PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

August 15, 2018

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

Attention: MS. VINA VANESSA S. SALONGA
HEAD - Issuer Compliance & Disclosure Department (ICDD)

Dear Ms. Salonga,

This is to furnish you with a copy of the SEC 17-Q as of June 30, 2018.

We hope that you will find everything in order.

Thank you very much.

Very truly yours,

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

COVER SHEET

1 5 5 5 2

SEC Registration Number

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

(Company's Full Name)

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

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

Leah M. Zamora

(Contact Person)

885-8208

(Company Telephone Number)

1 2 3 1

Month *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

2nd Quarter 2018

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Markets and Securities Regulation Department

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

1,472

Total No. of Stockholders
As of June 30, 2018

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF
THE SECURITIES REGULATION CODE

1. For the quarterly period ended : **June 30, 2018**

2. Commission identification number : **15552**

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

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

   o PHILIPPINE SAVINGS BANK

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

   o City of Manila, Philippines

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

7. Address of registrant's principal office:

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

8. Registrant's telephone number, including area code

   o (632) 885-8208

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

   o Not applicable

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

o Title of each class	**Common Shares**
o Number of shares of common stock outstanding	**240,252,491**
o Amount of debt outstanding	**₱2,980,316,852**
	(Tier II Subordinated Notes)

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

   o Yes

12. Indicate by check mark whether the registrant:

   (a) has filed all reports required to be filed by Section 17 of the Securities Regulation Code and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding 12 months (or for such shorter period the registrant was required to file such reports).

   Yes **[x]** No [ ]

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

   Yes **[x]** No [ ]

PART I – FINANCIAL INFORMATION

Item I. Financial Statements

Attached are the following:

Interim Statements of Condition	Annex 1
Interim Statements of Income	Annex 2
Interim Statements of Comprehensive Income	Annex 3
Interim Statements of Changes in Equity	Annex 4
Interim Statements of Cash Flows	Annex 5
General Notes to Interim Financial Statements	Annex 6
Financial Performance Indicators	Annex 7
Business Segment Information	Annex 8
Aging of Receivables	Annex 9

Item II. Management Discussion and Analysis of Financial Condition and Results of Operations — Annex 10

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 June 30, 2018:

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

As of June 30, 2018, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

Minimum Public Ownership

As of June 30, 2018, public ownership of the Bank was at 15.66%. Of the total shares issued, 1.65 million shares or 0.69% represents foreign ownership.

2. Legal Proceedings

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

3. Board Resolutions

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

SIGNATURES

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

PHILIPPINE SAVINGS BANK
By:

LEAH M. ZAMORA
Controller

JOSE VICENTE L. ALDE
President

August 13, 2018

Philippine Savings Bank

Unaudited Interim Condensed Financial Statements
As of June 30, 2018
And for the six-month periods ended
June 30, 2018 and 2017
(With Comparative Statement of Condition as of
December 31, 2017)

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM CONDENSED STATEMENTS OF CONDITION

(With Comparative Audited Figures as at December 31, 2017)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS		
Cash and Other Cash Items	**₱2,675,331,270**	₱2,596,872,801
Due from Bangko Sentral ng Pilipinas	**14,692,322,937**	15,265,387,772
Due from Other Banks	**2,071,168,430**	1,508,489,309
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**5,950,000,000**	1,842,023,049
Financial Assets at Fair Value Through Profit or Loss (Notes 2, 3 and 5)	**130,345,295**	366,235,689
Available-for-Sale Investments (Notes 2, 3 and 5)	**–**	16,925,485,941
Financial Assets at Fair Value Through Other Comprehensive Income (Notes 2, 3 and 5)	**12,424,734,266**	–
Held-to-Maturity Investments (Notes 2, 3 and 5)	**–**	29,473,724,384
Investment Securities at Amortized Cost (Notes 2, 3 and 5)	**36,054,561,273**	–
Loans and Receivables (Notes 2, 3 and 6)	**150,464,246,649**	144,964,513,221
Investment in a Joint Venture	**643,202,586**	607,162,821
Property and Equipment (Note 7)	**2,350,412,944**	2,480,012,354
Investment Properties (Note 8)	**4,019,702,875**	3,930,317,479
Deferred Tax Assets (Note 2)	**1,217,376,891**	1,429,327,369
Goodwill and Intangible Assets	**682,816,655**	714,924,056
Other Assets (Note 9)	**1,383,286,172**	1,219,566,379
	₱234,759,508,243	₱223,324,042,624

LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱20,773,122,760**	₱19,112,561,892
Savings	**32,699,919,339**	30,383,783,001
Time	**143,238,583,772**	136,042,056,714
Long-term Negotiable Certificates of Deposits	**3,375,000,000**	3,375,000,000
	200,086,625,871	188,913,401,607
Bills Payable (Note 10)	**2,020,090,951**	1,492,418,518
Subordinated Notes	**2,980,316,852**	2,978,997,695
Treasurer's, Cashier's and Manager's Checks	**1,691,462,141**	2,213,869,703
Accrued Taxes, Interest and Other Expenses (Note 11)	**1,706,518,863**	1,658,423,304
Income Tax Payable	**59,473,761**	375,277
Financial Liabilities at Fair Value Through Profit or Loss (Note 5)	**42,315,432**	–
Other Liabilities (Note 12)	**2,812,334,689**	3,673,232,353
	211,399,138,560	200,930,718,457

(Forward)

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Equity		
Common Stock	**₱2,402,524,910**	₱2,402,524,910
Capital Paid in Excess of Par Value	**2,818,083,506**	2,818,083,506
Surplus Reserves	**1,035,402,901**	1,035,402,901
Surplus (Note 2)	**18,419,890,784**	17,097,046,504
Net Unrealized Loss on Available-for-Sale Investments (Note 2 and 5)	**–**	(411,510,218)
Net Unrealized Loss on Financial Assets at Fair Value Through Other Comprehensive Income (Note 2 and 5)	**(773,865,658)**	–
Remeasurement Losses on Retirement Plan	**(545,392,541)**	(545,392,541)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**1,245,144**	1,245,144
Cumulative Translation Adjustment	**2,480,637**	(4,076,039)
	23,360,369,683	22,393,324,167
	₱234,759,508,243	₱223,324,042,624

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

PHILIPPINE SAVINGS BANK

Annex 2

UNAUDITED INTERIM CONDENSED STATEMENTS OF INCOME

	For the quarter ended June 30 (April to June)		For the six months ended June 30 (January to June)	
	2018	2017	**2018**	2017
INTEREST INCOME				
Loans and receivables	**₱3,519,026,648**	₱3,053,906,890	**₱6,919,167,363**	₱6,017,888,414
Investment securities	**497,084,477**	449,602,585	**998,149,794**	869,127,455
Interbank loans receivable and securities purchased under resale agreements	**20,718,885**	22,352,984	**27,119,122**	42,274,193
Due from Bangko Sentral ng Pilipinas	**3,744,435**	38,819,005	**5,129,375**	45,564,075
Due from other banks	**1,005,924**	462,223	**2,036,693**	1,104,098
	4,041,580,369	3,565,143,687	**7,951,602,347**	6,975,958,235
INTEREST EXPENSE				
Deposit liabilities	**1,051,273,905**	782,875,943	**1,980,808,702**	1,463,176,556
Subordinated notes	**41,914,185**	41,878,092	**83,819,157**	107,101,944
Bills payable	**22,129,588**	9,709,790	**38,981,440**	28,458,610
	1,115,317,678	834,463,825	**2,103,609,299**	1,598,737,110
NET INTEREST INCOME	**2,926,262,691**	2,730,679,862	**5,847,993,048**	5,377,221,125
Service fees and commission income	**406,796,610**	375,096,308	**792,786,658**	731,314,918
Service fees and commission expense	**21,584,007**	24,526,387	**45,411,153**	46,717,392
NET SERVICE FEES AND COMMISSION INCOME	**385,212,603**	350,569,921	**747,375,505**	684,597,526
OTHER OPERATING INCOME (CHARGES)				
Trading and securities losses - net	**(35,422,897)**	8,964,412	**(91,464,117)**	(88,489,077)
Gain on foreclosure and sale of investment properties - net	**87,338,453**	108,855,613	**168,835,024**	172,792,197
Gain on foreclosure and sale of chattel mortgage properties - net	**82,613,405**	128,919,068	**229,796,753**	234,433,597
Foreign exchange gain - net	**30,087,491**	14,042,052	**57,370,595**	25,550,216
Miscellaneous	**145,676,698**	120,616,104	**351,506,617**	265,936,371
	310,293,150	381,397,249	**716,044,872**	610,223,304
TOTAL OPERATING INCOME	**3,621,768,444**	3,462,647,032	**7,311,413,425**	6,672,041,955

(Forward)

	For the quarter ended June 30 (April to June)		For the six months ended June 30 (January to June)	
	2018	2017	**2018**	2017
OTHER EXPENSES				
Compensation and fringe benefits	**862,142,634**	₱817,294,939	**₱1,683,349,342**	₱1,565,722,234
Provision for credit and impairment losses	**445,167,983**	535,267,717	**1,107,883,237**	1,155,226,091
Taxes and licenses	**355,936,323**	322,677,230	**783,891,903**	659,343,864
Occupancy and equipment-related costs	**191,808,681**	183,487,242	**382,101,986**	369,859,707
Depreciation (Note 7)	**159,535,205**	152,193,500	**319,755,919**	313,791,523
Security, messengerial and janitorial services	**121,539,267**	117,722,966	**259,487,505**	228,177,742
Amortization of intangible assets	**38,046,659**	36,405,841	**82,225,658**	63,165,122
Miscellaneous (Note 14)	**567,517,036**	531,389,621	**1,087,631,809**	1,057,873,062
	2,741,693,788	2,696,439,056	**5,706,327,359**	5,413,159,345
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**880,074,656**	766,207,976	**1,605,086,066**	1,258,882,610
SHARE IN NET INCOME OF A JOINT VENTURE	**20,632,369**	15,810,349	**36,039,765**	26,101,486
INCOME BEFORE INCOME TAX	**900,707,025**	782,018,325	**1,641,125,831**	1,284,984,096
PROVISION FOR (BENEFIT FROM) INCOME TAX	**188,443,223**	113,481,790	**287,803,210**	105,335,169
NET INCOME	**₱ 712,263,802**	₱668,536,535	**₱1,353,322,621**	₱1,179,648,927
Basic/Diluted Earnings Per Share	**₱2.96**	₱2.78	**₱5.63**	₱4.91

PHILIPPINE SAVINGS BANK **Annex 3**

UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	For the quarter ended June 30 (April to June)		For the six months ended June 30 (January to June)	
	2018	2017	**2018**	2017
NET INCOME	**₱712,263,802**	₱668,536,535	**₱1,353,322,621**	₱1,179,648,927
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that recycle to profit or loss in subsequent periods:				
Net unrealized gain from available-for-sale investments (Note 5)	–	168,031,073	–	444,422,582
Net unrealized loss from financial assets at fair value through other comprehensive income (Note 5)	**(335,728,011)**	–	**(702,530,261)**	–
Cumulative translation adjustment	**4,456,923**	487,031	**6,556,676**	759,184
Item that does not recycle to profit or loss in subsequent periods:				
Net unrealized loss from financial assets at fair value through other comprehensive income (Note 5)	–	–	**(2,188,665)**	–
	(331,271,088)	168,518,104	**(698,162,250)**	445,181,766
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱380,992,714**	₱837,054,639	**₱655,160,371**	₱1,624,830,693

