COVER SHEET

A 1 9 9 7 0 1 5 8 4

S.E.C. Registration Number

P H I L I P P I N E B U S I N E S S B A N K , I N C .

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

(Business Address: No. Street City / Tow n / Province)

Rolando G. Alvendia

Contact Person

363-3333 local 4023

Company Telephone Number

Month Day

Fiscal Year

SEC FORM 17-A

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrow ings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended **December 31, 2018**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **005-469-606**

4. Exact name of issuer as specified in its charter **Philippine Business Bank, Inc.**

5. **Caloocan**
   Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
   Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Grace Park, Caloocan City 1400 .**
   Address of principal office Postal Code

8. **(02) 363-33-33**
   Issuer's telephone number, including area code

9. **Not Applicable**
   Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**643,750,094**

11. Are any or all of these securities listed on a Stock Exchange.

    Yes [**x**] No [ ]

    If yes, state the name of such stock exchange and the classes of securities listed therein:

    Philippine Stock Exchange **Common shares of stock**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes [x]   No [ ]

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

Yes [ ]   No [x]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in “Annex B”).

APPLICABLE ONLY TO ISSUERS INVOLVED IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]   No [ ] NOT APPLICABLE

DOCUMENTS INCORPORATED BY REFERENCE

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

(a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20;

(c) Any prospectus filed pursuant to SRC Rule 8.1.

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Overview

PBB was incorporated as a Philippine corporation and registered with the SEC on January 28, 1997 as "Total Savings Bank" and was granted the authority to operate as a thrift bank under the MB Resolution No. 29 dated January 8, 1997. The BSP issued a Certificate of Authority on February 6, 1997. On December 16, 1997, the SEC approved the change of corporate name of the Bank to "Philippine Business Bank, Inc. (A Savings Bank)" which the shareholders believe better reflects the Bank's business thrust and focus.

The Bank's focus is to become the bank of choice of the SME market segment. The BSP defines small and medium enterprises to be any business concern with assets between ₱3.0 million to ₱100.0 million, excluding the land value on which the entity's office, plant and equipment are situated.

This focus on the SME market is driven by the size and potential of this particular market. According to a recent data from the Department of Trade and Industry, SMEs account for 99.6 percent of total registered enterprises. The Bank believes that the SME segment is the major source of entrepreneurship and economic dynamism which provide trade, manufacturing and outsourcing and services and help contribute to community and local development. Lastly, the Bank believes that the SME segment is underserved with most financial institutions focusing on the banking requirements of large corporations.

To become the bank of choice of the SME market, PBB has increased its branch presence in several commercial and industrial centres of the country and recruited branch and account officers with extensive client networks in these specific communities. The Bank's network grew from two (2) branches in 1997 to 145 branches as of December 31, 2018 and 146 as of April 15, 2019 with most branches located in areas with high concentration of small and medium businesses such as Caloocan, Malabon, Navotas, Valenzuela and Quezon City. PBB has also aggressively expanded its branch network in highly urbanized areas outside Mega Manila such as Davao, General Santos, Bacolod, and Cebu. PBB believes that client proximity, understanding its targets' banking requirements, the reputation of its branch and account management staff within their respective communities, and the overall reputation of PBB, are the key growth factors in the banking business.

PBB attributes its strong growth and attractive financial performance to the following competitive strengths:

1. Strong presence, reputation, and attention to its SME customers

   The Bank believes that its deliberate focus on serving the banking needs of the SME market segment is a key factor for its successful growth over its history. Aside from potential size of this market segment, the Bank also believes that the SME segment is largely underserved by most financial institutions with their focus on large companies and the consumer market.

   PBB's focus on the SME segment is manifested in its branch strategy, the recruitment of its officers, its business operations and even its corporate culture.

   Majority of PBB's branches are located outside of typical commercial and business districts where most banks congregate and are situated in areas with significant SME concentration such as Caloocan, Malabon, Navotas, Valenzuela, Quezon City as well as highly urbanized areas outside Mega Manila such as Davao, General Santos, Bacolod, and Cebu. Aside from targeting such areas, PBB has also significantly increased the number of its branches over the past years.

   The Bank believes the success of this branch strategy is shown in its increased business volume. PBB's branches have increased over the past five (5) years from 100 in 2013 to 145 as of December 31, 2018. As a result, PBB's deposit base grew from ₱37.9 billion in 2013 to ₱77.3 billion in 2018. Loan portfolio also increased from ₱31.6 billion in 2013 to ₱75.5 billion as of December 31, 2018, up 2.4 times.

   Of equal importance to PBB's current and prospective growth is the staffing of these branches. The Bank aggressively recruits branch managers and account officers who have established good relationships and solid reputation within each branch's catchment area. Through this recruitment strategy, PBB has been able to accelerate its client acquisition.

   In line with its view that most SME clients have unique banking requirements with respect to bank transactions that require specific attention, PBB has also deliberately focused on providing its banking services through its branch officers and staff. This contrasts significantly with the trend to automate banking transactions. PBB believes that customer interaction and service will remain key ingredients for its growth.

2. Effective capital utilization

   Aside from interest income from its loan products, PBB is focused on earnings generation from its treasury operations. PBB's treasury operations, aside from ensuring liquidity and managing liquidity risk, remains actively involved in the trading of domestic treasury debt, corporate bonds, foreign currency denominated bonds and other financial instruments and is expected to generate income especially during periods of weak loan demand or excess liquidity arising from branch deposit taking efforts.

   In 2013, PBB's trading portfolio amounted to ₱8.8 billion, ₱7.9 billion in 2014, ₱9.1 billion in 2015, ₱7.1 billion in 2016, and ₱2.4 billion in 2017. As of December 31, 2018, the portfolio of the Bank was at ₱4.9 billion.

3. Solid lending policies and practices

   Despite the growth of PBB's loans and receivables, the Bank has successfully managed credit risk through its internal credit risk rating system, loan evaluation and approval practices, and other formal credit risk mitigating processes. Supplementing these formal processes is PBB's relationship and community based approach to lending, which takes advantage of branch and account officers' position in their respective communities to analyze prospective borrowers' reputation, business performance and risks, and other credit evaluation factors.

   The Bank believes that the advantages brought about by these processes have equal weight to its formal credit evaluation efforts, especially for prospective SME clients.

   Over the past three (3) years, PBB's NPL ratio was at 2.54% in 2016, 2.12% in 2017, and 1.75% in 2018.

4. Sound balance sheet well positioned for growth

   PBB has consistently maintained a sound balance sheet which positions the Bank for future growth. Liquidity, as measured by the ratio of loans to deposit, in 2015, 2016, 2017, and 2018 was at 75.9%, 87.3%, 96.0%, and 97.8%, respectively.

5. Strong base capital is the foundation to PBB's increasing size

   PBB's total CAR and Tier 1 CAR was at 17.0% and 16.2%, 14.0% and 13.1%, and 15.0% and 14.0% for the years ending December 2016, 2017, and 2018, respectively.

   The Bank's capital for the years ended 2016, 2017, and 2018 was at ₱9.6 billion, ₱10.2 billion, and ₱11.4 billion, respectively.

6. Highly competent and experienced management team

   PBB is managed and run by officers who have extensive experience in banking operations from leading universal and commercial banks in the country. With the experience and track record of officers, from the head office and throughout its branch network, the Bank is assured that it possesses extensive knowledge of all aspects of the banking industry, strong relationships with other banks and financial institutions, and familiarity with the Bank's target clients and their banking needs.

Financial Summary / Financial Highlights

in millions, except per share data	2017	2018	% growth
Profitability			
Net interest income	3,040	3,777	24.3
Non-interest income	387	358	(7.6)
Non-interest expenses	2,253	2,599	15.4
Pre-provision profit	1,174	1,536	30.9
Allowance for credit losses	261	295	13.1
Net income	640	858	34.0
Selected balance sheet data			
Liquid assets	14,029	16,549	18.0
Gross loans	70,938	74,441	4.9
Assets	87,264	94,729	8.6
Deposits	73,522	77,251	5.1
Equity	10,226	11,359	11.1
Per common share data			
Net income per share			
Basic	0.99	1.33	34.0
Diluted	0.99	1.33	34.0
Book value	14.92	16.68	11.8
Others			
Headcount	1,448	1,511	4.4
Officers	562	617	9.8
Staff	886	894	0.9
Selected ratios			
Return on average equity	6.47%	7.95%	
Return on average assets	0.81%	0.94%	
Net Tier 1 CAR	13.09%	14.99%	
Capital adequacy ratio	14.00%	14.01%	

Vision

By making things happen today, PBB will help build strong business communities where people can achieve their dreams.

Mission

The basis for Philippine Business Bank's growth shall be its commitment for higher standards every day, in everything we do in providing competitive products and services and through enthusiastic execution and teamwork in producing satisfaction – for our customers, our shareholders, our associates, and our communities.

Principal Business Activities

PBB provides close to a full range of banking services and products, including cash management, retail and corporate lending, deposit products, international trade finance, treasury and trust products.

<u>Commercial Banking Group</u>

Commercial Banking Group services the SME and mid-market segments which are PBB's key clientele. These segments have traditionally not been the focus of banks in the country, which is heavily skewed towards large conglomerates. Further, PBB's familiarity with the SME market is also a source of the Bank's competitive advantage. Whereas other banks have only recently gone into the SME and commercial lending business, the Bank's core focus has always been on the SME.

<u>Corporate Banking Group</u>

Corporate Banking Group markets and lends wholesale bank products to medium to large corporate accounts. These clients are basically the clients above the SME/commercial banking market and most of which are the major conglomerates of listed companies in the Philippines.

Corbank continues to ensure that its portfolio remains excellently managed in terms of accurate and complete documentation, favorable financial returns, professional and quality customer service, healthy composition of sustainable enterprises and appropriate positioning as benchmarked with growing competition.

<u>Consumer Banking Group</u>

Consumer Banking Group offers traditional and program based consumer loan products that target market niches with high volume opportunities, e.g. unserved and underserved retail market segments. The group is currently processing loan applications for auto loans and housing loans, where most of the loan applications are referred by the branches as the Bank's main distribution centers.

To reach the retail market segments, the group expanded its network through the establishment of nine (9) consumer lending offices in the following areas: (1) National Capital Region, (2) Cebu, (3) Davao, (4) Batangas, (5) Baguio, (6) Cagayan de Oro, (7) Bacolod, (8) Legazpi, and (9) Iloilo. As of today, the desks located in the Visayas region are fully operational and are housed within PBB (Bacolod and Cebu) and ISB (Iloilo) branches.

The upcoming completion of the merger of PBB and ISB opens a door and opportunity for the Bank to carve a name and develop a brand in some niches of the market in the consumer lending business by capitalizing on some of ISB's proprietary consumer lending products, business process, systems, human resources, and infrastructure, among others.

Branch Banking Group

Branch Banking Group is engaged in the Bank's core business such as deposit and loan generation. They are responsible for providing marketing support to branches via lead referrals, cash incentive programs, and cross-sell initiatives. It utilizes a decentralized sales strategy, allowing for tailor-fit tactical outreach initiatives within each locality.

The Bank offers a comprehensive range of deposit products consisting of the following:

1. Checking account
2. Savings account
3. Automatic Transfer Account
4. Payroll Account
5. SSS Pensioners Account
6. Peso Time deposit
7. Hi-5 Time Deposit
8. Dollar Time Deposit
9. Hi-Green Deposit
10. Dollar Savings
11. Chinese Yuan/Renminbi Savings
12. Campus Savers
13. E-banking/Business Connect

Branches are encouraged to transact foreign exchange trades particularly the USD and RMB currencies. PBB is one of the 14 banks authorized by the Bank of China (BOC) to trade Renminbi directly to Philippine peso. More importantly, the branches' focus will revolve around building personal and professional ties in the community and fostering true business partnership relationships with the Bank's clients.

Branch expansion
Last December 2018, PBB and ISB was able to secure merger approval from the BSP. The merger will result to the conversion of ISB's 10 branches into PBB branches, making the Bank's total network to 156 branches.

PBB looks for areas with a rich concentration of SME and commercial enterprises, examines deposit data, and maps key businesses in a target city as it evaluates an area for branch expansion. In 2018, the Bank was able to open three branches: (1) Solano, Nueva Vizcaya, (2) Ormoc, Leyte, and (3) Aseana City, Paranaque. In February 2019, the Bank opened its 146th branch in Catbalogan, Leyte, which was the last non-restricted license incentive from the acquired Bataan Savings and Loan Bank.

In 2018, the BSP has instructed all banks to convert their Other Banking Offices (OBOs) to Branch Lite Units. The Bank converted two namely: (1) Cebu City OBO and (2) Taguig City OBO but was declared as non-transactional branches. PBB was able to secure the approval of two transactional branch lite licenses in the following areas:

1. Pueblo De Panay Branch Lite – annexed to PBB Roxas City Branch
2. Pearl Plaza Branch Lite

This will bring PBB's branch lite units to four (2 transactional and 2 Marketing Offices).

Treasury Services Group

The Treasury Services Group's main responsibility is to manage and balance the daily cash flow and liquidity of funds of the Bank. The group also handles the bank's investments in securities, and foreign exchange.

The general mission of TSG is to manage the liquidity of the Bank. This means that all current and projected cash inflows and outflows must be monitored to ensure that there is sufficient cash to fund company operations, as well as to ensure that the excess cash is properly manage and invested.

TSG is divided into four sub-units namely:

1. Assets & Liabilities Management: manages the Bank's resources and identifies opportunities in the interest differential business;

2. Fixed Income Desk: monitors the daily movements of corporate bonds and US treasuries for investments and handles the trading of government securities and sovereign bonds;

3. Foreign Exchange Management Desk: oversees all foreign exchange transactions of PBB such as over-the-counter market for trading securities and interbank dealings; and,

4. Financial Market Sales and Distribution Unit: markets government securities and fixed income instruments to clients.

The group offers the following products and services:

- Philippine Domestic Dollar Transfer System – Local transfer for US Dollar;
- FX Forward – hedging tools;
- Renminbi Transfer System - Local transfer for Chinese yuan;
- Auto FX Services – 133 available currencies;
- Telegraphic Transfer - International cable transfer;
- Renminbi / CNY Deposits;
- All other foreign exchanges, trade or non-trade related, and over-the-counter (OTC) whether against USD or PHP; and,
- Euro Deposit (currently on the final stage of completing the product guidelines).

Trust and Investment Center

Trust and Investment Center (TIC) carries out the trust and other fiduciary business of PBB and serves as an additional revenue center for the Bank. It introduces new products beyond traditional bank services by promoting the concept of trust with the idea of professional trust and investment management as the key for personal, financial and social advancement of its clients.

It offers a wide variety of products and services, such as Escrow, Insurance Trust, Pre-need, Unit Investment Trust Fund, etc. TIC likewise endeavors to help its clients recognize the absolute value of its Employee Benefit Trust (retirement fund) product which is beneficial to both employers and employees.

TIC works to increase deposit base and liquidity position that will enhance the Bank's image in building confidence and respect while addressing the need for wider investment opportunities and satisfy the growing need of Bank clients for more trust products and complete personalized banking services.

Products and Services Offered

PBB is a thrift bank that offers a range of commercial and consumer or retail banking products, trust services, and other related financial services such as mail and telegraphic transfers, safety deposit facilities, payment services, among others.

Commercial banking services include term loans, working capital credit lines, bills purchase and discounting lines. PBB is the first thrift bank to be allowed by the BSP to issue foreign currency denominated letters of credit. The Bank also offers specialized loans for agriculture and special programs of the Development Bank of the Philippines, the Social Security System, and other agencies.

Consumer banking loans include auto financing, home financing, and salary or personal loans.

As part of its commercial and consumer banking activities, PBB offers various deposit products to both its commercial and individual clients. These products include Peso denominated current and savings accounts, foreign currency denominated savings accounts and both Peso and foreign currency time deposits.

The Bank's treasury manages the liquidity of PBB and is a key component in revenue and income generation through its investment and trading activities.

Products and services offered by PBB's trust operations include PBB's "Diamond Fund", a unit investment trust fund, investment management arrangements for both individual and commercial clients, escrow agency, security, safekeeping and depository arrangements, a funds management of employee benefit and pre-need plans, among other typical trust products and services.

Reclassification, merger, consolidation, or purchase or sale of a significant amount of assets not in the ordinary course of business.

In April 2008, the Bank entered into a purchase agreement with the shareholders of Kabalikat Rural Bank, Inc. ("KRBI") under which the Bank purchased 100 per cent of the stock, assets, and goodwill of KRBI. Through this transaction, PBB acquired the five (5) existing branches of KRBI and converted these into thrift bank branches. As an incentive, the BSP granted PBB the right to establish three (3) branches in Restricted Areas and 10 branches in non-restricted areas of the country. In October 2008 and March 2010, the BSP and the SEC respectively approved the merger.

In June 2015, the Bank entered into a purchase agreement with the shareholders of Insular Savers Bank, Inc. (A Rural Bank) ("ISB") under which the Bank will purchase 100 percent of the stock, assets, and goodwill of ISB. The BSP approved the merger of PBB and ISB on December 2018, with PBB as the surviving bank. Through the transaction, which is still subject to SEC approval, PBB acquired the existing 10 branches of ISB. This will also help PBB establish a foothold in consumer loans and accelerate the Bank's strategy of expanding client coverage.

In July 2015, the Bank entered into a purchase agreement with the shareholders of Bataan Savings and Loan Bank ("BSLB") wherein the Bank purchased all of recorded properties, assets, and goodwill of BSLB. In October 2017, PBB consolidated its three (3) existing branches.

Distribution methods of the products or services

The Bank utilizes branches for the distribution of its deposit and loan products. The Bank has also divided its lending units to Corporate Banking Group, Commercial Banking Group, and Consumer Banking Group, working in partnership with the Branch Banking Group, to service the banking needs of its clients. In 2016, the Bank also established the Business Development Group to further enhance its marketing coverage and provide targeted services to its clients. The Bank's trust products are handled by its Trust Department while Treasury products are marketed by its Treasury Marketing and Sales Department of the Treasury Services Group.

Factors Affecting the Bank's Results of Operations

Set out below are the most significant factors which have affected the Bank's operating results in the past and which are expected to affect the Bank's results in the future. Factors other than those set forth below may also have a significant impact on the Bank's results of operations and financial condition in the future.

Interest Rates

Fluctuations in the interest rates in the market can have a material impact on the Bank by affecting its interest income, cost of funding as well as the general performance of the Bank's loan portfolio and other assets. The profitability of the Bank depends on its ability to manage its assets and liabilities particularly during periods when interest rates are volatile. An increase in interest rates may adversely affect earnings as it results in a higher cost of funds for the Bank and portfolio value of its assets.

Regulatory Environment

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Competition

The Philippine banking sector is highly competitive and the Bank is subject to significant levels of competition from domestic and foreign banks. These banks may have more capital and other financial resources, larger branch network or higher brand recognition, among others, than the Bank. Some financial institutions may be able to offer more products and services, have higher lending limits, offer lower lending rate or possess stronger balance sheets. Competition has affected and will continue to affect the Bank's funding costs as well as the ability of the Bank to market its products and services and implement its business plans and adversely impact PBB's results of operations and financial condition.

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In May 2012, Republic Act No. 10574 amended the existing Rural Bank Act of 1992 to allow foreign entities to own up to 60% of the equity in rural banks. Also as a result of this Act, it became possible for foreign nationals without Philippine citizenship to be elected to rural banks' boards of directors. These amendments to rural banking regulations were aimed at attracting foreign capital to the rural banking segment of the banking sector.

The BSP welcomes more foreign players into the local banking system, as the Philippines' financial industry remains a prime destination for international banks. Since the full liberalization of the local banking sector to foreign players in July 2014, foreign banks, particularly those coming from the region, have been coming to the country either to set up branches or to come in as stakeholders to existing local banks. Twelve (12) foreign banks have secured the central bank's approval to do business in the country since the law passed in 2014.

Philippine and Global economic environment

The Bank's business and operations and assets are based in the Philippines and hence, the results of operations and performance and quality and growth of PBB's assets depend, to a large extent, on the performance of the Philippine economy. The Philippine economy, in turn, has also been adversely affected by the downturn in the global financial markets as well as the slowdown in the U.S. economy. Monetary policies worldwide formulated in response to the financial crisis resulted in a decline in interest rates. Interest rates in the Philippines have recently declined which could affect the Bank's income and margins.

Sources and availability of raw materials and the names of principal suppliers

This is not relevant to the operations of the Bank.

Customer Concentration

The Bank has a diversified customer base and there is no concentration of business in major client group. The Bank is not dependent on any single customer whose loss would have a material adverse effect on the Bank.

Transactions with and/or dependence on related parties

Although the Bank deals with related parties subject to existing rules on related party transactions, there is no dependency on any of its related parties.

