PSBank
PHILIPPINE SAVINGS BANK
Metrobank Group

May 10, 2019

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

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

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Dear Director Felizmenio, Jr.:

Pursuant to the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we hereby submit a copy of our SEC Form 17-Q of Philippine Savings Bank as of March 31, 2019.

Very truly yours,

LEAH M. ZAMORA
First Vice President/Controller

May 10, 2019

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

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

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

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

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

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

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

Pursuant to the reportorial requirements of Section 17 of the Securities Regulation Code (SRC) and Section 141 of the Corporation Code of the Philippines, we hereby submit a copy of our SEC Form 17-Q of Philippine Savings Bank as of March 31, 2019.

Very truly yours,

JOSE VICENTE L. ALDE
President

COVER SHEET

1	5	5	5	2

SEC Registration Number

PHILIPPINE SAVINGS BANK

(Company's Full Name)

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

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

Leah M. Zamora
(Contact Person)

885-8208
(Company Telephone Number)

1st Quarter

1 2	3 1
Month	*Day*

(Fiscal Year)

1 7 - Q
(Form Type)

Month *Day*
(Annual Meeting)

(Secondary License Type, If Applicable)

Market and Securities Regulation Department
Dept. Requiring this Doc.

Amended Articles Number/Section

1,456
Total No. of Stockholders
As of March 31, 2019

Total Amount of Borrowings

Domestic | Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1.	For the quarterly period ended	:	**March 31, 2019**
2.	Commission identification number	:	**15552**
3.	BIR tax identification number	:	**000-663-983-000**
4.	Exact name of registrant as specified in its charter	:	**PHILIPPINE SAVINGS BANK**
5.	Province, country or other jurisdiction of incorporation or organization	:	**City of Manila, Philippines**
6.	Industry classification code	:	[ ] (SEC Use Only)
7.	Address of registrant's principal office	:	**PSBank Center, 777 Paseo de Roxas cor. Sedeño St., Makati City**
8.	Registrant's telephone number, including area code	:	**(632) 885-8208**
9.	Former name, former address and former fiscal year, if changed since last report	:	**Not applicable**
10.	Securities registered pursuant to Sections 4 and 8 of the RSA:		
	Title of each class	:	**Common Shares**
	Number of shares of common stock outstanding	:	**383,109,416**
	Amount of debt outstanding	:	**₱2,982,365,991 (Tier II Subordinated Notes)**
11.	Are any or all of the securities listed on the Philippine Stock Exchange?	:	**Yes**

12. Indicate by check mark whether the registrant:

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

Yes **[x]** No [ ]

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

Yes **[x]** No [ ]

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Attached are the following:

Interim Statements of Condition	Annex 1
Interim Statements of Income	Annex 2
Interim Statements of 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 Soundness Indicators	Annex 7

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

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATION	Annex 8
Aging of Receivables	Annex 9

PART II – OTHER INFORMATION

1. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of March 31, 2019:

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

As of March 31, 2019, there is no person who holds more than 5% of the Bank's securities lodged with PCD Nominee Corporation.

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

2. Legal Proceedings

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

3. Board Resolutions

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

SIGNATURES

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

PHILIPPINE SAVINGS BANK
By:

LEAH M. ZAMORA
First Vice President/Controller

JOSE VICENTE L. ALDE
President

Date: May 10, 2019

Philippine Savings Bank

Unaudited Interim Financial Statements
As of March 31, 2019

And for the three-month periods ended
March 31, 2019 and 2018

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

<u>**Annex 1**</u>

PHILIPPINE SAVINGS BANK
ITEM I. FINANCIAL STATEMENTS

UNAUDITED INTERIM STATEMENTS OF CONDITION
(With Comparative Audited Figures as at December 31, 2018)

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and Other Cash Items	**₱2,631,738,817**	₱3,776,087,269
Due from Bangko Sentral ng Pilipinas	**14,062,081,353**	15,156,184,418
Due from Other Banks	**976,336,640**	1,682,806,080
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**–**	1,891,820,000
Fair Value Through Profit or Loss (FVTPL) Investments	**1,798,267**	10,107,022
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	**13,391,173,658**	12,931,601,524
Investment Securities at Amortized Cost	**35,538,673,699**	35,646,765,264
Loans and Receivables	**157,870,236,288**	156,260,362,775
Investment in a Joint Venture	**714,697,689**	691,425,681
Property and Equipment	**3,576,195,076**	2,257,379,905
Investment Properties	**4,092,209,510**	4,036,317,716
Deferred Tax Assets	**1,334,901,830**	1,327,667,084
Goodwill and Intangible Assets	**579,535,597**	655,446,833
Other Assets	**1,409,117,385**	1,405,320,467
	₱236,178,695,809	₱237,729,292,038
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities		
Demand	**₱20,871,734,073**	₱20,367,043,344
Savings	**34,146,798,972**	33,399,725,991
Time	**121,560,819,143**	138,525,888,196
Long-term Negotiable Certificates of Deposits	**8,398,808,845**	8,395,281,852
	184,978,161,033	200,687,939,383
Bills Payable	**7,973,246,262**	2,968,567,431
Subordinated Notes	**2,982,365,991**	2,981,673,382
Treasurer's, Cashier's and Manager's Checks	**1,417,923,632**	1,615,520,188
Accrued Taxes, Interest and Other Expenses	**1,522,811,562**	2,014,522,713
Financial Liabilities at FVTPL	**10,743,238**	2,895,073
Income Tax Payable	**25,636,638**	637,607
Other Liabilities	**4,112,578,487**	3,063,388,051
	203,023,466,843	213,335,143,828
Equity		
Common Stock	**3,831,094,160**	2,402,524,910
Capital Paid in Excess of Par Value	**9,288,951,390**	2,818,083,506
Surplus Reserves	**1,035,899,409**	1,035,899,409
Surplus	**19,785,247,846**	19,391,850,112
Fair Value Reserves on Financial Assets at FVOCI	**(314,915,044)**	(782,896,279)
Remeasurement Losses on Retirement Plan	**(470,611,677)**	(470,611,677)
Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	**3,131,435**	3,131,435
Cumulative Translation Adjustment	**(3,568,553)**	(3,833,206)
	33,155,228,966	24,394,148,210
	₱236,178,695,809	₱237,729,292,038

See accompanying Notes to Financial Statements.

<u>**Annex 2**</u>

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF INCOME

	For the Quarters ended March 31	
	2019	2018
INTEREST INCOME		
Loans and receivables	**₱3,779,441,041**	₱3,400,140,712
Financial assets at FVOCI and investment securities at amortized cost	**524,732,755**	494,912,663
Interbank loans receivable and securities purchased under resale agreements	**5,857,463**	6,400,237
Due from Bangko Sentral ng Pilipinas	**375,417**	1,384,940
FVTPL investments	**538**	6,152,654
Due from other banks	**772,463**	1,030,769
	4,311,179,677	3,910,021,975
INTEREST EXPENSE		
Deposit liabilities	**1,513,118,190**	929,534,797
Bills payable	**71,793,467**	16,851,852
Subordinated notes	**41,942,609**	41,904,972
Lease liability	**29,539,068**	–
	1,656,393,334	988,291,621
NET INTEREST INCOME	**2,654,786,343**	2,921,730,354
Service fees and commission income	**488,562,664**	385,990,048
Service fees and commission expense	**20,086,133**	23,827,146
NET SERVICE FEES AND COMMISSION INCOME	**468,476,531**	362,162,902
OTHER OPERATING INCOME (CHARGES)		
Gain on foreclosure and sale of investment properties	**117,166,973**	81,496,571
Gain on foreclosure and sale of chattel mortgage properties	**20,785,471**	147,183,348
Foreign exchange gain - net	**19,020,291**	27,283,104
Trading and securities gains (losses) - net	**14,635,280**	(80,052,545)
Gain on sale of property and equipment	**654,798**	86,491
Miscellaneous	**118,602,257**	205,743,426
	290,865,070	381,740,395
TOTAL OPERATING INCOME	**3,414,127,944**	3,665,633,651
OTHER EXPENSES		
Compensation and fringe benefits	**813,497,840**	821,206,708
Provision for credit and impairment losses	**514,866,512**	662,715,253
Taxes and licenses	**365,563,222**	427,955,581
Depreciation	**238,037,911**	160,220,714
Security, messengerial and janitorial services	**94,247,141**	137,948,238
Occupancy and equipment-related costs	**80,824,198**	190,293,305
Amortization of intangible assets	**43,176,943**	44,178,999
Miscellaneous	**518,108,582**	520,114,772
	2,668,322,349	2,964,633,570
INCOME BEFORE SHARE IN NET INCOME OF A JOINT VENTURE AND INCOME TAX	**745,805,595**	701,000,081
SHARE IN NET INCOME OF A JOINT VENTURE	**23,272,008**	15,407,396
INCOME BEFORE INCOME TAX	**769,077,603**	716,407,477
PROVISION FOR (BENEFIT FROM) INCOME TAX		
Current	**95,582,553**	102,871,292
Deferred	**(7,234,746)**	(3,511,304)
	88,347,807	99,359,988
NET INCOME	**₱680,729,796**	₱617,047,489
Basic/Diluted Earnings Per Share	**₱1.78**	₱1.61*

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

Annex 3

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

	For the Quarters ended March 31	
	2019	2018
NET INCOME	**₱680,729,796**	₱617,047,489
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Fair value reserves on debt securities at FVOCI	**467,981,235**	(368,990,916)
Cumulative translation adjustment	**264,653**	2,099,753
	468,245,888	(366,891,163)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱1,148,975,684**	₱250,156,326

See accompanying Notes to Financial Statements.

Annex 4

PHILIPPINE SAVINGS BANK
UNAUDITED INTERIM STATEMENTS OF CHANGES IN EQUITY

	Common Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Fair Value Reserves on Financial Assets at FVOCI	Remeasurement Losses on Retirement Plan	Equity in Remeasurement Gains on Retirement Plan of a Joint Venture	Cumulative Translation Adjustment	Total
Balance at December 31, 2018	**₱2,402,524,910**	**₱2,818,083,506**	**₱1,035,899,409**	**₱19,391,850,112**	**(₱782,896,279)**	**(₱470,611,677)**	**₱3,131,435**	**(₱3,833,206)**	**₱24,394,148,210**
Issuance of stock rights	**1,428,569,250**	**6,470,867,884**	–	–	–	–	–	–	**7,899,437,134**
Total comprehensive income for the period	–	–	–	**680,729,796**	**467,981,235**	–	–	**264,653**	**1,148,975,684**
Cash dividends	–	–	–	**(287,332,062)**	–	–	–	–	**(287,332,062)**
Balance at March 31, 2019	**₱3,831,094,160**	**₱9,288,951,390**	**₱1,035,899,409**	**₱19,785,247,846**	**(₱314,915,044)**	**(₱470,611,677)**	**₱3,131,435**	**(₱3,568,553)**	**₱33,155,228,966**
Balance at January 1, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,450,958,226	(₱69,146,732)	(₱545,392,541)	₱1,245,144	(₱4,076,039)	₱23,089,599,375
Total comprehensive income (loss) for the period	–	–	–	617,047,489	(368,990,916)	–	–	2,099,753	250,156,326
Cash dividends	–	–	–	(180,189,368)	–	–	–	–	(180,189,368)
Balance at March 31, 2018	₱2,402,524,910	₱2,818,083,506	₱1,035,402,901	₱17,887,816,347	(₱438,137,648)	(₱545,392,541)	₱1,245,144	(₱1,976,286)	₱ 23,159,566,333

See accompanying Notes to Financial Statements.