PHILIPPINE SAVINGS BANK

Annex 4

UNAUDITED INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income/ Available-For-Sale Investments	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains (Losses) on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at December 31, 2017 (audited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱17,097,046,504**	**(₱411,510,218)**	**(₱545,392,541)**	**₱1,245,144**	**(₱4,076,039)**	**₱22,393,324,167**
Effect of the adoption of PFRS 9 (Note 2)	–	–	–	**329,900,396**	**342,363,486**	–	–	–	**672,263,882**
Balance at January 1, 2018, as restated	**2,402,524,910**	**2,818,083,506**	**1,035,402,901**	**17,426,946,900**	**(69,146,732)**	**(545,392,541)**	**1,245,144**	**(4,076,039)**	**23,065,588,049**
Total comprehensive income (loss) for the year	–	–	–	**1,353,322,621**	**(704,718,926)**	–	–	**6,556,676**	**655,160,371**
Cash dividends (Note 18)	–	–	–	**(360,378,737)**	–	–	–	–	**(360,378,737)**
Balance at June 30, 2018 (unaudited)	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,402,901**	**₱18,419,890,784**	**(₱773,865,658)**	**(₱545,392,541)**	**₱1,245,144**	**₱2,480,637**	**₱23,360,369,683**
Balance at January 1, 2017 (Unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,163,512,433	(₱842,908,364)	(₱541,701,193)	₱1,443,599	₱1,441,988	₱20,037,672,196
Total comprehensive income for the year	–	–	–	1,179,648,927	444,422,582	–	–	759,184	1,624,830,693
Cash dividends (Note 18)	–	–	–	(360,378,737)	–	–	–	–	(360,378,737)
Balance at June 30, 2017 (unaudited)	₱2,402,524,910	₱2,818,083,506	₱1,035,275,317	₱15,982,782,623	(₱398,485,782)	(₱541,701,193)	₱1,443,599	₱2,201,172	₱21,302,124,152

See accompanying Notes to Unaudited Interim Condensed Financial Statements.

UNAUDITED INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,641,125,831**	₱1,284,984,096
Adjustments to reconcile income before income tax to net cash provided by (used in) operations:		
Amortization of discount on available-for-sale and held-to-maturity investments	**–**	(18,382,502)
Amortization of premium on financial assets at fair value through other comprehensive income and hold-to-collect investments	**329,900,396**	–
Provision for credit and impairment losses	**1,107,883,237**	1,155,226,091
Depreciation (Note 7)	**319,755,919**	313,791,523
Gain on foreclosure and sale of:		
Chattel mortgage properties (Note 9)	**(229,796,753)**	(234,433,597)
Investment properties (Note 8)	**(168,835,024)**	(172,792,197)
Amortization of:		
Intangible assets	**82,225,658**	63,165,122
Debt issuance costs	**1,319,157**	(3,027,540,049)
Realized loss on sale of available-for-sale investments (Note 5)	**–**	69,000,226
Realized gain on sale of financial assets at fair value through other comprehensive income (Note 5)	**(74,217,209)**	–
Share in net income of a joint venture	**(36,039,765)**	(26,101,486)
Unrealized trading gain on financial assets at fair value through profit or loss (Note 5)	**(2,520,451)**	(21,754,743)
Gain on sale of property and equipment	**(86,491)**	(41,000)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**280,746,710**	468,546,754
Loans and receivables	**(7,908,542,415)**	(9,783,199,243)
Other assets	**(167,768,721)**	(162,954,211)
Increase (decrease) in:		
Deposit liabilities	**11,176,189,153**	25,221,565,348
Bills payable	**3,108,710,588**	–
Accrued taxes, interest and other expenses	**48,100,276**	137,627,163
Treasurer's, cashier's and manager's checks	**(522,407,562)**	395,823,204
Other liabilities	**(860,879,480)**	136,804,341
Cash generated from (used in) operations	**8,124,863,054**	15,799,334,840
Income taxes paid	**(16,754,248)**	(122,018,663)
Net cash provided by (used in) operating activities	**8,108,108,806**	15,677,316,177
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Available-for-sale investments	**–**	(4,150,258,623)
Financial assets at Fair value through other comprehensive income	**(38,021,413)**	–
Held-to-maturity investments	**–**	(5,765,936,138)
Hold-to-collect investments	**(6,578,556,171)**	–

(Forward)

	Six Months Ended June 30	
	2018	**2017**
Property and equipment	**(₱76,371,504)**	(₱173,092,425)
Other intangible assets	**(50,118,257)**	(29,734,895)
Proceeds from sale of:		
Available-for-sale investments	**–**	1,890,661,265
Financial assets at fair value through other comprehensive income	**4,251,399,258**	–
Chattel mortgage properties	**1,219,436,755**	1,021,652,388
Investment properties	**267,102,405**	412,567,240
Property and equipment	**13,983,545**	9,321,937
Increase in interbank loans receivables	**–**	1,443,598
Net cash used in investing activities	**(991,145,382)**	(6,783,375,653)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of bills payable	**(2,580,720,210)**	(2,514,082,727)
Dividends paid	**(360,378,737)**	(360,378,737)
Net cash provided by (used in) financing activities	**(2,941,098,947)**	(2,874,461,464)
Effect of exchange rate differences	**185,229**	83,823
NET DECREASE IN CASH AND CASH EQUIVALENTS	**4,176,049,706**	6,019,562,883
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**2,596,872,801**	2,778,009,185
Due from Bangko Sentral ng Pilipinas	**15,265,387,772**	13,986,784,696
Due from other banks	**1,508,489,309**	1,838,630,022
Interbank loans receivable and securities purchased under resale agreements	**1,842,023,049**	3,254,311,599
	21,212,772,931	21,857,735,502
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**2,675,331,270**	2,389,385,289
Due from Bangko Sentral ng Pilipinas	**14,692,322,937**	23,323,805,073
Due from other banks	**2,071,168,430**	1,913,067,100
Interbank loans receivable and securities purchased under resale agreements	**5,950,000,000**	251,040,923
	₱25,388,822,637	₱27,877,298,385
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱4,534,096,518**	₱4,492,413,078
Interest received	**18,470,075,490**	6,839,035,797

See accompanying Notes to Unaudited Interim Financial Statements.

1. Corporate Information

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

As of June 30, 2018, the Bank had a total of 250 branches and 615 ATMs which consist of 263 onsite ATMs and 352 offsite ATMs nationwide.

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

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

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

As of June 30, 2018, Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-three percent (83%) of the Bank.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying unaudited interim condensed financial statements for the six month periods ended June 30, 2018 and unaudited 2017 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Bank's annual audited financial statements as at December 31, 2017.

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

The accompanying unaudited interim condensed financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit

(FCDU). The functional currency of the RBU and the FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso. The financial statements of these units are combined after eliminating inter-unit accounts.

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

Presentation of Financial Statements
The Bank presents its statement of condition in order of liquidity.

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

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

Seasonality or Cyclicality of Interim Operations
Seasonality or cyclicality of interim operations is not applicable to the Bank's type of business.

Summary of Significant Accounting Policies
Interest income
For all financial instruments measured at amortized cost and interest-bearing financial assets classified as FVOCI/AFS and financial assets at FVTPL, interest income or expense is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

Service fees and commission income
Fees earned for the provision of services over a period of time are accrued over that period. These fees include fiduciary fees, credit-related fees and other service and management fees.

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the audited annual financial

statements as of and for the year ended December 31, 2017 except for the adoption of new standards and amendments effective as of January 1, 2018. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Bank applies PFRS 9 (2014), *Financial Instruments* and PFRS 15 *Revenue from Contracts with Customers*. As required by PAS 34, the nature and effect of these changes are disclosed below.

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

The Bank adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

<u>Financial Instruments – Classification and Measurement</u>
Classification of financial assets
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following measurement categories:
- financial assets measured at amortized cost;
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- financial assets measured at fair value through other comprehensive income, where cumulative gains or losses previously recognized are not reclassified to profit or loss; and
- financial assets measured at fair value through profit or loss.

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

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

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

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

Financial assets at amortized cost
A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest Income' in the interim statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the unaudited interim condensed statement of income.

Financial assets at fair value through other comprehensive income (FVOCI)
A financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Bank may also make an irrevocable election to measure at FVOCI on initial recognition with investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 9. Amounts recognized in OCI are not subsequently transferred to interim condensed statement of income. However, the Bank may transfer the cumulative gain or loss within equity upon adoption date. Dividends on such investments are recognized in interim condensed statements of income, unless the dividend clearly represents recovery of part of the cost of the investment.

Dividends are recognized in interim condensed statements of income only when:
- the Bank's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Bank; and
- the amount of the dividend can be measured reliably.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the

statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the interim condensed statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Bank may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Bank, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVTPL, and all the gains and losses from disposal of debt instruments classified as FVOCI and investment securities at amortized cost.

Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 13, *Business Combinations*.

Reclassifications of financial instruments
The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated.

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

Incurred loss versus expected credit loss methodology
The application of ECL will significantly change the Bank's credit loss methodology and models.
ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days and has exhibited a satisfactory track record.

Credit risk at initial recognition
The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal credit grades, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

Economic overlays
The Bank incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as GDP growth, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Hedge Accounting
The new hedge accounting model under PFRS 9 aims to simplify hedge accounting, align the accounting for hedge relationships more closely with an entity's risk management activities and permit hedge accounting to be applied more broadly to a greater variety of hedging instruments and risks eligible for hedge accounting. The Bank has assessed that the adoption of these amendments will not have any impact in the 2018 financial statements.

The Bank chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
- Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7, *Financial Instruments: Disclosures* will be retained for the periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
- The difference between the previous carrying amount and the carrying amount at the beginning of the annual period that includes the date of initial application will be recognized in the opening Surplus or other component of equity, as appropriate.
- As comparative information is not restated, the Bank is not required to provide a third statement of financial information at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements.*

The Bank has applied its existing governance framework to ensure appropriate controls and validations are in place over key processes and judgments implementing PFRS 9.

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

The Bank applied PFRS 15 on its revenue arrangements that are scoped in the new standard. In addition, the recognition and measurement requirement in PFRS 15 also apply to gains and losses on disposals of nonfinancial assets (such as items of property and equipment and intangible assets), when the disposal is not in the ordinary course of business. The Bank has assessed that the effect of these changes is immaterial.

Amendments to PFRS 2, Share-based Payment, Classification and Measurement of Share-based Payment Transactions
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The amendments are not applicable to the Bank since it does not have share-based payment transactions.

Amendments to PFRS 4, Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The amendments are not applicable to the Bank since it does not have activities that are predominantly connected with insurance or issue insurance contracts.

Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in

associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

The Bank has assessed that the effect of these amendments is immaterial.

Amendments to PAS 40, Investment Property, Transfers of Investment Property
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, Foreign Currency Transactions and Advance Consideration
The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

3. Fair Value Measurement

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

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

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

Quoted FVOCI/AFS equity securities - Fair values are based on quoted prices published in markets.

Unquoted FVOCI/AFS equity securities - The club shares and preferred shares classified as financial assets at FVOCI were valued using valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value.

Derivative instruments (included under FVTPL) - Fair values are estimated based on quoted market prices, prices provided by independent parties, or prices derived using acceptable valuation models.

Receivable from customers and other receivables except accounts receivable, accrued interest receivable and bills purchased - Fair values are estimated using the discounted cash flow methodology, using the Bank's current lending rates for similar types of loans.

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

Subordinated notes, long-term negotiable certificates of time deposits (LTNCTDs) and time deposits- Fair values are estimated using the discounted cash flow methodology using the Bank's borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

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

The following tables summarize the carrying amount and fair values of the financial assets and liabilities, analyzed based on the hierarchy described for determining and disclosing the fair value of financial instruments by valuation technique (in thousands):

	June 30, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments (Note 5)					
Government securities	**₱129,857**	**₱129,857**	**₱–**	**₱–**	**₱129,857**
Derivative assets - foreign exchange swaps	**488**	**–**	**488**	**–**	**488**
FVOCI investments (Note 5)					
Government debt securities	**7,102,497**	**7,102,497**	**–**	**–**	**7,102,497**
Private debt securities	**5,311,412**	**5,311,412**	**–**	**–**	**5,311,412**
Equity securities	**9,895**	**9,408**	**–**	**–**	**9,408**
	₱12,554,149	**₱12,553,174**	**₱488**	**₱–**	**₱12,553,662**
Liabilities measured at fair value:					
Financial Liabilities					
FVTPL investments	**₱42,315**	**₱–**	**₱42,315**	**₱–**	**₱42,315**

	June 30, 2018 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which fair values are disclosed:					
Financial Assets					
Investments at amortized cost (Note 5)					
Government	**₱32,430,334**	**₱29,070,727**	**₱–**	**₱–**	**₱29,070,727**
Private	**3,624,227**	**3,501,082**	**–**	**–**	**3,501,082**
Loans and receivables (Note 6)					
Receivables from customers					
Consumption loans	**86,539,963**	**–**	**–**	**98,791,837**	**98,791,837**
Real estate loans	**47,374,663**	**–**	**–**	**47,197,872**	**47,197,872**
Commercial loans	**11,332,490**	**–**	**–**	**11,829,586**	**11,829,586**
Personal loans	**3,093,088**	**–**	**–**	**3,424,396**	**3,424,396**
Other receivables					
Sales contract receivable	**57,114**	**–**	**–**	**90,557**	**90,557**
Other assets (Note 9)					
Security deposits	**184,659**	**–**	**–**	**259,302**	**259,302**
Non-Financial Assets					
Investment properties (Note 8)	**4,019,703**	**–**	**–**	**4,537,824**	**4,537,824**
	₱188,656,241	**₱32,571,809**	**₱–**	**₱166,131,374**	**₱198,703,183**
Liabilities for which fair values are disclosed:					
Financial Liabilities					
Deposit liabilities					
Time	**₱143,238,584**	**₱–**	**₱–**	**₱147,596,018**	**₱147,596,018**
LTNCTDS	**3,375,000**	**–**	**–**	**3,209,430**	**3,209,430**
Subordinated notes	**2,980,317**	**–**	**–**	**2,280,164**	**2,280,164**
Bills payable	**2,020,091**	**–**	**–**	**2,075,278**	**2,075,278**
	₱151,613,992	**₱–**	**₱–**	**₱155,160,890**	**₱155,160,890**

	December 31, 2017				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Assets measured at fair value:					
Financial Assets					
FVPL investments (Note 5)					
Held-for-trading (HFT) - government securities	₱293,076	₱293,076	₱–	₱–	₱293,076
Derivative assets - foreign exchange swaps	73,160	–	73,160	–	73,160
AFS investments (Note 5)					
Government debt securities	10,762,411	10,260,902	501,509	–	10,762,411
Private debt securities	6,153,072	6,153,072	–	–	6,153,072
Quoted equity securities	7,703	163	8,760	–	8,923
	₱17,289,422	₱16,707,213	₱583,429	₱–	₱17,290,642
Assets for which fair values are disclosed:					
Financial Assets					
HTM investments (Note 5)					
Government	₱25,460,778	₱24,634,062	₱–	₱–	₱24,634,062
Private	4,012,946	4,046,020	–	–	4,046,020
Loans and receivables (Note 6)					
Receivables from customers					
Consumption loans	82,319,091	–	–	93,632,312	93,632,312
Real estate loans	45,961,973	–	–	45,844,118	45,844,118
Commercial loans	11,185,778	–	–	12,070,479	12,070,479
Personal loans	2,899,960	–	–	3,383,787	3,383,787
Sales contract receivable	72,892	–	–	107,448	107,448
Security deposits (Note 9)	179,436	–	–	288,467	288,467
Non-Financial Assets					
Investment properties (Note 8)	3,930,317	–	–	4,939,141	4,939,141
	₱176,023,171	₱28,680,082	₱–	₱160,265,752	₱189,945,834

(Forward)

Liabilities for which fair values are disclosed:					
Deposit liabilities – time	₱136,042,057	₱–	₱–	₱137,797,790	₱137,797,790
Deposit liabilities – LTNCTDS	3,375,000	–	–	3,198,056	3,198,056
Subordinated notes	2,978,998	–	–	3,046,819	3,046,819
Bills payable (Note 10)	1,492,419	–	–	1,492,419	1,492,419
	₱143,888,474	₱–	₱–	₱145,535,084	₱145,535,084

There have been no transfers between levels in June 30, 2018 and December 31, 2017.

As of June 30, 2018 and December 31, 2017, the Bank determined the market value of its warrants to be zero due to the absence of an active market for the Bank's ROP warrants, as evidenced by the unavailability of quoted market prices.

4. Financial Risk Management Policies and Objectives

Compared with December 31, 2017, there have been no changes in the financial risk exposures that materially affect the financial statements of the Bank as of June 30, 2018. The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Market risk
- Liquidity risk

Risk Management Framework
Organization risk management structure continues to be a top-down organization, with the Board of Directors (BOD) at the helm of all major initiatives. The BOD approves broad risk management strategies and policies and ensures that risk management initiatives and activities are consistent with the Bank's overall objectives. The BOD appoints the members of the Risk Oversight Committee (ROC).

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

The risk management framework aims to maintain a balance between the nature of the Bank's businesses and the risk appetite of the BOD. Accordingly, policies and procedures are reviewed regularly and revised as the organization grows and as financial markets evolve. New policies or proposed changes in current policies are presented to the ROC and the BOD for approval.

The BOD is also supported by other Board and management-level committees such as the Corporate Governance, Audit, Executive, Credit, Assets and Liabilities Committees, to name a few.

a. *Credit risk*
Credit risk is the risk that a counterparty will not settle its obligations in accordance with the agreed terms.

The Bank's lending business follows credit policy guidelines set by the BOD, ROC and Risk Management Office (RMO). These policies serve as minimum standards for extending credit. The people engaged in the credit process are required to understand and adhere to these policies.

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls.

They embody the business plans and define the business parameters within which the product or activity is to be performed.

The system of checks around extension of credit includes approval by at least two credit approvers through the Credit Committee (CreCom), Executive Committee (ExCom) or BOD. The ROC reviews the business strategies and ensures that revenue-generating activities are consistent with the risk tolerance and standards of the Bank. The Internal Audit Group conducts regular audit across all functional units. The BOD, through the ExCom, CreCom and ROC, ensure that sound credit policies and practices are followed through all the business segments.

The Bank uses credit scoring models and decision systems for consumer loans as approved by the BOD. Borrower risk rating model and facility risk rating model, on the other hand, are available for SME loans, and supported with qualitative evaluation. Regular monitoring of all these tools and their performance is carried out to ensure that they remain effective.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.

The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated loan grading system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS.

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

Concentration of risk is managed by borrower, by group of borrowers, by geographical region and by industry sector. As of June 30, 2018 and December 31, 2017, the maximum credit exposure to any borrower amounted to ₱1.9 billion, before taking into account any collateral or other credit enhancement.

In 2017, the Bank effected the necessary adjustments to its credit risk management systems and processes in transition to the PFRS 9 as well as the Amended Rules on Past Due and Non-Performing Loans per BSP Circular No. 941, both effective January 1, 2018. Credit risk management was likewise strengthened in preparation for the implementation of expected credit loss models which will allow the Bank to shift from the incurred loss methods for calculating allowance for losses to forward-looking loss provisioning. Further, credit scoring models were updated to optimize returns by growing profitable lending segments and exploring new markets whilst mitigating the risks.

b. Market risk

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk) and from movements in interest rates (interest rate risk). The Bank's market risk originates primarily from holding peso and dollar-denominated debt securities. The Bank utilizes Value-at-Risk (VaR) to measure and manage market risk exposure. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period.

Trading activities
The Bank's trading portfolios are currently composed of peso and dollar-denominated sovereign debt securities that are marked-to-market daily. The Bank also uses VaR to measure the extent of market risk exposure arising from these portfolios.

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 260-day rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

The Bank has established limits, VaR, stop loss limits and loss triggers, for its trading portfolios. Daily profit or losses of the trading portfolios are closely monitored against loss triggers and stop-loss limits.

Responsibility for managing the Bank's trading market risk remains with the ROC. With the support of RMO, the ROC recommends to the BOD changes in market risk limits, approving authorities and other activities that need special consideration.

Non-trading activities
Interest Rate Risk
The Bank follows a prudent policy on managing its assets and liabilities to ensure that fluctuations in interest rates are kept within acceptable limits.

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The Bank uses sensitivity gap model to estimate Earnings-at-Risk (EaR) should interest rates move against its interest rate profile. The Bank's EaR limits are based on a percentage of the Bank's projected earnings for the year and capital. The Bank also performs stress-testing to measure the impact of various scenarios based on interest rate volatility and shift in the yield curve. The EAR and stress testing reports are prepared on a monthly basis.

Foreign Currency Risk
Foreign currency risk is the risk of an investment's value changing due to an adverse movement in currency exchange rates. It arises due to a mismatch in the Bank's foreign currency assets and liabilities.

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period.

c. *Liquidity Risk*
The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. The Bank's objective in liquidity management is to ensure that the

Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

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

5. Investment Securities

Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL consist of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities	**₱129,857,285**	₱293,076,128
Derivative instruments	**488,010**	73,159,561
	₱130,345,295	₱366,235,689

As of June 30, 2018 and December 31, 2017, the Bank has financial liabilities at FVTPL amounting to ₱42.3 million and nil, respectively.