Patents, trademarks, copyrights, licenses, franchises, concessions, and royalty agreements held

The Bank has registered with the Intellectual Property Office of the Department of Trade and Industry its New Bank Logo and ATM Business Card Design. The Bank has not been involved in any disputes with respect intellectual property rights of other parties.

Government approval of principal products or services

The Bank has no outstanding application subject to government approval.

Effect of existing or probable governmental regulations on the business

The Philippine banking industry is a highly regulated sector whose operations are under the supervision of the BSP. The BSP formulates and implements regulatory policies and guidelines on capital adequacy, lending limits, anti-money laundering, management, loan loss provisioning and other aspects of a bank's operations and monitors compliance thereon through on-site and off-site examinations of banks.

Costs and effects of compliance with environmental laws

Not applicable.

Employees

As of December 31, 2018, the Bank has a total of 1,511 employees broken down into the following categories:

Executives	85
Managers – Operations and Support	134
Managers – Branch / Marketing	398
Staff	894
Total	**1,511**

For the ensuing twelve (12) months, the Bank anticipates to hire an additional 137 employees broken down as follows:

Senior Officers	7
Junior Officers	70
Staff	60
Total	**137**

There is no collective bargaining agreement between the Bank and any of its employees. None of the Bank's employees are affiliated with any labor union.

Financial Risk Management Objectives and Policies

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to various risks. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders. The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

Objective: To achieve a corporate risk culture, processes, and structures that are directed towards the effective management of potential opportunities and adverse effects to the Bank's business as well as optimization of capital in terms of risk taking activities.

Risk management fundamentals:

1. Portfolio management by designated and accountable risk personnel
2. Allocation of capital based on associated risks for each business unit
3. Denotation of processes and output into quantifiable measurements
4. Transparency and meritocracy

Enterprise Risk Management Framework

The Bank's Enterprise Risk Management Framework is an integrated approach to the identification, measurement, control, and disclosure of risks. Capital allocation and preservation through prudent limits and stringent controls which are integral part of the governance structure. PBB's Board of Directors formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee, which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group in the development and implementation of risk policies, processes and guidelines. The framework encompasses corporate governance and covers the risk spectrum of strategic, compliance, reputational, operational, market, liquidity, and credit. The ERM process flow is integrated in all stakeholders of the organization and deploying three (3) stages of defense to ensure that the risk management objectives are achieved.

Risk Management Process

The Bank envisions to achieve risk and return consciousness among employees, anchored on streamline processes, reliable Management Information System, conversant, competent and accountable risk takers/constituents and good internal control, monitoring and escalation system as well as reward system to meritocracy. Enterprise Risk Management Group ("ERMG") is tasked to institutionalize an effective risk management framework that will encompass the foregoing risk management process.

1. Identify – key risk exposures
2. Assess – measure extent of exposure and impact to earnings, capital, and liquidity; prioritize risk exposures
3. Control – implement the risk appetite of the Board through risk policies
4. Monitor and report – monitor effectiveness of controls

The Risk Oversight Committee, supported by ERMG and in constant coordination with executive and other board-level committees, oversees the risk profile and risk management framework/processes of PBB. This ensures that risks arising from the Bank's business activities are properly managed and integrated into/used as basis for overall governance, strategy and planning, decision making and accountability purposes at all relevant levels of the organization.

ERMG, headed by the Chief Risk Officer, develops and reviews risk policies, and raises to management the various aspects of risk facing PBB. In addition, it also performs an oversight and monitors the performance of the different Business Units.

The Bank's philosophy is that responsibility for risk management resides at all levels in the organization. The Bank's corporate governance aimed to achieve corporate culture, processes and structures that are directed towards the effective management of potential opportunities and adverse effects. ERMG shall continue to improve the framework in support of the Bank's strategic plans in order to achieve its mission, vision and objectives.

Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes thus PBB's day-to-day activities are undertaken under the integrated risk management approach.

Further, the Bank incorporates the essential components of Model Risk Management framework as an integral process in risk management.

1st Line of Defense - Model Ownership (Modeler / User)	2nd Line of Defense - Model Control (Model Reviewer / Checker)	3rd Line of Defense - Model Validation (Model Validator)
The role lies with the end-user which is primarily responsible for ensuring that the model is properly used as well as for reporting any errors and inconsistencies. Role specifically includes: • More rigorous model testing during implementation phase. • Ongoing monitoring of model performance • Post implementation and testing. • Introducing an IT infrastructure allowing for model user feedback.	Conducts thorough inspection of model's quality by capturing potential operational errors and lapses. Adverse results should be coordinated with the modeler for correction and improvement or to the model validator for a more extensive review.	Function that oversees compliance with policies by the other two roles. The role is usually conducted by Compliance or Internal Audit Center. Role is: • More focused on process and controls rather than model-level content. • Focused on assessment of the process for establishing and monitoring limits on model use. • Should conduct clear documentation of findings noted and reported to senior management and Board.

Risk Management Policies and Objectives

Credit Risk Management

Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures.

The Bank's Credit Risk Management Framework seek to fundamentally strengthen credit risk management practices and provide minimum set of operating standards that are consistent with BSP regulations and the Basel standards. PBB is committed to adopt sound policies and practices and institutionalize these within the organization:

- Establish an appropriate credit risk environment
- Operate under a sound credit granting process
- Maintain an appropriate credit administration, measurement and monitoring process
- Maintain an appropriate control process

The Bank has instituted improvements on its credit policies, which includes large exposure and credit concentration. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

The initial recognition of credit risk by individual or group of related counterparties is done via its internal credit risk rating system (ICRRS). The ICRRS is tailored to consider various categories of counterparty. The rating system is further supplemented with external data such as credit rating agencies' scoring information on individual borrowers.

The ICRRS is established by the Bank in congruence with and with reference to the credit risk rating methodology used by an established rating agency in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between risk ratings). Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans and the loan loss provision of which are based on the loss given default.

Management considers additional information for each type of loan portfolio held by the Bank:

(i) Retail or Consumer Loans
Subsequent to initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. At the initial adoption of PFRS 9, due to insufficiency of historical data for group of accounts under a rating grade for consumer loans, the ECL parameters were carried on collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(ii) Corporate and Commercial Loans

For corporate and commercial loans, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This will determine the internal credit rating and the PD.

(iii) Debt Securities at Amortized Cost and at FVOCI

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

In the process of applying the Bank's ICRRS in determining indications of impairment on individually significant items of financial assets at amortized cost and debt securities at FVOCI, the Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
Excellent	Borrowers have very strong debt service capacity and have conservative balance sheet leverage
Strong	Borrower normally has a comfortable degree of stability, substance and diversity
Good	Borrowers have low probability of going into default and bear characteristics of some degree of stability and substance though susceptible to cyclical changes and higher degree of concentration of business risk either by product or by market
Satisfactory	Borrowers where clear risk elements exist and the probability of default is somewhat greater
Acceptable	Borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within acceptable period can be expected
Watch list	Borrowers for which unfavorable industry or company-specific risk factors represent a concern.

Classified accounts or accounts already in default as defined are further mapped into BSP classification of non-performing accounts as follows:

Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable
Loss	Loans considered absolutely uncollectible or worthless

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology described herein.

Loan Loss Methodology (LLM)

This is a methodology for calculating expected credit loss of each exposure. The internal LLM consists broadly of three (3) major components of which one emanates from the ICCRS and the other is based on historical recovery rate on credit facilities while the last is the credit exposure at any given time. The probability of default (PD) depends on the risk rating of the borrower while the other components are the loss given default on facilities and the exposure at default. There are three stages of impairment recognition pursuant to IFRS 9/PFRS 9 as follows:

Stage 1 – at the origination stage
Stage 2 – performing but there is occurrence of loss event
Stage 3 – financial assets considered credit impaired.

Under Stage 2, the lifetime probability of default is used instead of the regular PD.

For Stage 3 accounts the Bank has a supplementary policy for Remedial and Timeline Recovery Program. Accounts beyond recovery period will merit 100% loan loss provisioning

For purposes of Expected Credit Loss (ECL), forward-looking information mainly economic indicators such as unemployment rate, inflation, interest rate, GDP and other statistical indicators from BSP are incorporated into both assessments of whether the credit risk of loan exposure has increased significantly since its initial recognition and its measurement. Due to the limitation in which the models may not be able to capture relevant information, an overlay in the form of weights assigned to worst, likely and best are used in the final NPL ratio.

Market and Liquidity Risk Management

Market risks are risk to earnings and capital arising from market-making, dealing, and position taking in interest rate and foreign exchange markets (both for on and off-balance sheet). Liquidity risk on the other hand, is the inability of the Bank to fund increases in assets, or liquidate assets and meet obligations as they fall due (funding liquidity risk and market liquidity risk).

To measure market and liquidity risk exposure, the PBB utilizes the following metrics:

Metrics	***Risk Area***	***Description***
VaR	Market risk	Expected loss on a position from an adverse movement in identified market risk parameter(s) with a specified probability over a nominated period of time.
Earnings-at-Risk	IRBB	Measures the amount of potential loss to net interest income as a result of projected change in interest rates over the next 12 months. This involves balance sheet items that are classified according to their repricing characteristic/behavior as bucketed in the Interest Rate Gap report
Economic Value of Equity (EVE)	IRBB	The EVE measure gauges the potential impact of change in interest rate on the Fair value of the Bank's asset and liabilities
Maximum Cumulative Outflow	Liquidity risk	The Maximum Cumulative Outflow (MCO) measures the amount of prospective funding that the Bank would require at assumed future movements of on and off-balance sheet assets and liabilities taking into consideration the behavior of accounts as to roll-over, pre-termination, as well as the core deposits. This shall be prepared separately for the Peso, Dollar, and Consolidated Books.
Stress testing	All risk areas	To measure the impact of abnormal and extreme events on the Bank's market risk exposures. Also includes statutory requirements for Universal Banks in terms of liquidity (i.e. LCR, NSFR)

Starting January 1, 2018, PBB will adapt PFRS 9 (2014), Financial Instruments which will replace PAS 39, Financial Instruments: Recognition and Measurement, and the old versions of PFRS 9. Pursuant to PFRS 9 in managing financial assets, the Bank adopts the following business model:

Of the total funds allotted to Treasury, the following would be the distribution:

a. Resources for its trading activities will be allocated and classified as Financial Assets measured at Fair Value through Profit and Loss (FVPL).

b. Resources for interest income generating activity that will include interbank call loans and reserve eligible financial instruments will be allocated and classified as Financial Assets measured at Amortized Cost (HTC).

c. While the primary purpose of FVOCI securities is for interest accrual, securities under this category will also be used in case of liquidity needs.

Business Model	Key Features	Measurement Category
Hold to Collect (HTC)	The objective of the business model is to hold the assets to collect contractual cash flows	Amortized Cost
Fair Value Through Other Comprehensive Income (FVOCI)	The objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; and The asset's contractual cash flows represent Strictly Payment of Principal plus interest (SPPI)	Fair Value with Unrealized Gain/Loss as Other Comprehensive Income (Capital Account)
Fair Value through Profit and Loss (FVPL)	This is the residual category. Financial assets should be classified as FVPL if they do not meet the criteria of FVOCI or amortized cost (HTC)	Fair Value

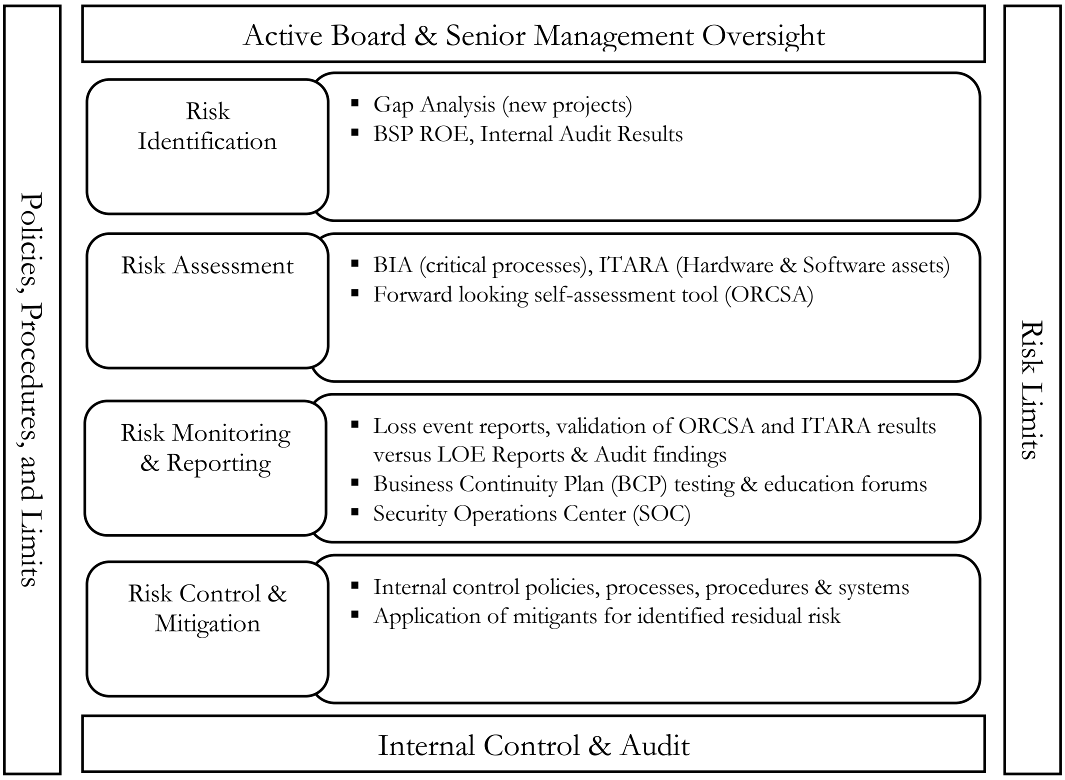
Operational Risk Management

Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events

The Bank has partially automated the front-office, back office, and middle office operations as part streamlining operations procedures to mitigate operational risks. For treasury operations, this includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover risk exposures.

In strengthening the risk assessment and implementation of controls in the operations of Philippine Business Bank, the following were implemented:

Enhanced IT and Operational Risk Management Framework



In terms of IT Enabled solutions, an enterprise-wide *Operations Gap Analysis* was conducted to identify the solutions that can narrow the gaps that expose the bank operations to risks. The end result is a Risk-Based Roadmap that enables a strategic and deliberate development and implementation of automated solutions for the operating units of the bank.

The institutionalized *Operational Risk and Control Self-Assessment (ORCSA)* was enhanced in alignment with the objectives of achieving a more reliable and representative assessment results.

To appropriately support the *Business Continuity Plan (BCP)* of the bank, a *Business Impact Analysis (BIA)* methodology was developed and implemented to accurately identify critical processes and logistical requirements to manage business disruptions. More importantly, the BIA exercise aims to revisit the critical activities' *Recovery Point Objective (RPO)* that will dictate the data recovery strategy of the bank.

Finally, the *Loss Event Reporting* was expanded to cover other critical groups with a visionary project to automate the reporting process in the succeeding year to enable the dedication of more time for analysis and resolution follow up.

For *Information Security Risk Management*, baseline information security policies were developed and implemented in the areas of User Access Management and monitoring.

As support to understanding deeper the necessity of Information Security Risk Management, the bank joined a collaborative project with five (5) other Financial Institutions to explore the setting up of *Shared Security Operations Center (SOC)* with the goal of establishing a much sought-after cyber security management system not to mention compliance to regulatory requirements.

A working IT Steering Committee is dedicated to oversee the automation program of the Bank to ensure that operating environment becomes competitive, advanced and up to the global standards and ready to digital communication challenges.

Capital Adequacy Management

The Bank's ability to sustain operations and engage in various risk taking activities within the capital adequacy framework is the foremost risk management objective. PBB aims to sustain capital adequacy beyond what's prescribed by the BSP and the Basel standards. Towards this goal, capital charge allocation is part of the risk and reward metrics. The risk weighted assets must be supported by ample risk capital at all times.

Item 2. Properties

The Bank owns the land and building on which its head office is located. The head office is a four-story building located on a 1,300 square meter property along Rizal Avenue, Grace Park, and Caloocan City. The Bank also owns the land and premises on which eight (8) of its branches are located, specifically, PBB's branches in Paso de Blas in Valenzuela, Imus and Kawit in Cavite, Muzon in San Jose del Monte Bulacan, Limay in Bataan, Subic in Zambales, General Tinio in Nueva Ecija, and the main office branch in Caloocan City.

The land and premises where PBB's other branches are located are leased from various property owners. Such lease agreements are typically long term in nature, with durations of five (5) years or more. The Bank has entered into lease agreements with the following parties:

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Caloocan Region				
1	Main Office Branch	Bank owned			
2	Grace Park	SMI Development Corporation	August 17, 2023	124,267.28	5% on 3rd yr. & every yr thereafter
3	A. Mabini C-3	Marea Ventures Corp.	May 31, 2019	80,708.51	10% on the 3rd ; 5% on 4th & 5th
4	Camarin	Luwell Realty & Development Corporation	May 31, 2020	58,526.63	5% annually
5	Edsa-Kalookan	Solmac Marketing Inc.	March 31, 2027	59,047.43	7% on 3rd, 5th, 7th, & 9th
6	Edsa-Monumento	New MBS Marketing Corporation	December 31, 2019	61,000.00	
7	Kaybiga	Guilmar Marble Corporation	October 20, 2020	51,516.08	5% annually
8	Samson Road	Oscar F. Tirona	September 30, 2019	61,257.00	5% annually

	Manila Region				
1	Binondo Corporate Center	Philippine-Chinese Charitable Association, Inc.	September 30, 2024	124,009.27	10% every other 2 yrs
2	Carmen Planas	Zaldra Realty Development Corporation	December 31, 2019	75,245.63	5% on 3rd year & every yr thereafter
3	Elcano	Nena Lumbao Hung	August 31, 2022	97,484.21	5% annually
4	Jose Abad Santos	Virgilio Ting Uy	December 15, 2023	75,000.00	5% on 3rd year & every yr thereafter
5	Quintin Paredes	Downtown Realty Investment Corporation	July 24, 2020	214,838.37	7.5% every other year
6	Adriatico-Malate	Evangeline T. Lim	February 3, 2022	142,214.24	5% on 3rd year & every year thereafter
7	Pasay	Mayson Realty Corporation	August 14, 2023	55,000.00	5% every 2 years
8	Pasay-Malibay	M. Ainsley Realty Corporation	December 31, 2023	79,000.00	5% on 3rd year & every year thereafter
9	Paterno-Quiapo	Edilberto Pontillas	June 30, 2023	114,865.34	5% annually
10	Pedro Gil-Paco	David, Luther, Grace all surnamed TIU	July 27, 2022	102,102.53	5% annually

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Northern Metro Manila Region				
1	Malinta	Cesar L. Flores & Marciana M. Flores	July 15, 2021	50,000.00	5% on 3rd year & every year thereafter
2	Malabon	J2NS Property Development, Inc.	July 31, 2023	92,055.83	8% on 3rd year & every year thereafter
3	Malabon-Rizal Avenue	Flaviano G. Felizardo III	August 18, 2026	40,000.00	none
4	Navotas	Megarite Development Corporation	December 31, 2019	41,351.52	5% annually
5	Paso de Blas	Bank owned			
6	Valenzuela	PSL Prime Realty Corporation	July 31, 2023	110,986.44	5% annually
7	Baliuag	Danilo S. Santos	December 31, 2022	63,319.53	5% annually
8	Bocaue	Joel G. Castillo and Cynthia G. Castillo	December 31, 2023	46,305.00	5% on 3rd yr. & every yr thereafter
9	Malolos	DJ Paradise Resort Inc.	December 31, 2019	37,866.23	5% annually
10	Meycauayan	I.S. Properties, Inc.	January 1, 2021	69,457.50	5% on 3rd yr. & every yr thereafter
11	Muzon	Bank owned			
12	Sta. Maria	Angelika Halili Cruz	September 30, 2022	44,948.42	5% on 3rd yr. & every yr thereafter
13	Angeles	AJV Investment Holdings, Inc.	June 30, 2028	94,979.27	5% on 3rd yr. & every yr thereafter
14	Cabanatuan	Angel S. Pascual	January 15, 2024	64,771.88	5% on 3rd year & every yr thereafter
15	Gapan	Veronica, Albino, Digna, Gregorio, Elizabeth(all surnamed Del Fonso)	November 1, 2023	49,101.16	beg.2nd yr 5%up 5th 6.5%-6th-10th 8%-11th-15th
16	Gen. Tinio	Bank owned			
17	Olongapo City	Sps. Wilson W. Chieng and Betty Chieng	July 31, 2022	84,000.00	5% annually
18	San Fernando	JTG Sears Realty Corporation	April 30, 2022	60,500.00	10% annually
19	Balanga	Melencio A. Unciano, Jr.	October 31, 2019	72,930.38	5% annually
20	SBMA-Subic	Subic Creative Center, Inc.	May 31, 2020	82,953.86	5% on 3rd yr. & every yr thereafter
21	Limay	Bank owned			
22	Subic-Zambales	Bank owned			
23	Dinalupihan	Julieta Lintag Reyes (Attorney-In-Fact)	September 30, 2023	30,000.00	5% annually