Annex 5

PHILIPPINE SAVINGS BANK

UNAUDITED INTERIM STATEMENTS OF CASH FLOWS

	Quarters ended March 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱769,077,603**	₱716,407,477
Adjustments to reconcile income before income tax to net cash provided by operations:		
Provision for credit and impairment losses	**514,866,512**	662,715,253
Depreciation	**238,037,911**	160,220,714
Amortization of premium (discount) on financial assets at fair value through other comprehensive income and investment securities at amortized cost	**(322,548,692)**	589,176,174
Gain on foreclosure and sale of:		
Investment properties	**(117,166,973)**	(81,496,571)
Chattel mortgage properties	**(20,785,471)**	(147,183,348)
Amortization of:		
Intangible assets	**43,176,943**	44,178,999
Debt issuance costs	**692,609**	654,972
Realized loss (gain) on sale of financial assets at (FVOCI)	**473,759,510**	(46,025,553)
Share in net income of a joint venture	**(23,272,008)**	(15,407,396)
Fair value (gains) on fair value through profit or loss investments	**(7,083)**	(23,592,099)
Gain on sale of property and equipment	**(654,798)**	(86,491)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Fair value through profit or loss investments	**8,315,838**	153,034,319
Loans and receivables	**(2,854,207,293)**	(3,590,553,723)
Other assets	**(73,229,105)**	(210,984,113)
Increase (decrease) in:		
Deposit liabilities	**(15,709,646,613)**	(2,900,516,910)
Treasurer's, cashier's and manager's checks	**(197,596,556)**	(51,808,938)
Accrued taxes, interest and other expenses	**(491,710,721)**	(373,165,249)
Other liabilities	**(398,271,909)**	(263,879,272)
Cash generated from operations	**(18,161,170,296)**	(5,378,311,755)
Income taxes paid	**(70,583,522)**	(16,340,634)
Net cash provided by operating activities	**(18,231,753,818)**	(5,394,652,389)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of:		
Financial assets at FVOCI	**(1,046,572,486)**	(4,306,461,223)
Investment securities at amortized cost	**–**	(882,422,211)
Property and equipment	**(50,956,138)**	(29,176,151)
Other intangible assets	**32,734,293**	(9,143,652)
Proceeds from sale/maturities of:		
Financial assets at FVOCI	**1,011,990,036**	3,036,638,321
Chattel mortgage properties	**600,282,788**	607,572,463
Investment properties	**224,353,295**	168,364,361
Property and equipment	**6,392,017**	375,718
Net cash used in investing activities	**778,223,805**	(1,414,252,374)

(Forward)

	For the Quarters ended March 31	
	2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Availments of bills payable	**₱55,995,678,831**	₱63,269,745,119
Settlement of bills payable	**(50,991,000,000)**	(58,812,415,195)
Dividends paid	**(287,332,062)**	(180,189,368)
Issuance of stock rights – net of issue cost	**7,899,437,134**	–
Net cash provided by (used in) financing activities	**12,616,783,903**	4,277,140,556
Effect of exchange rate differences	**5,153**	43,371
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(4,836,740,957)**	(2,531,720,836)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**3,776,087,269**	2,596,872,801
Due from Bangko Sentral ng Pilipinas	**15,156,184,418**	15,265,387,772
Due from other banks	**1,682,806,080**	1,508,489,309
Interbank loans receivable and securities purchased under resale agreements	**1,891,820,000**	1,842,023,049
	22,506,897,767	21,212,772,931
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**2,631,738,817**	2,931,620,739
Due from Bangko Sentral ng Pilipinas	**14,062,081,353**	13,896,747,045
Due from other banks	**976,336,640**	1,852,684,311
	₱17,670,156,810	₱18,681,052,095

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱1,870,678,170**	₱1,070,102,394
Interest received	**4,190,832,263**	4,748,138,772

See accompanying Notes to Financial Statements.

PHILIPPINE SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

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

As of March 31, 2019 and December 31, 2018, the Bank had 250 branches. The Bank had 265 Automated Tellering Machines (ATMs) on-site and 312 off-site, bringing its total number of ATMs to 577 as of March 31, 2019 and 575 as of December 31, 2018.

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

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

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

As of March 31, 2019 Metropolitan Bank & Trust Company (MBTC), the Bank's ultimate parent, owned eighty-eight percent (88%) of the Bank.

2. Significant Accounting Policies

Basis of Preparation

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

The condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL) and fair value through other comprehensive income (FVOCI) that have been measured at fair value.

Statement of Compliance

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

Presentation of Financial Statements

The Bank presents its statements of condition in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve (12) months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 14.

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted in the preparation of the unaudited interim condensed financial statements are consistent with those followed in the preparation of the audited annual financial statements as of and for the year ended December 31, 2018, except for the adoption of PFRS 16 Leases effective January 1, 2019.

PFRS 16, *Leases*
Lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements. The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value. Except for the additional disclosures required, PFRS 16 did not have an impact for leases where the Bank is the lessor. The Bank adopted PFRS 16 using the modified retrospective approach with certain transition reliefs.

As of January 1, 2019, adoption of PFRS 16 resulted to an increase in Property and Equipment and Other Liabilities amounted to ₱1.4 billion and ₱1.6 billion, respectively.

Summary of Significant Accounting Policies

<u>Fair Value Measurement</u>
The Bank measures financial instruments, such as FVTPL investments, financial assets at FVOCI and derivative financial instruments, at fair value at each statement of condition date. Also, fair values of financial instruments measured at amortized cost and non-financial assets such as investment properties are disclosed in Note 3.

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

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

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

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

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

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

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

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

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

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

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

<u>Cash and Cash Equivalents</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under resale agreements (SPURA) that are convertible to known amounts of cash which have original maturities of three months or less from date of placements and that are subject to an insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial assets, except for derivatives, that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Derivative financial instruments are recognized on a trade date basis. Deposits, amounts due to banks and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

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

<u>Investments at FVTPL</u>
Financial assets or financial liabilities at FVTPL
Financial assets and financial liabilities at FVTPL include financial assets and financial liabilities held for trading purposes and derivative instruments.

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

Derivatives recorded at FVTPL
Derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives (except those accounted for as cash flow hedges) are taken directly to the statements of income and are included in 'Foreign exchange gain - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

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

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

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

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

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

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in 'Interest income' in the statements of income. Gains and losses are recognized in statements of income when these investments are derecognized or impaired, as well as through the amortization process. The ECL is recognized in the statements of income under 'Provision for credit and impairment losses'. The effects of revaluation on foreign currency denominated investments are recognized in the statements of income.

Loans and receivables
This accounting policy relates to the Bank's 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable and SPURA', 'Loans and Receivables', 'Security Deposits', 'Returned Checks and Other Cash Items (RCOCI)', and 'Shortages'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term and those that the Bank, upon initial recognition, designates as at FVTPL;
- those that the Bank, upon initial recognition, designates as FVOCI; and
- those for which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, these are subsequently measured at amortized cost using the effective interest amortization method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statements of income. The losses arising from impairment are recognized in 'Provision for credit and impairment losses' in the statements of income.

Other financial liabilities carried at amortized cost
This category represents issued financial instruments or their components, which are not designated at FVTPL and comprises 'Deposit Liabilities', 'Bills Payable', 'Subordinated Notes', 'Treasurer's, Cashier's and Manager's Checks', 'Accrued Interest Payable', 'Accrued Other Expenses', 'Accounts Payable', 'Bills Purchased-Contra', 'Other credits', 'Due to BSP', 'Dividends Payable', 'Due to the Treasurer of the Philippines', 'Deposits for Keys-Safety Deposit Boxes (SDB)', and 'Overages', where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, financial liabilities not qualified and not designated as FVTPL are subsequently measured at amortized cost using the effective interest amortization method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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

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

Derecognition of Financial Assets and Liabilities

Financial assets

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

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

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

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

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

Financial liabilities

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

Repurchase and Reverse Repurchase Agreements

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

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

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.

Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions.

The objective of the new impairment standard is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the previous incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Staging assessment
For non-credit-impaired financial instruments:

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

For credit-impaired financial instruments:

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

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

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection thru payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Significant increase in credit risk (SICR)
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative models, the borrower or counterparty's credit rating has deteriorated by at least 2 notches. On the other hand, if based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses, then credit risk may have significantly increased as well. Moreover, if contractual payments are more than 30 days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which amortized payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, changes in maturity date, principal amount from capitalization of accrued interest, terms and conditions from conversion/consolidation or interest rates/repricing cycle that results in an extension in the loan maturity. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are initially moved to Stage 3.

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

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

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

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

Economic overlays
The Bank incorporates economic overlays into the measurement of ECL to add a forward-looking risk measure parallel to the expected future macroeconomic atmosphere. A broad range of economic indicators were considered for the economic inputs, such as gross domestic product (GDP) growth, gross international reserves (GIR) change, consumer price index (CPI) change, Philippine Stock exchange (PSE) indices, foreign exchange rates and other BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Standards issued but not yet effective

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

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Definition of a Business*

  The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

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

  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

- PFRS 17, *Insurance Contracts*

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

Deferred effectivity

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

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

3. Fair Value Measurement

Financial Instruments

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

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

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

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

Derivative instruments (included under investments and financial liabilities under FVTPL) - Fair values are estimated based on quoted market prices provided by independent parties or derived using acceptable valuation models. The models utilize published underlying rates (e.g., foreign exchange (FX) rates and forward FX rates).

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

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

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

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

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

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

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

Non-financial Assets

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

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

	March 31, 2019 (Unaudited)				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets measured at fair value:					
Financial Assets					
FVTPL investments					
HFT - government securities	**₱41**	**₱41**	**₱–**	**₱–**	**₱41**
Derivative assets	**1,757**	**–**	**1,757**	**–**	**1,757**
Financial assets at FVOCI					
Government debt securities	**9,345,883**	**6,881,448**	**2,464,435**	**–**	**9,345,883**
Private debt securities	**4,035,075**	**3,548,722**	**486,353**	**–**	**4,035,075**
Equity securities	**10,215**	**9,143**	**1,072**	**–**	**10,215**
	₱13,392,971	**₱10,439,354**	**₱2,953,617**	**₱–**	**₱13,392,971**
Liabilities measured at fair value:					
Financial Liabilities					
Financial liabilities at FVTPL	**₱10,743**	**₱–**	**₱10,743**	**₱–**	**₱10,743**
Assets for which fair values are disclosed:					
Financial Assets					
Investment securities at amortized cost					
Government	**₱31,476,922**	**₱30,038,442**	**₱–**	**₱–**	**₱30,038,442**
Private	**4,061,752**	**3,874,702**	**–**	**–**	**3,874,702**
Loans and receivables					
Receivables from customers					
Consumption loans	**89,675,684**	**–**	**–**	**110,786,898**	**110,786,898**
Real estate loans	**50,121,150**	**–**	**–**	**72,107,892**	**72,107,892**
Commercial loans	**12,986,101**	**–**	**–**	**15,602,035**	**15,602,035**
Personal loans	**2,972,984**	**–**	**–**	**3,265,517**	**3,265,517**
Sales contract receivable	**70,807**	**–**	**–**	**78,274**	**78,274**
Security deposits	**177,615**	**–**	**–**	**249,315**	**249,315**
Non-Financial Assets					
Investment properties	**4,092,210**	**–**	**–**	**5,910,040**	**5,910,040**
	₱195,635,225	**₱33,913,144**	**₱–**	**₱207,999,971**	**₱241,913,115**
Liabilities for which fair values are disclosed:					
Deposit liabilities – time	**₱121,560,819**	**₱–**	**₱–**	**₱123,976,242**	**₱123,976,242**
Deposit liabilities – LTNCD	**8,398,809**	**–**	**–**	**8,067,375**	**8,067,375**
Subordinated notes	**2,982,366**	**–**	**–**	**2,387,096**	**2,387,096**
Bills payable	**7,973,246**	**–**	**–**	**8,221,438**	**8,221,438**
	₱140,915,240	**₱–**	**₱–**	**₱142,652,151**	**₱142,652,151**

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

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

As of March 31, 2019 and December 31, 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurement.

4. Financial Risk Management Policies and Objectives

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

- Credit risk
- Market risk
- Liquidity risk

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

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

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

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

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

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

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

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

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

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

The Risk Management Function is responsible for:

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

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

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

a. Credit risk and concentration of assets and liabilities and off-balance sheet items

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

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

Product manuals are in place for all loans and deposit products that actually or potentially expose the Bank to all types of risks that may result in financial or reputational losses. They define the product and the risks associated with the product plus the corresponding risk-mitigating controls. They embody the business plans and define the business parameters within which the product or activity is to be performed.

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

Credit Approval

Credit approval is the documented acceptance of credit risk in the credit proposal or application.