Net movements of derivative instruments are as follows:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	**₱73,159,561**	(₱64,817,467)
Fair value changes during the year	**(41,854,846)**	244,579,043
Settled transactions	**(73,132,137)**	(106,602,015)
Balance at end of period	**(₱41,827,422)**	₱73,159,561

Financial Assets at Fair Value Through Other Comprehensive Income/Available-for-Sale Investments
Financial assets at FVOCI/AFS investments consist of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - AFS		
Government	**₱–**	₱10,762,411,432
Private	**–**	6,153,071,645
Debt securities - FVOCI		
Government	**7,102,497,050**	–
Private	**5,311,411,851**	–
Equity securities - AFS	**–**	12,191,529
Equity securities - FVOCI	**10,825,365**	–
	₱12,424,734,266	₱16,927,674,606
Less allowance for impairment losses	**–**	2,188,665
	₱12,424,734,266	₱16,925,485,941

Movements in the net unrealized loss on AFS investments follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year (audited)	**(₱411,510,218)**	(₱842,908,364)
Effect of the adoption of PFRS 9	**342,363,486**	–
Balance at beginning of year, as restated	**(69,146,732)**	(₱842,908,364)
Loss from sale of AFS investments realized in profit or loss	**–**	49,756,366
Loss from sale of financial assets at FVOCI realized in profit or loss	**74,217,209**	–
Changes in fair values of AFS investments	**–**	381,641,780
Changes in fair values of financial assets at FVOCI	**(778,936,135)**	–
	(704,718,926)	431,398,146
Balance at end of year	**(₱773,865,658)**	(₱411,510,218)

Investment Securities at Amortized Cost/Held-to-Maturity Investments
Investments at amortized cost/HTM investments consist of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Debt securities - HTM		
Government	**₱–**	₱25,460,777,587
Private	**–**	4,012,946,797
Debt securities - at amortized cost		
Government	**32,430,334,139**	–
Private	**3,624,227,134**	–
	₱36,054,561,273	₱29,473,724,384

As of June 30, 2018 and December 31, 2017, the carrying value of investment securities at amortized cost/HTM investments in the form of government bonds pledged by the Bank as collateral for bills payable amounted to ₱1.3 billion and ₱1.0 billion, respectively.

Interest income on investment securities consists of:

	Six months ended June 30	
	2018	2017
	(Unaudited)	(Unaudited)
Investment securities at amortized cost	**₱700,785,160**	₱–
Financial assets at FVOCI	**288,787,277**	–
Financial assets at FVTPL	**8,577,357**	36,620,293
HTM investments	**–**	552,321,305
AFS investments	**–**	280,185,857
	₱998,149,794	₱869,127,455

Peso-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 4.00% to 8.13% and 2.13% to 8.13% for the six months ended June 30, 2018 and 2017, respectively, while foreign currency-denominated financial assets at FVOCI/AFS investments bear nominal annual interest rates ranging from 3.00% to 9.50% and 3.95% to 9.50% for the six months ended June 30, 2018 and 2017, respectively.

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

On the other hand, peso-denominated investment securities at amortized cost/HTM investments bear effective interest rates ranging from 3.43% to 14.73% and 3.38% to 13.75% for the six months ended June 30, 2018 and 2017, respectively, while foreign currency-denominated investment securities at amortized cost/HTM investments bear effective interest rates ranging from 3.05% to 9.96% and 4.13% to 10.63% for the six months ended June 30, 2018 and 2017, respectively.

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

	Six months ended June 30	
	2018	2017
	(Unaudited)	(Unaudited)
FVTPL investments		
Realized	**(₱19,767,359)**	(₱41,243,594)
Unrealized market valuation gain (loss)	**2,520,451**	21,754,743
	(17,246,908)	(19,488,851)
AFS investments	**–**	(69,000,226)
Financial assets at FVOCI	**(74,217,209)**	–
	(₱91,464,117)	(₱88,489,077)

6. Loans and Receivables

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Receivables from customers		
Consumption loans	**₱88,433,567,214**	₱84,276,599,224
Real estate loans	**47,746,772,712**	46,594,075,046
Commercial loans	**11,901,188,599**	11,975,704,903
Personal loans	**3,541,917,251**	3,486,068,122
	151,623,445,776	146,332,447,295
Less unearned discounts	**130,325**	145,142
	151,623,315,451	146,332,302,153
Other receivables		
Accrued interest receivable	**2,014,926,229**	1,911,372,461
Accounts receivable	**849,449,127**	1,250,586,507
Sales contract receivables	**90,950,224**	106,727,770
Bills purchased	**15,840,013**	10,482,445
	154,594,481,044	149,611,471,336
Less allowance for credit losses	**4,130,234,395**	4,646,958,115
	₱150,464,246,649	₱144,964,513,221

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

Receivables from customers earned interest income at an effective interest rate ranging from 8.76% to 9.23%, and 9.19% to 9.34% for the six months ended June 30, 2018 and 2017, respectively.

Interest income on loans and receivables consists of:

	Six months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
Receivables from customers		
Consumption loans	**₱4,227,131,477**	₱3,612,811,130
Real estate loans	**1,674,730,902**	1,618,550,301
Personal loans	**650,741,134**	398,933,931
Commercial loans	**363,128,057**	383,073,787
Other receivables		
Sales contract receivables	**3,435,793**	4,519,265
	₱6,919,167,363	₱6,017,888,414

7. Property and Equipment

The composition of and movements in this account follow:

	June 30, 2018 (Unaudited)				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,126,593,369**	**₱2,721,454,277**	**₱976,140,270**	**₱5,800,631,592**
Acquisitions	**–**	**1,814,046**	**68,398,040**	**6,159,417**	**76,371,503**
Disposals	**–**	**–**	**(1,495,000)**	**–**	**(1,495,000)**
Reclassification/transfer	**–**	**–**	**–**	**(3,850,000)**	**(3,850,000)**
Balance as at June 30, 2018	**976,443,676**	**1,128,407,415**	**2,788,357,317**	**978,449,687**	**5,871,658,095**
Accumulated Depreciation					
Balance at beginning of year	**–**	**416,470,260**	**2,185,390,898**	**718,758,080**	**3,320,619,238**
Depreciation	**–**	**16,905,533**	**127,152,571**	**48,015,756**	**192,073,860**
Disposals	**–**	**–**	**(1,205,773)**	**–**	**(1,205,773)**
Reclassifications/transfer	**–**	**–**	**9,561,806**	**196,020**	**9,757,826**
Balance as at June 30, 2018	**–**	**433,375,793**	**2,320,899,502**	**766,969,856**	**3,521,245,151**
Net Book Value	**₱976,443,676**	**₱695,031,622**	**₱467,457,815**	**₱211,479,831**	**₱2,350,412,944**

	December 31, 2017 (Audited)				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,125,080,642	₱2,599,237,687	₱910,425,844	₱5,611,187,849
Acquisitions	–	1,512,727	159,892,831	65,714,426	227,119,984
Disposals	–	–	(37,676,241)	–	(37,676,241)
Balance at end of year	976,443,676	1,126,593,369	2,721,454,277	976,140,270	5,800,631,592
Accumulated Depreciation					
Balance at beginning of year	–	380,990,516	1,937,538,765	625,488,113	2,944,017,394
Depreciation	–	35,479,744	263,138,807	93,270,131	391,888,682
Disposals	–	–	(33,766,144)	–	(33,766,144)
Reclassifications/transfer	–	–	18,479,470	(164)	18,479,306
Balance at end of year	–	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Net Book Value	₱976,443,676	₱710,123,109	₱536,063,379	₱257,382,190	₱2,480,012,354

The details of depreciation under the unaudited interim condensed statements of income follow:

	Six months ended June 30	
	2018	2017
Property and equipment	**₱192,073,860**	₱191,615,246
Investment properties (Note 8)	**51,238,539**	45,046,901
Chattel mortgage properties (Note 9)	**76,443,520**	77,129,376
	₱319,755,919	₱313,791,523

8. **Investment Properties**

The composition of and movements in this account follow:

	June 30, 2018 (Unaudited)		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,626,841,652**	**₱2,930,621,176**	**₱4,557,462,828**
Additions	**90,734,435**	**275,153,971**	**365,888,406**
Disposals	**(80,093,444)**	**(157,932,400)**	**(238,025,844)**
Balance as at June 30, 2108	**1,637,482,643**	**3,047,842,747**	**4,685,325,390**
Accumulated Depreciation			
Balance at beginning of year	**₱–**	**₱397,625,717**	**₱397,625,717**
Depreciation	–	**51,238,539**	**51,238,539**
Disposals	–	**(25,028,699)**	**(25,028,699)**
Balance as at June 30, 2018	–	**423,835,557**	**423,835,557**
Allowance for Impairment Losses			
Balance at beginning of year	**166,817,379**	**62,702,253**	**229,519,632**
Provisions (reversals) for the six months ended	**11,514,178**	**7,489,507**	**19,003,685**
Disposals	**(231,567)**	**(6,504,792)**	**(6,736,359)**
Balance as at June 30, 2018	**178,099,990**	**63,686,968**	**241,786,958**
Net Book Value	**₱1,459,382,653**	**₱2,560,320,222**	**₱4,019,702,875**

	December 31, 2017 (Audited)		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,738,547,376	₱2,742,910,089	₱4,481,457,465
Additions	263,873,034	604,407,391	868,280,425
Disposals	(375,578,758)	(416,696,304)	(792,275,062)
Balance at end of year	1,626,841,652	2,930,621,176	4,557,462,828
Accumulated Depreciation			
Balance at beginning of year	–	366,374,975	366,374,975
Depreciation	–	93,249,037	93,249,037
Disposals	–	(61,998,295)	(61,998,295)
Balance at end of year	–	397,625,717	397,625,717
Allowance for Impairment Losses			
Balance at beginning of year	₱181,407,122	₱71,967,060	₱253,374,182
Provisions for the year	–	(1,201,346)	(1,201,346)
Disposals	(14,589,743)	(8,063,461)	(22,653,204)
Balance at end of year	166,817,379	62,702,253	229,519,632
Net Book Value	₱1,460,024,273	₱2,470,293,206	₱3,930,317,479

As of June 30, 2018 and December 31, 2017, the aggregate fair value of investment properties amounted to ₱4.5 billion and ₱4.9 billion, respectively. Fair value of the properties was determined using Sales Comparison Approach. Fair values are based on valuations performed by accredited external and in-house appraisers.

Gain on foreclosure of investment properties amounted to ₱108.0 million and ₱146.7 million for the six months ended June 30, 2018 and 2017, respectively. The Bank realized gain amounting to ₱60.8 million and ₱26.1 million on sale of investment properties for the six months ended June 30, 2018 and 2017, respectively.

9. **Other Assets**

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Chattel mortgage properties - net	**₱708,799,167**	₱712,848,255
Prepayments	**277,480,391**	139,556,053
Security deposits	**184,659,199**	179,996,425
Documentary stamps on hand	**96,816,131**	103,123,771
Creditable withholding tax	**34,745,374**	6,675,985
Sundry debits	**18,061,161**	23,766,185
Stationeries and supplies on hand	**44,720,125**	41,788,037
RCOCI	**12,877,086**	10,349,423
Others	**5,127,538**	1,462,245
	₱1,383,286,172	₱1,219,566,379

Prepayments represent prepaid insurance, rent, taxes and other prepaid expenses. Creditable withholding tax (CWT) pertains to the excess credits after applying CWT against income tax payable.