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Eastern Metro Manila Region				
1	Greenhills	LGI Group Corporation	May 31, 2022	106,590.00	None-straight 5 years
2	Mandaluyong	Antonio H. Yap	December 31, 2019	125,537.23	10% annually
3	Ortigas	CW Marketing and Development Corporation	June 14, 2020	75,361.39	5% on 2nd yr & every year thereafter
4	Pasig Blvd.-Kapitolyo	Dhondup Holdings Inc.	April 14, 2020	64,869.57	5% annually
5	Antipolo	Megathon Properties, Inc.	August 14, 2023	77,419.80	3% annually
6	Cainta	Molks Realty Development Corp.	September 14, 2023	75,361.39	5% on 3rd year & every yr thereafter
7	Marikina	Heirs of Amelia M. Diguanco	September 30, 2021	89,250.00	5% on 3rd year & every yr thereafter
8	Concepcion-Marikina	Mark William Pua Uy	August 14, 2023	66,150.00	5% every 2 years
9	Antipolo-Masinag	Rikland Property Leasing	December 20, 2021	65,611.09	5% annually
10	Taytay	Estelita M. Felix	October 31, 2019	76,993.64	5% on 3rd year & every yr thereafter
11	Ortigas Ave. Ext.-Cainta	Decoro General Construction and Trading Corporation	January 16, 2020	55,125.00	5% on 3rd year & every yr thereafter

	Central Metro Manila Region				
1	Commonwealth-Fairview	Frederick C. Ibay	December 1, 2021	80,405.75	5% annually
2	Cubao	RSAG Building Management Services	August 15, 2020	69,457.50	5% annually
3	Novaliches	Luwell Realty & Development Corporation	September 30, 2019	96,034.62	5% annually
4	Timog-Rotonda	A.A. Tanco, Inc.	November 30, 2023	97,240.50	5% annually
5	Banawe	Solmac Marketing Inc.	April 30, 2020	143,789.40	7.5% on 3rd yr. & every yr thereafter
6	Banawe-Kaliraya	Mary Ty Tan	June 14, 2018 (with letter to extend lease)	92,610.00	5% on 3rd yr. & every yr thereafter
7	Congressional Avenue-Quezon City	Hedelita Cleofas Diaz, Herminio Cleofas, Jhoana Lyn Cleofas, Joisa Fatima Cleofas, Benancia Cleofas AKA Melicia Cleofas	December 31, 2021	121,000.00	10% on the 1st; 8% on 2nd and 3rd
8	Del Monte	Cheung's Development Corporation	December 31, 2019	68,281.07	5% annually
9	Retiro	Doña Ignacia Development Corporation	May 21, 2023	65,539.80	5% annually
10	Roosevelt	Henry Tan Villasi	November 14, 2019	34,546.03	yearly renewal
11	West Avenue	Fiorino Development Corporation	June 23, 2023	57,157.73	5% on 3rd yr. & every yr thereafter

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
12	Kamias-Anonas	Citi Property Management and Realty Corporation	August 15, 2020	87,318.00	5% on 3rd yr. & every yr thereafter

	Southern Metro Manila Region				
1	Legaspi Village-Makati	Andrea L.Dulalia	January 14, 2018	92,623.59	5% annually
2	Makati	AMY Leasing Company	January 1, 2024	162,889.47	5% on 2nd yr & every year thereafter
3	Salcedo Village-Makati	Lacelli International Corporation	July 31, 2022	138,567.71	5% on 3rd year & every yr thereafter
4	Sucat-Parañaque	Jaka Investments Corporation	February 14, 2019	98,310.95	none
5	The Fort	Megaworld Corporation/Bonifacio West Dev't Corp.	April 30, 2018	318,450.00	10% p.a.
6	Dasmariñas-Cavite	Jica Land Developers Inc.	September 30, 2018	57,000.00	5% on 3rd yr and every yr thereafter
7	Imus	Bank owned			
8	Las Piñas	Omni Investment Bldg	February 26, 2019	71,772.75	5% on 3rd year & every yr thereafter
9	Madrigal Business Park	Solid Gold Realty Corporation	August 25, 2021	73,705.25	5% annually
10	Muntinlupa	Sps. Sturnino L. Baccay & Katherine C. Baccay	October 1, 2017	69,970.85	5% on 3rd year & every yr thereafter
11	Molino-Bacoor	SolaGrande Realty Corporation	June 30, 2019	65,237.50	5% on 3rd yr and every yr thereafter
12	Trece Martires-Cavite	Virginia P. De Guzman	July 15, 2020	38,587.50	5% on 3rd yr and every yr thereafter
13	Carmona-Cavite	Jupan C. Lim	October 31, 2020	34,815.80	5% on 3rd yr and every yr thereafter
14	Kawit	Bank owned			
15	Binakayan	Philippine National Railways	November 30, 2018	13,346.25	yearly renewal
16	Better Living-Parañaque	Lauan Commercial Corporation	December 31, 2020	66,150.00	5% on 3rd yr and every yr thereafter
17	Bonifacio Global City	MC Home Depot (Fort Bonifacio), Inc.	January 31, 2020	110,795.82	5% annually
18	Aseana City-Paranaque	Ri-Rance Realty Corporation	May 14, 2023	132,768.28	5% on the 3rd year

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Northern Luzon Region				
1	Cauayan	Jolilyn A. Guy	March 31, 2023	80,000.00	5% annually
2	Laoag City	Laoag Allied Realty and Development	September 30, 2021	89,250.00	5% on 3rd year & every yr thereafter
3	Tuguegarao	Lorita C. Corral	September 15, 2023	75,671.34	5% annually
4	Santiago	Sps. Manuel Salvador N. De Vera and Bonaleth M. De Vera	June 30, 2019	75,245.63	5% on 3rd yr. & every yr thereafter
5	Vigan	Juvencio L. Pe Benito	June 30, 2019	60,500.00	10% on 3rd yr. Only
6	Baguio	Atty. Ernesto Ll. De los Santos	August 26, 2019	77,325.74	5% on 2nd year & every 2 yrs thereafter
7	Dagupan	Wilson Dy	April 14, 2022	92,523.36	1st 3yrs at 50k 5% succeeding
8	La Union	Virginia Rondaris Mendoza	August 15, 2019	73,872.77	5% on 2nd yr & every year thereafter
9	Tarlac	Edward Allan H. Que	July 31, 2022	60,000.00	5% on 3rd yr. & every yr thereafter
10	Urdaneta	Gold and Chimes Realty Corporation	February 1, 2022	77,550.05	5% every 2 years
11	Tarlac-Paniqui	Green Field Miracle Realty Development Corporation	January 15, 2020	45,103.39	5% on 3rd yr. & every yr thereafter
12	Benguet-La Trinidad	Sps. Fernando S. Tiong and Rosemarie G. Tiong	February 15, 2020	65,000.00	Additional P5,000.00 on the 3rd year only
13	Pangasinan-Lingayen	Carmen E. Dyliacco, Piedad E. Dyliacco & Montserrat S. Escano	October 31, 2020	58,433.00	5% on 3rd yr. & every yr thereafter
14	Candon-Ilocos Sur	Bienvenido Gabayan	October 31, 2020	63,157.89	fixed for 5 years
15	Solano	Antonio, Jacinto, William, and Ramon all surnamed Uy Lim	May 31, 2023	50,000.00	5% annually

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Southern Luzon Region				
1	Batangas	Sps. Jose Q. and Helen S. Cifra	July 31, 2022	79,860.00	10% on 3rd year & every year thereafter
2	Lipa City	Reynato D. Goce	August 15, 2022	85,113.46	5% annually
3	Tanauan	RNT Enterprises	August 15, 2023	83,349.00	5% annually
4	Calapan	Mila S. Tolentino, Amado S. Tolentino Jr. and Lita S. Tolentino	May 22, 2019	46,305.00	5% on 3rd yr and every yr thereafter
5	Calamba	Nelson Lu & Josie T. Lu	December 31, 2020	84,426.04	5% annually
6	Lucena City	Amalia Garana-Italia	November 2, 2022	55,000.00	5% on 3rd yr and every yr thereafter
7	San Pablo	Albrighton Corporation	October 15, 2023	75,708.68	5% on 4th yr and every yr thereafter
8	Sta. Rosa	Philippine Seven Corporation(Sub Lessor)	February 28, 2023	107,008.67	7.5% on the 2nd yr & every yr thereafter
9	San Pedro	Lily Tsang Ngo	March 31, 2019	66,150.00	5% on 3rd yr and every yr thereafter
10	Legazpi City	Natividad M. Sison	August 15, 2022	57,881.25	5% on 3rd year & every yr thereafter
11	Naga	Peterson Resources and Holding Inc.	February 29, 2020	48,620.25	5% on 3rd year & every yr thereafter
12	Sorsogon	Sorsogon Chang Kai Shek School	September 30, 2023	70,036.31	5% on 3rd yr and every yr thereafter
13	Puerto Princesa Palawan	Sps. Allan and Dawn Carlos	June 30, 2023	81,000.00	5% annually
14	Iriga-Camarines Sur	Arnel H. Tan	March 31, 2020	60,637.50	5% on 3rd yr and every yr thereafter
15	Biñan-Laguna	Abbie Lane M. Perez and Sunshine M. Perez	May 30, 2020	52,500.00	5% on 3rd yr and every yr thereafter

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Visayas Region				
1	Bacolod	The Philippine American Life and General Ins. Co.	October 31, 2019	77,739.76	5% annually
2	Iloilo	Manuel V. Uy	January 15, 2020	37,622.81	5% on 3rd year
3	Kalibo	Lawrence Ti Lu	September 5, 2023	79,860.00	7% annually
4	Downtown-Cebu	Lianting Development Corporation	May 14, 2019	77,165.07	7.5% on the 3rd yr & every yr thereafter
5	Lapu-Lapu City	Antonio Amistad	February 15, 2020	83,106.87	5% annually
6	Mandaue	Lester & Lesley To Chip	March 31, 2019	73,872.77	5% annually
7	Tacloban	Tacloban Buddhist Temple, Inc.	May 30, 2023	70,000.00	5% on 3rd yr and every yr thereafter
8	Tagbilaran	EB Gallares Properties Associates, Inc.	October 31, 2022	93,654.82	5% on 3rd yr and every yr thereafter
9	Consolacion-Cebu	1028 Realty Corporation	November 30, 2019	67,622.67	5% on 3rd yr and every yr thereafter
10	Cebu-Talisay	Dynasty Management and Development Corporation	January 31, 2020	55,126.94	7% on the 3rd year & every yr thereafter
11	Cebu-Escario	Nicris Dev., Corp.	June 18, 2020	74,753.64	5% annually
12	Cebu-Banilad	SmartGlobal Holdings Inc.	June 30, 2020	83,255.29	5% on 3rd yr and every yr thereafter
13	Roxas City	Susan A. Jugo	November 15, 2020	61,188.75	5% on 3rd yr and every yr thereafter
14	Boracay	Sps. Larry & Annie Barbasa	February 28, 2021	98,000.00	fixed for 5 years
15	Ormoc	Raquel Codilla Abucay and Lydia Codilla Abastillas represent as the trustees of Narcisa Codilla Enterprises Inc.,	June 1, 2023	60,000.00	10% every other 2 yrs
16	Catbalogan	Ramon L. Rosales	July 30, 2023	52,000.00	fixed for 5 years

	BRANCH NAME	LESSOR	EXPIRY DATE	PRESENT BASIC RENTAL	ESCALATION CLAUSE
	Mindanao Region				
1	Bajada, Davao	Davao City Chamber of Commerce & Industry Inc.	November 30, 2019	51,213.33	yearly renewal
2	Davao-Sales	JM Agro Industrial Trading Corporation	June 2019	72,930.38	5% every 2 years
3	General Santos	Firenzo Property Dev't/GSC Suncity Suites	September 16, 2020	76,230.00	5% on 3rd year and 5th year
4	Davao-Lanang	Binansel Inc.	May 31, 2019	65,000.00	Additional P5,000 on the 3rd yr and every year after
5	Davao-Toril	Far East Noble House, Inc.	July 31, 2019	42,832.13	5% on 3rd yr and every yr thereafter
6	Tagum City-Davao	Albert L. Ng	December 15, 2019	60,000.00	straight
7	General Santos-Santiago Blvd.	Asaje Realty Corporation	December 15, 2019	67,971.75	5% on 3rd yr, 10% on 4th and 5th year
8	Butuan	FG Ever, Inc.	December 25, 2019	73,113.15	yearly renewal
9	Cagayan de Oro	Leo Boyd Casiño and Bernard M. Casiño	May 31, 2019	46,728.97	5% annually
10	Cagayan de Oro-Cogon	Alice LL. Andrada, Inc.	December 31, 2023	63,000.00	5% on 3rd yr and every yr thereafter
11	Iligan City	Sps. Glen and Marissa Doromal	March 31, 2019	40,516.88	5% on 3rd yr and every yr thereafter
12	Zamboanga	Wee Agro Industrial, Inc.	September 5, 2023	80,405.75	5% on 3rd yr and every yr thereafter
13	Ozamis	The Insular Life Assurance Company, LTD	July 15, 2019	45,378.90	5% on 3rd yr and every yr thereafter
14	Dipolog	Johnny A. Lim	September 30, 2019	80,000.00	Straight
15	Dumaguete	Maximo P. Tan, Jr.	December 15, 2019	72,930.38	5% annually
16	Davao-Panabo	Asaje Realty Corporation	January 15, 2020	72,825.03	5% on 3rd yr and every yr thereafter
17	Surigao City	Engr. Leonel A. Santos	July 31, 2020	50,600.00	10% on 3rd yr and every yr thereafter
18	Davao-C.M. Recto	JR Lacuesta Properties Development Corp.	August 31, 2020	65,405.81	5% on 3rd yr and every yr thereafter

Based on prevailing costs, the Bank estimates that the development of a new branch costs approximately between ₱5 million to ₱10 million for leasehold improvements, IT infrastructure, and miscellaneous supplies. Leasehold improvements of a branch are typically amortized over the term of the lease while IT investments are amortized over a period of five (5) years.

The Bank intends to lease in the next 12 months an additional 10 branches for its branch network expansion program in the following areas:

1. Clark Field, Mabalacat City, Pampanga
2. General Trias, Cavite
3. San Jose City, Nueva Ecija
4. Marilao, Bulacan
5. Aparri, Cagayan
6. Daet, Camarines Norte
7. Los Banos, Laguna
8. Coron, Palawan
9. Koronadal, South Cotabato
10. Cotabato City

The Bank believes all its facilities and properties are currently in good condition.

Item 3. Legal Proceedings

The Bank has no proceedings that involves a claim for damages that exceed 10% of the current assets of the Bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to vote a security holders, through the solicitation of proxies or otherwise.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

Market Information

The Bank is listed on the Philippine Stock Exchange (the "PSE") with a market capitalization of ₱8.83 billion as of April 12, 2019. The high and low prices of the Registrant's shares as of April 12, 2019 were at ₱13.72 and ₱13.70 and closed at ₱13.72. The high and low sales prices for each quarter within the last two fiscal years are as follows:

	2017		2018		2019	
	Low	High	Low	High	Low	High
1Q	11.77	12.27	11.72	13.70	11.98	15.00
2Q	12.17	13.63	11.80	12.78		
3Q	12.87	14.50	11.10	12.18		
4Q	11.58	13.14	10.50	12.50		

Holders

As of December 31, 2018, the following are the holders of record of the Bank's common shares as set forth in the table:

Name	Citizenship	Holidngs	Rank
Alfredo M. Yao	Filipino	239,838,309	37.26%
PCD Nominee Corporation - Filipino	Filipino	218,694,113	33.97%
Zest-O Corporation	Filipino	162,052,923	25.17%
PCD Nominee Corporation - Non Filipino	Foreign	9,308,442	1.45%
Armando M. Yao	Filipino	1,620,537	0.25%
Erlinda M. Yao	Filipino	1,620,536	0.25%
Jeffrey S. Yao	Filipino	1,620,536	0.25%
Leticia M. Yao	Filipino	1,620,536	0.25%
Mary Grace S. Yao	Filipino	1,620,535	0.25%
Carolyn S. Yao	Filipino	1,620,535	0.25%
Roberto L. Obiedo	Filipino	506,250	0.08%
James G. Dy	Filipino	468,750	0.07%
Roberto Lee Obiedo	Filipino	375,000	0.06%
Peter Y. See	Filipino	375,000	0.06%
Siot Keng Go Dy	Filipino	375,000	0.06%
Johnny Chan	Filipino	187,500	0.03%
Jimmy Wai Piu Ng	Filipino	187,500	0.03%
Eusebio S. Go	Filipino	187,500	0.03%
Antonio D. Tan &/Or Caridad Tan	Filipino	187,500	0.03%
Reynato Keh Lim &/Or Susana Dy Lim	Filipino	187,500	0.03%
Others		1,095,592	0.17%
Total		643,750,094	100.00%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to P10.00.

Dividends

PBB is authorized under Philippine laws to declare dividends, subject to certain requirements. The Board is authorized to declare dividends only from its unrestricted retained earnings and these dividends may be payable in cash, shares or property, or a combination thereof as may be determined by the Board. A cash dividend declaration does not require any further approval from shareholders. The declaration of stock dividends is subject to the approval of shareholders holding at least two-thirds of PBB's outstanding capital stock. The Board may not declare dividends which will impair its capital.

Pursuant to Republic Act 8791 and as provided for in the Manual of Regulations Banks, PBB cannot declare dividends greater than its accumulated net profits then on hand, deducting therefrom its losses and bad debts. PBB cannot likewise declare dividends, if at the time of its declaration it has not complied with the following:

a) Its clearing account with BSP is not overdrawn;

b) BSP's liquidity floor requirement for government funds;

c) BSP's minimum capitalization requirement and risk-based capital ratio;

d) Prescribed EFCDU/FCDU cover consisting of 30 per cent liquidity cover and 100 percent asset cover

e) Statutory and liquidity reserves requirement;

f) It has no past due loans or accommodation with BSP or any institutions;

g) It has no net losses from operations in any one or two fiscal years immediately preceding the date of dividend declaration;

h) It has not committed any of the major violations enumerated in the Manual.

The Manual provides that banks whose shares are listed in the Philippine Stock Exchange may give immediate notice of such dividend declaration to SEC and PSE; provided that no record date shall be fixed for such dividend declaration pending verification by the appropriate department of the BSP.

As of this date the Bank has not adopted a specific dividend policy which defines a minimum percentage of net earnings to be distributed to its common shareholders.

On July 16, 2012, the Bank's shareholders and Board of Directors approved the declaration of stock dividends amounting to ₱2.0 billion from its unrestricted retained earnings. In the same meeting, the Board also approved the payment of cash dividends to the preferred shareholders in the total amount of ₱100.35 million. Payment of these dividends were approved by BSP and SEC. On November 16, 2012, the Bank obtained approval for the issuance of 200,000,000 new common shares each at a par value of ₱10.00, in relation to this stock dividend declaration and the payment of cash dividends to the preferred stockholders.

On May 5, 2014, the BOD approved the declaration of cash dividends amounting to ₱62.3 million for all issued and outstanding preferred shares and stock dividends totaling ₱85.8 million common shares amounting to ₱858.3 million for all issued and outstanding common shares to stockholders on record for the year ended December 31, 2013. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 30, 2014 and June 26, 2014, respectively.

On August 19, 2015, the BOD approved the declaration of stock dividends amounting to ₱1.1 billion for all issued and outstanding common shares totaling 107.3 million common shares to stockholders on record for the year ended December 31, 2014. The dividend distribution was approved by the stockholders representing at least two-thirds of the issued and outstanding capital stock and the BSP on May 29, 2015 and August 4, 2015, respectively.

On March 15, 2017, the BOD approved the declaration of 20% stock dividends amounting to ₱1.1 billion for the Bank's 536.5 million common shares.

There has been no Stock Options offered by the Bank.

Item 6. Management's Discussion and Analysis or Plan of Operation

A. Financial Performance

<u>For the calendar year ended December 31, 2018 and 2017:</u>

	For the calendar period ended			
	12/31/2018	12/31/2017	Variance	%
Interest income	₱ 5,509,559,450	₱ 3,881,469,895	₱ 1,628,089,555	41.9
Interest expense	(1,732,261,448)	(841,831,345)	(890,430,103)	105.8
Net interest income	₱ 3,777,298,002	₱ 3,039,638,550	₱ 737,659,452	24.3

Interest income on loans and other receivables expanded by ₱1,638.7 million, or 44.6%, from ₱3,672.4 million in 2017 to ₱5,311.1 million in 2018 due to the growth of both the loan volumes and interest rates. This brought the overall growth of interest income to a 41.9% increase from ₱3,881.5 million to ₱5,509.6 million YoY.