The Bank's credit decision-making for consumer loans utilizes the recommendation of the credit scoring and is performed at the CreCom level appropriate to the size and risk of each transaction, in conformity with corporate policies and procedures in regulating credit risk activities. The Bank's ExCom may approve deviations or exceptions, while the BOD approves material exceptions such as large exposures, loans to directors, officers, stockholders and other related interests (DOSRI) and related party transactions, and loan restructuring.

Credit delegation limits are identified by the Bank's Head of Credit and Collections, and tracked and reviewed at least annually together with the Credit Risk Manager.

Borrower Eligibility

The Bank's credit processing commences when a customer expresses his intention to borrow through a credit application. The Bank gathers data on the customer; ensures they are accurate, up-to-date and adequate to meet the minimum regulatory requirements and to render credit decision. These data are used for the intended purpose only and are managed in adherence to the customer information secrecy law.

The customer's credit worthiness, repayment ability and cash flow are established before credit is extended. The Bank independently verifies critical data from the customer, ensuring compliance with Know Your Customer requirements under the anti-money laundering laws. The Bank requires that customer income be derived from legitimate sources and supported with government-accepted statements of income, assets and liabilities.

The Bank ascertains whether the customer is legally capable of entering a credit contract and of providing a charge over any asset presented as collateral for a loan. Guarantors or sureties may be accepted, provided they are a relative, partner, and have financial interest in the transaction, and they pass all credit acceptance criteria applied to the borrower.

Loan Structure

The Bank structures loans for its customers based on the customer's capability to pay, the purpose of the loan, and for a collateralized loan, the collateral's economic life and liquidation value over time.

The Bank establishes debt burden guidelines and minimum income requirements to assess the customer's capacity to pay.

The Bank utilizes credit bureau data, both external and internal, to obtain information on a customer's current commitments and credit history.

The Bank takes into account environmental and social issues when reviewing credit proposals of small businesses and commercial mortgage customers. The Bank ensures that all qualified securities pass through the BOD for approval. Assignments of securities are confirmed and insurance are properly secured.

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

Initial loan limits are recommended by the CreCom and ExCom and approved by the BOD. The Bank ensures that secured loans are within ceilings set by local regulators. Succeeding loan availments are based on account performance and customer's credit worthiness.

Credit Management

The Bank maintains credit records and documents on all borrowings and captures transaction details in its loan systems. The credit risk policies and system infrastructure ensure that loans are monitored and managed at all times.

The Bank's Management Information System provides statistics that its business units need to identify opportunities for improving rewards without necessarily sacrificing risk. Statistical data on product, productivity, portfolio, profitability, performance and projection are made available regularly.

The Bank conducts regular loan review through the ROC, with the support of the RMO. The Bank examines its exposures, credit risk ratios, provisions and customer segments. The Bank's unique customer identification and unique group identification methodology enables it to aggregate credit exposures by customer or group of borrowers. Aggregate exposures of at least ₱100.0 million are put on a special monitoring.
The ROC assesses the adequacy of provisions for credit losses regularly. The Bank's automated credit rating system enables the Bank to set up provision per account. The Bank also performs impairment analyses on loans and receivables, whether on an individual or collective basis, in accordance with PFRS 9 based on Board-approved impairment models. The impairment models are validated at least annually by the Credit Risk Management Unit and revisions are proposed as needed.

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

b. Market risk

Market risk management covers the areas of trading and interest rate risks. The Bank utilizes various measurement and monitoring tools to ensure that risk-taking activities are managed within instituted market risk parameters. The Bank revalues its trading portfolios on a daily basis and checks the revenue or loss generated by each portfolio in relation to their level of market risk.

The Bank's risk policies and implementing guidelines are regularly reviewed by the Assets and Liabilities Committee (ALCO), ROC and BOD to ensure that these are up-to-date and in line with changes in the economy, environment and regulations. The ROC and the BOD set the comprehensive market risk limit structure and define the parameters of market activities that the Bank can engage in.

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

Trading activities

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

VaR is a statistical measure that calculates the maximum potential loss from a portfolio over a holding period, within a given confidence level. The Bank's current VaR model uses historical simulation for Peso and USD HFT portfolios with confidence level at 99.00% and a 1 day holding period. It utilizes a 250 days rolling data most recently observed daily percentage changes in price for each asset class in its portfolio.

VaR reports are prepared on a daily basis and submitted to Treasury Group and RMO. VaR is also reported to the ROC and BOD on a monthly basis. The President, ROC and BOD are advised of potential losses that exceed prudent levels or limits.

When there is a breach in VaR limits, Treasury Group is expected to close or reduce their position and bring it down within the limit unless approval from the President is obtained to retain the same. All breaches are reported to the President for regularization. In addition to the regularization and approval of the President, breaches in VaR limits and special approvals are likewise reported to the ROC and BOD for their information and confirmation.

Back-testing is employed to verify the effectiveness of the VaR model. The Bank performs back-testing to validate the VaR model and stress testing to determine the impact of extreme market movements on the portfolios. Results of backtesting are reported to the ROC and BOD on a monthly basis. Stress testing is also conducted, based on historical maximum percentage daily movement and on an ad-hoc rate shock to estimate potential losses in a crisis situation.

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

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

Discussed below are the limitations and assumptions applied by the Bank on its VaR methodology:

a. VaR is a statistical estimate and thus, does not give the precise amount of loss;
b. VaR is not designed to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk;
c. Historical simulation does not involve any distributional assumptions, scenarios that are used in computing VaR are limited to those that occurred in the historical sample; and
d. VaR systems are backward-looking. It attempts to forecast likely future losses using past data. As such, this assumes that past relationships will continue to hold in the future. Major shifts therefore (i.e., an unexpected collapse of the market) are not captured and may inflict losses much bigger than anything the VaR model may have calculated.

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

One method by which the Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of "gap" analysis. This analysis provides the Bank with a static view of the maturity and repricing characteristics of the positions in its statement of condition. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. Non-maturing deposits are considered as rate sensitive liabilities; no loan pre-payments assumptions are used. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The interest rate sensitivity gap report measures interest rate risk by identifying gaps between the repricing dates of assets and liabilities. The Bank's sensitivity gap model calculates the effect of possible rate movements on its interest rate profile.

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

The ALCO is responsible for managing the Bank's structural interest rate exposure. The ALCO's goal is to achieve a desired overall interest rate profile while remaining flexible to interest rate movements and changes in economic conditions. The RMO and ROC review and oversee the Bank's interest rate risks. The table below demonstrates the sensitivity of equity. Equity sensitivity was computed by calculating mark-to-market changes of debt securities at FVOCI debt instruments, assuming a parallel shift in the yield curve.

	March 31, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Change in basis points	**Sensitivity of equity**	Change in basis points	Sensitivity of equity
Currency				
PHP	**+10**	**(₱39.256.287)**	+10	(₱121,688,936)
USD	**+10**	**(20,218,821)**	+10	(27,912,113)
Currency				
PHP	**-10**	**45,410,002**	-10	(41,463,520)
USD	**-10**	**20,114,504**	-10	27,537,680

The impact on the Bank's equity excludes the impact on transactions affecting the statement of income.

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

The Bank's policy is to maintain foreign currency exposure within the approved position, stop loss, loss trigger, VaR limits and to remain within existing regulatory guidelines. To compute for VaR, the Bank uses historical simulation model for USD/PHP FX position, with confidence level at 99.00% and a 1 day holding period. The Bank's VaR for its foreign exchange position for trading and non-trading activities are as follows (in thousands):

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
As of year-end	**₱514**	₱864
Average	**383**	919
High	**1,052**	3,641
Low	**8**	116

Liquidity Risk
The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon the circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool that the Bank uses for monitoring its liquidity is the Maximum Cumulative Outflow (MCO) reports, which is also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Liquidity Contingency Funding Plan (LCFP). The LCFP projects the Bank's funding position during stress to help evaluate the Bank's funding needs and strategies under various stress conditions.

The Bank discourages dependence on Large Funds Providers (LFPs) and monitors the deposit funding concentrations so that it will not be vulnerable to a substantial drop in deposit level should there be an outflow of large deposits and there is enough high quality liquid assets to fund LFP withdrawals. ALCO is responsible for managing the liquidity of the Bank while RMO and ROC review and oversee the Bank's overall liquidity risk management.

To mitigate potential liquidity problems caused by unexpected withdrawals of significant deposits, the Bank takes steps to cultivate good business relationships with clients and financial institutions, maintains high level of high quality liquid assets, monitors the deposit funding concentrations and regularly updates the Liquidity Contingency Funding Plan.

5. Segment Information

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

a. Consumer Banking - principally provides consumer-type loans generated by the Home Office;
b. Corporate Banking -principally handles loans and other credit facilities for small and medium enterprises, corporate and institutional customers acquired in the Home Office;
c. Branch Banking - serves as the Bank's main customer touch point which offers consumer and corporate banking products; and
d. Treasury - principally handles institutional deposit accounts, providing money market, trading and treasury services, as well as managing the Bank's funding operations by use of government securities and placements and acceptances with other banks.

These segments are the bases on which the Bank reports its primary segment information. The Bank evaluates performance on the basis of information about the components of the Bank that senior management uses to make decisions about operating matters. There are no other operating segments than those identified by the Bank as reportable segments. There were no inter-segment revenues and expenses included in the financial information. The Bank has no single customer with revenues from which is 10.00% or more of the Bank's total revenue.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. Primary segment information (by business segment) for the quarters ended March 31, 2019 and 2018 and December 31, 2018 follow (in thousands):

	For the Quarter ended March 31, 2019 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱1,019,453	₱25,730	₱2,575,577	₱690,420	₱4,311,180
Service fees and commission	133,866	67,646	287,051	–	488,563
Other operating income	99,271	23,760	134,178	33,656	290,865
Total operating income	1,252,590	117,136	2,996,806	724,076	5,090,608
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	451,532	4,254	59,081	–	514,867
Depreciation	89,975	2,227	144,643	1,193	238,038
Amortization of other intangible assets	14,970	628	27,061	518	43,177
Total non-cash expenses	556,477	7,109	230,785	1,711	796,082
Interest expense	–	–	1,445,867	210,526	1,656,393
Service fees and commission expense	5,504	2,781	11,801	–	20,086
Subtotal	5,504	2,781	1,457,668	210,526	1,676,479
Compensation and fringe benefits	207,434	16,871	579,755	9,438	813,498
Taxes and licenses	115,543	7,112	153,138	89,770	365,563
Occupancy and equipment-related costs	10,067	432	70,064	261	80,824
Security, messengerial and janitorial services	29,802	680	63,517	248	94,247
Miscellaneous	134,089	5,355	337,387	41,278	518,109
Subtotal	496,935	30,450	1,203,861	140,995	1,872,241
Income (loss) before share in net income of a joint venture and income tax	₱193,674	₱76,796	₱104,492	₱370,844	745,806
Share in net income of a joint venture					23,272
Income before income tax					769,078
Provision for income tax					88,348
Net income					₱680,730
Segment assets	₱83,555,535	₱42,060,135	₱54,892,260	₱53,621,166	₱234,129,096
Investment in a joint venture					714,698
Deferred tax assets					1,334,902
Total assets					₱236,178,696
Segment liabilities	₱946,103	₱259,972	₱136,062,635	₱65,754,757	₱203,023,467

	For the Year ended December 31, 2018 (Audited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱5,605,523	₱350,615	₱6,733,222	₱3,684,617	₱16,373,977
Service fees and commission	675,356	42,309	1,004,080	–	1,721,745
Other operating income	648,822	23,260	614,175	(45,265)	1,240,992
Total operating income	6,929,701	416,184	8,351,477	3,639,352	19,336,714
Non-cash expenses					
Provision for (reversal of) credit and impairment losses	2,021,119	(66,778)	139,320	44,312	2,137,973
Depreciation	240,779	4,522	375,577	1,304	622,182
Amortization of other intangible assets	56,911	2,368	98,568	1,242	159,089
Total non-cash expenses	2,318,809	(59,888)	613,465	46,858	2,919,244
Interest expense	–	–	1,956,224	3,085,803	5,042,027
Service fees and commission expense	37,698	2,362	56,048	–	96,108
Subtotal	37,698	2,362	2,012,272	3,085,803	5,138,135
Compensation and fringe benefits	814,171	72,626	2,443,558	33,473	3,363,828
Taxes and licenses	456,707	31,165	585,031	554,838	1,627,741
Occupancy and equipment-related costs	77,577	1,074	684,687	429	763,767
Security, messengerial and janitorial services	168,186	4,306	320,250	996	493,738
Miscellaneous	691,451	26,730	1,242,453	180,263	2,140,897
Subtotal	2,208,092	135,901	5,275,979	769,999	8,389,971
Income (loss) before share in net income of a joint venture and income tax	₱2,365,102	₱337,809	₱449,761	(₱263,308)	₱2,889,364
Share in net income of a joint venture					82,377
Income before income tax					2,971,741
Provision for income tax					309,595
Net income					₱2,662,146
Segment assets	₱125,143,953	₱7,969,875	₱45,507,895	₱57,088,476	₱235,710,199
Investment in a joint venture					691,426
Deferred tax assets					1,327,667
Total assets					₱237,729,292
Segment liabilities	₱1,591,964	₱98,175	₱130,004,402	₱81,640,603	₱213,335,144