The movements in chattel mortgage properties-net follow:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cost		
Balance at beginning of period	**₱806,325,646**	₱683,799,123
Additions	**1,352,812,989**	2,577,163,081
Disposals	**(1,344,180,738)**	(2,454,636,558)
Balance at the end of period	**814,957,897**	806,325,646
Accumulated Depreciation		
Balance at beginning of period	**₱93,217,346**	₱76,086,898
Depreciation	**76,443,520**	150,298,384
Disposals	**(64,187,764)**	(133,167,936)
Balance at the end of period	**105,473,102**	93,217,346
Allowance for Impairment Losses		
Balance at beginning of period	**260,045**	616,090
Provision	**1,324,700**	–
Disposals	**(899,117)**	(356,045)
Balance at end of period	**685,628**	260,045
Net Book Value	**₱708,799,167**	₱712,848,255

Gain on foreclosure of chattel mortgage properties amounted to ₱290.4 million and ₱309.2 million for the six months ended June 30, 2018 and 2017, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱60.6 million and ₱74.7 million for the six months ended June 30, 2018 and 2017, respectively.

10. Bills Payable

This account consists of the following:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Securities sold under repurchase agreements (SSURA)	**₱1,113,310,951**	₱1,492,418,518
Interbank borrowings	**906,780,000**	–
	₱2,020,090,951	₱1,492,418,518

Bills payable - SSURA are borrowings from counterparties secured by pledge of government securities with maturities ranging from 61 to 62 days. Interest expense on bills payable for the six months ended June 30, 2018 and 2017 amounted to ₱39.0 million and ₱28.5 million, respectively.

11. Accrued Taxes, Interest and Other Expenses

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Accrued interest payable	**₱531,079,209**	₱539,659,048
Accrued other taxes and licenses payable	**246,579,447**	121,804,006
Accrued other expenses payable	**928,860,207**	996,960,250
	₱1,706,518,863	₱1,658,423,304

Accrued other expenses payable consist of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Litigation	**₱206,923,743**	₱209,942,489
Lease payable	**195,789,217**	188,338,698
Insurance	**194,118,827**	193,075,730
Advertising	**82,635,540**	68,640,771
Compensation and fringe benefits	**76,174,622**	141,725,665
Information technology	**57,895,058**	37,731,731
Security, messengerial and janitorial	**52,080,409**	76,800,392
ATM maintenance	**18,290,137**	15,568,755
Telephone	**7,700,133**	7,562,631
Membership, fees & dues	**5,161,321**	4,993,929
Professional and consultancy fees	**3,315,529**	2,830,174
Miscellaneous	**28,775,671**	49,749,285
	₱928,860,207	₱996,960,250

Compensation and fringe benefits include salaries and wages as well as medical, dental and hospitalization benefits.

Miscellaneous include accruals for ATM rentals, utilities and maintenance and other expenses.

12. **Other Liabilities**

This account consists of:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Accounts payable	**₱1,782,086,739**	₱2,080,276,358
Other credits	**167,581,838**	698,347,392
Net retirement liability	**367,652,225**	515,852,989
Sundry credits	**310,833,146**	207,190,555
Withholding taxes payable	**90,697,692**	94,051,921
Due to the Treasurer of the Philippines	**17,189,565**	16,959,070
Bills purchased – contra	**15,840,013**	10,482,445
SSS, Medicare, ECP and HDMF premium payable	**9,625,579**	9,122,722
Miscellaneous	**50,827,892**	40,948,901
	₱2,812,334,689	₱3,673,232,353

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

Other credits represent long-outstanding unclaimed balances from inactive and dormant accounts.

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms amounting to ₱18.8 million and ₱18.2 million as of June 30, 2018 and December 31, 2017, respectively.

13. **Miscellaneous Income**

This account consists of:

	Six months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
Recovery of charged-off assets	**₱158,804,913**	₱167,385,924
Insurance commission income	**78,743,570**	62,144,907
Rental income	**24,320,482**	27,142,086
Others	**89,551,161**	9,222,454
	₱351,420,126	₱265,895,371

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

Others include gain from property and equipment, income from renewal fees, checkbook charges, dividend income and other miscellaneous income.

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

This account consists of:

	June 30, 2018 Unaudited)	June 30, 2017 (Unaudited)
Insurance	**₱281,693,075**	₱308,040,815
Litigation	**165,821,404**	142,311,710
Information technology	**155,865,086**	150,869,670
Fines, penalties and other charges	**113,868,176**	40,293,583
Communications	**97,986,605**	83,348,987
Repairs and maintenance	**64,500,312**	71,729,547
Transportation and traveling	**49,159,307**	53,006,496
Advertising	**48,859,414**	85,755,777
Supervision and examination fees	**33,058,993**	27,301,790
Stationery and supplies	**32,057,431**	26,799,152
Management and professional fees	**14,116,850**	16,658,842
Training and seminars	**5,708,111**	12,952,519
Banking activities expenses	**6,327,073**	3,164,606
Rewards and incentives	**3,334,302**	5,747,999
Meeting allowance	**3,350,747**	1,636,692
Membership fees and dues	**2,790,983**	1,787,144
Entertainment, amusement and recreation (EAR)	**1,076,163**	1,630,863
Donations and charitable contributions	**2,500,000**	10,128,000
Others	**5,557,777**	14,708,870
	₱1,087,631,809	₱1,057,873,062

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱190.0 million and ₱171.9 million for the six months ended June 30, 2018 and 2017, respectively.

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

Interest expense on deposit liabilities consists of:

	Six months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
Time	**₱1,747,909,973**	₱1,268,549,249
Demand	**95,780,700**	76,101,593
Savings	**75,125,520**	66,775,680
LTNCTDs	**61,992,509**	51,750,034
	₱1,980,808,702	₱1,463,176,556

15. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Bank's related parties are as follows:

- Bank's Directors, Officers, Stockholders and their Related Interests (DOSRI) as defined per BSP's existing DOSRI rules and regulations;
- Close Family Members (i.e. 2nd degree relatives) of the Bank's Directors, Officers with rank of SVP and up and Individual Substantial Stockholders;
- Bank's Subsidiaries and Affiliates as defined per BSP's existing rules and regulations on lending to subsidiaries and affiliates;
- Any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Subsidiaries, Affiliates and Special Purpose Entities (SPEs) of any party that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank;
- Corresponding Persons in Affiliated Companies as defined in the Bank's Related Party Transaction (RPT) Policy; and
- Any natural person or juridical entity whose interest may pose potential conflict with the Bank's interest.

Transactions with the Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under said circular, a reporting entity shall disclose information about any transaction with a related party (retirement fund, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust and Investment Division of the Bank. The total fair value of the retirement fund as of June 30, 2018 and December 31, 2017 amounted to ₱2.1 billion and ₱1.9 billion, respectively.

The following table shows the amount of outstanding balances of related party transactions of the Bank with the retirement plan of the employees as of June 30, 2018 and December 31, 2017:

		June 30, 2018 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Investment in Money Market Fund*	**₱29,743,694**	
	Income from Unit Investment Trust Fund (UITF)		**₱502,138**
	Savings deposit	**9,237**	
	Interest income		**4,829**
First Metro ETF	Equity investment	**19,467,337**	

*Includes fair value gains of ₱0.2 million

		December 31, 2017 (Audited)	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱684	
	Investment in Money Market Fund*	66,781,376	
	Loss on sale of equity securities		₱10,040,000
	Income from Unit Investment Trust Fund (UITF)		880,008
	Interest income		7,867
First Metro ETF	Equity investment	9,349,047	

*Includes fair value gains of ₱0.2 million

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

Remunerations of Directors and Other Key Management Personnel

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

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

	June 30, 2018 (Unaudited)	June 30, 2017 (Unaudited)
Short-term employee benefits	**₱147,883,049**	₱125,831,713
Post-employment pension benefits	**8,833,298**	7,858,066
	₱156,716,347	₱133,689,779

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

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱8.9 million and ₱7.6 million for the six months ended June 30, 2018 and 2017, respectively.

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

Other Related Party Transactions

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

	June 30, 2018 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 1 to 3 days
Placements	**₱21,900,000**	**₱–**	
Maturities	**21,900,000**		
Due from other banks	**951,014**	**1,863,759**	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	**(7,162)**	**10, 489**	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	**–**	**781**	Security deposits on lease contracts
Miscellaneous liabilities	**–**	**6,242**	Advance payments of security deposits
Accrued other expense payable	**–**	**57,895**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**3,379**	**–**	Income on deposits and interbank loans receivables
Rental income	**12,925**	**–**	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**12,276**	**–**	Income received from ATM service fees, rental and utilities
Information technology expense	**85,616**	**–**	Payment of information technology expenses
Trading and security loss	**(183)**	**–**	Loss from securities transactions
Securities transactions			
Outright purchases	**2,120,040**	**–**	Outright purchase of FVPL, AFS and HTM investments
Outright sales	**810,743**	**–**	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	**–**	**643,203**	Capital investment in SMFC
Accounts receivable	**1,606**	**3,586**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**(2,289)**	**11,032**	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Rental income	**5,792**	**–**	Income from leasing agreements
Share in net income of a joint venture	**36,040**	**–**	30% share in net income of SMFC
Interest expense	**97**	**–**	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable		**500,000**	Peso-denominated lending which earn 2.50% fixed daily interest rate with maturity terms from 1 to 5 days.
Placements	**90,355,000**	**–**	
Maturities	**89,855,000**	**–**	
Receivable from customers		**7,500**	Loans granted bear interest ranging from 6.00% to 10.50% with maturities ranging from 1 to 5 years; Secured - ₱10,241
Placements	**3,734**	**–**	
Maturities	**6,475**	**–**	
Miscellaneous assets	**–**	**1,390**	Three months advance security deposits
Accounts receivable	**3,528**	**5,998**	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Accrued interest receivable		**99**	Peso-denominated lending which earn 2.50% fixed daily
Prepaid expense	**–**	**2,242**	Payment for various policy renewals
Deposit liabilities	**(1,032,151)**	**580,536**	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	**–**	**14,899**	Various personal and car insurance payable
Miscellaneous liabilities	**–**	**3,169**	Advance payment of security deposits from various tenants
Interest income	**12,141**	**–**	Income on receivables from customers and interbank loans receivables
Trading and securities loss	**16**	**–**	Loss from securities transactions
Rental income	**8,400**	**–**	Income from leasing agreements with various lease terms
Bank commission	**1,807**	**–**	Commission income on ATM service fees
Miscellaneous income	**7,913**	**–**	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**25,280**	**–**	Payment of insurance premium
Interest expense	**6,150**	**–**	Interest on deposit liabilities and bills payable
Rent expense	**2,076**	**–**	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	**100,000**	**–**	Outright purchase of FVPL and AFS investments
Outright sales	**50,000**	**–**	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers	**–**	**11,909**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**1,804**	**–**	
Maturities	**(2,965)**	**–**	
Interest income	**528**	**–**	Interest income from loans