Overall interest expense more than doubled this year from ₱841.8 million in 2017 to ₱1,732.3 million in 2018. The interest rate hikes in 2018 caused interest expense on deposits to grow by 95.9% ending 2018 at ₱1,619.9 million. The 91.2% volume growth of bills payable also factored in the overall interest expense, contributing a total of ₱112.4 million in 2018.

As a result, net interest income for the year 2018 ended at ₱3,777.3 million, up 24.3% against last year's ₱3,039.6 million figure.

	For the calendar period ended			
	12/31/2018	12/31/2017	Variance	%
Core income				
Net interest income	₱ 3,777,298,002	₱ 3,039,638,550	₱ 737,659,452	24.3
Service charges, fees and commissions	284,823,000	200,841,789	83,981,211	41.8
Miscellaneous	103,286,349	47,147,687	56,138,662	119.1
	4,165,407,351	3,287,628,026	877,779,325	26.7
Non-interest expenses	(2,598,760,224)	(2,252,864,319)	(345,895,905)	15.4
Core income	₱ 1,566,647,127	₱ 1,034,763,707	₱ 531,883,420	51.4

Other income ended at ₱388.1 million in 2018 from ₱248.0 million in 2017, up 56.5%. This growth is mainly driven by the 41.8% increase in service charges, fees, and commissions and the 119.1% growth of miscellaneous income in 2018 due to the gain on reversal of impairment losses.

Non-interest expenses grew from ₱2,252.9 million in 2017 to ₱2,598.8 million in 2018, up 15.4%. Taxes and licenses expense grew 44.4% owing to the expansion of gross receipt tax.

As a result, core income expanded by 51.4%, or ₱531.9 million, from ₱1,034.8 million in 2017 to ₱1,566.6 million in 2018.

	For the calendar period ended			
	12/31/2018	12/31/2017	Variance	%
Core income	₱ 1,566,647,127	₱ 1,034,763,707	₱ 531,883,420	51.4
Trading gains (losses)	(30,493,963)	139,089,396	(169,583,359)	(121.9)
Pre-tax pre-provision profit	₱ 1,536,153,164	₱ 1,173,853,103	₱ 362,300,061	30.9
Loan loss provision	(294,731,906)	(260,519,609)	(34,212,297)	13.1
Profit before tax	1,241,421,258	913,333,494	328,087,764	35.9
Taxes	(383,423,004)	(273,247,394)	(110,175,610)	40.3
Net income	**₱ 857,998,254**	**₱ 640,086,100**	**₱ 217,912,154**	**34.0**

Trading loss was at ₱30.5 million for 2018. The Bank set aside additional ₱34.2 million from 2017's ₱260.5 million to ₱294.7 million loan loss provision to account for the growth of its loan portfolio.

Pre-tax pre-provision profit was 30.9% higher at ₱1,536.2 million. As a result, net income for the year 2018 ended at ₱858.0 million, 34.0% higher versus 2017's figure of ₱640.1 million.

For the calendar year ended December 31, 2017 and 2016:

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Interest income	₱ 3,881,469,895	₱ 3,207,154,576	₱ 674,315,319	21.0
Interest expense	(841,831,345)	(734,732,780)	(107,098,565)	14.6
Net interest income	₱ 3,039,638,550	₱ 2,472,421,796	₱ 567,216,754	22.9

Interest income on loans and other receivables strengthened by 33.4% to ₱3.7 billion as of year-end 2017 as a result of the 37.2% increase in the Bank's loan volume and loan yields. Overall interest income ended at ₱3.9 billion, a 21.0% increase versus 2016's ₱3.2 billion.

Interest expense also increased by 14.6% from ₱734.7 million in 2016 to ₱841.8 million in 2017 due to the 12.6% expansion of interest expense on deposit liabilities as the need to raise funds arises to support the rapid growth of PBB's loan portfolio.

As a result, net interest income as of December 2017 stood at ₱3.0 billion, a 22.9% increase.

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Core income				
Net interest income	₱ 3,039,638,550	₱ 2,472,421,796	₱ 567,216,754	22.9
Service charges, fees and commissions	200,841,789	151,446,102	49,395,687	32.6
Miscellaneous	47,147,687	84,734,375	(37,586,688)	(44.4)
	3,287,628,026	2,708,602,273	579,025,753	21.4
Non-interest expenses	(2,252,864,319)	(2,012,479,487)	(240,384,832)	11.9
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6

Service charges, fees, and commissions grew by 32.6% due to the increased lending transactions while miscellaneous income incurred a 44.4% drop as foreign exchange gains, rental of safe / night deposit box, and penalties on loans were lower in 2017. Non-interest expenses also expanded from ₱2.0 billion in 2016 to ₱2.3 billion in 2017 owing to the ₱100.3 million increase in salaries and other employee benefit expenses in line with the Bank's continuous expansion.

As a result, PBB's core income reached ₱1.0 billion in 2017, a 48.6% increase from 2016's ₱696.1 million.

	For the calendar period ended			
	12/31/2017	12/31/2016	Variance	%
Core income	₱ 1,034,763,707	₱ 696,122,786	₱ 338,640,921	48.6
Trading gains (losses)	139,089,396	335,383,026	(196,293,630)	(58.5)
Pre-tax pre-provision profit	₱ 1,173,853,103	₱ 1,031,505,812	₱ 142,347,291	13.8
Loan loss provision	(260,519,609)	(157,043,157)	(103,476,452)	65.9
Taxes	(273,247,394)	(205,838,450)	(67,408,944)	32.7
Net income	**₱ 640,086,100**	**₱ 668,624,205**	**(₱ 28,538,105)**	**(4.3)**

Due to the continued global market volatility, trading opportunities were limited in 2017. Trading gains as of year-end stood at ₱139.1 million trading gains, down by 58.5% from 2016's ₱335.4 million. Due in part to the Bank's transition from the previous loan loss regime to its own loan loss model predicated on BSP Circular 855, loan loss provisioning was higher by ₱103.5 million from ₱157.0 million in 2016 to ₱260.5 million in 2017.

The Bank also incurred one-time expenses in 2017 amounting to ₱60.0 million for the agri-agra penalties and the celebration of PBB's 20th anniversary. Profit before tax, excluding the non-recurring expenses, should be 11.3% higher from ₱874.5 million last year to ₱973.3 million this year.

For the calendar year ended December 31, 2016 and 2015:

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Interest income	₱ 3,207,154,576	₱ 3,140,643,449	₱ 66,511,127	2.1
Interest expense	(734,732,780)	(758,318,335)	23,585,555	(3.1)
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8

Interest income grew by 2.1% from ₱3.1 billion in 2015 to ₱3.2 billion in 2016 as interest income from loans and other receivables and interest due from BSP and other banks increased by 4.0% and 53.1%, respectively. On the other hand, interest expense declined by 3.1% from ₱758.3 million to ₱734.7 million YoY as bills payable and other interest expenses declined by 99.6% and 64.4%.

As a result, net interest income grew by 3.8% or ₱90.1 million from ₱2.4 billion in 2015 to ₱2.5 billion in 2016.

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Core income				
Net interest income	₱ 2,472,421,796	₱ 2,382,325,114	₱ 90,096,682	3.8
Service charges, fees and commissions	151,446,102	132,425,882	19,020,220	14.4
Miscellaneous	84,734,375	73,430,963	11,303,412	15.4
	2,708,602,273	2,588,181,959	120,420,314	4.7
Non-interest expenses	(2,012,479,487)	(1,780,166,990)	(232,312,497)	13.1
Core income	₱ 696,122,786	₱ 808,014,969	(₱ 111,892,183)	(13.8)

Service charges, fees and commissions increased by 14.4% from ₱132.4 million to ₱151.4 million YoY due to 76.6% and 16.0% growth in service charges for domestic bills and appraisal fees, respectively. Miscellaneous income expanded by 15.4%, or ₱11.3 million, as commitment, processing and handling fees in relation to services rendered by the Bank grew by 23.1%.

There was a ₱232.3 million increase in operating expense from ₱1.8 billion in 2015 to ₱2.0 billion in 2016. Significant increases of non-interest expenses above 10% are as follows: salaries and other employee benefits by 16.9%, depreciation and amortization by 11.3%, management and other professional fees by 34.2%, and miscellaneous expenses by 11.1%.

	For the calendar period ended			
	12/31/2016	12/31/2015	Variance	%
Core income	₱ 696,122,786	₱ 808,014,969	(₱ 111,892,183)	(13.8)
Trading gains (losses)	335,383,026	69,474,667	265,908,359	382.7
Pre-tax pre-provision profit	₱ 1,031,505,812	₱ 877,489,636	₱ 154,016,176	17.6
Loan loss provision	(157,043,157)	(172,050,358)	15,007,201	(8.7)
Taxes	(205,838,450)	(203,297,274)	(2,541,176)	1.2
Net income	**₱ 668,624,205**	**₱ 502,142,004**	**₱ 166,482,201**	**33.2**

Trading gains accelerated by 382.7% from ₱69.5 million last year to ₱335.4 million this year bringing pre-tax pre-provision profit to ₱1.0 billion in 2016, a 17.6% increase from ₱877.5 million in 2015. The Bank continues to set aside a certain portion of its income for impairment losses to cover its non-performing loans. Loan loss provision decreased from ₱172.1 million in 2015 to ₱157.0 million in 2016 as the NPL ratio declined from 2.9% to 2.5% in 2016.

Consequently, the Bank's net income grew from ₱502.1 million to ₱668.6 million, a 33.2% increase YoY.

B. Financial position

<u>December 31, 2018 vs December 31, 2017</u>

PBB's balance sheet reached ₱94.7 billion total assets for 2018 owing to the increases in trading and other investment securities, loans and other receivables, and net investment properties.

Cash and other cash items dipped by 1.4% due to the increased cash related transactions such as settlement of bills payable, increase in loans and other receivables, and the buildup of trading and investment securities portfolio in 2018.

Due from BSP also declined by 6.2% as other than mandatory reserves were down to ₱200.0 million from ₱1,100.0 million in 2017, ending 2018 at ₱6.2 billion. On the other hand, due from other banks increased by 12.9% from ₱4.0 billion to ₱4.5 billion as a result of increased placements with counterparty banks.

PBB invested in trading and other investment securities as the Bank continued to be cautious in trading activities. Total trading portfolio ended at ₱4.9 billion from ₱2.4 billion in 2017, up 99.6%.

PBB deliberately tempered the growth of its loan portfolio in 2018 as overall funding costs continued to increase. Net loans and other receivables ended at ₱75.5 billion from ₱70.6 billion in 2017, up 7.1% YoY.

Bank premises, furniture, fixtures, and equipment stood at ₱475.3 million, down 2.3% versus year-end 2017, while investment properties increased by 1.4%.

Other resources was 1.5% lower versus 2017's ₱1.8 billion to ₱1.7 billion in 2018 largely due to the decrease in deferred tax assets.

Deposit liabilities reached ₱77.3 billion in 2018 from ₱73.5 billion in 2017, up 5.1% on account of the 11.5%, 10.2%, and 1.9% increases in demand, savings, and time deposits.

Bills payable also grew to ₱3.7 billion from ₱1.9 billion in 2017 to support the loan and trading portfolio build up plan of the Bank. Accrued expenses and other liabilities also increased to ₱2.4 billion in 2018 on account of the ₱1.1 billion increase in accounts payable.

Shareholder's equity recorded an 11.1% growth from ₱10.2 billion in 2017 to ₱11.4 billion in 2018. Net of preferred book value per share stood at ₱16.68, up 11.8%.

December 31, 2017 vs December 31, 2016

PBB's total resources as of December 2017 expanded by 24.2% from ₱70.3 billion to ₱87.3 billion, a ₱17.0 billion increase, on account of increases in due from BSP, due from other banks, and loans and other receivables.

Cash and other cash items decreased by ₱96.4 million in 2017 as loan funding requirements increased. Due from BSP grew by 5.6% due to the 28.4% increase in mandatory reserves. Due from other banks stood at ₱4.0 billion from ₱1.6 billion in 2016 as a result of the increased levels of placements and balances with counterparty banks.

Trading securities decreased by 65.6% to ₱2.4 billion in 2017 as PBB felt it was prudent to limit trading activities this year as a result of the rising interest rate environment. The Bank also shifted its focus on earning assets from trading portfolio to loans as loan demand was very strong and trading opportunities were limited in 2017.

Due to the increase in lending activity, loans and other receivables expanded by 37.2%, ending 2017 at ₱70.6 billion against 2016 figure of ₱51.4 billion.

Bank premises, furniture, fixtures, and equipment and investment properties dropped by 9.2% and 5.6% as additions were lower and disposals amounted to ₱73.6 million in 2017. Other resources also dipped by 1.6% ending the year with ₱1.8 billion.

Both low cost and high cost deposits increased by 15.5% and 31.3%, respectively, to cover the expansion of the Bank's loan book. As a result, total deposit liabilities ended at ₱73.5 billion, a 24.8% increase versus 2016's ₱58.9 billion.

In 2017, the Bank obtained bills payable amounting to ₱1.9 billion to support its loan book growth, while accrued expenses and other liabilities declined by 11.5% from ₱1.8 billion as of December 31, 2016 to ₱1.6 billion as of December 31, 2017. Overall liabilities as of 2017 ended at ₱77.0 billion, 26.9% higher than last year's figure of ₱60.7 billion.

Shareholder's equity stood at ₱10.2 billion in 2017, up by 6.9%. Book value per share net of preferred shares was at ₱14.9 as of December 2017 versus December 2016's ₱13.9, both adjusted after the 20% stock dividend declaration this year.

December 31, 2016 vs December 31, 2015

As of December 31, 2016, the Bank's total resources stood at ₱70.3 billion from ₱65.6 billion last year, a 7.1% increase as loans and other receivables expanded by 23.2% from ₱41.7 billion to ₱51.4 billion YoY.

Cash and other cash items declined by 14.1% from ₱1.3 billion to ₱1.1 billion YoY as the Bank paid out its bills payable in 2016.

Mandatory reserves were up by 12.2% while other than mandatory reserves declined by 49.4% making the total for due from Bangko Sentral ng Pilipinas as of full year 2016 down to ₱6.2 billion. Due from other banks also decreased by 42.2% as deposits from local and foreign banks decreased by 51.3% and 18.7%, respectively.

Trading and other investment securities decreased by 22.3% as the Bank unloaded its HTM securities amounting to ₱5.9 billion as of end 2016.

As of year-end 2016, the Bank's premises, furniture, fixtures, and equipment was reduced to ₱536.0 million from ₱562.6 million, a 4.7% decrease. This is due to the increase in disposals of furniture and fixtures, transportation equipment, and leasehold improvement from ₱6.2 million to ₱33.7 million YoY.

Investment properties also dropped by 33.6% to ₱448.4 million subsequent to the ₱390.4 million land disposal in 2016.

Other resources increased by 5.4%, or ₱91.8 million higher than last year's ₱1.7 billion as goodwill expanded by 119.3% following BSP's approval of the acquisition of Rural Bank of Kawit as the Bank recognized assets and liabilities at their fair values amounting to ₱59.5 million.

Due to the Bank's aggressive branch expansion project, deposit liabilities grew by 7.1% or ₱3.9 billion from ₱55.0 billion to ₱58.9 billion YoY. Both low cost funds and time deposits increased by 11.8% and 4.0%, respectively.

Accrued expenses and other liabilities decreased by 14.7% from ₱2.1 billion in December 31, 2015 to ₱1.8 billion as of December 31, 2016. This is primarily due to the 37.1% decline in bills purchased and paid out 100% of post-employee benefit obligation amounting to ₱23.4 million and ₱1.9 million derivative liabilities.

Shareholder's equity strengthened by 13.0% to ₱9.6 billion versus last year's ₱8.5 billion. Book value per share as of December 31, 2016 was at ₱16.7 versus last year's ₱14.6.

C. Key Performance Indicators

CAR: Capital Adequacy Ratio was at 14.99%, higher than BSP's minimum requirement of 10.0%.

Asset Quality: The Bank's non-performing loans ratio improved to 1.75% this year.

Profitability: Return on Average Equity (ROAE) increased from 6.47% in 2017 to 7.95% as of December 2018.

Liquidity: The Bank's loans-to-deposits ratio (BSP formula) as of December 31, 2018 increased from 96.0% in 2017 to 97.77% due to growth of PBB's loan portfolio.

Asset efficiency: Return on Average Assets (ROAA) increased by 13 bps to 0.94% in December 2017.

Book value per share as of December 31, 2018 was at ₱16.68 from ₱14.92 in December 31, 2017.

The following table shows the key performance indicators for the past three (3) calendar years ending December 31, 2018 (in %):

Performance Indicator, *in Php mn*	**2016**	**2017**	**2018**
Return on average assets (%)	**0.98**	**0.81**	**0.94**
Net income	669	640	858
Average assets	67,924	78,765	90,997
Return on average equity (%)	**7.41**	**6.47**	**7.95**
Net income	669	640	858
Average equity	9,020	9,898	10,793
Capital adequacy ratio (%)	**16.99**	**14.00**	**14.99**
Total qualifying capital	9,711	10,487	11,903
Risk weighted assets	57,145	74,920	79,417
Loans-to-deposit ratio (%)	**87.32**	**95.96**	**97.77**
Loans and other receivables – net	51,437	70,553	75,530
Deposit liabilities	58,908	73,522	77,251
NPL ratio (%)	**2.54**	**2.12**	**1.75**
Non-performing loans	1,322	1,505	1,306
Gross loans	51,969	70,938	74,441
Book value per share	**13.90**	**14.92**	**16.68**
Equity – net of preferred shares	8,950	9,606	10,739
Number of shares	644	644	644

Critical Accounting Policies

For information on the Bank's significant accounting judgments and estimates, please refer to notes 2 and 3 of the Bank's financial statements included as attachment of SEC17-A.

Description of Comprehensive Statement of Income

Revenues

Interest Income. Interest income is interest generated from PBB's loans and receivables. The Bank also generates interest income from amounts due from other banks, investment securities and securities purchased under resale agreements.

Interest Expense. Interest expense refers to interest paid or accrued on deposits, bills payable and other fund borrowings.

Net Interest Income. Net interest income is equal to interest income after deducting interest expense.

Impairment Losses. Impairment losses refer to estimated losses in the Bank's loan portfolio, investment securities, investment properties and other risk assets.

Other Income

Trading gains – net. This line item comprises results arising from trading activities which include gains and losses from changes in fair value of financial assets held for trading as well as gains from the sale of trading and investment securities.

Services charges, fees and commissions. The Bank earns service charges, fees and commissions from various financial services it provides to its customers. These fees include investment fund fees, custodian fees, commission income, credit related fees, asset management fees, portfolio and advisory fees.

Miscellaneous Income. Miscellaneous income also comprises foreign exchange gain, gain on asset foreclosures and dacion transactions, trust fees, gain on sale of assets and miscellaneous items.

Other Expenses

Other expenses are the Bank's general and administrative expenses composed primarily of salaries and employee benefits, taxes and licenses, rent and fees, depreciation and amortization and other operating costs.

Tax Expense

Tax expense relates mainly to the corporate income tax payable by the Bank which is composed of a two per cent (2%) minimum corporate income tax and a regular income tax of 30 per cent. The Bank is also subject to final taxes of 7.5 per cent (on the Bank's FCDU deposits with other institutions), 10 per cent (on onshore income from FCDU transactions), and 20 per cent (final withholding tax on tax-paid income).

D. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

<u>Financial Condition as of December 2018 vs December 2017:</u>

As of December 2018, total assets stood at ₱94.7 billion, up 8.6% against ₱87.3 billion figure in 2017. Significant changes (more than 5%) in assets were registered in the following accounts:

- Due from BSP was down by 6.2% as other than mandatory reserves went down to ₱200.0 million from ₱1,100.0 million in 2017
- Due from other banks was 12.9% higher as placements to other banks increased
- Trading and other investment securities recorded a 99.6% growth as the Bank continued to build up its trading portfolio
- Loans and other receivables – net was up by 7.1% from ₱70.6 billion in 2017 to ₱75.5 billion in 2018

The Bank's total liabilities amounted to ₱83.4 billion as of December 2018. This is ₱6.3 billion or 8.2% higher as compared to the December 2017 level of ₱77.0 billion. Significant changes in liabilities were registered in the following accounts:

- Low-cost deposit liabilities grew by 10.3% on account of the 11.5% and 10.2% increases in demand and savings deposits
- Bills payable grew 1.9 times from ₱1.9 billion to ₱3.7 billion
- Accrued expenses and other liabilities was 53.2% higher than last year's ₱1.6 billion level to ₱2.4 billion in 2018 due to the expansion of accounts payable

Shareholder's equity stood at ₱11.4 billion as of year-end 2018, up 11.1% from December 2017 figure of ₱10.2 billion. As a result, book value per share increased to ₱16.68 from ₱14.92 as of 2017.