	For the Quarter ended March 31, 2018 (Unaudited)				
	Consumer Banking	Corporate Banking	Branch Banking	Treasury	Total
Operating income					
Interest income	₱2,419,286	₱139,034	₱841,821	₱509,881	₱3,910,022
Service fees and commission	158,106	9,070	218,814	–	385,990
Other operating income (expense)	262,518	4,921	167,070	(52,769)	381,740
Total operating income	2,839,910	153,025	1,227,705	457,112	4,677,752
Non-cash expenses					
Provision for credit and impairment losses	603,378	(12,168)	71,505	–	662,715
Depreciation	61,730	1,228	96,991	272	160,221
Amortization of other intangible assets	16,247	754	26,947	231	44,179
Total non-cash expenses (income)	681,355	(10,186)	195,443	503	867,115
Interest expense	–	–	406,562	581,730	988,292
Service fees and commission expense	9,760	560	13,507	–	23,827
Subtotal	9,760	560	420,069	581,730	1,012,119
Compensation and fringe benefits	202,435	16,483	594,961	7,328	821,207
Taxes and licenses	127,252	7,062	169,140	124,501	427,955
Occupancy and equipment-related costs	19,847	309	170,062	75	190,293
Security, messengerial and janitorial services	44,275	1,101	92,342	230	137,948
Miscellaneous	164,785	7,399	304,220	43,711	520,115
Subtotal	558,594	32,354	1,330,725	175,845	2,097,518
Income (loss) before share in net income of a joint venture and income tax	₱1,590,201	₱130,297	(₱718,532)	(₱300,966)	701,000
Share in net income of a joint venture					15,407
Income before income tax					716,407
Provision from income tax					99,360
Net income					₱617,047
Segment assets	₱118,523,530	₱6,867,452	₱43,795,527	₱53,982,464	₱223,168,973
Investments in a joint venture					622,570
Deferred tax assets					1,291,453
Total assets					₱225,082,996
Segment liabilities	₱1,735,908	₱98,142	₱117,025,703	₱83,063,676	₱201,923,429

6. Investment Securities

Fair Value Through Profit or Loss (FVTPL) Investments

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Derivatives with positive fair value	**₱1,757,293**	₱10,073,132
Investment securities at FVTPL	**40,974**	33,890
Financial assets at FVTPL	**₱1,798,267**	₱10,107,022
Derivatives with negative fair value	**₱10,743,238**	₱2,895,073
Financial liabilities at FVTPL	**₱10,743,238**	₱2,895,073

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets at FVOCI consist of the following:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Debt securities		
Government	**₱9,345,883,032**	₱8,956,764,357
Private	**4,035,075,261**	3,964,611,802
Equity securities - Quoted	**10,215,365**	10,225,365
	₱13,391,173,658	₱12,931,601,524

As of March 31, 2019 and December 31, 2018, the ECL on debt securities at FVOCI (included in 'Fair value reserves on financial assets at FVOCI') amounted to ₱8.8 million and ₱10.0 million, respectively.

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Balance at beginning of year	**(₱782,896,279)**	(₱69,146,732)
Loss from sale of financial assets at FVOCI realized in profit or loss	**(14,628,197)**	92,278,733
Changes in allowance for ECL	**8,849,922**	9,957,385
Fair value gain (loss) recognized in OCI	**473,759,510**	(815,985,665)
Balance at end of year	**(₱314,915,044)**	(₱782,896,279)

Investment Securities at Amortized Cost

Investment securities at amortized cost consist of the following:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Debt securities		
Government	**₱31,501,731,757**	₱31,604,530,066
Private	**4,064,906,241**	4,071,281,345
	35,566,637,998	35,675,811,411
Less allowance for credit losses	**27,964,299**	29,046,147
	₱35,538,673,699	₱35,646,765,264

Interest income on investment securities consists of:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Interest income recognized using EIR		
Investment securities at amortized cost	**₱360,486,690**	₱346,999,962
Financial assets at FVOCI	**164,246,065**	147,912,701
	524,732,755	494,912,663
Interest income recognized using nominal interest rates		
FVTPL investments	**538**	6,152,654
	₱524,733,293	₱501,065,317

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

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
FVTPL investments	**₱7,083**	(₱34,026,992)
Financial assets at FVOCI	**14,628,197**	(46,025,553)
	₱14,635,280	(₱80,052,545)

7. Loans and Receivables

This account consists of:

	March 31, 2019 (Unaudited)	December 31,2018 (Audited)
Receivables from customers		
Consumption loans	**₱92,134,132,196**	₱90,291,868,218
Real estate loans	**50,514,706,911**	49,972,645,933
Commercial loans	**13,117,056,858**	12,902,967,013
Personal loans	**3,507,346,573**	3,525,922,782
	159,273,242,538	156,693,403,946
Less unearned discounts	**663,286**	130,275
	159,272,579,252	156,693,273,671
Other receivables		
Accrued interest receivable	**2,109,626,466**	2,306,049,469
Accounts receivable	**836,845,597**	1,526,155,791
Sales contract receivables	**71,844,098**	71,508,163
Bills purchased	**22,872,561**	13,077,760
	162,313,767,974	160,610,064,854
Less allowance for credit losses	**4,443,531,686**	4,349,702,079
	₱157,870,236,288	₱156,260,362,775

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

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

Interest income on loans and receivables consists of:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Receivables from customers		
Consumption loans	**₱2,253,735,638**	₱2,074,709,444
Real estate loans	**950,423,406**	825,944,336
Personal loans	**356,496,483**	314,564,066
Commercial loans	**216,399,431**	183,253,379
Other receivables		
Sales contract receivables	**2,386,083**	1,669,487
	₱3,779,441,041	₱3,400,140,712

8. Property and Equipment

The composition of and movements in this account follow:

	March 31, 2019 (Unaudited)				
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**
Cost					
Balance at beginning of year	**₱976,443,676**	**₱1,125,200,479**	**₱2,814,449,530**	**₱1,012,800,699**	**₱5,928,894,384**
Acquisitions	**–**	**277,901**	**38,191,921**	**12,486,316**	**50,956,138**
Disposals	**–**	**–**	**(2,745,001)**	**–**	**(2,745,001)**
Balance at end of year	**976,443,676**	**1,125,478,380**	**2,849,896,450**	**1,025,287,015**	**5,977,105,521**
Accumulated Depreciation					
Balance at beginning of year	**–**	**454,610,927**	**2,401,654,413**	**815,249,139**	**3,671,514,479**
Depreciation	**–**	**8,796,950**	**48,862,190**	**20,867,479**	**78,526,619**
Disposals	**–**	**–**	**(1,980,600)**	**–**	**(1,980,600)**
Reclassifications/transfer	**–**	**–**	**4,985,043**	**(12,225)**	**4,972,818**
Balance at end of year	**–**	**463,407,877**	**2,453,521,046**	**836,104,393**	**3,753,033,316**
Net Book Value	**₱976,443,676**	**₱662,070,503**	**₱396,375,404**	**₱189,182,622**	**₱2,224,072,205**

	December 31, 2018 (Audited)				
	Land	Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	₱976,443,676	₱1,126,593,369	₱2,721,454,277	₱976,140,270	₱5,800,631,592
Acquisitions	–	2,802,669	142,887,490	36,660,429	182,350,588
Disposals	–	(4,195,559)	(49,892,237)	–	(54,087,796)
Balance at end of year	976,443,676	1,125,200,479	2,814,449,530	1,012,800,699	5,928,894,384
Accumulated Depreciation					
Balance at beginning of year	–	416,470,260	2,185,390,898	718,758,080	3,320,619,238
Depreciation	–	38,163,929	232,636,645	96,491,059	367,291,633
Disposals	–	(23,262)	(16,373,130)	–	(16,396,392)
Balance at end of year	–	454,610,927	2,401,654,413	815,249,139	3,671,514,479
Net Book Value	₱976,443,676	₱670,589,552	₱412,795,117	₱197,551,560	₱2,257,379,905

The adoption of PFRS 16 resulted to an increase in Property and Equipment- net amounting to ₱1.4 billion as of March 31, 2019.

Gain on sale of property and equipment amounted to ₱0.7 million and ₱0.1 million for the three-months period ended March 31, 2019 and 2018, respectively.

The details of depreciation under the statements of income follow:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Right-of-Use-Asset	**₱103,188,065**	₱–
Property and equipment	**78,526,619**	99,238,494
Chattel mortgage properties	**33,514,354**	38,047,505
Investment properties	**22,808,873**	22,934,715
	₱238,037,911	₱160,220,714

9. Investment Properties

The composition of and movements in this account follow:

	March 31, 2019 (Unaudited)		
	Land	**Building Improvements**	**Total**
Cost			
Balance at beginning of year	**₱1,656,342,069**	**₱3,061,707,089**	**₱4,718,049,158**
Additions	**71,115,390**	**135,791,813**	**206,907,203**
Disposals	**(72,073,377)**	**(136,431,739)**	**(208,505,116)**
Balance at end of year	**1,655,384,082**	**3,061,067,163**	**4,716,451,245**
Accumulated Depreciation			
Balance at beginning of year	–	**438,004,523**	**438,004,523**
Depreciation	–	**22,808,873**	**22,808,873**
Disposals	–	**(26,784,011)**	**(26,784,011)**
Balance at end of year	–	**434,029,385**	**434,029,385**
Allowance for Impairment Losses			
Balance at beginning of year	**76,490,196**	**167,236,723**	**243,726,919**
Reversals for the year	**(237,876)**	**(47,916,571)**	**(48,154,447)**
Disposals	**(23,579)**	**(5,336,543)**	**(5,360,122)**
Balance at end of year	**76,228,741**	**113,983,609**	**190,212,350**
Net Book Value	**₱1,579,155,341**	**₱2,513,054,169**	**₱4,092,209,510**

	December 31, 2018 (Audited)		
	Land	Building Improvements	Total
Cost			
Balance at beginning of year	₱1,626,841,652	₱2,930,621,176	₱4,557,462,828
Additions	259,427,845	532,358,484	791,786,329
Disposals	(229,927,428)	(401,272,571)	(631,199,999)
Balance at end of year	1,656,342,069	3,061,707,089	4,718,049,158
Accumulated Depreciation			
Balance at beginning of year	–	397,625,717	397,625,717
Depreciation	–	99,341,223	99,341,223
Disposals	–	(58,962,417)	(58,962,417)
Balance at end of year	–	438,004,523	438,004,523
Allowance for Impairment Losses			
Balance at beginning of year	166,817,379	62,702,253	229,519,632
Provisions (reversals) for the year	(87,113,024)	116,039,818	28,926,794
Disposals	(3,214,159)	(11,505,348)	(14,719,507)
Balance at end of year	76,490,196	167,236,723	243,726,919
Net Book Value	₱1,579,851,873	₱2,456,465,843	₱4,036,317,716

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Real estate properties acquired in settlement of loans and receivables	**₱3,951,926,382**	₱3,942,199,973
Bank premises leased to third parties and held for capital appreciation	**140,283,128**	94,117,743
	₱4,092,209,510	₱4,036,317,716

Gain on foreclosure of investment properties amounted to ₱69.2 million and ₱44.6 million in March 31, 2019 and 2018, respectively. The Bank realized gain on sale of investment properties amounting to ₱48.0 million and ₱36.9 million in March 31, 2019 and 2018, respectively.