	December 31, 2017 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Interbank loans receivable			Peso-denominated lending with 2.50% fixed interest rates
Placements	₱19,970,000	₱–	and maturities ranging from 1 to 3 days
Maturities	19,970,000	–	
Due from other banks	(540,032)	912,745	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Accounts receivable	10,802	17,651	Outstanding ATM service fees, rental and utility receivables, non interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Bills payable		–	Peso-denominated borrowing with fixed interest rate of
Deposits/placements	1,285,000	–	2.50% and maturities ranging from 1 to 3 days
Withdrawals/maturities	1,285,000	–	
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Accrued other expense payable	–	37,732	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	2,494	–	Income on deposits and interbank loans receivables
Rental income	18,384	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	7,502	–	Income received from ATM service fees, rental and utilities
Information technology expense	95,662	–	Payment of information technology expenses
(Forward)			
Trading and security loss	(3,898)	–	Loss from securities transactions
Interest expense	256	–	Interest expense on bills payable
Securities transactions			
Outright purchases	8,493,345	–	Outright purchase of FVPL, AFS and HTM investments
Outright sales	4,920,695	–	Outright sale of FVPL and AFS investments
Joint Venture			
Investment in a joint venture	–	607,163	Capital investment in SMFC after sale of 10% ownership to GT Capital Inc.
Accounts receivable	1,466	1,980	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	934	13,321	Demand and short term peso time-deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	(2,975)	–	Payment of security deposits
Rental income	11,619	–	Income from leasing agreements
Share in net income of a joint venture	71,837	–	40.00% (January to July) and 30% (August to December) share in net income of SMFC
Interest expense	75	–	Interest on deposit liabilities
Other Related Parties			
Interbank loans receivable	–	500,000	Peso-denominated lending which earn 2.50% fixed daily
Placements	59,900,000	–	interest rate with maturity terms from 1 to 5 days.
Maturities	59,400,000	–	
Receivable from customers		10,241	Loans granted bear interest ranging from 6.00% to
Placements	3,723	–	10.50% with maturities ranging from 1 to 5 years;
Maturities	2,817		Secured - ₱10,241
Miscellaneous assets	–	1,390	Three months advance security deposits
Accounts receivable	16	2,470	Outstanding ATM service fees, rental and utility receivables, non interest bearing
Prepaid expense	–	4,125	Payment for various policy renewals
Deposit liabilities	5,073,694	1,612,687	Demand, savings and short term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Bills payable			Peso-denominated borrowing with fixed interest rate of
Deposits/placements	4,750,000	–	2.50% and maturities ranging from 1 to 4 days
Withdrawals/maturities	4,750,000	–	
Accounts payable	–	2,617	Various personal and car insurance payable
Miscellaneous liabilities	–	3,169	Advance payment of security deposits from various tenants
Interest income	3,445	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	2,836	–	Loss from securities transactions
Rental income	13,690	–	Income from leasing agreements with various lease terms
Bank commission	1,396	–	Commission income on ATM service fees
Miscellaneous income	13,107	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	December 31, 2017 (Audited)		
Insurance expense	₱79,790	₱–	Payment of insurance premium
Interest expense	35,350	–	Interest on deposit liabilities and bills payable
Rent expense	1,025	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	2,065,340	–	Outright purchase of FVPL and AFS investments
Outright sales	1,000,000	–	Outright sale of FVPL and AFS investments
Key Personnel			
Receivables from customers	–	13,069	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	2,815	–	
Maturities	3,554	–	
Interest income	973	–	Interest income from loans

Regulatory Reporting

As required by the BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and are subject of prior Board approval and entail BSP reportorial requirements. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective unencumbered deposits and book value of their paid-in capital contribution in the lending Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

As of June 30, 2018 and December 31, 2017, the Bank's credit exposures to DOSRI are within the said regulatory limits:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Total outstanding DOSRI accounts	**₱2,161,258,376**	₱1,201,916,069
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**1.43%**	0.82%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**10.46%**	19.94%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**0.00%**	0.00%

Total interest income from DOSRI loans amounted to ₱2.8 million and ₱5.8 million in June 30, 2018 and December 31, 2017, respectively.

16. Events that will Trigger Direct or Contingent Financial Obligation

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are part of its lending and related businesses but due to their nature, may not be reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

Also, several suit and claims, in behalf or against the Bank in relation to its operations, including labor-related cases are pending before the courts and quasi-judicial bodies. In the opinion of management, these suits and claims, if decided adversely, will not involve an amount having a material effect on the financial statements.

Material Off-Balance Sheet Transactions, Arrangements and Obligations
The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Trust department accounts	**₱6,065,845,741**	₱5,596,171,367
Swap forward exchange - sold	**2,679,406,572**	2,653,256,032
Stand-by credit lines	**89,054,053**	81,664,196
Forward Exchange Sold–	**373,380,000**	–
Late deposits/payments received	**9,521,669**	5,625,757
Items held for safekeeping	**290,866**	1,298,438
Others	**286,839**	519,297

None of these off-balance sheet transactions, arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank's financial condition.

17. Subsequent Events

The Board of Directors of the Bank in its meeting held on July 20, 2018 passed a resolution approving the declaration of a 7.5% Regular Cash Dividend for the second quarter of 2018 amounting to ₱180.19 million equivalent to ₱0.75 per share. This will be payable to all common stockholders as of the Record Date of August 6, 2018 and will be paid no later than the Payment Date of August 20, 2018.

On July 12, 2018, the BSP approved the issuance of up to ₱15.0 billion worth of Long-Term Negotiable Certificates of Time Deposits (LTNCTDs) through two or more tranches over a period of one year from the date of BSP approval. The issuance of LTNCTDs will give the Bank an opportunity to access long-term funding as it further expands its consumer banking business. Said issuance was approved by the Board of Directors of the Bank on May 21, 2018.

18. Other Disclosures

a) There are no unusual items of asset, liability, equity, net income or cash flow.

b) No material items of changes were noted in the comparison of actual results with estimated amounts.

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

   On October 9, 2015, the Bangko Sentral ng Pilipinas (BSP) issued Circular No. 888, Amendments to Regulations on Dividend Declaration and Interest Payments on Tier 1 Capital Instruments, which liberalized said rules in the sense that prior BSP verification and approval is no longer required except for banks with major supervisory concerns. However, banks are bound to comply with the provisions of Section X136 of the Manual of Regulations for Banks (MORB) and its subsections, including the submission of documentary requirements under Subsection X136.4 of the MORB, otherwise, banks, subsequently found to have violated the provisions on dividend declaration or have falsely certified/submitted misleading statements shall be reverted to the prior BSP verification wherein the bank can only make an announcement or communication on the declaration of the dividends or payment of dividends thereon upon receipt of BSP advice thereof. The Bank is compliant with the said circular.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines.

In compliance with BSP regulations, 10.00% of the Bank's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Bank's authorized capital stock.

A portion of the surplus corresponding to the accumulated net earnings of a joint venture is not available for dividend declaration until receipt of cash dividends from the investee.

The Bank's stock price closed at ₱86.60 per share as of June 30, 2018.

	Cash Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
July 28, 2015	0.75	180,189,368.3	September 23, 2015	October 26, 2015	November 11, 2015
October 29, 2015	0.75	180,189,368.3	–	November 16, 2015	November 27, 2015
January 19, 2016	0.75	180,189,368.3	–	February 1, 2016	February 19, 2016
April 26, 2016	0.75	180,189,368.3	–	May 11, 2016	May 26, 2016
July 22, 2016	0.75	180,189,368.3	–	August 8, 2016	August 22, 2016
October 21, 2016	0.75	180,189,368.3	–	November 9, 2016	November 21, 2016
January 24, 2017	0.75	180,189,368.3	–	February 10, 2017	February 24, 2017
April 24, 2017	0.75	180,189,368.3	–	May 10, 2017	May 24, 2017
July 27, 2017	0.75	180,189,368.3	–	August 11, 2017	August 29, 2017
October 26, 2017	0.75	180,189,368.3	–	November 14, 2017	November 24, 2017
January 18, 2018	0.75	180,189,368.3	–	February 02, 2018	February 19, 2018
April 23, 2018	0.75	180,189,368.3	–	May 9, 2018	May 23, 2018
July 20, 2018	0.75	180,189,368.3	–	August 6, 2018	August 20, 2018

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

	Six months ended June 30	
	2018 (Unaudited)	2017 (Unaudited)
a. Net income	**₱1,353,322,621**	₱1,179,648,927
b. Weighted average number of common shares for basic EPS	**240,252,491**	240,252,491
c. Basic/Diluted EPS (a/b)	**₱5.63**	₱4.91

As of June 30, 2018 and 2017, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

e) No unregistered securities were sold or offered for sale by the Bank as of June 30, 2018.

f) Segment revenue and result of business segments are found in subsequent tables.

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

PHILIPPINE SAVINGS BANK **Annex 7**

UNAUDITED SCHEDULE OF FINANCIAL PERFORMANCE INDICATORS

	Six Months Ended June 30	
	2018	2017
PROFITABILITY RATIOS		
Return on Assets		
Net Income * / Average Total Resources	**1.18%**	1.14%
Return on Equity		
Net Income * / Average Stockholders' Equity	**11.83%**	11.41%
Net Interest Margin		
Net Interest Income / Average Earning Assets	**2.98%**	2.99%
Cost to Income Ratio		
Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes / Net Interest Income + Operating Income	**63.12%**	64.07%
SOLVENCY RATIOS		
Debt to Equity Ratio		
Total Liabilities / Total Stockholders' Equity	**9.05:1**	9.26:1
Asset-to-Equity Ratio		
Total Assets / Total Stockholders' Equity	**10.05:1**	10.26:1
Interest Rate Coverage Ratio		
Earnings Before Interest and Taxes / Interest Expense	**1.78:1**	1.80:1
LIQUIDITY RATIOS		
Liquidity Ratio		
Current Assets / Current Liabilities	**22.29%**	25.20%
Loans to Deposit Ratio		
Gross Loans / Total Deposits	**75.78%**	74.62%
Capital Adequacy Ratio		
Total Qualifying Capital / Total Risk-Weighted Assets	**13.67%**	14.24%

*Computed based on annualized net income

PHILIPPINE SAVINGS BANK

Annex 8

BUSINESS SEGMENT INFORMATION
(In thousands)