Financial Condition as of December 2017 vs December 2016:

Total resources as of December 2017 ended at ₱87.3 billion, a 24.2% increase versus last year's ₱70.3 billion. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and other cash items declined by 8.8% due to the higher volume of transactions this year
- Due from BSP grew by 5.6% owing to the 28.4% increase in mandatory reserves
- Due from other banks strengthened by 145.7% as a result of the increased placements with other banks
- Trading and investment securities were 65.6% lower due to the limited trading opportunities in 2017
- Loans and other receivables expanded by 37.2% on account of the increase in lending activities
- Bank premises, furniture, fixtures, and equipment dropped by 9.2% as additions were lower in 2017
- Investment properties were down by 5.6% on account of the ₱73.6 million disposal during the year

PBB's total liabilities ended at ₱77.0 billion against 2016's ₱60.7 billion, up by 26.9%.

- Current deposits increased to ₱1.2 billion from ₱1.1 billion in 2016
- Savings deposit as of December 2017 reached ₱26.8 billion, a 15.8% increase
- Time deposits expanded by 31.3% in 2017
- Bills payable stood at ₱1.9 billion as of year-end 2017
- Accrued expenses and other liabilities declined by 11.5% as bills purchased dropped by 54.7% this year

Total equity ended at ₱10.2 billion in 2017, a 6.9% increase over the ₱9.6 billion figure in 2016. Book value per share net of preferred shares increased by 100 basis points from ₱13.90 in 2016 to ₱14.92 in 2017.

Financial Condition as of December 2016 vs December 2015:

As mentioned, the Bank's total resources increased to ₱70.3 billion as of year-end 2016, a 7.1% increase from ₱65.6 billion in 2015. Significant changes (more than 5%) in assets were registered in the following accounts.

- Loans and other receivables expanded by 23.2% from ₱41.7 billion in 2015 to ₱51.4 billion in 2016 due to the reorganization of the Bank's lending unit to streamline its account management process.

- Other resources grew by 5.4% from ₱1.7 billion to ₱1.8 billion YoY.

On the other hand, deposit liabilities grew to ₱58.9 billion compared to last year's ₱55.0 billion, a 7.1% increase.

- CASA increased by 11.8% from ₱21.7 billion in 2015 to ₱24.2 billion in 2016.

- Time deposits as of end December 31, 2016 stood at ₱34.7 billion, a 4.0% growth versus last year's ₱33.4 billion.

- The Bank paid out all of its bills payable amounting to ₱956.3 thousand as of December 31, 2016.

- Accrued expenses and other liabilities dropped by 14.7% YoY from ₱2.1 billion to ₱1.8 billion.

As of year-end 2016, the Bank's capital stood at ₱9.6 billion versus ₱8.5 billion in 2015. Book value per share was at ₱13.90 from ₱12.19 last year.

Results of Operations

For the year ended December 31, 2018 vs. December 31, 2017

- Overall interest income as of year-end 2018 ended at ₱5,509.6 million on account of the ₱1,638.7 million increase in interest income on loans and other receivables.

- Interest expense more than doubled from ₱841.8 million to ₱1,732.3 million as interest expenses on deposit liabilities and bills payable both expanded by 95.9% and 657.3% YoY.

- Non-interest income, composed of service charges, fees, and commissions and miscellaneous income, stood at ₱388.1 million for the year 2018, up 56.5%. Non-interest expense was also 15.4% higher than 2017 figure of ₱2,252.9 million to ₱2,598.8 million in 2018.

- Core income reached ₱1,566.6 million in 2018 was 51.4% higher versus ₱1,034.8 million in 2017.

- PBB was able to limit its trading loss of ₱30.5 million for the year 2018 as PBB correctly timed its trading position.

- Loan loss provisions ended at ₱294.7 million in 2018 from ₱260.5 million in 2017, or 13.1% higher, in line with the growth of PBB's loan portfolio.

- Net income for the year 2018 recorded a 34.0% growth from ₱640.1 million in 2017 to ₱858.0 million.

For the year ended December 31, 2017 vs. December 31, 2016

- Interest income as of 2017 stood at ₱3.9 billion owing to the 33.4% increase in interest income on loans and other receivables.

- Interest expense totaled ₱841.8 million in 2017 from ₱734.7 million in 2016. The 14.6% increase is primarily due to the increase in interest expense from deposit liabilities as the Bank's deposit portfolio grew by 24.8% and the ₱14.8 million interest expense in bills payable.

- Service charges, fees, and commissions expanded by 32.6% as a result of the increase in lending transactions. Miscellaneous income, on the other hand, declined by 44.4% owing to the ₱43.0 million drop in fees as transactions were lower this year versus 2016.

- Operating expenses in 2017 recorded an 11.9% growth primarily due to the increase in salaries and other employee benefits to complement the growing manpower requirements of PBB.

- Core income reached ₱1.0 billion as of December 2017, a ₱338.6 million increase YoY.

- Trading gains dropped to ₱139.1 million due to the limited trading opportunities during the year.

- Loan loss reserves expanded by 65.9% from ₱157.0 million last year to ₱260.5 million this year resulting in the 4.3% decline in its year-end net income.

For the year ended December 31, 2016 vs. December 31, 2015

- As of year-end 2016, the Bank's interest income grew by 2.1% from ₱3.1 billion to ₱3.2 billion YoY due to the 53.1% increase in interest income from BSP and other banks and the 4.0% growth of interest income from loans and other receivables.

- Overall interest expense declined by 3.1% from ₱758.3 million in 2015 to ₱734.7 million in 2016 largely due to the 99.6% decrease in interest expense on bills payable in 2016 from ₱3.3 billion to ₱12.8 thousand.

- Service charges, fees, and commissions grew by ₱19.0 million or 14.4% YoY and miscellaneous income by 15.4% from ₱73.4 million in 2015 to ₱84.7 million in 2016.

- Trading gains expanded by 382.7%, bringing the total for full year 2016 ₱335.4 million compared to last year's ₱69.5 million.

- Non-interest expenses increased by 13.1%, or ₱232.3 million, from ₱1.8 billion in 2015 to ₱2.0 billion in 2016 as a result of the Bank's initiative to expand its branch network.

- Pre-tax pre-provision profit expanded by 17.6% or ₱154.0 million from ₱877.5 million in 2015 to ₱1.0 billion in 2016 largely due to the ₱265.9 million increase in trading gains.

- As a result, net income as of December 31, 2016 strengthened by 33.2% from ₱502.1 million as of year-end 2015 to ₱668.6 million, a ₱166.5 million increase.

Cash Flows

The following table sets forth selected information from PBB's statements of cash flows for the periods indicated:

	For period ended December 31		
	2016	2017	**2018**
Cash and cash equivalents, beginning of the year	11,777.92	9,362.20	**12,476.25**
Net cash provided by (used in) operating activities	(9,737.40)	(398.20)	**248.07**
Net cash provided by (used in) investing activities	7,258.77	1,657.72	**(1,248.63)**
Net cash provided by (used in) financing activities	(956.25)	1,854.52	**1,762.78**
Net increase (decrease) in cash and cash equivalents	(2,479.59)	3,114.05	**762.22**
Cash and cash equivalents, end of the year	9,362.20	12,476.25	**13,238.47**

Net Cash Flow Provided By (Used In) Operating Activities

Net cash flow provided by operating activities is composed of deposits generated and loans and receivables. As of December 31, 2018, net cash used in operating activities amounted to ₱248.1 million. During this time, the Bank expanded its loans and other receivables by ₱4.2 billion while deposits grew by ₱3.7 billion. Impairment losses for the year also expanded by 13.1% to ₱294.7 million. As of the years ended December 31, 2017 and 2016, cash flow from (used in) operating activities was (₱398.2 million) and ₱9,722.4 million respectively.

Net Cash Flow Provided By (Used In) Investing Activities

Net cash flow provided by or used in investing activities involves the acquisition of investment securities at FVOCI and amortized cost, bank premises, furniture and fixtures, software licenses, and proceeds from sale of ROPA and sale of bank premises, furniture and fixtures. As of December 31, 2018 net cash used in investing activities amounted to (₱1.2 billion). Net cash used in investing activities for 2016 and 2017 were ₱1.7 billion and ₱7.2 billion, respectively.

Net Cash Flow Provided By (Used In) Financing Activities

Net cash flow provided by financing activities is composed of the availments and settlement of the Bank's bills payable. As of December 31, 2018, PBB recorded a use of cash flow from financing activities of ₱1.8 billion from ₱1.9 billion in 2017.

Capital Resources

The Bank is required to comply with the capital adequacy requirements based on the requirements for stand-alone thrift banks under BSP's Circular No. 688 issued in May 26, 2010.

The following table sets out details of the Bank's capital resources and capital adequacy ratios (as reported to the BSP).

	As of the years ended December 31		
₱ millions	**2016**	**2017**	**2018**
Net Tier 1 capital	9,241	9,809	11,124
Tier 2 capital	470	678	779
Total qualifying capital	9,711	10,487	11,903
Risk weighted assets	57,154	74,920	79,417
Tier 1 capital ratio	16.17%	13.09%	14.99%
Total capital ratio	16.99%	14.00%	14.01%

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the period ended December 31, 2017 and 2018 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Commitments and Contingent Liabilities

The following is a summary of the Banks commitments and contingent accounts as of December 31, 2018:

In ₱ millions	2017	2018
Outstanding letters of credit	626,860,238	**3,134,027,226**
Trust and other fiduciary accounts	753,922,571	**825,233,891**
Investment management accounts	2,352,423,750	**2,565,027,140**
Late payment/deposits received	14,996,909	**3,432,354**
Items held for safekeeping	93,083	**106,563**
Items held as collateral	11,066	**11,487**
Outward bills for collection	4,358,349	**2,631,626**
Unit investment trust fund	31,562,003	**29,090,261**
Other contingent accounts	239,479,318	**635,759,087**

Among the Bank's contingent accounts are the following trust arrangements:

1. Investment Management Arrangement (IMA). An agency arrangement that involves the prudent investment of funds on behalf of the clients;

2. Trust and Other Fiduciary Accounts (TOFA) include: Living trust, a trust created during the trustors' lifetime and involves the transfer of funds and other assets to a trustee for management and eventual distribution to intended beneficiaries; employee benefit trust, a trust established by a company for the benefit of its employees in addition to salaries or wages; escrow, a three party arrangement whereby the escrow agent is appointed as a disinterested or neutral party to protect the interest of the two parties to the contract; and other fiduciary arrangements;

3. Unit Investment Trust Fund (UITF). A pooled fund created to offer investment opportunities to small investors.

The Bank has ₱7.2 billion in contingent liabilities of which, ₱3.4 billion or 47.5% are in trust arrangements which include investment management accounts, trust and other fiduciary accounts, and unit investment trust fund.

Selected information disclosed in the Audited Financial Statements

Classifying Financial Assets at HTM Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as HTM investments, the Bank evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

If the Bank fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

In 2008, the BSP and the SEC allowed the reclassification of certain financial assets that were previously classified under FVTPL and AFS categories, due to the tainting in 2006, back to HTM investments or loans and receivables. Accordingly, despite the tainting prohibition until 2008, the Bank reclassified its investments in debt securities previously classified under FVTPL and AFS securities to HTM investments amounting to ₱18.8 million and ₱2,130.8 million, respectively, representing the fair value of the reclassified investments on September 11, 2008, the effective date of reclassification, as allowed under FRSP for banks.

On September 14, 2009, however, the Bank reclassified its remaining HTM investments to AFS securities with carrying value of ₱2,621.7 million. As such, the Bank was not allowed to classify as HTM investments its existing and new acquisitions of financial assets due to tainting until 2011. Starting 2012, the tainting of the Bank had been lifted.

Management of Liquidity Risks through MCO Limits

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

DOSRI Loans under Related Party Transactions

Total outstanding DOSRI loans as of December 31, 2017 and 2018 pertain to loan transactions with its officers and employees and related parties amounting to ₱768.0 million and ₱927.6 million.

Earnings per Share

The Bank's earnings per share (EPS) as of December 31, 2018, 2017, and 2016 were at ₱1.33, ₱0.99, and ₱0.92, respectively. This is computed by dividing the net income net of dividends of ₱858.0 million, ₱640.1 million, and ₱589.4 million, by the weighted average number of outstanding common shares.

Item 7. Financial Statements

The audited financial statements of the bank are filed as part of this for SEC 17-A as "ANNEX A".

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Punongbayan & Araullo (P&A), a member firm of Grant Thornton International Limited, has been the bank's independent accountant for the last nine (9) years and is again recommended for appointment at the scheduled stockholders meeting.

None of the Bank's external auditors have resigned during the most recent fiscal years (2017 and 2018) or any interim period. In compliance with SEC Memorandum Circular No. 8, Series of 2003, and Amendments to the SRC Rule 68 on the rotation of external auditors or signing partners of a firm every after five (5) years of engagement, Mr. Christoper M. Ferareza was assigned in 2017 as an independent reviewer and partner in charge for the bank replacing Mr. Leonardo D. Cuaresma, Jr.. Representatives of P&A are expected to be present at the meeting to respond to matters relating to the Auditor's report on the 2018 financial statements of the bank that maybe pertinently raised during the meeting. Their representatives will be given opportunity to make a statement if they so desire.

The Bank has paid the following fees to P&A relative to the regular and special engagements rendered by the latter that are reasonably related to the performance of the audit review of the Bank's financial statement:

Audit Fees For	In ₱
December 31, 2011	721,412.31
June 30, 2012	752,640.00
September 30, 2012	978,432.00
December 31, 2012	824,320.00
December 31, 2013	2,609,152.00
December 31, 2014	2,475,405.61
December 31, 2015	2,324,278.38
December 31, 2016	2,599,735.16
December 31, 2017	2,864,643.60
December 31, 2018	5,124,565.44

In September 2018, P&A provided professional services to PBB in connection with the Bank's proposed issuance of Long Term Negotiable Certificates of Time Deposit (LTNCDs). Aside from this, no other services were rendered by P&A that were not related to the audit and review of the Bank's financial statements.

There were no disagreements with P&A on accounting and financial disclosures.

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

Directors and Executive Officers

The following are the names of the incumbent Directors of the Bank:

Incumbent	Age	Nationality	Position with the Bank	Date of election
Amb. Alfredo M. Yao	74	Filipino	Chairman Emeritus	Jul 26, 2010
Francis T. Lee	70	Filipino	Chairman	Apr 30, 2010
Jeffrey S. Yao	51	Filipino	Vice Chairman	April 1, 2016
Rolando R. Avante	60	Filipino	President & Chief Executive Officer	Nov 2, 2011
Honorio O. Reyes- Lao	75	Filipino	Director	Apr 29, 2011
Danilo A. Alcoseba	67	Filipino	Director	May 27, 2016
Roberto A. Atendido	72	Filipino	Director	May 26, 2006
Leticia M. Yao	66	Filipino	Director	Apr 29, 2011
Paterno H. Dizon	81	Filipino	Independent Director	Apr 2006
Benjamin R. Sta. Catalina, Jr.	71	Filipino	Independent Director	Jul 16, 2012
Narciso D.L. Eraña	67	Filipino	Independent Director	May 25, 2018
Atty. Roberto C. Uyquiengco	71	Filipino	Independent Director	May 25, 2018

BUSINESS EXPERIENCE

The following is a brief description of the business experience of each of the Directors of the Bank:

Alfredo M. Yao (Filipino, 74 years old)

Mr. Alfredo M. Yao is the Chairman Emeritus of PBB. He is con-currently the Chairman of Zest-O Corporation, Semexco Marketing Corp., and Asiawide Refreshments Corp. He is the President of Solmac Marketing Inc., Harman Foods (Phil.) Inc., and Amchem Marketing, Inc. and was a former director of Export and Industry Bank. Mr. Yao has participated in the following seminars: Corporate Governance; AML and Risk Management, all conducted by the Pacific Management Forum and PBB; CISA for the Credit Bureau; SME Related Issues; and other CTB Related seminars. He has also attended several Philippine Chambers of Commerce &Industry (PCCI) Business Fora given by PCCI, the International Trade Organization, and the Department of Trade and Industry.

Francis T. Lee (Filipino, 70 years old)

Mr. Francis T. Lee was appointed Chairman of the Board on July 26, 2010 and was last re-elected as Director on May 25, 2018. Before holding the Chairmanship position, Mr. Lee was first appointed as Chief Operating Officer (COO) last September 1, 2011. He was also President of the AMY Foundation - the social responsibility arm of the Yao Group of Companies, from December 8, 2003 up to December 8, 2013.

An experienced banker for more than 30 years. Mr. Lee started his banking career with Pacific Bank. He has held a number of executive positions from Senior Manager to Senior Vice President at the Metrobank Group from 1988 to 2000 before joining PBB.

Mr. Lee has participated in the following seminars: Philippine Institute of Banking in 1969; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Team Building Workshop in 2004 at PBB; Risk Awareness Seminar in 2009 at the Pacific Management Forum; Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2012 and in 2014; and Corporate Governance Seminar for Board of Directors on December 10, 2015.

Mr. Lee studied Bachelor of Arts in Business Administration at Manuel L. Quezon University.

Committee(s): Executive

Jeffrey S. Yao (Filipino, 51 years old)

Mr. Jeffrey S. Yao was appointed to the Board in 1999. On April 01, 2016, he assumed the position of Vice-Chairman.

He is a Director at Asiawide Refreshments Corporation and has been the Chief Operating Officer (COO) of the Zest-O Corporation since 2005. Mr. Yao started his career in the food and beverage industry when he was appointed as Plant Manager at Harman Food Philippines from 1990 to 1995. He has attended the following training programs: Basics of Trust at the Trust Institute of the Philippines in 2002; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002; Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; and Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Yao graduated from the Ateneo De Manila University with Bachelor of Science in Management Engineering degree.

Committee(s): Audit, Executive, IT Steering, Risk Oversight, and Trust

Rolando R. Avante (Filipino, 60 years old)

Mr. Rolando R. Avante was appointed President and Chief Executive Officer since November 2, 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

His banking career includes stints as Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011. He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999. He was elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutsche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punongbayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors on December 10, 2015.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units from DLSU.

Committee(s): Anti-Money Laundering & FATCA, Asset & Liability, Bid, Credit, Executive, Management, IT Steering, Remedial & Special Assets Management, and Trust

Honorio O. Reyes- Lao (Filipino, 75 years old)

Mr. Honorio O. Reyes-Lao, was appointed to the Board on April 29, 2011 and last re-elected as Director on May 25, 2018.

A seasoned banker, he has more than 40 years of experience in corporate and investment banking, branch banking, and credit management. Mr. Reyes-Lao started his banking career at China Banking Corporation in 1973 to 2004. He served as Senior Management Consultant from 2005 to 2006 at East West Banking Corporation. He was a consultant at Antel Group of Companies from 2007 to 2009 and was appointed President at Gold Venture Lease and Management Services, Inc. from 2008 to 2009. Currently, he is an independent director at the DMCI Holding Corporation and a Member of the Society of Institute of Corporate Directors (ICD) Fellows since 2004.

His background and trainings include Overall Banking Operations at the Philippine Institute of Banking in 1971 to 1972; Director Certification Program at the Institute of Corporate Directors (ICD) in 2004; and the AMLA Seminar at the Bangko Sentral ng Pilipinas in 2014; ASEAN Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Lao holds a post-graduate degree, Masters in Business Management, from the Asian Institute of Management and he graduated with a double degree in Bachelor of Science in Business Administration major in Economics and Bachelor of Science in Commerce major in Accountancy from the De La Salle University.

Committee(s): Risk Oversight, and Trust

Danilo A. Alcoseba (Filipino, 67 years old)

Mr. Danilo A. Alcoseba was the former President & CEO of PBB and was appointed to the Board on May 25, 2018. His work experience include: Branch Head at Bancom Development Bank, Cebu Branch from 1977-1979, Assistant Vice-President of Traders Royal Bank from 1979-1983, First Vice-President/Treasury Division of Boston Bank of the Philippines from 1983-1998 and Consultant at SM Investments Corporation from 2005-2007.

He also had various trainings and seminars in banking related fields such as financial derivatives, fixed income trading, foreign exchange, investment banking, corporate governance, risk management and international trade.

Mr. Alcoseba obtained his college degree, Bachelor of Science in Commerce, Major in Accounting, at the University of San Carlos. He also has a post-graduate in Industrial Economics at the University of the Philippines in 1976.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

Roberto A. Atendido (Filipino, 72 years old)

Mr. Roberto A. Atendido, was appointed to the Board on May 26, 2006 and last re-elected as Director on May 25, 2018.