10. Other Assets

This account consists of:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Chattel mortgage properties - net	**₱651,175,879**	₱720,607,271
Prepayments	**316,219,829**	265,513,919
Security deposits	**177,616,688**	205,925,406
Documentary stamps on hand	**168,424,775**	136,098,118
Stationeries and supplies on hand	**40,104,335**	42,188,585
Creditable withholding tax	**27,236,954**	5,083,497
Sundry debits	**13,577,500**	9,690,932
RCOCI	**10,380,788**	19,517,854
Others	**4,380,637**	694,885
	₱1,409,117,385	₱1,405,320,467

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

The movements in chattel mortgage properties - net follow:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Cost		
Balance at beginning of year	**₱813,592,771**	₱806,325,646
Additions	**606,260,750**	2,592,446,719
Disposals	**(689,048,005)**	(2,585,179,594)
Balance at the end of year	**730,805,516**	813,592,771
Accumulated Depreciation		
Balance at beginning of year	**92,569,663**	93,217,346
Depreciation	**33,514,354**	155,549,227
Disposals	**(46,708,105)**	(156,196,910)
Balance at the end of year	**79,375,912**	92,569,663
Allowance for Impairment Losses		
Balance at beginning of year	**415,837**	260,045
Provision	**199,347**	1,689,227
Disposals	**(361,459)**	(1,533,435)
Balance at end of year	**253,725**	415,837
Net Book Value	**₱651,175,879**	₱720,607,271

Gain on foreclosure of chattel mortgage properties amounted to ₱62.5 million and ₱189.7 million in March 31, 2019 and 2018, respectively. The Bank realized loss on sale of chattel mortgage properties amounting to ₱41.7 million and ₱42.5 million in March 31, 2019 and 2018, respectively.

11. Bills Payable and Subordinated Notes

Bills Payable

This account consists of the following:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Medium term fixed rate notes (MTFNs)	**₱2,973,246,262**	₱2,968,567,431
BSP Borrowings	**5,000,000,000**	–
	₱7,973,246,262	₱2,968,567,431

Interest expense on bills payable in March 31, 2019 and 2018 amounted to ₱71.8 million and ₱16.9 million, respectively.

Subordinated Notes

This account consists of the following Peso Notes:

		Carrying Value	
Maturity Date	Face Value	**March 31, 2019 (Unaudited)**	December 31, 2018 (Audited)
August 23, 2024	₱3,000,000,000	**₱2,982,365,991**	₱2,981,673,382

Unamortized debt issuance costs on these notes amounted to ₱17.6 million and ₱18.3 million as of March 31, 2019 and December 31, 2018, respectively. Interest expense incurred on these notes amounted to ₱41.9 million in March 31, 2019 and 2018, respectively.

12. Accrued Taxes, Interest and Other Expenses

This account consists of:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Accrued interest payable	**₱685,227,970**	₱900,205,415
Accrued other taxes and licenses payable	**253,001,017**	134,131,140
Accrued other expenses payable	**584,582,575**	980,186,158
	₱1,522,811,562	₱2,014,522,713

Accrued other expenses payable consist of:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Litigation	**₱333,922,118**	₱272,126,457
Insurance	**97,104,200**	200,274,397
Information technology	**35,800,409**	34,328,559
Security, messengerial and janitorial	**31,091,034**	48,448,406
Compensation and fringe benefits	**12,061,358**	141,027,847
Advertising	**11,278,509**	35,563,037
Professional and consultancy fees	**10,314,086**	14,599,349
ATM maintenance	**9,406,483**	11,894,674
Membership, fees & dues	**5,161,321**	5,161,321
Lease payable	–	190,565,729
Miscellaneous	**38,443,057**	26,196,382
	₱584,582,575	₱980,186,158

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

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

13. Other Liabilities

This account consists of:

	March 31, 2019 (Unaudited)	December 31,2018 (Audited)
Accounts payable	**₱1,744,522,401**	₱2,072,599,423
Lease liability	**1,557,316,707**	–
Sundry credits	**296,867,153**	417,299,168
Other credits	**158,513,038**	245,406,847
Withholding taxes payable	**153,495,755**	128,716,646
Net retirement liability	**27,685,620**	112,659,016
Due to the Treasurer of the Philippines	**23,973,890**	16,150,662
Bills purchased - contra	**22,872,561**	13,077,760
SSS, Medicare, ECP and HDMF premium payable	**9,523,278**	9,640,813
Miscellaneous	**117,808,084**	47,837,716
	₱4,112,578,487	₱3,063,388,051

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

Lease liability is resulted from adoption of PFRS 16 as of March 31, 2019.

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

Miscellaneous liabilities include incentives for housing loan customers that are compliant with the payment terms, Due to Bangko Sentral ng Pilipinas, overages and the effect of implementation of ECL requirements under PFRS 9 where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over the expected life.

14. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from the statement of condition dates (in thousands):

	March 31, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	**₱2,631,739**	**₱–**	**₱2,631,739**	₱3,776,087	₱–	₱3,776,087
Due from BSP - gross	**14,064,510**	**–**	**14,064,510**	15,159,012	–	15,159,012
Due from other banks - gross	**977,627**	**–**	**977,627**	1,685,107	–	1,685,107
Interbank loans receivable and SPURA - gross	**–**	**–**	**–**	1,892,000	–	1,892,000
FVTPL investments	**1,798**	**–**	**1,798**	10,107	–	10,107
Financial assets at FVOCI	**3,870,260**	**9,520,914**	**13,391,174**	2,973,540	9,958,062	12,931,602
Investment securities at amortized cost	**588,422**	**34,978,216**	**35,566,638**	563,506	35,112,306	35,675,812
Loans and receivables - gross	**15,699,529**	**146,614,902**	**162,314,431**	16,343,496	144,266,699	160,610,195
Other assets - gross*	**22,974**	**165,105**	**188,079**	34,213	191,482	225,695
	₱37,856,859	**₱191,279,137**	**₱229,135,996**	₱42,437,068	₱189,528,549	₱231,965,617
Nonfinancial Assets						
Investment in a joint venture	**₱–**	**₱714,698**	**₱714,698**	₱–	₱691,426	₱691,426
Property and equipment - gross	**–**	**7,429,217**	**7,429,217**	–	6,053,435	6,053,435
Investment properties - gross	**–**	**4,716,451**	**4,716,451**	–	4,718,049	4,718,049
Deferred tax assets	**–**	**1,334,902**	**1,334,902**	–	1,327,667	1,327,667

	March 31, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Goodwill and intangible assets	**–**	**1,568,576**	**1,568,576**	–	1,618,734	1,618,734
Other assets - gross**	**569,863**	**730,805**	**1,300,668**	399,424	873,186	1,272,610
	₱569,863	**₱16,494,649**	**17,064,512**	₱399,424	₱15,282,497	15,681,921
(Forward)						
Less: Allowance for credit and impairment losses			**4,665,681**			4,628,199
Accumulated depreciation			**5,355,468**			5,289,917
Unearned discounts			**663**			130
			10,021,812			9,918,246
			₱236,178,696			₱237,729,292

* Others assets under financial assets comprise petty cash fund, shortages, RCOCI and security deposits.
** Other assets under nonfinancial assets comprise inter-office float items, prepaid expenses, stationery and supplies on hand, sundry debits, documentary stamps on hand, deferred charges, postages stamps and chattel mortgage properties.

	March 31, 2019 (Unaudited)			December 31, 2018 (Audited)		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱160,570,313**	**₱ 24,407,848**	**₱ 184,978,161**	₱175,904,910	₱ 24,783,029	₱ 200,687,939
Bills payable	**5,000,000**	**2,973,246**	**7,973,246**	–	2,968,567	2,968,567
Subordinated notes	**–**	**2,982,366**	**2,982,366**	–	2,981,673	2,981,673
Financial liabilities at FVTPL	**10,743**	**–**	**10,743**	2,895	–	2,895
Treasurer's, cashier's and manager's checks	**1,417,924**	**–**	**1,417,924**	1,615,520	–	1,615,520
Accrued other expenses payable	**584,583**	**–**	**584,583**	980,186	–	980,186
Accrued interest payable	**685,228**	**–**	**685,228**	900,206	–	900,206
Other liabilities	**–**	**–**	**–**	–	–	–
Accounts payable	**1,744,522**	**–**	**1,744,522**	2,072,599	–	2,072,599
Other credits	**158,513**	**–**	**158,513**	245,406	–	245,406
Bills purchased - contra	**22,873**	**–**	**22,873**	13,078	–	13,078
Due to the Treasurer of the Philippines	**23,974**	**–**	**23,974**	16,151	–	16,151
Deposits for keys – SDB	**797**	**–**	**797**	798	–	798
Others*	**15,790**	**1,544,947**	**1,560,737**	6,352	–	6,352
	₱170,235,260	**₱31,908,407**	**₱202,143,667**	₱181,758,101	₱30,733,269	₱212,491,370
Nonfinancial Liabilities						
Accrued other taxes and licenses payable	**₱253,001**	**₱–**	**₱253,001**	₱134,131	₱–	₱134,131
Income tax payable	**25,637**	**–**	**25,637**	638	–	638
Withholding taxes payable	**153,496**	**–**	**153,496**	128,717	–	128,717
Other liabilities**	**419,980**	**27,686**	**447,666**	467,628	112,659	580,287
	852,114	**27,686**	**879,800**	731,114	112,659	843,773
	₱171,087,374	**₱31,936,093**	**₱203,023,467**	₱182,489,215	₱30,845,928	₱213,335,143

* Others under financial liabilities comprise payment orders payable and overages.
** Other liabilities under nonfinancial liabilities comprise advance rentals on bank premises, sundry credits, SSS, Medicare, ECP & HDMF premium payable, net retirement liability, and miscellaneous liabilities.

15. Equity

Issued Capital

The movement in the Bank's capital stock consists of:

	Shares	**Amount**
Authorized common stock - ₱10 par value	**425,000,000**	**₱4,250,000,000**
Issued and outstanding		
Beginning Balance, December 31, 2018	**240,252,491**	**₱2,402,524,910**
Stock right issuance	**142,856,925**	**1,428,569,250**
Ending Balance, March 31, 2019	**383,109,416**	**₱3,831,094,160**

The Bank became listed in the Philippine Stock Exchange (PSE) on October 10, 1994. Subsequently, the SEC approved the increase in the capital stock of the Bank. The summarized information on the Bank's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type	Authorized Shares	Par Value
August 16, 1995	Common	300,000,000	₱10
October 8, 1997	Common	425,000,000	₱10

As of March 31, 2019 and December 31, 2018, the total number of stockholders is 1,456 and 1,465, respectively.

On November 28, 2018, the Exchange approved the application of the Bank for the listing of additional 142,856,925 common shares to cover the Bank's 1:1.68177 stock rights offering at an offer price of ₱56.0 per share or additional capital of ₱8.0 billion. PSBank successfully completed ₱8.0 billion Stock Rights Offer and shares was listed on January 18, 2019 on the Philippine Stock Exchange (PSE).

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

	Cash Dividends			
Date of declaration	Per share	Total amount	Record date	Payment date
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
October 15, 2018	0.75	180,189,368.3	October 30, 2018	November 14, 2018
January 17, 2019	0.75	287,332,062.0	February 1, 2019	February 18, 2019

*The Bank's stock price closed at ₱58.00 per share as of March 31, 2019.

On January 17, 2019, Philippine Savings Bank Board of Directors, declared a 7.5% Regular Cash Dividend for the fourth quarter of 2018 amounting to ₱287.33 million and paid no later than the Payment Date of February 18, 2019 to all common stockholders as of the Record Date of February 1, 2019.

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

The following table presents information used to calculate basic EPS:

		For the Quarters ended March 31	
		2019 (Unaudited)	2018 (Unaudited)
a.	Net income	**₱680,729,796**	₱617,047,489
b.	Weighted average number of common shares for basic EPS	**383,109,416**	383,109,416
c.	Basic/Diluted EPS (a/b)	**₱1.78**	₱1.61*

* Restated to reflect the stock rights issued in January 2019.

As of March 31, 2019 and 2018, there were no potential common shares with dilutive effect on the basic EPS of the Bank.