	Six Months ended June 30, 2018 (Unaudited)				
	Consumer Banking	**Corporate Banking**	**Branch Banking**	**Treasury**	**Total**
Operating income					
Interest income	**₱4,888,264**	**₱307,725**	**₱1,723,178**	**₱1,032,435**	**₱7,951,602**
Service fees and commission	**325,238**	**20,577**	**446,972**	**–**	**792,787**
Other operating income (expense)	**432,547**	**9,208**	**308,384**	**(34,094)**	**716,045**
Total operating income	**5,646,049**	**337,510**	**2,478,534**	**998,341**	**9,460,434**
Non-cash expenses					
Provision for credit and impairment losses	**1,267,576**	**(65,313)**	**(94,380)**	**–**	**1,107,883**
Depreciation	**121,983**	**2,238**	**195,027**	**508**	**319,756**
Amortization of other intangible assets	**30,109**	**1,259**	**50,424**	**434**	**82,226**
Total non-cash expenses (income)	**1,419,668**	**(61,816)**	**151,071**	**942**	**1,509,865**
Interest expense	**–**	**–**	**852,441**	**1,251,168**	**2,103,609**
Service fees and commission expense	**18,629**	**1,179**	**25,603**	**–**	**45,411**
Subtotal	**18,629**	**1,179**	**878,044**	**1,251,168**	**2,149,020**
Compensation and fringe benefits	**41,256**	**35,092**	**1,211,819**	**15,182**	**1,683,349**
Taxes and licenses	**224,397**	**12,928**	**286,913**	**259,654**	**783,892**
Occupancy and equipment-related costs	**39,390**	**540**	**342,025**	**147**	**382,102**
Security, messengerial and janitorial services	**87,256**	**2,036**	**169,755**	**441**	**259,488**
Miscellaneous	**337,787**	**14,536**	**648,671**	**86,638**	**1,087,632**
Subtotal	**1,110,086**	**65,132**	**2,659,183**	**362,062**	**4,196,463**
Income (loss) before share in net income of a joint venture and income tax	**₱3,097,666**	**₱333,015**	**(₱1,209,764)**	**(₱615,831)**	**1,605,086**
Share in net income of a joint venture					**36,040**
Income before income tax					**1,641,126**
Provision from income tax					**287,803**
Net income					**₱1,353,323**
Segment assets	**₱120,101,368**	**₱7,631,300**	**₱45,062,387**	**₱60,103,874**	**₱232,898,929**
Investments in a joint venture					**643,202**
Deferred tax assets					**1,217,377**
Total assets					**₱234,759,508**
Segment liabilities	**₱1,519,679**	**₱87,782**	**₱122,767,112**	**₱87,024,566**	**₱211,399,139**

PHILIPPINE SAVINGS BANK
BUSINESS SEGMENT INFORMATION
(In thousands)

	Six Months ended June 30, 2017 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,352,419	₱118,310	₱3,149,548	₱1,355,681	₱6,975,958
Service fees and commission	291,864	15,565	423,886	0	731,315
Other operating income	417,947	5,700	249,516	-62,939	610,224
Total operating income	3,062,230	139,575	3,822,950	1,292,742	8,317,497
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	244,517	17,090	804,408	89,211	1,155,226
Depreciation	119,131	2,788	191,413	460	313,792
Amortization of other intangible assets	23,557	1,283	37,950	375	63,165
Total non-cash expenses	387,205	21,161	1,033,771	90,046	1,532,183
Interest expense	–	–	801,064	797,673	1,598,737
Service fees and commission expense	18,646	994	27,078	–	46,718
Subtotal	18,646	994	828,142	797,673	1,645,455
Compensation and fringe benefits	384,227	31,116	1,137,197	13,182	1,565,722
Taxes and licenses	202,590	15,714	232,112	208,928	659,344
Occupancy and equipment-related costs	28,109	630	341,005	116	369,860
Security, messengerial and janitorial services	46,397	2,294	178,664	823	228,178
Miscellaneous	327,654	18,805	635,801	75,613	1,057,873
Subtotal	988,977	68,559	2,524,779	298,662	3,880,977
Income before share in net income of a joint venture and income tax	₱1,667,402	₱48,861	₱-563,742	₱106,361	₱1,258,882
Share in net income of a joint venture					26,101
Income before income tax					1,284,983
Provision for income tax					105,335
Net income					₱1,179,648
Segment assets	₱103,901,357	₱8,248,110	₱43,367,405	₱60,842,533	₱216,359,405
Investment in a joint venture					753,278
Deferred tax assets					1,401,499
Total assets					₱218,514,182
Segment liabilities	₱1,491,384	₱104,239	₱116,632,656	₱78,983,780	₱197,212,058

PHILIPPINE SAVINGS BANK

BUSINESS SEGMENT INFORMATION
(In thousands)

	Year ended December 31, 2017 (Audited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱4,811,338	₱321,494	₱6,777,057	₱2,633,888	₱14,543,777
Service fees and commission	561,436	40,482	868,284	–	1,470,202
Other operating income (expense)	898,009	15,705	529,289	(8,754)	1,434,249
Total operating income	6,270,783	377,681	8,174,630	2,625,134	17,448,228
Non-cash expenses					
Provision for credit and impairment losses	2,111,031	(36,167)	195,315	–	2,270,179
Depreciation	242,252	5,852	386,310	1,022	635,436
Amortization of other intangible assets	50,347	2,638	81,673	774	135,432
Total non-cash expenses (income)	2,403,630	(27,677)	663,298	1,796	3,041,047
Interest expense	–	–	1,653,833	1,810,844	3,464,677
Service fees and commission expense	36,060	2,600	55,768	–	94,428
Subtotal	36,060	2,600	1,709,601	1,810,844	3,559,105
Compensation and fringe benefits	802,955	63,842	2,365,493	28,316	3,260,606
Taxes and licenses	410,454	31,874	438,575	388,005	1,268,908
Occupancy and equipment-related costs	68,023	1,022	670,795	211	740,051
Security, messengerial and janitorial services	115,856	4,649	355,784	1,244	477,533
Miscellaneous	709,485	37,715	1,336,751	167,383	2,251,334
Subtotal	2,106,773	139,102	5,167,398	585,159	7,998,432
Income before share in net income of a joint venture and income tax	₱1,724,320	₱263,656	₱634,333	₱227,335	₱2,849,644
Share in net income of a joint venture					71,837
Income before income tax					2,921,481
Provision from income tax					267,062
Net income					2,654,419
Segment assets	₱113,797,984	₱8,297,700	₱39,017,294	₱60,174,574	₱221,287,552
Investments in a joint venture					607,163
Deferred tax assets					1,429,327
Total assets					₱223,324,042
Segment liabilities	₱1,123,077	₱77,620	₱119,740,151	₱79,989,870	₱200,930,718

PHILIPPINE SAVINGS BANK

Annex 9

UNAUDITED AGING OF RECEIVABLES

As of June 30, 2018

	TOTAL LOAN PORTFOLIO	CURRENT	PAST DUE & ITEMS IN LITIGATION	PAST DUE 90 Days or Less	PAST DUE 91-180 Days	PAST DUE 181 Days to 1 Year	PAST DUE More Than 1 Year	ITEMS IN LITIGATION
Trade Receivables								
Loans and Discounts	₱151,250,775,861	₱141,660,362,709	₱ 9,590,413,152	₱2,059,216,137	₱1,062,447,304	₱675,636,828	₱4,595,194,503	₱1,197,918,380
Agri / Agrarian Reform Loans	196,851,513	171,032,088	25,819,425	7,668,402	193,223	–	13,990,468	3,967,332
Bills Purchased	15,840,013	15,840,013	–	–	–	–	–	–
Restructured Loans	175,818,402	66,669,666	109,148,736	71,717,367	1,862,621	648,730	1,968,251	32,951,767
Total Trade Receivables	151,639,285,789	141,913,904,476	9,725,381,313	2,138,601,906	1,064,503,148	676,285,558	4,611,153,222	1,234,837,479
Less : Allowance For Probable Losses	3,298,951,688							
Other Deferred Credits	130,325							
Net Trade Receivable	148,340,203,776	141,913,904,476	9,725,381,313	2,138,601,906	1,064,503,148	676,285,558	4,611,153,222	1,234,837,479
Non-Trade Receivables								
Accounts Receivables	849,449,127	332,917,334	516,531,793	9,448,395	11,785,440	4,537,558	485,717,581	5,042,819
Accrued Interest Receivables	2,014,926,229	1,813,689,300	201,236,929	24,481,891	19,936,545	46,776,834	36,658,628	73,383,031
Total Non-Trade Receivable	2,864,375,356	2,146,606,634	717,768,722	33,930,286	31,721,985	51,314,392	522,376,209	78,425,850
Less : Allowance for Probable Losses	797,446,603		-					
Net Non-Trade Receivable	2,066,928,753	2,146,606,634	717,768,722	33,930,286	31,721,985	51,314,392	522,376,209	78,425,850
Sales Contract Receivable	90,950,224	30,255,125	60,695,099	7,441,404	46,359,750	3,080,074	–	3,813,871
Less : Allowance for Probable Losses	33,836,104							
Net Sales Contract Receivable	57,114,120	30,255,125	60,695,099	7,441,404	46,359,750	3,080,074	–	3,813,871
Net Receivables	₱150,464,246,649	₱144,090,766,235	₱10,503,845,134	₱2,179,973,596	₱1,142,584,883	₱730,680,024	₱5,133,529,431	₱1,317,077,200

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

A. Analysis of Statements of Condition

As of June 30, 2018 (Unaudited) and December 31, 2017 (Audited)

As of June 30, 2018, the Bank's Total Assets was recorded at ₱234.76 billion. This was 5.12% better than the ₱223.32 billion level in December 2017. The significant increase was a result of the Bank's continuing expansion in its loan and investment portfolios.

Loans and Receivables, net of allowance and unearned interest and discounts which was 64.09% of total assets, stood at ₱150.46 billion or ₱5.50 billion higher than the December 2017 level of ₱144.96 billion. Auto Loans and Mortgage rose by 4.93% and 2.47%, respectively.

Interbank Loans Receivable and Securities Purchased under Resale Agreements, comprising 2.53% of total assets, was higher by ₱4.11 billion to ₱5.95 billion compared to December 2017 level of ₱1.84 billion. Cash and Other Cash Items was higher by 3.02% to ₱2.68 billion while Due from other Banks also increased by ₱562.68 million to ₱2.07 billion. On the other hand, Due from Bangko Sentral ng Pilipinas, representing 6.26% of total assets slid to ₱14.69 billion from ₱15.27 billion in December 2017.

As of June 30, 2018, Hold-to-Collect Investments (HTC) representing 15.36% of total assets was recorded at ₱36.05 billion. Meanwhile, Held-to-Maturity Investments (HTM) stood at ₱29.47 billion as of December 31, 2017.

Meanwhile, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) representing 5.86% of total assets amounted to ₱12.42 billion as of June 30, 2018. Available-for-Sale Investments (AFS) was recorded at ₱16.93 billion as of December 31, 2017.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱130.35 million as of June 30, 2018 under PFRS 9.

These investment securities represent 20.71% of total assets as of June 30, 2018.

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

Investment Properties increased by 2.27% or ₱89.39 million to ₱4.02 billion as of June 2018 due to the foreclosure of real estate properties. Property and Equipment went down to ₱2.35 billion from ₱2.48 billion.

Investments in a joint venture went up by ₱36.04 million to ₱643.20 million as the Bank recognized its share in net earnings of Sumisho Motor Finance Corporation (SMFC), which is a joint venture between PSBank and Sumitomo Corporation.