He is a seasoned investment banker and a recognized expert in the field with over 30 years of investment banking and consulting experience in the Philippines and in the ASEAN region. Mr. Atendido started his career in consulting with the management services group of Sycip, Gorres & Velayo, the largest accounting and consulting group in the Philippines. He began his investment banking career in Bancom Development Corporation, the leading investment house in the Philippines during the late 60's and 70's. He was later posted as Vice President of Bancom International Ltd in HK from 1980-1982. He then moved to PCI Capital Asia, Ltd. (HK) as Vice President from 1982-1983. The PCI Group posted him in Indonesia as Managing Director of PT Duta Perkasa Chandra Inti Leasing, a joint venture between the PCI Group of the Philippines and Bank Duta and Gunung Agung Group of Indonesia, from 1983-1988. Mr. Atendido moved back to the Philippines in 1988 as President of Asian Oceanic Investment House, Inc., a fully owned subsidiary of the Asian Oceanic Group of HK. The company was later bought by the Insular Life Group and renamed Insular Investment & Trust Corporation. In 1996, Mr. Atendido together with several investors organized Asian Alliance Holdings & Development Corporation (AAHDC) and later established Asian Alliance Investment Corp. (AAIC) as a wholly owned investment banking subsidiary. He is currently President of AAHDC and Executive Vice Chairman of AAIC.

Currently, Mr. Atendido is a member of the Board of Directors of Paxys Inc., Philippine Business Bank, PICOP Resources, Inc., Pharmarex, Inc. Ardent Property Development Corp., First Ardent Property Corp., and GEM Communications & Holding Corp. He is also Vice Chairman and Director of Sinag Energy Philippines, Inc., (since 2008), Chairman and President of Myka Advisory and Consulting Services, Inc. (since 2010). He has also held directorships in the past in the Philippine Stock Exchange (2005-2009), Securities Clearing Corporation (2006-2010), Export & Import Bank as an Independent Director (2006-2012), Marcventures Holdings, Inc. (2010-2013), Carac-An Development Corp. as Chairman from 2010-2013, and Beneficial Life Insurance Corp. from 2008-2014. Apart from his business activities, Mr. Atendido is also active in the Brotherhood of Christian Businessmen and Professionals, a nationwide Christian community where he served as Chairman from 2009-2011.

He has attended trainings in Corporate Governance & Risk Management for the Bank's Board of Directors at the Development Finance Institute in 2003; Risk Management and Basel 2 Seminar at the Export & Industry Bank in 2007. In 2014, he attended the Anti-Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series on August 24, 2015, 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015 and 2015 Distinguished Corporate Governance Speaker Series 3 on November 06, 2015.

Mr. Atendido is a graduate of the Asian Institute of Management with a Master's Degree in Business Management in 1973. He completed his Bachelor of Science in Management Engineering from the Ateneo de Manila University.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

Leticia M. Yao (Filipino, 66 years old)

Leticia M. Yao was appointed to the Board on April 29, 2011 and last re-elected as Director on May 25, 2018.

A well-respected figure in the healthcare industry, Yao was appointed at the United Doctors Medical Center (UDMC) as a Consultant at the Department of Medicine from 1991 to 2012.

She participated in training sessions for Corporate Governance & Risk Management for Banks' Board of Directors at the Development Finance Institute in 2002 and further taken the Risk Awareness Seminar at the Pacific Management Forum in 2009. Earlier this year, she attended the AMLA Seminar at the Bangko Sentral ng Pilipinas, Distinguished Corporate Governance Speaker Series on August 24, 2015 and Corporate Governance Seminar for Board of Directors on December 10, 2015 to hone her skills as Director of PBB.

Yao graduated from the University of Sto. Tomas with a Bachelor of Science degree in Medical Technology then pursued her post graduate degree in Medicine also from the University of Sto. Tomas.

Committee(s): Trust

Paterno H. Dizon (Filipino, 81 years old)

Mr. Paterno H. Dizon, was appointed Independent Director to the Board on April 27, 2012 and last re-elected as Independent Director on May 25, 2018.

He had previously served as President to the following institutions: Science Park of the Phil. Inc., Cebu Light Industrial Park, Inc., and RFM Science Park of the Philippines from 1997 to 2003. Mr. Dizon held directorships at Hermosa Ecozone Development Corp. from 1997 to 2003; Export & Industry Bank from 1994 to 2006; and EIB Securities from 2004 to 2006. He served on the board of Phil. Export-Import Credit Agency from 2010 to 2012. He was elected as Chairman of the Phil. Exporters' Confederation Inc. since 1990 up to the present. He has been the President and CEO of Holy Cross College of Pampanga since 2012.

He has attended training sessions in Financial Management at SGV in 1974, Money and Banking from the Ateneo De Manila University in 1959, Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, Risk Awareness Seminar at the Pacific Management Forum in 2009, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; ASEAN Corporate Governance Conferences and Awards 2016 on November 14, 2015; Distinguished Corporate Governance Speaker Series on August 24, 2015.

Mr. Dizon holds a Bachelor of Science in Economics from the Ateneo De Manila University and a Master in Business Administration from the University of the Philippines.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

Benjamin R. Sta. Catalina, Jr. (Filipino, 71 years old)

Mr. Benjamin R. Sta. Catalina, Jr., was appointed Independent Director to the Board on July 2012 and last re-elected as Independent Director on May 25, 2018. He first assumed his independent directorship at PBB in 2003 to 2005.

During his early professional years, Mr. Sta. Catalina was the Senior Vice President of the Asset Based Finance Group of FNCB Finance Co. from 1980 to 1981. He later joined Citibank N.A. from 1981 to 1995 where he has served as Asst. Vice President & Division Head for the Public Sector Division, then became the Vice President and Asst. Director of the Asia Pacific Training Center. He later handled the Middle East Africa Division Training Center as Vice President and Associate Director, and then handled the World Corporation Group for Middle East Africa, Division Training Center as Regional Administrator. He was appointed to General Manager and handled the Center for International Banking Studies. In 1993 to 1994, Mr. Sta. Catalina was appointed Vice President and Chief of Staff of the Global Finance Marketing, then rose to Group Head where he handled the Pan Asian Corporate Team in 1994 to 1995.

In the academic sphere, he was the Executive Director of the Center for Banking and Financial Management of the Asian Institute of Management in 1996.

In addition to holding a number of executive positions, he attended training seminars such as the Makati CAD in 1974, Philippine Core Credit in 1976, Intermediate Credit Seminar in 1977, Exceptional Sales Performance in 1978, Bourse Game in 1979, Asset Based Finance Seminar in 1980, Electronic Banking Seminar in 1981, Selling Skills Train the Trainer Program in 1982, Advanced Lending Strategy in 1982, Technology for Senior Management in 1983 from the Asia Pacific Training Center. He attended Multinational Business Course in 1980 at Citibank New York, Face to Face Selling Skills in 1986 at the Boston Consulting Group. In 1987 he has attended the MAC Approach Course and Alcar Valuation Seminar at MEAD Training Center in Greece. He attended the Corporate Finance II in 1988 at the Asia Pacific Banking Institute. At MEAD Training Center in London, he attended the Risk Management Seminar and the Risk Management III – Corporate Finance in 1991. From 1993 to 1995, Mr. Sta. Catalina attended the Strengthening Organizational Capabilities, Service Quality Management, Technology Solutions for the Business, Marketing Derivatives Ideas, Standards Workshop, Marketing Financing Ideas to Issuers at Citibank Training Center.

Most recently, he attended the Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2003, and the Anti Money Laundering Act Seminar in 2014, Distinguished Corporate Governance Speaker Series on August 24, 2015 and 2015 Distinguished Corporate Governance Speaker Series 2 on September 15, 2015.

Mr. Sta. Catalina is a graduate of the Asian Institute of Management with a post graduate degree of Masters in Business Management. He finished his Bachelor of Science in Management Engineering from the Ateneo De Manila University.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

Narciso DL. Eraña (Filipino, 67 years old)

Mr. Narciso DL. Eraña was appointed Independent Director to the Board on May 25, 2018.

Mr. Eraña has an extensive career spanning over 30 years, about 23 of which were spent in the Philippine finance industry. This included about 16 years in various banks, and seven (7) years as President of a multinational brokering company. He also spent many years as an entrepreneur in the family business.

He started his career with Bank of America, Manila handling credit and trade finance for the mining industry, pharmaceuticals, and small medium scale businesses. He moved into the bank's Treasury Department and eventually became Bank of America's youngest Country Treasurer, handling the overall Treasury Trading and Management functions. This served as the foundation for the rest of his Finance career which focused on Treasury management in multinational and local institutions, from savings banks and unibanks.

His banking experience involved managing the banks' liquidity in all currencies, and FX and Government Securities trading as well as investments in Structured Products and derivatives.

His last position was President of ICAP Philippines for seven (7) years, a subsidiary of ICAP Plc., a London based FTSE company and the world's largest Interdealer broker, with average volumes in excess of USD 1 trillion daily. ICAP Philippines was appointed by the Bankers Association of the Philippines to manage the first Peso Interest Rate Swap Central Trade Reporting System in the country.

Active in financial market associations, Mr. Eraña was a Director of the Money Market Association of the Philippines for four (4) years and a Director of the ACI Financial Markets Association for another four (4) years. Activities included the formulation of policies and procedures for the operation of the Banking as well as brokering industries. These activities entailed frequent interaction with associations and regulators, including the Bangko Sentral ng Pilipinas, Securities and Exchange Commission, and the Banker's Association of the Philippines. During this time, he was also a member of Financial Executive Institute of the Philippines (FINEX).

Mr. Eraña is a graduate of Business Management at Schiller College in Heidelberg, Germany and obtained his MBA from the Thunderbird School of Global Management in Glendale, Arizona.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

Roberto C. Uyquiengco (Filipino, 71 years old)

Mr. Roberto C. Uyquiengco was appointed to the Board as Independent Director on May 25, 2018.

He has been in the banking and finance industry for almost 34 years. He started with Sycip Gorres Velayo & Co. (SGV) from 1970 to 1974 and later with North Negros Loggers Corporation until 1976. His stint in the banking industry started with Allied Banking Corporation from 1970 to 1980 and later with State Investment House (Bacolod Branch) from 1980 to 1984. He was last connected with China Banking Corporation as First Vice President and Region Head for North Luzon from 1984 until his retirement in 2011. He took up and passed the Trust Officers' Training Program (TOTP) given by the Philippine Trust Institute in 1991. Further, Mr. Uyquiengco attended some international and local conferences related to the banking and finance industry, among of which is the Bankers' of America Institute Conference in November 2007, held in Las Vegas, Nevada, USA and the Asian Bankers Conference in 1996 which was held in Singapore.

Currently, he is affiliated with the following private institutions: (a) Emmanuel Multi-purpose Cooperative, Inc., in Cuenca, Batangas as Director since 2011; (b) Green Leaf Foreign Exchange Corporation as its Chairman and CEO since its incorporation in 2012; and (c) Manulife as a Financial Adviser since July 2017.

Mr. Uyquiengco is also a known advocate of education, being a part-time faculty of the College of Business and Accountancy of National University since 2012 and as a part-time training consultant of the Chinabank Academy since 2013.

Mr. Uyquiengco is both a lawyer and a Certified Public Accountant (CPA) by profession. He obtained his undergraduate degree from La Salle College, Bacolod City in 1970 with a degree in BS in Commerce, Major in Accounting (graduating cum laude) and passed the CPA board in the same year. Thereafter, in 1975, he took up his Bachelor of Laws degree from the University of Negros Occidental-Recoletos, Bacolod City, graduating in 1980 and passing the bar examinations also in the same year. He also took up the advance Bank Management Program of the Asian Institute of Management from August to October 1993 and was awarded with the Highest Honor for superior performance among the forty (40) participants from various international banks.

Committee(s): Audit, Corporate Governance, Related Party Transaction, and Risk Oversight

b. Executive Officers

The following are the Executive Officers of the Bank, and their respective age, citizenship and position as of March 13, 2019:

Rolando R. Avante (Filipino, 60 years old)

Mr. Rolando R. Avante was appointed President and Chief Executive Officer since November 2, 2011.

Because of his strong background in treasury management, PBB has become one of the largest, fastest-growing and most respected savings banks. PBB was listed at The Philippine Stocks Exchange last February of 2013.

His banking career includes stints as Vice President for Local Currency Desk at City Trust Banking Corp. from 1988 to 1994; Senior Vice President & Treasurer at Urban Bank from 1994 to 1995; First Vice President for Domestic Funds Management at Philippine Commercial International Bank from 1995 to 1999; Executive Vice President & Treasurer at China Trust (PHILS.) Commercial Bank Corp. from 1999 to 2009; Executive Vice President & Treasurer at Sterling Bank of Asia from 2009 to 2011. He was elected President and Director at the Money Market Association of the Phil. (MART) in 1999. He was elected the same position at ACI Philippines in 2011.

His training includes Money Market at the Inter Forex Corp. in 1983; Treasury Management in Times of Crisis in 1984, Bourse Game in 1987 both conducted by FINEX; Rate Risk Game in 1989, Investment Banking Fundamental in 1990, Managing People in 1991 at the Citibank APBI; Capital Market Instruments in Asia in 1992, Asset & Liability Management in 1995 both conducted by Euro money; Asian Bond Fund II Workshop in 2004 at the Asian Bank; Securitization Law in 2006 at FINEX & SEC; ACI World Congress in 2011 at ACI Phil.; Economic Outlook 2012 in 2012 at the ANZ Private Bank Exclusive; Annual Global Markets Outlook in 2012 at Deutsche Bank; Entrepreneurs Forum in 2012 conducted by Business World; AMLA Seminar in 2012 at the Bangko Sentral ng Pilipinas; CEO Business Forum in 2012 at Punongbayan & Araullo; Cross-Border RMB Business in 2012 at Bank of China; Eco Forum in 2012 at Security Bank; Phil. Business Conference in 2012 at the Philippine Chamber of Commerce & Industry; Annual Investment Outlook 2013 in 2013 at ANZ Private Bank; Philippine Investment Summit 2013 in 2013 at the Investment Banking Group; IPO Annual Asia Pacific in 2013 at CIMB; Corporate Governance Seminar for Board of Directors on December 10, 2015.

Mr. Avante graduated from the De La Salle University with the degree of Bachelor of Science in Commerce major in Marketing Management and has taken MBA units from DLSU.

Committee(s): Anti-Money Laundering & FATCA, Asset & Liability, Bid, Credit, Executive, Management, IT Steering, Remedial & Special Assets Management, and Trust

Peter N. Yap (Filipino, 71 years old)

Mr. Peter N. Yap was appointed Chief Marketing Officer (CMO) on January 2018. He was the former Chief Operating Officer of PBB from April 2017 to December 2017 and Vice Chairman from August 2, 2010 to March 31, 2016 prior to his retirement.

In the span of his 40-year successful banking career, he held various positions from Manager in RCBC in 1977, Senior Manager to Executive Vice President and Head of Retail Banking Group of Allied Banking Corp. from 1978 to 2009.

He also held directorships in Allied Savings Bank from 2009 to 2010; Allied Leasing and Finance Corp. from 2009 to 2010; and Bancnet, Inc. from 2003 to 2009 where he was also elected as the Treasurer. Mr. Yap was also elected director in Insular Savers Bank, Inc. (A Rural Bank) from October 2015 to March 2016.

He has attended training sessions such as the Officer Development Program in 1977 at RCBC; Management Development Workshop in 1978, Negotiable Instrument Seminar in 1979, International Workshop in 1979, Bank Selling Skills Program in 1980, Break-Even Analysis Workshop in 1982 all conducted by Allied Bank; AHI Developing Executive Skills in 1981 at the ASEAN Banking Council; Management Development Program – Kaizen in 1982 at Ancella, Inc.; Corporate Governance & Risk Management for Bank's Board of Directors at the Development Finance Institute in 2002, and the Anti Money Laundering Act Seminar at the Bangko Sentral ng Pilipinas in 2014; Corporate Governance Seminar for Board of Directors in November and in December, 2014; Distinguished Corporate Governance Speaker Series and the ASEAN Corporate Governance Conference and Awards in 2015 conducted by the Institute of Corporate Directors.

Mr. Yap graduated from the University of San Carlos with the degree of Bachelor of Science in Chemical Engineering and has taken MBA units from the University of the Philippines - Visayas.

Committee(s): Anti-Money Laundering & FATCA, Asset & Liability, Credit, Employee Discipline, IT Steering, Management, and Product

Arlon B. Reyes (Filipino, 45 years old)

Mr. Reyes is Head of Commercial Banking Group. He has 25 years of professional experience gained from international and local financial institutions. He is proficient in global capital financing, mergers and acquisitions, loan syndication, structured finance, derivatives and treasury products, trade finance, credit & lending, and traditional commercial banking products. He is adept at financial crime management and anti-money laundering having attended intensive training and workshops on this field in an international bank setting.

His employment background includes being a Global Relationship Banker for Global Banking & Markets, with the rank of Senior Vice President with The Hongkong and Shanghai Banking Corporation Limited; Head of Rizal Commercial Banking Corporation's (RCBC) National Corporate Banking Group's Large Corporate Segment. He was the Head for China Desk and Foreign Branches Business Development serving concurrently as Team Leader and Relationship Manager for the Conglomerates Division of the Metropolitan Bank and Trust Co. Aside from Banking Mr. Reyes worked for the Philippines Stock Exchange's Business Development Group where he was instrumental in the creation and establishment of the Small and Medium

Enterprise (SME) Capital Market or SME Board.

Mr. Reyes graduated from the University of the Philippines – Diliman in 1994 with a degree in BS Economics. He secured his Master of Business Administration from the same university in April 2001.

Committee(s): Asset & Liability and Management

Reynaldo T. Boringot (Filipino, 61 years old)

Mr. Reynaldo T. Boringot joined Philippine Business Bank in July 2016. He was appointed as the Head of Luzon and NCR Area of Business Development Group with the rank of Senior Vice President. One of his major responsibilities is to bring in new clients for the bank through a variety of sales techniques. Also, he provides additional products/services to already existing clients.

He has 37 solid years of experience as a banker. He began his career as a rank and file in Pacific Bank from 1980 to 1985. He transferred to Metropolitan Bank & Trust Company from 1986 to 2003 as one of the youngest Branch Heads at the age of 30. Moreover, he was able to open a new branch in Tugatog, Malabon. He was later then transferred to Edsa - Caloocan as one of the youngest Center Heads. Finally, he transferred to Asia United Bank, his last employer prior to PBB where he started as Assistant Vice President in 2003 and became a Vice President concurrent as Area Head in Quezon City and the whole of Luzon until 2016.

Mr. Boringot graduated from the University of the East in 1980 with a degree in Bachelor of Science in Commerce major in Management. He took his MBA units from the Philippine School of Business Administration in 1982 to 1983.

Committee(s): Management

Joseph Edwin S. Cabalde (Filipino, 49 years old)

Mr. Joseph Edwin S. Cabalde is the Treasurer and holds the position of Senior Vice-President and Head of the Treasury Services Group. His work experiences include: Accounting Assistant and Assistant Secretary Head of China Banking Corporation from 1991 to 1993; Treasury Officer of Urban Bank Inc. from 1993 to 1995; Manager and Chief Dealer of Bangkok Bank Manila, and of Bank of Tokyo Mitsubishi from 1995 to 2004; Treasury Head of Oilink International from 2004 to 2007 and Assistant Vice-President and Treasurer of EEI Corporation from 2007 to 2008. Mr. Cabalde attended the Corporate Good Governance and AML Seminars sponsored by PBB.

Committee(s): Asset & Liability, IT Steering, and Management

Consuelo V. Dantes (Filipino, 56 years old)

Ms. Consuelo V. Dantes was appointed as the Human Resources Group Head with the rank of Senior Vice-President effective March 2017. She brings with her 33 years of expertise in the field of Human Resources Management, Corporate Support Services Group, and Business Unit Management. She was recently employed with EastWest Bank (EWB) as Human Resources Group Head from May 16, 2013 to July 31, 2016. Apart from being the Head of HRG, she was also the Chief of Staff from May 16, 2012 to May 15, 2013 under the Office of the President where she worked with 12 units - Credit, Human Resources, Collection and Asset Recovery, Legal Services, Customer Service, Consumer Lending, Corporate Banking, and Administrative Services.

Prior to her stint with EWB, she was with PlantersBank (now China Bank Savings) for 22 years from June 18, 1990 to March 31, 2012 where she held various lead positions in Human Resources, Corporate Communications, Corporate Planning, and Collection and Asset Recovery. She was an international consultant for Human Resource Management under ShoreCap Exchange, the training arm of ShoreCap International, and worked as consultant with Cambodia Entrepreneur Building Co., Ltd. in Cambodia. She was also a speaker/facilitator in seminar-workshops conducted by ShoreCap Exchange in Chennai, India, and Luxembourg. Also, during her stint with PlantersBank (now ChinaBank Savings) she was at one point appointed as the President and Chief Operating Officer of PDB-FMO Development Center (PDCenter).

In addition, Ms. Dantes' other banking experience also include stints with the following banks: Boston Bank of the Philippines (now Bank of Commerce - Branch Marketing and Development Group / Manager); Asiatrust Bank - Manager of Market Planning Group; and Security Bank Corporation as Branch Manager of Buendia, Makati Branch.