Effect of Existing or Probable Government Regulations

Capital Adequacy
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital (regulatory capital) as reported to the BSP. This is determined on the basis of regulatory accounting policies which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which states the implementing guidelines on the revised risk-based capital adequacy framework, particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular took effect on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

Regulatory qualifying capital consists of Tier 1 (going concern) capital, which comprises capital stock, surplus, surplus reserves, net unrealized gains on AFS securities, cumulative foreign currency translation and remeasurements of net defined benefit asset. Certain adjustments are made to PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (gone-concern) capital, which is comprised of the Bank's general loan loss provision and unsecured subordinated debt. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to, outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates (net of specific provisions), deferred tax assets, goodwill, other intangible assets and significant minority investments in a joint venture.

Risk-weighted assets are determined by assigning defined risk weights to amounts of on-balance sheet exposures and to the credit equivalent amounts of off-balance sheet exposures.

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

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

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

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

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

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

As of March 31, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements and has complied with the requirements of BSP Circular No. 781 and BSP Circular No. 538.
On October 29, 2014, the BSP issued Circular No. 856 which covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under BSP Circular No. 538. In compliance with this new circular, the Metrobank Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory directives. The Bank follows the Group's ICAAP framework and submits the result of its assessment to the Parent Company. Per BSP Circular No. 869, effective January 31, 2015, submission of an ICAAP document is required by BSP every March 31 of each year. The Bank has complied with this requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Leverage Ratio
On June 9, 2015, the BSP issued Circular No. 881 covering the implementing guidelines on the Basel III Leverage Ratio Framework which is designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 percent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 under BSP Circular No. 990 issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The Basel III Leverage Ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as percentage. The leverage ratio shall not be less than 5.0 percent computed on both solo (head office plus branches) and consolidated bases (including subsidiary financial allied undertakings but excluding insurance companies). As of March 31, 2019 and December 31, 2018, the Bank maintains these ratios above minimum requirements as shown in the table below (in millions):

	March 31, 2019	December 31, 2018
A. Capital Measure	**₱27,539**	₱18,688
B. Exposure Measure	**232,074**	234,510
C. Basel III Leverage Ratio (A/B)	**11.87%**	7.97%

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

Summary Comparison of Accounting Assets vs. Leverage Ratio Exposure	**March 31, 2019**	December 31, 2018	**Common Disclosure vs. Leverage Ratio Exposure**	**March 31, 2019**	December 31, 2018
Total consolidated assets	**₱234,906**	₱236,775	On-balance sheet exposures	**₱231,997**	₱231,911
Adjustments for derivative financial instruments	**27**	26	Derivative exposures	**28**	36
Adjustments for securities financial transactions	–	–	Securities financing transaction exposures	–	1,892
Adjustments for off-balance sheet items	**49**	671	Other off-balance sheet exposures	**49**	671
Other adjustments	**(2,908)**	(2,962)	Tier 1 capital	**27,539**	18,688
			Total Leverage Ratio exposures	**₱232,074**	₱234,510
Leverage Ratio Exposures	**₱232,074**	₱234,510	**Basel III Leverage Ratio**	**11.87%**	7.97%

Liquidity Coverage Ratio

On March 10, 2016 and February 8, 2018, the BSP issued Circular Nos. 905 and 996, respectively, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets (HQLAs) to total net cash outflows. Under a normal situation, the value of the ratio shall be not lower than 100% on an ongoing basis. While the LCR is expected to be met in a single currency (i.e., in peso equivalent terms of all currencies), banks are expected to be able to meet their liquidity needs in each currency and maintain HQLA consistent with the distribution of their liquidity needs by currency.

To promote the short-term resilience of the liquidity risk profile of the Bank, it shall maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least thirty (30) calendar days, which would give time for corrective actions to be taken by the Bank's management and/or the Bangko Sentral.

The Monetary Board of the BSP, in its Resolution No. 301 dated 21 February 2O19, approved the: (1) extension of the observation period of the minimum Basel lll Liquidity Coverage Ratio (LCR) requirement to 31 December 2019 for subsidiary banks and quasi-banks (QBs) of universal and commercial banks (U/KBs), (2) adoption of a seventy percent (70%) LCR floor for subsidiary banks and QBs during the observation period to be applied in 2019. Starting 01 January 2020, the minimum LCR is set at 100%.

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

Net Stable Funding Ratio

On June 6, 2018, the BSP issued Circular No. 1007, lmplementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). The NSFR limits overreliance on short-term wholesale funding and promotes enhanced assessment of funding risk across all on and off balance sheet accounts. The NSFR complements the LCR, which promotes short term resilience of the Bank's liquidity profile.

The Monetary Board of the BSP, in its Resolution No. 300 dated 21 February 2019, approved the extension of the observation period for the Basel lll Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks (UBs/KBs). Starting 01 January 2020, the minimum NSFR is set at 100%.

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

Basel III Countercyclical Capital Buffer

On December 6, 2018, the BSP issued Circular No. 1024 covering the Philippine Adoption of the Basel III Countercyclical Capital Buffer (CCyB) which imposed the following capital buffers:

- Capital Conservation buffer (CCB) of two and a half percent (2.5%); and
- Countercyclical capital buffer (CCyB) of zero percent (0%) subject to upward adjustment to a rate determined by the Monetary Board of the BSP when systemic conditions warrant but not to exceed two and a half percent (2.5%). Any increase in the CCyB rate shall be effective 12 months after its announcements. Decreases shall be effective immediately.

The prescribed ratios shall be maintained at all times.

Applicable Tax Regulations

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax (DST).

Income taxes include corporate income tax, further discussed below, and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

The NIRC of 1997 also provides for rules on the imposition of a 2.00% MCIT on the gross income as of the end of the taxable year beginning on the fourth taxable year immediately following the taxable year in which the company commenced its business operations. Any excess MCIT over the RCIT can be carried forward on an annual basis and credited against the RCIT for the three (3) immediately succeeding taxable years.

Starting July 1, 2008, the Optional Standard Deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. The Bank elected to claim itemized expense deductions instead of the OSD in computing for the RCIT in 2018 and 2017.

On March 15, 2011, the BIR issued RR No. 4-2011 which prescribes the attribution and allocation of expenses between FCDUs/EFCDUs or offshore banking units (OBU) and RBU, and further allocation within RBU based on different income earning activities. Pursuant to the regulations, the Bank made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

Current tax regulations also provide for the ceiling on the amount of EAR expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00% in 2018 and 7.50% in 2017.

Under current tax regulations, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Financial Soundness

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Return on average equity	**9.46%**	11.38%
Return on average assets	**1.15%**	1.15%
Net interest margin on average earning assets	**5.36%**	5.79%
Liquidity ratio	**22.46%**	23.47%
Debt-to-equity ratio	**6.12:1**	8.75:1
Asset-to-equity ratio	**7.12:1**	9.75:1
Interest rate coverage ratio	**1.46:1**	1.59:1

16. Miscellaneous Income

This account consists of:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Recovery of charged-off assets	**₱73,428,575**	₱80,667,581
Insurance commission income	**30,369,167**	30,994,573
Rental income	**11,411,385**	12,185,998
Others	**3,393,130**	81,895,274
	₱118,602,257	₱205,743,426

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

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

17. Interest Expense on Deposit Liabilities and Miscellaneous Expenses

Interest expense on deposit liabilities consists of:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Time	**₱1,328,851,438**	₱815,017,966
LTNCD	**96,614,493**	30,803,670
Demand	**48,713,350**	46,749,719
Savings	**38,938,909**	36,963,442
	₱1,513,118,190	₱929,534,797

This account consists of:

	For the Quarters ended March 31	
	2019 (Unaudited)	2018 (Unaudited)
Insurance	**₱136,806,128**	₱135,956,393
Information technology	**116,542,589**	59,671,103
Fines, penalties and other charges	**63,036,169**	57,200,985
Litigation	**49,916,845**	86,655,967
Communications	**48,823,069**	49,640,043
Repairs and maintenance	**27,975,789**	26,372,730
Transportation and traveling	**23,835,363**	26,166,523

	For the Quarters ended March 31	
	2019	2018
	(Unaudited)	(Unaudited)
Supervision and examination fees	**18,887,274**	14,647,133
Stationery and supplies	**13,536,293**	14,569,548
Management and professional fees	**6,215,442**	7,988,185
Donations and charitable contributions	**3,082,300**	–
Advertising	**2,226,419**	23,556,329
Training and seminars	**1,348,659**	4,941,596
Meeting allowance	**1,266,782**	2,023,202
Membership fees and dues	**1,175,839**	1,466,010
Banking activities expenses	**858,344**	3,928,241
Rewards and incentives	**756,383**	2,743,071
Entertainment, amusement and recreation (EAR)	**426,178**	597,443
Others	**1,392,717**	1,990,270
	₱518,108,582	₱520,114,772

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation (PDIC) amounting to ₱97.1 million and ₱93.1 million in March 31, 2019 and 2018, respectively.

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

18. Related Party Transactions

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

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

The Bank has several business relationships with related parties. The terms of the transactions with such parties are listed below on substantially the same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties, and are usually settled in cash. These transactions also did not involve more than the nominal risk of collectability or present other unfavorable conditions.

Transactions with the Retirement Plan

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

Under PFRS, certain post-employment benefit plans are considered as related parties. The Bank has business relationships with its retirement plan pursuant to which it provides trust and management services to the said plan. The retirement plan of the employees of the Bank is being managed and maintained by the Trust Division of the Bank.

The following table shows the amount of outstanding balances of related party transactions of the Bank and SMFC with the retirement plan of the employees of the Bank as of March 31, 2019 and December 31, 2018:

		March 31, 2019 (Unaudited)	
		Elements of Transaction	
Related Party	**Nature of Transaction**	**Statement of Condition**	**Statement of Income**
Philippine Savings Bank	Savings Deposit	**₱3,185**	
	Investment in Money Market Fund*	**50,605,419**	
	Income from UITF		**₱747,512**
	Interest income		**3,766**
First Metro ETF	Equity investment	**24,942,532**	

*Includes fair value gains of ₱0.2 million

		December 31, 2018 (Audited)	
		Elements of Transaction	
Related Party	Nature of Transaction	Statement of Condition	Statement of Income
Philippine Savings Bank	Savings Deposit	₱10,286	
	Investment in Money Market Fund*	50,122,781	
	Income from UITF		₱900,961
	Interest income		7,816
First Metro ETF	Equity investment	25,019,522	

*Includes fair value gains of ₱0.5 million

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

Remunerations of Directors and Other Key Management Personnel

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

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

	March 31,2018 (Unaudited)	March 31, 2018 (Unaudited)
Short-term employee benefits	**₱83,105,511**	₱74,939,811
Post-employment pension benefits	**18,760,694**	8,412,329
	₱101,866,205	₱83,352,140

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

Remunerations given to directors, as approved by the Board Remuneration Committee, amounted to ₱4.4 million and ₱4.7 million in March 31, 2019 and 2018, respectively.