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

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

Deferred Tax Asset was down by ₱211.95 million or 14.83% to ₱1.22 billion versus ₱1.43 billion in December 2017. Meanwhile, Goodwill and Other Intangibles also decreased by 4.49% to ₱682.82 million from ₱714.92 million while Other Assets went up to ₱1.38 billion, 13.42% higher than the ₱1.22 billion level in December 2017. This was mainly due to the increase in prepaid insurance and creditable withholding taxes.

The Bank’s deposit level, representing 94.65% of total liabilities, grew by 5.91% or ₱11.17 billion to ₱200.09 billion from ₱188.91 billion recorded in December 2017. Savings Deposits and Demand Deposits improved by 7.62% and 8.69%, respectively to ₱32.70 billion and ₱20.77 billion, respectively. Meanwhile Time Deposits went up by 5.29% or ₱7.20 billion to ₱143.24 billion.

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

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

As of June 30, 2018, Bills payable representing interbank borrowing and Securities Sold under Repurchase Agreement (SSURA) amounted to ₱2.02 billion.

Treasurer’s, Cashier’s and Manager’s Checks decreased to ₱1.69 billion from ₱2.21 billion in December 2017. Accrued Taxes, Interest and Other Expenses increased by ₱48.10 million to ₱1.71 billion from ₱1.66 billion. Income Tax Payable was at ₱59.47 million representing accrual for the current quarter which is due for remittance in August 2018. Other Liabilities also went down to ₱2.81 billion from ₱3.67 billion as of year-end 2017 due to lower other credits – unclaimed balances and Account Payable.

As of June 30, 2018, Capital funds stood at ₱23.36 billion from the ₱22.39 billion posted as of December 2017 mainly due to the Net Income for the 1st half of 2018 and effect of the adoption of PFRS 9.

Return on Average Equity (ROAE) slid to 11.83% in June 2018 versus 12.51% in December 2017. Return on Average Assets (ROAA) decreased to 1.18% in 2018 compared to 1.26% in 2017.

B. Discussion of Results of Operations

For the six months ended June 30, 2018 vs. June 30, 2017 (Unaudited)

For the six months ended June 30, 2018, the Bank reflected a Net Income after Tax of ₱1.35 billion or 14.72% higher than the ₱1.18 billion recorded for the same period last year. The increase in net income was attributed to higher net interest income.

Total Interest Income improved by 13.99% or ₱975.64 million to ₱7.95 billion in 2018 versus ₱6.98 billion in 2017.

Interest income on Loans and Receivables was recorded at ₱6.92 billion, ₱901.28 million or 14.98% higher than the ₱6.02 billion recorded during the same period last year. Interest earned from Interbank Loans Receivable and SPURA decreased to ₱27.12 million, 35.85% lower than the ₱42.27 million in 2017. Interest income from deposits with other banks went up by 84.47% to ₱2.04 million while Interest earned from deposits with BSP slid by 88.74% to ₱5.13 million. On the other hand, Interest income on Investment Securities went up to ₱998.15 million from ₱869.13 million due to the Bank's higher investment portfolio in 2018.

Interest Expense on deposit liabilities increased to ₱2.10 billion from ₱1.60 billion due to higher cost of funds and growth in total deposit liabilities. Interest Expense on Subordinated Notes decreased by 21.74% to ₱83.82 million from ₱107.10 million due to the redemption of the Bank's ₱3.0 billion Tier 2 notes issued in 2012 last February. The Bank recorded ₱38.98 million in Interest Expense on Bills Payable as of June 30, 2018 from ₱28.46 million for the same period.

For the six months ended June 30, 2018 Net Interest Income improved to ₱5.85 billion versus ₱5.38 billion recorded during the same period last year.

Net Service Fees and Commission Income increased by 9.17% to ₱747.38 million in 2018 from ₱684.60 million in 2017.

Meanwhile, Other Operating Income increased by 17.34% or ₱105.82 million to ₱716.04 million recorded for the six months ended June 30, 2018. The Bank registered ₱91.46 million trading losses during the first six months of 2018, ₱2.98 million higher than the ₱88.49 million trading losses in 2017.

For the six months ended June 30, 2018, the Bank recorded a net gain on the foreclosure and sale of chattel mortgage amounting to ₱229.80 million, 1.98% lower compared with the ₱234.43 million gain during the same period last year. Meanwhile, net gain on foreclosure and sale of investment properties went down by 2.29% or ₱3.96 million to ₱168.84 million in 2018 compared to ₱172.79 million in 2017. Gain on sale of property and equipment increased by ₱45.49 thousand to ₱86.49 thousand in 2018. Miscellaneous Income was higher by 32.16% or ₱85.52 million to ₱351.42 million.

Meanwhile, Foreign Exchange gain was posted at ₱ 57.37 million for the six months ended June 30, 2018 from ₱25.55 million gain in June 2017.

Other Operating Expenses, excluding provision for impairment and credit losses, went up to ₱4.60 billion in 2018 from ₱4.26 billion in 2017. Taxes and Licenses increased by ₱124.55 million or 18.89% to ₱783.89 million from ₱659.34 million. Compensation and Fringe Benefits amounted to

₱1.68 billion while occupancy and equipment-related costs was at ₱382.10 million. Depreciation and amortization of Bank's properties and leasehold improvements went up from ₱319.76 million to ₱313.79 million. Security, messengerial and janitorial services was at ₱259.49 million. Meanwhile, amortization of software costs was posted at ₱82.23 million. Miscellaneous Expenses was higher by 2.81% to ₱1.09 billion in 2018.

For the first six months of 2018, the Bank set aside ₱1.11 billion in provision for impairment and credit losses.

For the six months ended June 30, 2018, the Bank recorded its share in the net income of its investment in Sumisho Motor Finance Corporation (SMFC) at ₱36.04 million in 2018 versus ₱26.10 million the same period last year.

For the quarter ended June 30, 2018 vs. June 30, 2017 (Unaudited)

The Bank reflected a net income after tax of ₱712.26 million for the quarter ended June 30, 2018, ₱43.73 million higher than the ₱668.54 million reported for the same quarter last year. The increase was attributed to higher net interest income during the second quarter of 2018.

Total Interest Income for the second quarter of 2018 was registered at ₱4.04 billion, 13.36% higher than the ₱3.57 billion recorded in the same quarter last year. Meanwhile, Total Interest Expense went up by 33.66% to ₱1.12 billion from ₱834.46 million posted during the same period last year due to the increase in level of deposit liabilities. Net Interest Income increased to ₱2.93 billion from the ₱2.73 billion recorded during the same quarter last year.

Interest income on Loans and Receivables increased by ₱465.12 million or 15.23% to ₱3.52 billion compared against the ₱3.05 billion posted during same period last year. Interest earned from Interbank Loans and SPURA slightly went down to ₱20.72 million from ₱22.35 million while Interest earned from Investment Securities climbed by 10.56% to ₱497.08 million. Meanwhile, Interest earned from deposit with BSP decreased to ₱3.74 million, lower than the ₱38.82 million level during the second quarter of 2017. Interest income from placements with other banks was at ₱1.01 million versus ₱0.46 million recorded last year.

Other Operating Income was lower at ₱310.29 million versus ₱381.40 million due to trading loss during the second quarter of 2018. The net gain on sale and foreclosure of chattel mortgage properties was posted at ₱82.61 million versus ₱128.92 million gains during the same period in 2017. On the other hand, net profit from foreclosure and sale of investment properties was lower at ₱87.34 million versus ₱108.86 million during the same period last year. Meanwhile, Miscellaneous Income increased by ₱25.09 million to ₱145.68 million during the second quarter of 2018. The Bank reflected a foreign exchange gains of ₱30.09 million versus ₱14.04 million loss in 2017.

Total Operating Expenses, excluding provision for impairment, increased by ₱135.35 million to ₱2.30 billion from the year ago level of ₱2.16 billion. The Bank set aside an additional provision for credit loss of ₱445.17 million during the second quarter of 2018.

Compensation and fringe benefits was up by 5.49% to ₱862.14 million from ₱817.29 million. Occupancy and equipment-related costs was higher by 4.54% or ₱8.32 million to ₱191.81 million compared to ₱183.49 million. Security, messengerial and janitorial services increased to ₱121.54 million from ₱117.72 million during the second quarter of 2017. Amortization of software costs also went up to ₱38.05 million in 2018 from ₱36.41 million posted a year ago. On the other hand, taxes and licenses went up mainly due to higher gross receipts taxes and documentary stamp taxes.

Miscellaneous Expense was higher at ₱567.52 million versus ₱531.39 million for the quarter ended June 2017.

The Bank also recorded income from its investments in Sumisho Motor Finance Corporation (SMFC) amounting to ₱20.63 million, 30.50% higher than the ₱15.81 million reflected in the same period last year.

Analysis of Key Performance Indicators

The following ratios measure the financial performance of the Bank:

		June 2018	June 2017	December 31 2017
		(Unaudited)		(Audited)
Return on Average Equity*	ROAE	**11.83%**	**11.41%**	12.51%
Return on Average Assets*	ROAA	**1.18%**	**1.14%**	1.26%
Net Interest Margin on Average Earning Assets	NIM	**2.98%**	**2.99%**	6.10%
Earnings per share	EPS	**₱5.63**	**₱4.91**	₱11.05
Capital-to-Risk Assets Ratio	CAR	**13.67%**	**14.24%**	13.87%
Liquidity Ratio	LR	**22.29%**	**25.20%**	20.70%
Debt-Equity Ratio	DER	**9.05:1**	**9.26:1**	8.97:1
Asset-to-Equity Ratio	AER	**10.05:1**	**10.26:1**	9.97:1
Interest Rate Coverage Ratio	IRCR	**1.78:1**	**1.80:1**	1.84:1

** computed based on annualized/normalized net income*

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

1. Return on Average Equity (ROAE) in June 30, 2018 increased to 11.83% from 11.41% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding shareholders' equity.

2. Return on Average Assets (ROAA) increased to 1.18% from 1.14% in June 2017. ROAA is calculated by dividing the annualized/normalized net income by the year-on-year average of the outstanding total assets.

3. Net Interest Margin on Average Earning Assets (NIM) was lower at 2.98% in June 2018 versus 2.99% in the same period last year. NIM is calculated by dividing the net interest income by the average earning assets.

4. Earnings per Share (EPS) was higher at ₱5.63 for the period ended June 30, 2018 compared to the ₱4.91 reported during the same period last year. EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) declined to 13.67% in June 2018 versus 14.24% in June 2016. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) was lower at 22.29% in June 2018 from 25.20% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) went down at 9.05:1 from 9.26:1 in June 2017. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) declined to 10.05:1 from 10.26:1 last year. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down to 1.78:1 this year from 1.80:1 in June 2017. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

C. Key Variables and Other Qualitative and Quantitative Factors

Liquidity

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

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

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

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

Material Commitments for Capital Expenditures

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

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

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

Known Trends, Events or Uncertainties or Seasonal Aspects

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