A Cum Laude graduate from University of the Philippines - Diliman with a degree in Bachelor of Arts in Economics, she took her MBA units with De La Salle University. Ms. Dantes is a Professional Executive Coach certified in the US-based International Coach Federation (ICF) way, by Benchmark Consulting.

Committee(s): Employee Discipline and Management

Rosendo G. Sia (Filipino, 63 years old)

Mr. Rosendo 'Rudy' Sia joined Philippine Business Bank in July 2016. He is the Senior Vice President/Group Head of the Business Development Group for Visayas and Mindanao. His task is to generate business from new clients as well as development and deepen further banking relationship with existing bank clients. In 1977, he began his career as an Assistant Chief Accountant of Rizal Securities Corp., then on the same year he joined Guzman, Bocaling & Co., CPAs, an Auditing Firm as an Auditor and became a Senior Auditor before moving to the Central Bank of the Philippines, now BSP, as a Non-Bank and Bank Examiner from 1981 to 1988. He joined Land Bank of the Philippines as a Branch Manager from 1988 to 1993 where he was assigned in the provincial branches of Tuguegarao City, Cebu City and Dumaguete City, among others, and held various key positions and committee membership in the association of local government controlled and owned corporations, regional development councils and represented the bank in the Board of Danao Development Bank and Rural Bank of Madridejos. He joined Metrobank in 1993 up to 2012 as Branch Head in Metro Manila area where he rose from the ranks from Senior Manager to Senior Vice President and held various key positions and committee memberships in the bank and its subsidiaries. Before joining PBB he was connected with Asia United Bank from 2012 to 2016 as Senior Vice President / Branch Banking Head for Visayas and Mindanao in concurrent capacity as Branch Lending Group Head and held various key positions and committee memberships.

Mr. Sia is a graduate of the University of the East and is a Certified Public Accountant and Masters in Business Administration from De La Salle Graduate School Academic Courses and Asian Institute of Management.

Committee(s): Management

Roselle M. Baltazar (Filipino, 45 years old)

Ms. Roselle M. Baltazar is the First Vice-President and Assistant Comptroller at the same time, Head of Central Operations Group of PBB. In 1999, she joined PBB and held various managerial and executive positions including: VP-COG Head - January 2011- June 2012, On June, 2012, appointed as Assistant Controller; Assistant Vice President & COG Head - March 2005-December 2010; Senior Manager and Head of Central Operations Group from 2004 to 2005; Senior Manager and Head of Branch Operations Control Center (BOCC) from 2001 to 2004; Senior Manager and Head of General Services Center (GSC) from 2001 to 2003; Manager and Head of Systems and Methods Sector (SMS) from 2000 to 2001; and Assistant Manager and Senior Systems Analysts from 1999 to 2000. She started her banking career at Westmont Bank (now United Overseas Bank) as: Accountant from 1996 to 1999, Audit Examiner II from 1995 to 1996, Loan Assistant from August 1995 to October 1995, and CASA Bookkeeper from June 1995 to August 1995. She is a Certified Public Accountant and a Civil Service (Professional and Sub-Professional) eligible.

Committee(s): Anti-Money Laundering & FATCA, Employee Discipline, IT Steering, Management, Product, and Remedial & Special Assets Management

Felipe V. Friginal (Filipino, 64 years old)

Mr. Felipe V. Friginal was appointed as the Branch Operations and Control Group Head in 2018 holding the rank of First Vice President. He joined PBB in 2004 as Vice President spearheading the Bank's Branch Banking Group until 2017.

He started his officer training in 2003 where he was included in the Management Development Program of UCPB for six months of classroom and on-the-job training. After completing his officer training program, he held his first officer post as a Cashier in three different branches in Laguna and Batangas. Mr. Friginal had various trainings and seminars in supervision, decision-making, crisis management/problem solving, leadership, Allen Management, organizational development, and basic and core credit.

Mr. Friginal is a Bachelor of Science Major in Business Administration – Marketing from Pamantasan Lungsod ng Maynila graduate and took his MBA degree in De La Salle University.

Committee(s): Anti-Money Laundering, Asset & Liability, Bid, Credit, Employee Discipline, IT Steering, Management, and Product

Eduardo R. Que (Filipino, 57 years old)

Mr. Eduardo "Poy" Que, First Vice President and Group Head of Corporate Banking, joined PBB in 2012 after 31 years with Allied Banking Corporation. He top-notched his officer training class and was appointed official trainer / lecturer in the Officer Development Program of Allied Bank for subjects International Banking Operations (Foreign/Domestic Trade); Credit Management; Business Development; Account Management; and Loans and Corporate/Merchant Banking. He is the most senior account officer for Corporate Banking Division where he spent about 20 years. He graduated college at De La Salle University, Bachelor of Science in Commerce, Major in Management of Financial Institutions and was a Dean's Lister. Mr. Que pursued his Masters Degree at Ateneo de Manila, Rockwell - Masters in Business Administration (MBA), full course Dean's Lister, batch top-notcher and Gold Medal Awardee in academics.

Committee(s): Asset & Liability and Management

Belinda C. Rodriguez (Filipino, 57 years old)

Ms. Belinda C. Rodriguez joined Philippine Business Bank on January 2016 as Chief Risk Officer (CRO) and Head of Enterprise Risk Management Group. As CRO, she is responsible for the supervision of the implementation of the risk management framework as part of corporate governance whereby risk management policies and best practices are instituted.

Ms. Rodriguez is a seasoned bank executive with 33 years of experience in the financial services industry and a strong background in enterprise risk management honed from job exposure from her employment both on the regulator (BSP) as examiner and regulated private and government banks. Most recently, she served as First Vice President for Asia United Bank, where she held various positions for eighteen years that included the CRO, Chief Compliance Officer (CCO), and head of the branch banking operations support and treasury operations.

She was Executive Vice President for Operations and Controllership of Town Savings Bank. She was head of Treasury Operations of foreign-owned Dao Heng Bank. After BSP, she joined the Management Training Program of Land Bank of the Philippines and then later became head of the Treasury Operations and Product Development. During her career, she has managed a number of activities involving operations and control functions. Other areas of expertise include audit, compliance, remittance, and resource optimization through improved controls, re-engineering and process realignment.

Ms. Rodriguez has participated in and continues to join various banking industry forums on risk management, regulatory compliance, AMLA, and credit risk. She was a resource speaker on the topic of Risk Management of the RBAP Institute for almost ten years. She is a graduate of state university, Polytechnic University of the Philippines with a degree in Commerce Major in Accounting and is a Certified Public Accountant (CPA). Ms. Rodriguez has completed her MBA degree from the Ateneo Graduate School of Business (AGSB).

Committee(s): IT Steering, Management, and Product

Liza Jane T. Yao (Filipino, 48 years old)

Ms. Liza Jane Yao is the Bank's General Services Head with a rank of First Vice President. She brings with her 15 years of banking experience.

She has attended various trainings/seminars which include: Seminar on Data Privacy Act, International Financing Reporting Standards 9 (IFRS 9), Corporate Governance Seminar, AMLA Seminar for Board of Directors and Senior Officers, Corporate Governance Seminar for Directors and Senior Officers, Credit Analysis and Writing Seminar, Thinking Strategically in Business Game Theory for Managers, Market Reading Seminar, Risk Awareness Seminar, Basic Financial Math Seminar, Loans Packaging and Processing Seminar, and Diploma Program in Banking.

Ms. Yao finished her BS Accountancy degree at De La Salle University.

Committee(s): Asset & Liability, Bid, and Management

Jose Maria P. Valdes (Filipino, 62 years old)

Mr. Jose Maria P. Valdes was appointed Information Technology Group Head on July 2017 with the rank of First Vice President.

A prominent figure in the field of IT, Mr. Valdes started his career with Carlos J. Valdes & Co. CPAs as a Senior Consultant from 1979 to 1988; City Trust Banking Corp. as IT Manager from 1988 to 1992; and he became the IT Director for Dart Philippines from 1992 to 1997.

He came back to the banking industry as Chief Information Officer at ChinaTrust Bank from 1997 to 2002; and CIO again at Export and Industry Bank from 2002 to 2007. Prior to joining PBB, he was IT Director at Encash, Inc. from 2007 to 2017.

He attended the Anti Money Laundering Act Seminar in 2003 and 2017; and Corporate Governance Seminar in 2004.

Mr. Valdes graduated from the De La Salle University with a double degree in Bachelor of

Science in Commerce major in Management of Financial Institutions and Bachelor of Arts in Behavioral Sciences.

Committee(s): IT Steering and Management

Rodel P. Geneblazo (Filipino, 48 years old)

Mr. Rodel P. Geneblazo is the First Vice President and Consumer Banking Group Head of Philippine Business Bank. He was appointed to this position effective January 2018.

A seasoned banker, he has more than 20 years of experience in consumer finance and credit cycle management. He started his banking career at PCI Bank from 1996 to 2000 as Management Development Program Trainee and rose to Head the Consumer Finance Unit in General Santos City. He joined Chinatrust Bank from 2000 to 2008 and held the positions of Head of Mortgage Loans, Head of Product Development, and Head of Credit Policy & MIS. He went to East West Bank in 2008 to 2010 as Head of Credit Services.

In 2010, Mr. Geneblazo joined Sterling Bank of Asia as Head of Credit Services up to 2012. He then became the Managing Director of Knowledge Transfer Financial Consulting Services where he provided trainings, seminars, and consultancy works in the area of consumer and microfinance loans, credit cycle management, Collections, MIS & Analytics, product development and management, both for the private and public institutions from 2012 to 2014. He went back to the banking industry in 2014 and joined Philippine Veterans Bank as Head of MIS & Analytics, and later, as its Risk Officer.

He joined Philippine Business Bank in 2015 initially as a Consultant and later became the Head of PBB's Acquired Banks. He was appointed as President of Insular Savers Bank, Inc. (A Rural Bank), a rural bank that was acquired by PBB in the same year until December 2017. He moved back to PBB in the beginning of 2018 and became its Consumer Banking Group Head up to the present.

Mr. Geneblazo is a graduate of the Polytechnic University of the Philippines with a degree in Bachelor of Science in Mechanical Engineering in 1992 where he was also a scholar of the Hasegawa Universal Lab Corporation. He took his Masters in Business Administration degree in 1996 from the University of the Philippines and was a National Economic and Development Authority (NEDA) scholar.

Committee(s): Management

Miami V. Torres (Filipino, 57 years old)

Ms. Miami V. Torres is the First Vice-President and Head of the Credit Management Group.

She has with her 35 years of banking experience which started in 1984 at United Coconut Planters Bank where she worked through all areas of branch operations from staff position, Branch Operations Officer, Branch Marketing Officer to Branch Head. Ms. Torres joined PBB in June 2002 as a Branch Head and was later on tasked to create and set up the Remedial and Special Assets Management Group. In 2010, she was assigned to head the Credit Services Group where she introduced significant changes in the credit processes. In 2016, her area of responsibility was expanded to include seven (7) different divisions namely: Credit Services, Credit Underwriting, Portfolio Management, Credit Administration, Remedial & Special Assets Management, Credit Policy & Technical Support, and the Insurance Desk. In her almost 17-year stay with the Bank, she had consistently introduced quite a number of very relevant changes and innovations, the benefits of which ran across the entire Bank.

She is a double-degree holder – AB Behavioral Science and BSC Accounting (CPA) from the University of Santo Tomas.

Committee(s): Credit, IT Steering, Management, and Remedial & Special Assets Management.

Rolando G. Alvendia (Filipino, 55 years old)

Mr. Rolando Alvendia is PBB's Chief Accountant and Head of General Accounting Center.

In his 32 years of banking experience, he was an Accounting Supervisor at United Coconut Planters Bank from 1986 to 1995 and Administrative Assistant at International Exchange Bank from 1995 to 1998. He started his career at PBB's General Accounting Center in 1998, where he rose from Assistant Manager to Assistant VP. Mr. Alvendia is a graduate of Bachelor of Accountancy from the Polytechnic University of the Philippines and is a Certified Public Accountant.

Committee(s): Management

Enrico T. Teodoro (Filipino, 46 years old)

Mr. Enrico Teodoro is the IT Deputy Head and OIC of Project Management Office.

He joined PBB in 1997 after his stints as Data Encoder at Ace Promotion and Marketing Corporation from 1994 to 1995 and a System Analyst and Programmer at Premier Development Bank from 1995 to 1997. He started his PBB career as an Administrative Assistant in 1997 and was the Officer-In-Charge of the Bank's Information Technology Group from 2015 to 2017.

He is a graduate from the Baguio Colleges Foundation with a Bachelor of Science in Information and Computer Course degree.

Committee(s): Management

Atty. Roberto S. Santos (Filipino, 70 years old)

Atty. Roberto S. Santos is the Corporate Secretary and Head of the Legal Services Group and holds the position of Vice-President. In his 37 years of experience in banking and finance, he was a Manager at Traders Royal Bank since 1980, held various executive positions with Security Bank from 1982 to 1999, General Manager of Security Finance Corporation from 1997-2001, and was the Head of the Legal Department of Metrobank Card Corporation from 2002 to 2004. Atty. Santos later joined PBB as Assistant Vice-President in 2008. He attended various seminars on Anti-Money Laundering, Corporate Governance, update on relevant tax laws, corporate rehabilitation, PSE and SEC regulations, Letters of Credit transactions, credit and collections, and other pertinent banking laws and regulations.

Atty. Santos received his law degree from the University of the East and is a graduate of Bachelor of Arts from the same university.

Committee(s): Anti-Money Laundering & FATCA, Management, Product, and Remedial & Special Assets Management

John David D. Sison (Filipino, 34 years old)

Mr. Dave Sison joined Philippine Business Bank in July 2014. He leads the Bank's Corporate Planning Group, which plays a key role in the bank's strategic management, investor relations functions, and M&A initiatives. He is also part of the MIS unit that leads the profit planning performance analysis of the Bank which assists senior management in the process of decision-making and tracks performance of the Bank's business units.

Prior to PBB, he was a private equity analyst with KGL Investment Company Asia since 2008. Before joining KGL, Dave was an investment banking associate with PNB Capital & Investment Corporation, a boutique investment bank offering financial advisory, debt syndications, and corporate finance services. He began his career in finance as an investor relations analyst with ABS-CBN Corporation.

He graduated in 2006 with a Bachelor of Science degree in Management Engineering (an Honors Program) from the Ateneo de Manila University where he received training in traditional management disciplines (marketing, finance, operations management, organizational behavior, and strategic management), economics, and the social sciences in combination with skills development in qualitative and quantitative analysis, mathematics, statistics, and operations research. Mr. Sison completed the Value Investing Program at Colombia Business School in New York City.

Committee(s): Asset & Liability and Management

Ma. Joyce G. Zarate (Filipino, 56 years old)

Ms. Joyce Zarate brings with her 29 years of expertise and experience in corporate communications, branding, and product development gained from thrift, commercial and universal banks. In coordination with the Information Technology Group (ITG) and the business units, she spearheads the Bank's bid to position its brand and product offerings in the digital banking space through the development of digital channels that will further enhance service delivery and customer experience.

She had stints in East West Bank as Head of Marketing Communications, AIG Philam Bank as Head of Marketing Services, United Overseas Bank and PNB in the fields of product development and management, and public relations. Prior to joining Philippine Business Bank in February 2018, she was head of Marketing Communications and Customer Experience at China Bank Savings.

She is a graduate of Bachelor of Arts in Economics with minor studies in Mathematics from the University of the Philippines – Diliman. She completed masteral units in Economics at Ateneo de Manila University. Also, she took a non-degree course at De La Salle College of Saint Benilde's School of Professional & Continuing Education for Product Development and Management.

Committee(s): IT Steering, Management, and Product

Reynaldo E. Ebanen (Filipino, 51 years old)

Mr. Reynaldo E. Ebanen was hired by the Bank as Deputy Chief Compliance Officer in April 2016 and assumed the position of Acting Chief Compliance Officer in January 2018 up to the present.

He started his banking career in Active Bank as an Accounting Assistant from 1991 to 1992 and was promoted to Branch Accountant in 1993 to 1995 and Account Officer in 1996 to 1997. His other banking experiences include: Branch Accountant (1998 to 2000), Branch Manager (2000-2001), Head of AML Unit (2001 to 2006) at United Overseas Bank; AML Officer at United Coconut Planters Bank (2006 to 2008); and Compliance and AML Officer at Bank of Makati Inc. (2008 to 2016).

Mr. Ebanen is a graduate of Bachelor of Science in Business Administration Major in Accounting from the University of the East and attended the Trust Operations and Investment Management Program at the Asian Institute of Management (AIM).

Committee(s): Anti-Money Laundering & FATCA, Employee Discipline and Management

Laurence R. Rapanut (Filipino, 57 years old)

Ms. Laurence R. Rapanut is the Assistant Vice President and Internal Auditor of PBB. Her work experiences include: Junior Audit Examiner of Far East Bank and Trust Company from June 1983 to January 1988; Junior Audit Examiner to Branch Controller of First Philippine International Bank from September 1988 to January 1995; Branch Accountant – Assistant Manager to Senior Assistant Manager of Westmont Bank from April 1996 to December 2000; and Senior Assistant Manager to Manager of United Overseas Bank from January 2001 to January 2006. She joined PBB in March 2006 as Supervising Audit Examiner - Manager of Internal Audit Center.

Committee(s): Bid, Employee Discipline, and Management

Teresita S. Sion (Filipino, 66 years old)

Ms. Teresita S. Sion is the Assistant Vice President and Trust Officer of PBB. Her banking experiences include: Per Pro of the Trust Services Group at Philippine Commercial International Bank from 1976 to 1991; Officer-in-Charge of the Trust Banking Group of Metropolitan Bank and Trust Company from 1991 to 1995 and later became the Senior Manager of the Trust and Investment Department of All Asia Capital which she held until September of 1998; Vice President and Head of the Trust Banking Group of Export and Industry Bank, Inc from October 1998 to November 2006; Consultant on Financial Matters of MRC Allied, Inc from August 2008 to May 2009; and was also the Consultant for Trust Banking Sector of Asiatrust Development Bank from May 2009 to July 2009. She was later appointed as Vice President and Trust Officer of the same bank until February 2012. She joined PBB in February 2012 as Marketing and Business Development Officer and became the Assistant Vice President and Trust Officer on November of the same year.

Committee(s): Management and Trust

Emma K. Lee (Filipino, 60 years old)

Ms. Emma Lee was appointed Head of Systems and Methods Center with a rank of Assistant Vice President. She started her banking career as a Client Servicing Clerk/New Account Clerk, Current Account Bookkeeper, Management Trainee, Service Head, and Branch Operations Officer in different savings and commercial banks. Ms. Lee has been with Philippine Business Bank for more than eleven (11) years where she was initially assigned to the AML Unit of the Compliance Office as an AML Compliance Officer for more than eight (8) years and was later assigned to head the Systems and Methods Center in June 2017 up to the present.

Ms. Lee is a Bachelor of Science Major in Accounting graduate from the University of Sto. Tomas.

Committee(s): Management

Identify Significant Employees

Although PBB has relied on and will continue to rely on the individual and collective contributions of each of its executive officers, senior operational personnel and non-executive employees, PBB believes that it does not depend on the services of a particular employee and that there is no employee that the resignation or loss of whom would have a material adverse impact on its business.

Family Relationships

Ambassador Alfredo M. Yao and Leticia M. Yao are siblings.

Jeffrey S. Yao is the son of Ambassador Alfredo M. Yao.

Emma K. Lee and Chairman Francis T. Lee are first cousins.

Liza Jane T. Yao and Jeffrey S. Yao are spouses.

Other than the foregoing, there are no family relationships either by consanguinity or affinity up to the fourth civil degree among directors, executive officers, and nominees for election as directors.

Involvement in Certain Legal Proceedings

None of the directors, nominees for election as director, executive officers or control persons of the Bank have been involved in any legal proceedings during the past five (5) years, including without limitation being the subject of any:

1. Bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of bankruptcy or within two (2) years prior to that time;

2. Conviction by a final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

3. Order, judgment or decree not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and

4. Order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation.

Item 10. Executive Compensation

The following table sets forth the aggregate compensation received by its key management officers:

In ₱ millions		Aggregate Compensation Paid as a Group		
NAME	**POSITION**	**2016**	**2017**	**2018**
CEO and the four (4) most highly compensated officers of the Bank namely:		23.81	27.93	38.66
Rolando R. Avante	President & CEO			
Peter N. Yap	Chief Marketing Officer			
Rosendo G. Sia	Business Development Executive			
Joseph Edwin S. Cabalde	Treasurer			
Consuelo V. Dantes	Human Resources Group Head			

Total Aggregate Compensation of Directors and Officers of the Bank as a group:	**Salary**	**Other Compensation**	**Bonus**	**Total**
2016	248.30	19.21	57.80	325.31
2017	291.87	21.23	68.76	381.86
2018	368.29	32.19	87.44	487.92

Compensation of Directors

Each director of the Bank receives a per diem allowance of ₱20,000.00 determined by the Board of Directors for attendance in a Board meeting and a ₱5,000.00 allowance for attendance in a committee meeting. The Directors are also entitled to a monthly gasoline allowance of ₱5,000.00. Except as disclosed above, none of these Directors receive any additional compensation for any special assignments.

