	17,463,507	2,788,054	2,629,609	1,717,990	4,700,980	5,626,874
Accrued Interest Receivables	2,063,851,045	1,569,001,712	494,849,333	102,889,685	72,242,914	68,156,884	105,636,488	145,923,362
Total Non-Trade Receivable	2,945,483,600	2,433,170,760	512,312,840	105,677,739	74,872,523	69,874,874	110,337,468	151,550,236
Less :								
Allowance for Probable Losses	944,277,909	-	-	-	-	-	-	-
Net Non-Trade Receivable	2,001,205,691	2,433,170,760	512,312,840	105,677,739	74,872,523	69,874,874	110,337,468	151,550,236
Sales Contract Receivable	49,956,566	17,897,347	32,059,219	24,246,738	-	182,683	3,457,444	4,172,354
Less :								
Allowance for Probable Losses	671,561	-	-	-	-	-	-	-
Net Sales Contract Receivable	49,285,005	17,897,347	32,059,219	24,246,738	-	182,683	3,457,444	4,172,354
Net Receivables	₱162,106,292,382	₱154,454,911,054	₱12,043,045,691	₱2,830,094,739	₱1,393,850,465	₱704,846,027	₱5,780,857,351	₱1,333,397,109