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

Other Related Party Transactions

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

	March 31, 2019 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investor			
Due from other banks	**(₱552,643)**	**₱563,146**	Peso-denominated lending with 2.50% fixed interest rates
Interbank loans receivable		–	Peso-denominated lending with 5.09% fixed interest rates
Placements	**2,000,000**	–	and with 1 day maturity
Maturities	**(2,000,000)**	–	
Investment securities at amortized cost	**(9,542)**	**56,954**	Pledged for security of payroll account with MBTC.
Accounts receivable	**563**	**5,296**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	**281**	Security deposits on lease contracts
Miscellaneous liabilities	–	**6,242**	Advance payments of security deposits
Accrued other expense payable	**1,472**	**35,800**	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	**445**	–	Income on deposits and interbank loans receivables
Rental income	**1,994**	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	**682**	–	Income received from ATM service fees, rental and utilities
Information technology expense	**69,128**	–	Payment of information technology expenses
Securities transactions			
Outright purchases	**841,014**	–	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	–	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	**714,698**	Capital investment in SMFC
Share in net income of a joint venture	**23,272**	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	**3,131**	**3,131**	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	–	**1,733**	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	**8,094**	**23,033**	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	**4,630**	Payment of security deposits
Rental income	**3,475**	–	Income from leasing agreements
Interest expense	**62**	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 5.06% to 5.16%
Placements	**8,410,000**	–	fixed daily interest rate with maturity terms from 1 to 3
Maturities	**(8,410,410)**	–	days
Receivable from customers		**7,125**	Loans granted bear interest of ranging 7.05% to 8.75% with
Placements	–	–	1 to 10 years term.
Maturities	**995,000**		
Miscellaneous assets	**1,355**	**2,788**	Three months advance security deposits
Accounts receivable	**(14)**	**2,648**	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	**(1,139)**	**3,903**	Payment for various policy renewals
Deposit liabilities	**(161,884)**	**760,231**	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	**(2,806)**	**1,006**	Various personal and car insurance payable
Miscellaneous liabilities	–	**3,530**	Advance payment of security deposits from various tenants
Interest income	**1,365**	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	–	–	Loss from securities transactions
Rental income	**3,656**	–	Income from leasing agreements with various lease terms
Bank commission	**835**	–	Commission income on ATM service fees
Miscellaneous income	**817**	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	**15,290**	–	Payment of insurance premium
Interest expense	**7,410**	–	Interest on deposit liabilities and bills payable

	March 31, 2019 (Unaudited)		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Rent expense	**1,826**	**–**	Payment of rent expense to various lessors
Key Personnel			
Receivables from customers	**–**	**11,033**	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	**530**	**–**	
Maturities	**(2,626)**	**–**	
Interest income	**259**	**–**	Interest income from loans

	December 31, 2018 (Audited)		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investor			
Due from other banks	₱203,044	₱1,115,789	Peso-denominated lending with 2.50% fixed interest rates and maturities ranging from 360 days
Interbank loans receivable		–	Peso-denominated lending with 3.13% to 4.75% fixed interest rates and maturities ranging from 1 to 3 days
Placements	66,800,000	–	
Maturities	(66,800,000)	–	
Investment securities at amortized cost	66,496	66,496	Pledged for security of payroll account with MBTC.
Accounts receivable	(12,919)	4,732	Outstanding ATM service fees, rental and utility receivables, non-interest bearing; no impairment
Miscellaneous assets	–	781	Security deposits on lease contracts
Miscellaneous liabilities	–	6,242	Advance payments of security deposits
Bills Payable		–	Peso-denominated borrowing with fixed interest rate of 3.00% with 1 day maturity.
Deposits/placements	400,000,000	–	
Withdrawals/maturities	(400,000,000)	–	
Accrued other expense payable	(3,403)	34,329	Outstanding information technology expense payable, charges on current and savings accounts processing
Interest income	11,012	–	Income on deposits and interbank loans receivables
Rental income	20,140	–	Income from leasing agreements with various lease terms ranging from 2 to 5 years
Miscellaneous income	16,368	–	Income received from ATM service fees, rental and utilities
Information technology expense	(150,406)	–	Payment of information technology expenses
Trading and security loss	(11,934)	–	Loss from securities transactions
Interest expense	33	–	Interest expense on bills payable
Securities transactions			
Outright purchases	4,115,480	–	Outright purchase of FVTPL, FVOCI and investment at amortized cost
Outright sales	(1,274,420)	–	Outright sale of FVTPL and FVOCI investments
Joint Venture			
Investment in a joint venture	–	691,426	Capital investment in SMFC
Share in net income of a joint venture	82,377	–	30% share in net income of SMFC
Share in unrealized gain on remeasurement of retirement liability	1,886	1,886	30% share in remeasurement of SMFC retirement liability taken up in OCI
Accounts receivable	(247)	1,733	Outstanding rental and utility receivables, non-interest bearing
Deposit liabilities	1,618	14,939	Demand and short-term peso time deposits with annual fixed rates of 1.25%
Miscellaneous liabilities	–	4,630	Payment of security deposits
Rental income	13,900	–	Income from leasing agreements
Interest expense	198	–	Interest on deposit liabilities with 1.25% annual fixed rate
Other Related Parties			
Interbank loans receivable		–	Peso-denominated lending which earn 2.50% to 3.25% fixed daily interest rate with maturity terms from 1 to 5 days
Placements	189,042,000	–	
Maturities	(189,542,000)	–	
Receivable from customers		1,002,125	Loans granted bear interest of ranging 7.05% to 8.75% with 1 to 10 years term.
Placements	998,406	–	
Maturities	6,522		
Miscellaneous assets	43	1,433	Three months advance security deposits
Accounts receivable	192	2,662	Outstanding ATM service fees, rental and utility receivables, non-interest bearing
Prepaid expense	917	14,568	Payment for various policy renewals
Deposit liabilities	(690,572)	922,115	Demand, savings and short-term peso and foreign currency time deposits with fixed rates ranging from 0.00% to 2.00%
Accounts payable	1,195	3,812	Various personal and car insurance payable

Category	December 31, 2018 (Audited) Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Miscellaneous liabilities	361	3,530	Advance payment of security deposits from various tenants
Interest income	60,746	–	Income on receivables from customers and interbank loans receivables
Trading and securities loss	16	–	Loss from securities transactions
Rental income	14,388	–	Income from leasing agreements with various lease terms
Bank commission	3,388	–	Commission income on ATM service fees
Miscellaneous income	18,353	–	Service income from referral fees on approved credit card issuances and bank insurance with rates ranging from 2.00% to 10.00%
Insurance expense	42,458	–	Payment of insurance premium
Interest expense	13,139	–	Interest on deposit liabilities and bills payable
Rent expense	3,263	–	Payment of rent expense to various lessors
Securities transactions			
Outright purchases	100,000	–	Outright purchase of FVTPL and FVOCI investments
Outright sales	(50,000)	–	Outright sale of FVTPL and FVOCI investments
Key Personnel			
Receivables from customers	–	13,130	Unsecured, no impairment, with annual fixed interest rates of 6.00% and maturities ranging from 2 to 10 years
Placements	3,761	–	
Maturities	(3,700)	–	
Interest income	1,065	–	Interest income from loans

19. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank, however, does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Trust department accounts (Note 30)	**₱6,075,743,963**	₱6,400,841,134
Swap forward exchange - sold	**2,651,250,000**	2,602,710,000
Stand-by credit lines	**90,500,000**	70,500,000
Late deposits/payments received	**9,521,669**	9,521,669
Items held for safekeeping	**357,515**	296,024
Others	**105,761**	124,429

Also, several suits and claims, in behalf or against the Bank in relation to its banking operations and labor-related cases are pending before the courts and quasi-judicial bodies. The Bank and its legal counsel believe that any losses arising from suits and claims which are not specifically provided for will not have a material adverse effect on the financial statements.

20. Subsequent Events

Cash Dividend Declaration

On April 15, 2019, the Board of Directors (BOD) of the Bank approved the declaration of a 7.5% Regular Cash Dividend for the first quarter of 2019 for stockholders on record as of May 3, 2019 amounting to ₱287.33 million or ₱0.75 per share to be paid on May 15, 2019.

Increase in Authorized Capital Stock

On April 15, 2019 during the PSBank's Annual Stockholders' Meeting, the stockholders representing at least two-thirds (2/3) of the outstanding capital stock approved the increase in authorized capital stock from ₱4.25 billion to ₱6.0 billion.

Stock Dividend Declaration

On April 15, 2019 during the PSBank's Annual Stockholders' Meeting, the stockholders representing at least two-thirds (2/3) of the outstanding capital stock approved the declaration of stock dividends in the amount of ₱437.50 million equivalent to 43,750,000 common shares with par value of ₱10 per share in favor of all stockholders of record in proportion to their respective shareholdings, payable on a record date.

21. Other Disclosures

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

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

c) No unregistered securities were sold or offered for sale by the Bank as of March 31, 2019.

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

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

Annex 7

PHILIPPINE SAVINGS BANK
UNAUDITED SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
AS OF AND FOR THE PERIOD ENDED MARCH 31, 2019 AND 2018

	March 31	
	2019	2018
PROFITABILITY RATIOS		
Return on Assets		
Net Income * / Average Total Resources	**1.15%**	1.10%
Return on Equity		
Net Income * / Average Stockholders' Equity	**9.46%**	10.84%
Net Interest Margin		
Net Interest Income / Average Earning Assets	**5.36%**	6.09%
Cost to Income Ratio		
Operating Expenses Excluding Provision for Impairment and Credit Losses and Income Taxes / Net Interest Income + Operating Income	**63.29%**	63.04%
SOLVENCY RATIOS		
Debt to Equity Ratio		
Total Liabilities / Total Stockholders' Equity	**6.12:1**	8.72:1
Asset-to-Equity Ratio		
Total Assets / Total Stockholders' Equity	**7.12:1**	9.72:1
Interest Rate Coverage Ratio		
Earnings Before Interest and Taxes / Interest Expense	**1.46:1**	1.72:1
LIQUIDITY RATIOS		
Liquidity Ratio		
Current Assets / Current Liabilities	**22.46%**	18.99%
Loans to Deposit Ratio		
Gross Loans / Total Deposits	**86.10%**	80.18%
Capital Adequacy Ratio		
Total Qualifying Capital / Total Risk-Weighted Assets	**18.41%**	13.75%

*Computed based on annualized net income

PHILIPPINE SAVINGS BANK

ITEM II. MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Statements of Condition
As of March 31, 2019 (Unaudited) and December 31, 2018 (Audited)

The Bank's Total Assets as of March 31, 2019 stood at ₱236.18 billion, ₱1.55 billion lower than the December 31, 2018 level of ₱237.73 billion.

Loans and Receivables, net of allowance and unearned interest discounts, representing 66.84% of total assets stood at ₱157.87 billion as of March 31, 2019. This was ₱1.61 billion higher than the December 31, 2018 level of ₱156.26 billion. Consumption loans and Real Estate Loans improved by ₱1.84 billion and ₱0.54 billion, respectively.

As of December 31, 2018, Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA) amounted to ₱1.89 billion.

Due from Other Banks went down to ₱0.98 billion as of March 31, 2019 from ₱1.68 billion as of December 31, 2018. Cash and Other Cash Items were lower by 30.31% to ₱2.63 billion as of March 31, 2019. Also, Due from BSP decreased by 7.22% or ₱1.10 billion to ₱14.06 billion as of March 31, 2019 compared from ₱15.16 billion as of December 31, 2018.

As of March 31, 2019, Investment Securities at Amortized Cost representing 15.05% of total assets was recorded at ₱35.54 billion from ₱35.65 billion as of December 31, 2018.

On the other hand, Financial Assets at Fair Value through Other Comprehensive Income (FVOCI) representing 5.67% of total assets amounted to ₱13.39 billion as of March 31, 2019 from ₱12.93 billion as of December 31, 2018.

Financial Assets at Fair Value through Profit or Loss (FVTPL) stood at ₱1.80 million and ₱10.10 million as of March 31, 2019 and December 31, 2018, respectively.

These investment securities represent 20.72% of total assets as of March 31, 2019.

Investment in a Joint Venture increased by ₱23.27 million to ₱714.70 million from ₱691.43 million, due to the recognition of PSBank's share in the net earnings of Sumisho Motor Finance Corporation (SMFC), which is a joint venture between PSBank and Sumitomo Corporation.

Property and Equipment increased by 58.42% or ₱1.32 billion to ₱3.58 billion as of March 31, 2019 from ₱2.26 billion as of December 31, 2018. The increase is due to the adoption of PFRS 16, Leases. On the other hand, Investment Properties increased by 1.38% to ₱4.09 billion from ₱4.04 billion.

Deferred Tax Assets slightly increased by ₱7.23 million to ₱1.33 billion as of March 31, 2019.

Goodwill and Intangible Assets decreased by 11.58% or ₱75.91 million to ₱579.54 million from ₱655.45 million.

Other Assets went up by 0.27% or ₱3.80 million to ₱1.41 billion on account of higher prepaid insurance and prepaid rentals.

The Bank's deposits representing 91.11% of total liabilities was lower by 7.83% or ₱15.71 billion to ₱184.98 billion from ₱200.69 billion posted in December 2018. Savings Deposits and Demand Deposits improved by 2.24% and 2.48%, respectively to ₱34.15 billion and ₱20.87 billion, respectively. Meanwhile, Time Deposits went down by 12.25% or ₱16.97 billion to ₱121.56 billion from ₱138.53 billion.

On July 13, 2018, the BSP authorized the Bank to issue LTNCDs up to ₱15.0 billion through one or multiple tranches over a period of one year. On August 09, 2018, the Bank issued the first tranche of LTNCDs amounting to ₱5.08 billion with a tenor of five (5) years and six (6) months and due February 9, 2024 with interest rate of 5.00% per annum payable quarterly. The minimum investment size for the LTNCDs is ₱50,000 with increments of ₱50,000 thereafter. Subject to BSP Rules, the Bank has the option to pre-terminate the LTNCDs as a whole but not in part, prior to maturity and on any interest payment date at face value plus accrued interest covering the accrued and unpaid interest.

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. On May 5, 2019, the Bank received an issuer rating of PRS Aaa (corp.) from Philippine Rating Services Corporation (PhilRatings). An issuer rating is an opinion on the general and overall creditworthiness of the issuer, evaluating is ability to meet all its financial obligations within a time horizon of one year. A PRS Aaa is the highest corporate credit rating assigned on the PRS scale.

As of March 31, 2019, Bills payable representing BSP borrowing and Medium Term Fixed Rate Notes (MTFNs) amounted to ₱5.00 billion and ₱2.97 billion, respectively.

Treasurer's, Cashier's and Manager's Checks decreased by ₱197.60 million to ₱1.42 billion from ₱1.62 billion last December 31, 2018. Meanwhile, Other Liabilities increased by ₱1.05 billion to ₱4.11 billion from ₱3.06 billion due to the adoption of PFRS 16, Leases and the effect of implementation of ECL requirements under PFRS 9 where the Bank estimates the expected portion of the undrawn loan commitments that will be drawn over the expected life.

The Bank's Equity stood at ₱33.16 billion, 35.91% higher than the end-December 2018 level of ₱24.39 billion mainly due to the ₱8.0 billion Stock Rights Offer listed on January 18, 2019 in Philippine Stock Exchange (PSE) and higher net income booked during the period.

As of March 2019, Capital Adequacy Ratio (CAR) was at 18.41%. This is above the minimum regulatory requirement of 10%.

Discussion of Results of Operations

For the three months ended March 31, 2019 (Unaudited) and March 31, 2018 (Unaudited)

For the three months ended March 31, 2019, the Bank recorded a Net Income after Tax of ₱680.73 million or 10.32% higher than the ₱617.05 million posted during the same period last year. The increase in net income was attributed to higher interest income.

Total Interest Income for the three months ended March 31, 2019 increased by 10.26% or ₱401.16 million better than the ₱3.91 billion recorded during the same period last year.

Interest income on Loans and Receivables was 11.16% higher at ₱3.78 billion from ₱3.40 billion. Interest earned from Investment Securities increased to ₱524.73 million or 4.72% better than ₱501.07 million in 2018. Interest income from other banks was down by 25.06% to ₱0.77 million from ₱1.03 million. On the other hand, Interest income on Interbank Loans Receivable and SPURA slid by ₱0.54 million to ₱5.86 million from ₱6.40 million. Likewise, Interest earned from deposits with BSP decreased by 72.89% to ₱0.38 million.

Interest Expense on the Bank's deposit liabilities increased by 62.78% to ₱1.15 billion from ₱929.53 million while Interest Expense on Bills Payable increased to ₱71.79 million from ₱16.85 million due to the issuance of MFTNs last December 10, 2018.

The Bank recorded ₱29.54 million in Interest Expense on Finance Lease for the three months ended March 31, 2019 due to the adoption of PFRS 16, Leases.

For the three months ended March 31, 2019, Net interest Income declined to ₱2.65 billion from ₱2.92 billion during the same period last year.

Net Service Fees and Commission Income increased to ₱468.48 million, 29.36% higher than ₱362.16 million recorded during the same period last year.

On the other hand, Other Operating Income decreased by 23.81% or ₱90.88 million to ₱290.87 million from ₱381.74 million due to lower gain on foreclosure and sale of chattel mortgage recorded this quarter. For the period ended March 31, 2019 the Bank registered a net gain on foreclosure and sale of chattel mortgage amounting to ₱20.79 million from ₱147.18 million during the same period last year. For the three months ended March 31, 2019, the Bank posted a ₱117.17 million gains on foreclosure and sale of investment properties versus ₱81.50 million a year-ago. Miscellaneous Income also went down by ₱87.14 million to ₱118.60 million from ₱205.74 million. Meanwhile, Foreign Exchange gain was posted at ₱19.02 million compared to the ₱27.28 million recorded a year ago.

Other Operating Expenses, excluding provision for impairment, was lower by 6.45% to ₱2.15 billion for the three months ended March 31, 2019 from ₱2.30 billion for the three months ended March 31, 2018. Taxes and Licenses decreased by ₱62.39 million or 14.58% to ₱365.56 million from ₱427.96 million. Amortization of intangible assets was recorded at ₱43.18 million. Meanwhile, Depreciation of Bank's property and leasehold improvements increased to ₱238.04 million from ₱160.22 million, due to the adoption of PFRS 16, Leases. Compensation and Fringe Benefits amounted to ₱813.50 million for the three months ended March 31, 2019 compared to ₱821.21 million for the three months ended March 31, 2018. On the other hand, Security, messengerial and janitorial services was at ₱94.25 million. Miscellaneous Expenses was registered at ₱518.11 million versus ₱520.11 million during the same period last year.

For the three months ended March 31, 2019, the Bank recognized ₱514.87 million provisions for credit and impairment losses.

For the three months ended March 31, 2019, the Bank also reported Share in net income of Sumisho Motor Finance Corporation (SMFC) amounting to ₱23.27 million from ₱15.41 million during the same period last year.

Analysis of Key Soundness Indicators

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

The following ratios measure the financial performance of the Bank:

		March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)	December 31, 2018 (Audited)
Return on Average Equity*	ROAE	**9.46%**	**10.84%**	11.38%
Return on Average Assets*	ROAA	**1.15%**	**1.10%**	1.15%
Net Interest Margin on Average Earning Assets	NIM	**5.36%**	**6.09%**	5.79%
Earnings per share	EPS	**₱1.78**	**₱1.61**	₱11.08
Capital-to-Risk Assets Ratio	CAR	**18.41%**	**13.75%**	13.88%
Liquidity Ratio	LR	**22.46%**	**18.99%**	23.47%
Debt-Equity Ratio	DER	**6.12:1**	**8.72:1**	8.75:1
Asset-to-Equity Ratio	AER	**7.12:1**	**9.72:1**	9.75:1
Interest Rate Coverage Ratio	IRCR	**1.46:1**	**1.72:1**	1.59:1

** computed based on annualized/normalized net income*

1. Return on Average Equity (ROAE) in March 31, 2019 decreased to 9.46% from 10.84% in the same period last year. ROAE measures how well the Bank is using common shareholders' invested money. It is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of shareholders' equity at the beginning and ending of the period.

2. Return on Average Assets (ROAA) increase to 1.15% from 1.10% in March 31, 2019. ROAA is calculated by dividing the annualized/normalized net income by the average of the outstanding balances of total assets at the beginning and ending of the period.

3. Net Interest Margin on Average Earning Assets (NIM) was 5.36% and 6.09% for the comparative periods of March 31, 2019 and 2018, respectively. NIM is calculated by dividing the net interest income by the average earning assets. Average interest-earning assets is based on outstanding balances at the beginning and ending of the period divided by two. (Earning assets comprised of Due from BSP - Specialized Deposit Account, Due from Other Banks, Interbank Loans Receivable and Securities Purchased Under Resale Agreements, Loans & Discounts (Current), Bills Purchased, and Sales Contract Receivables, Financial Assets at Fair Value Through Profit or Loss (FVTPL), Financial Assets at Fair Value Through Other Comprehensive (FVOCI) and Investment at amortized cost.

4. Earnings per Share (EPS) was ₱1.78 as of March 31, 2019 compared to the ₱1.61 adjusted EPS as of March 31, 2018 due to the stock right offer (Note 15). EPS represents the net profit the Bank has generated per common share. It is computed by dividing the year to date net income by the weighted average number of outstanding common shares.

5. Capital-to-Risk Assets Ratio (CAR) increased to 18.41% in March 2019 versus 13.75% in March 2018. CAR is the measure of the Bank's capital strength. It is calculated by dividing the qualified capital by risk-weighted assets as defined by the Bangko Sentral ng Pilipinas (BSP).

6. Liquidity Ratio (LR) was higher at 22.46% in March 2019 from 18.99% the same period last year. LR measures the Bank's ability to meet its short-term liabilities. It is derived by dividing the current assets by current liabilities.

7. Debt-to-Equity Ratio (DER) was lower at 6.12:1 as of March 31, 2019 from 8.72:1 in March 2018. DER indicates the extent to which the Bank's leveraged, or financed by credit. This is computed by dividing total liabilities by total stockholder's equity.

8. Asset-to-Equity Ratio (AER) decreased to 7.12:1 as of March 31, 2019 from 9.72:1 as of March 31, 2018. AER is computed by dividing the total assets by total shareholder's equity.

9. Interest Rate Coverage Ratio (IRCR) went down to 1.46:1 this year from 1.72:1 in March 2018. IRCR is a measure of the Bank's ability to meet its interest payments on outstanding debt. It is calculated by dividing the total earnings before interest and taxes over interest expense.

Key Variables and Other Qualitative and Quantitative Factors

Liquidity

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

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

With the Bank's high capitalization, current liquidity position, strong deposit growth trend, continuing development of retail and corporate accounts, and prudent liquidity management, PSBank does not anticipate encountering any cash flow or liquidity problems in the next 12 months. It remains confident of its ability to meet its obligations and is committed to providing the necessary funding to support the projected loan growth, investment activities and expenditures for 2019.

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

Material Commitments for Capital Expenditures

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

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

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

Known Trends, Events or Uncertainties or Seasonal Aspects

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

Annex 9

PHILIPPINE SAVINGS BANK
UNAUDITED AGING OF RECEIVABLES

As of March 31, 2019

	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	₱158,924,535,449	₱147,729,553,555	₱11,194,981,894	₱2,560,988,644	₱1,370,335,129	₱815,049,514	₱5,266,892,239	₱1,181,716,368
Agri / Agrarian Reform Loans	228,878,204	199,908,349	28,969,855	13,474,613	234,659	3,143	13,990,468	1,266,972
Bills Purchased	22,872,561	22,872,561	–	–	–	–	–	–
Restructured Loans	119,828,885	33,052,928	86,775,957	78,622,219	784,826	702,623	2,802,791	3,863,498
Total Trade Receivables	159,296,115,099	147,985,387,393	11,310,727,706	2,653,085,476	1,371,354,614	815,755,280	5,283,685,498	1,186,846,838
Less :								
Allowance For Probable Losses	3,516,663,086	–	–	–	–	–	–	–
Other Deferred Credits	663,286	–	–	–	–	–	–	–
Net Trade Receivable	155,778,788,727	147,985,387,393	11,310,727,706	2,653,085,476	1,371,354,614	815,755,280	5,283,685,498	1,186,846,838
Non-Trade Receivables								
Accounts Receivables	836,845,597	317,655,984	519,189,613	8,656,110	10,288,486	13,974,582	480,649,531	5,620,904
Accrued Interest Receivables	2,109,626,466	1,628,526,173	481,100,293	102,682,909	76,976,779	72,646,654	100,317,396	128,476,555
Total Non-Trade Receivable	2,946,472,063	1,946,182,157	1,000,289,906	111,339,019	87,265,265	86,621,236	580,966,927	134,097,459
Less :								
Allowance for Probable Losses	925,831,342	–	–	–	–	–	–	–
Net Non-Trade Receivable	2,020,640,721	1,946,182,157	1,000,289,906	111,339,019	87,265,265	86,621,236	580,966,927	134,097,459
Sales Contract Receivable	71,844,098	41,072,437	30,771,661	20,753,627	492,668	–	5,711,495	3,813,871
Less :								
Allowance for Probable Losses	1,037,258	–	–	–	–	–	–	–
Net Sales Contract Receivable	70,806,840	41,072,437	30,771,661	20,753,627	492,668	–	5,711,495	3,813,871
Net Receivables	₱157,870,236,288	₱149,972,641,987	₱12,341,789,273	₱2,785,178,122	₱1,459,112,547	₱902,376,516	₱5,870,363,920	₱1,324,758,168