Except for each of the individual Directors' participation in the Board, no Director of the Bank enjoys other arrangements such as consulting contracts or similar arrangements.

Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

PBB has executed pro-forma employment contracts with its Staff and Officers. These contracts basically specify the scope of services expected from these individuals and the compensation that they shall receive.

There are no arrangements for compensation to be received by these named executive officers from the Bank in the event of a change in control of the Bank.

Item 11. Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Record and Beneficial Owners

The following persons own at least five per cent (5%) of the Bank's outstanding common shares:

Title of Class	Name, Address of Record Owners and relationship with the issuer	Name of Beneficial Owner and relationship with record owner	Citizenship	No. of shares held	Per cent of class
Common	Alfredo M. Yao 84 Dapitan St. corner Banawe St. Sta. Mesa Heights, Quezon City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	239,838,309	37.26%
Common	Zest-O Corporation 574 EDSA Caloocan City Stockholder	The record owner is the beneficial owner of the shares indicated	Filipino	162,052,923	25.17%
Total Common Shares				401,891,232	62.43%

On November 16, 2012, the SEC approved PBB's application for the amendment of its articles of incorporation to increase its authorized capital stock from ₱3.0 billion to ₱10.0 billion and for a decrease in par value from ₱100 to ₱10.00.

Security Ownership of Management

The following directors and executive officers of the Company directly own approximately 4.85% percent of the Company's issued and outstanding common stock as of December 31, 2018 as follows:

Name of Director	Nationality	Present Position	No. of Shares	Class
Francis T. Lee	Filipino	Chairman	26,505,000	Common
Jeffrey S. Yao	Filipino	Vice Chairman	1,620,535	Common
Rolando R. Avante	Filipino	President & CEO	857,922	Common
Honorio O. Reyes-Lao	Filipino	Director	254,998	Common
Leticia M. Yao	Filipino	Director	1,680,535	Common
Roberto A. Atendido	Filipino	Director	108,750	Common
Danilo A. Alcoseba	Filipino	Director	120	Common
Paterno H. Dizon	Filipino	Independent Director	132,558	Common
Benjamin R. Sta. Catalina	Filipino	Independent Director	56,358	Common
Narciso D.L. Eraña	Filipino	Independent Director	100	Common
Atty. Roberto C. Uyquiengco	Filipino	Independent Director	1,000	Common
Joseph Edwin S. Cabalde	Filipino	Treasurer	14	Common
Atty. Roberto Santos	Filipino	Corporate Secretary	15,000	Common

The aggregate shareholdings of the Bank's Directors and Officers as a group is 4.85% with a total of 31,232,890 number of shares.

Voting Trust Holders of 5% Or More

The Bank is unaware of any person holding more than five per cent (5%) of shares under a voting trust or similar agreement.

Changes in Control

There have been no arrangements that have resulted in a change of control of the Bank during the period covered by this report.

Item 12. Certain Relationships and Related Transactions

The Bank's related parties include entities under common ownership, key management and others as described below.

	2017		**2018**	
	Transaction	Balance	**Transaction**	**Balance**
Entities Under Common Ownership				
Deposit Liabilities	914,160,412	7,386,127,107	**(2,305,623,210)**	**5,080,503,897**
Interest Expense	66,106,681	-	**101,498,910**	**-**
Loans	527,860,985	767,983,251	**257,708,642**	**927,636,924**
Interest Income	29,782,815	969,508	**37,866,916**	**1,081,314**
Retirement Fund				
Contribution	37,133,819	-	**34,039,326**	**-**
Plan Assets	163,694,753	202,904,139	**6,858,486**	**209,762,625**
Key Management Compensation	113,530,990	-	**158,028,243**	**-**

i. DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2017 and 2018.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 16).

ii. DOSRI Loans

The Bank has loan transactions with its officers and employees. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2017 and 2016, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	December 31, 2017	**December 31, 2018**
Total outstanding DOSRI loans	₱ 767,983,251	**₱ 927,636,924**
Unsecured DOSRI loans	29,210,591	**33,929,983**
Past due DOSRI loans	-	**-**
% to total loan portfolio	1.1%	**1.2%**
% of unsecured DOSRI loans to total DOSRI loans	3.9%	**3.7%**
% of past due DOSRI loans to total DOSRI loans	0.0%	**0.0%**

The details of total outstanding DOSRI Loans for the year ended December 31, 2017 and 2018 are shown below:

	2017	**2018**
Commercial loans	P 732,434,589	**P 888,066,230**
Key management personnel	35,548,662	**39,570,694**
	P 767,983,251	**P 927,636,924**

The Bank leases the following properties from affiliated parties:

Property	**Owner**
Banawe, Quezon City branch	Solmac Marketing Inc.
EDSA Kalookan branch	Solmac Marketing Inc.
Quintin Paredes, Binondo branch	Downtown Realty Investment Corporation
Grace Park branch	SMI Development Corporation
Yakal Makati branch	AMY Leasing Company
Z-Square Mall (Del Monte Branch ATM Off-site)	SMI Development Corporation
Head Office Annex- Z-Square	SMI Development Corporation
OBO - Taguig	SMI Development Corporation

iii. Transactions with Retirement Fund

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

iv. Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

		2016		2017		**2018**
Short-term benefits	₱	92,909,936	₱	104,997,794	₱	**124,500,369**
Post-employment benefits		9,024,121		8,533,196		**33,527,874**
Total	₱	101,934,057	₱	113,530,990	₱	**158,028,243**

The composition of the Bank's short-term benefits are as follows:

		2016		2017		**2018**
Salaries and wages	₱	72,088,807	₱	81,600,760	₱	**96,765,374**
Bonuses		17,987,189		20,562,459		**24,276,370**
Social security costs		1,508,717		1,550,625		**1,524,668**
Other short-term benefits		1,325,223		1,283,950		**1,933,957**
Total	₱	92,909,936	₱	104,997,794	₱	**124,500,369**

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

Corporate Governance, as an indispensable component of a sound strategic business management and as foundation of stakeholder, depositor and public trust, the Board of Directors and Management and Staff of Philippine Business Bank, Inc. (PBB) commits to the principles and best practices contained in the Board Approved Corporate Governance Manual that guide PBB in the attainment of goals.

PBB believes that corporate governance is a system of rules, practices and process by which the Bank is directed and controlled. The Board of Directors sets the tone at the top through directives and policies that is being communication to its employees.

The Bank as a publicly listed institution is being regulated and supervised by the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). The Bank's activities are subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791), Corporation Code of the Philippines, and other laws such as the Anti-Money Laundering Act of 2001 (Republic Act No. 9160), as amended.

The Board of Directors is primarily responsible for defining the bank's vision and mission. The Board of Directors has the fiduciary responsibility to the Bank and all its shareholders including minority shareholders. It shall approve and oversee the implementation of strategies to achieve corporate objectives. It shall also approve and oversee the implementation of the risk governance framework and the systems of checks and balances. It shall establish a sound corporate governance framework.

Major role and contribution of the Chairman of the Board

The Chairman of the board of directors shall provide leadership in the board of directors. He shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors. He shall:

1. Ensures that the meeting agenda focuses on strategic matters, including discussion on risk appetites and key governance concerns;
2. Ensures a sound decision making process;
3. Encourages and promote critical discussion;
4. Ensures that views can be expressed and discussed within the decision-making process;
5. Ensures that members of the board of directors receives accurate, timely, and relevant information;
6. Ensures the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
7. Ensures conduct of performance evaluation of the board of directors at least once a year.

During the Bank's annual stockholders meeting on May 25, 2018, the stockholders approved the appointment of Mr. Narciso De Leon Eraña as Independent Director and Mr. Roberto C. Uyquiengco. Mr. Uyquiengco assumed the position of Independent Director on January 11, 2019 upon approval of the Securities and Exchange Commission of the amendment of the Bank's Articles of Incorporation increasing the number of directors from ten (10) to eleven (11) board seats.

Name of Directors	Board		Executive		Audit		Corporate Governance	
	Attended	%	Attended	%	Attended	%	Attended	%
Francis T. Lee	11	92%	39	100%				
Jeffrey S. Yao	11	92%	39	100%	4*	100%	2*	50%
Rolando R. Avante	12	100%	39	100%				
Danilo A. Alcoseba	12	100%			11	100%	3*	100%
Roberto A. Atendido	10	83%			8	73%	4	57%
Paterno H. Dizon	11	92%			11	100%	7	100%
Honorio O. Reyes-Lao	11	92%						
Benjamin R. Sta. Catalina, Jr.	11	92%			10	91%	6	86%
Dra. Leticia M. Yao	12	100%						
Narciso DL. Eraña**	7*	100%			6*	100%	4*	100%
Amador T. Vallejos Jr.***	-	-			-	-	-	-
Total Number of Meetings held during the year 2018	**12**		**39**		**11**		**7**	

Name of Directors	Related Party Transactions		Risk Oversight		Trust	
	Attended	%	Attended	%	Attended	%
Francis T. Lee					3*	100%
Jeffrey S. Yao			4*	80%	1*	50%
Rolando R. Avante					5	100%
Danilo A. Alcoseba	11	100%	5*	100%		
Roberto A. Atendido	9	82%	8	67%		
Paterno H. Dizon	10	91%	11	92%		
Honorio O. Reyes-Lao	5*	100%	10	83%	5	100%
Benjamin R. Sta. Catalina, Jr.	9	82%	10	83%		
Dra. Leticia M. Yao					5	100%
Narciso DL. Eraña**	6*	100%	7*	100%		
Amador T. Vallejos Jr.***	-	-	-	-		
Total Number of Meetings held during the year 2018	**11**		**12**		**5**	

**Based on the revised composition of the board-level and management level committees*
***Appointed as member of the Board on May 25, 2018.*
**** Absence due to sickness*

Related Party Transactions

The Board of Directors have the overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders. The Board is responsible for approving all material RPTs, those that cross material threshold, and write-off of material exposures to related parties, and submits the same for confirmation by majority vote of the stockholder in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall be approved by the board of directors. The Board of Directors delegated to appropriate management committee the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of Directors. This excludes DOSRI transactions, which are required to be approved by the board.

The Board of Directors constituted an RPT Committee who will:

1. Evaluate on an on-going basis existing relationship between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored and subsequent relationships with counterparties are captured;

2. Evaluate all material RPTs to ensure that these are not undertaken on more favourable economic terms to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.

3. Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures and policies on conflict of interest or potential conflict of interest

4. Reports to the board of directors on a regular basis the status and aggregate exposure to each related party.

5. Ensure that transactions with related parties, including write-off of exposures, are subject to periodic independent review and

6. Oversee the implementation of the system for identifying, monitoring, measuring and controlling, and reporting the RPTs including the periodic review of RPT policies and procedures.

The senior management shall implement appropriate controls to effectively manage and monitor RPTs.

PBB's RPT shall be allowed provided that these comply with applicable regulatory/internal limits/requirements and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into substantially on terms and conditions not less favorable than those with other customers of comparable risks.

Off-market rates applies to DOSRI provided these are supported by valid justifications or reasons (such as high volatility in the market, meaning quoted rates might have changed greatly within the day) and senior management is made fully aware of such reasons/justifications and subject to the off-market rate tolerance level. Off-market rates are foreign currency rates, fixed income yields or prices, and money market rates that are higher than the highest prevailing market rates and lower than the lowest prevailing market rates.

RPTs shall not require the approval of the Board of Directors, except on the following:

1. Transactions with DOSRI which presently require prior approval from the BOD under existing policy of the Bank and in accordance with Sections X148, X334 and X335 of the MORB; and
2. RPTs that exceed the material threshold amounts, as approved by the Board.

Approval of the RPT with non-DOSRI and those that do not exceed the material threshold amounts shall be in accordance with the revised policy on levels of signing authority, as approved by the Board. All RPTs that cross the threshold amounts shall be considered as material RPTs and shall be subject to pre-board approval evaluation by the RPT Committee before the same are endorsed to the Board for approval. All approved RPTs shall be reported by the booking/contracting units to the Central Operations Group (COG) upon approval of the transaction/signing and notarization of the contract for MIS disclosure and regulatory reporting purposes.

If an actual or potential conflict of interest arises on the part of the Director, Officer or Employee, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process related to the transactions. Any member of the Board who has an interest in the transaction under evaluation shall not participate therein and shall abstain from voting on the approval of transaction.

Transactions that were entered into with unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in the policy. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the RPT Policy.

To ensure that RPTs are done at arm's length, all transactions with related parties shall undergo the normal/regular transaction processing and approval. Interest on loans and other credit accommodations and deposit/deposit substitute shall be consistent with the price discovery mechanism/standards of the bank as posted in Bank's website. Other economic terms of RPTs shall likewise be based on existing policy of the bank. All RPTs with deviation shall be subject to evaluation and endorsement by the RPT Committee to the Board of Directors for approval, regardless of amount, and shall be supported by written justifications. Price discovery mechanism for ROPA and selection of service providers and supplier are also mentioned in the RPT policy of the Bank.

Materiality thresholds for each type of transactions with each related party or group of related parties are specified in the RPT Policy. Internal limits for individual and aggregate exposures are also defined in the RPT Policy to ensure that RPTs are within prudent levels.

Self-Assessment Function

The control environment of the Bank consists of:

a. Board of Directors - ensures that PBB is properly and effectively managed and supervised;
b. Management - manages and operates the Bank in a sound and prudent manner;
c. Organizational and procedural controls supported by effective management information and risk management reporting system; and
d. An Independent audit mechanism to monitor the adequacy and effectiveness of the Bank's governance, operations, and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

Consumer Protection Practices

A. Board and Senior Management Oversight Function

a. Board of Directors

The Board shall be primarily responsible for approving and overseeing the implementation of policies governing major areas of the Bank's consumer protection program, including the mechanism to ensure compliance with the set policies.

The roles of the Board shall include the following:

i. Approve the Consumer Protection policies;
ii. Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;
iii. Provide adequate resources devoted to Consumer Protection; and
iv. Review the applicable policies periodically.

b. Senior Management

The Senior Management shall be responsible for proper implementation of the Consumer Protection policies and procedures duly approved by the Board. Also, its role shall focus on ensuring effective management of day-to-day consumer protection activities.

B. Consumer Protection Risk Management System

The Board shall be responsible in developing and maintaining a sound CPRMS which shall be integrated into the overall framework for the entire product and service life cycle. The Board and Senior Management should periodically review the effectiveness of the CPRMS, including how findings are reported and whether the audit mechanisms in place enable adequate oversight. The Board and Senior Management must also ensure that sufficient resources have been devoted to the program. Likewise, the Board and Senior Management must also make certain that CPRMS weaknesses are addressed and corrective actions are taken in a timely manner.

C. Consumer Assistance Management System

The Consumer Assistance Management System (CAMS) is a mechanism that records all complaints filed by customers either through the Bangko Sentral ng Pilipinas (BSP) or directly to the concerned branch. The system also monitors the status of the complaints' processing and resolution.

The general process of handling customer complaints is as follows:

a. The client may lodge his/her complaint through any of the following means:

i. By personally visiting the concerned branch/Head Office unit (where he/she shall be asked to fill out the Customer Complaint Form [CCF]);
ii. Through telephone via the following contact numbers: or

Telephone Numbers	**Available Time**	**Banking Day**	**Non-Banking Day**
Branch/H.O. unit	8:30 AM – 5:30 PM	Y	N
CPO Hotline 363-8050 loc. 1035 or 1027	8:30 AM – 5:30 PM	Y	N
PBB Helpdesk 363-3000	24 hrs.	Y	Y
Mobile Phone thru TEXT 0922-8715322	24 hrs.	Y	Y
Direct Recorded 363-HELP (4357)	8:30 AM – 5:30 PM	Y	N

iii. Via e-mail at consumerprotection@pbb.com.ph

b. The concerned branch/Head Office unit personnel shall validate the complaint received from the customer. If the complaint can be resolved immediately/upfront, he/she shall explain to the client the resolution of the complaint. If the complaint cannot be resolved immediately, he/she shall explain to the client the following timeline (which are reckoned from the date of receipt of the complaint):

	If the complaint is classified as "Simple"	**If the complaint is classified as "Complex"**
Acknowledgment	Within 2 days	Within 2 days
Processing and resolution (assess, investigate, and resolve)	Within 7 days	Within 45 days
Communication of resolution	Within 9 days	Within 47 days

The concerned branch/Head Office unit shall transmit the CCF to the Consumer Protection Unit via e-mail or fax.

c. The complaint shall pass through the Consumer Protection Officer (CPO) or the PBB Helpdesk (if the complaint is lodged via telephone), who shall acknowledge receipt of the same and shall obtain/record the details of the compliant in the CAMS. The CPO (or PBB Helpdesk) shall then assign the complaint to the concerned Support Group.

d. The Support Group retrieves the complaint received through the CAMS or e-mail (whichever is applicable) and performs the necessary corrective actions based on the nature of the complaint. The resolution made on the complaint shall then be recorded accordingly in the CAMS or reply via e-mail (whichever is applicable).

e. Once the complaint has been resolved by the Support Group, the CPO shall tag it as closed in the CAMS. The CPO (or the PBB Helpdesk) shall also be the one to generate and submit the Customer Complaint Summary Report daily to the Consumer Protection Head.

f. The Consumer Protection Head shall perform the following tasks:

   i. Monitor and evaluate customer complaints handling process;
   ii. Analyze the nature of the complaints and recommends solutions to avoid recurrence;
   iii. Extract generated complaints report monthly except when it is urgently needed to be submitted to and reviewed by the HR Head;
   iv. Recommend the resolution of the case or if needed to be elevated to proper authorities or needed to be taken up in the Committee on Employee Discipline (CED), if applicable;
   v. Report to Senior Management on a quarterly basis the complaints received and the resolutions applied;
   vi. Report periodically to the Board all complaints received within the period as stated; and
   vii. Make recommendation and assessment on the cases filed to avoid recurrence in the future.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

(a) Exhibits

Annex A…………………………………………….. Audited Financial Statements

(b) Reports on SEC Form 17-C

State whether any reports on SEC Form 17-C, as amended were filed during the last six month period covered by this report, listing the items reported, any financial statements filed and the dates of such.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in City of CALOOCAN CITY on 15 MAR 2019.

By:

FRANCIS T. LEE
Chairman

ROLANDO R. AVANTE
President and Chief Executive Officer

ROSELLE M. BALTAZAR
Assistant Comptroller

ROLANDO G. ALVENDIA
Chief Accountant

ATTY. ROBERTO S. SANTOS
Corporate Secretary

15 MAR 2019

SUBSCRIBED AND SWORN to before me this ____ day of ________ 20__ affiant(s) exhibiting to me his/their Residence Certificates, as follows:

NAMES	TIN NO.
FRANCIS T. LEE	113-336-814
ROLANDO R. AVANTE	106-968-623
ROSELLE M. BALTAZAR	179-193-899
ROLANDO G. ALVENDIA	107-182-307
ROBERTO S. SANTOS	123-467-623

Notary Public

ATTY NIÑO CHRISTOPHER R PURA
Notary Public (NC-348 Valid Until Dec. 31, 2019)
Roll of Attorney's No. 53988
PTR No 10302054, 01-03-19, Caloocan
IBP No 055949, 12-03-18, Calmana
MCLE Cert No V-0023635, 08 16 16
350 Rizal Ave Cor 8th Ave Grace Park Caloocan

DOC. NO. 16
PAGE NO. 5
BOOK NO. 7
SERIES OF 19

PHILIPPINE BUSINESS BANK
a savings bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

The Bank's Board of Directors, through management, is responsible for overseeing the Bank's financial reporting process.

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

Punongbayan and Araullo, the independent auditors appointed by the members, has audited the financial statements of the Foundation in accordance with Philippine Standards on Auditing, and in their report to the members, have expressed their opinion on the fairness of presentation upon completion of such audit.

Francis T. Lee
Chairman

Rolando R. Avante
President and CEO

Roselle M. Baltazar
Chief Finance Officer

16 APR 2019

SUBSCRIBED AND SWORN to before me on ________ 20__ affiant/s exhibiting to me his/her Government-Issued ID/s bearing his/her Photograph/s and Signature/s.

DOC. NO. 102
PAGE NO. 22
BOOK NO. 9
SERIES OF 19

ATTY NINO CHRISTOPHER R PURA
Notary Public (NC-348 Valid Until Dec. 31, 2019)
Roll of Attorney's No 53988
PTR No 10302054, 01-03-19, Caloocan
IBP No 055949, 12-03-18, Calmana
MCLE Cert No V-0023535, 08 16 16
350 Rizal Ave Cor 8th Ave Grace Park Caloocan

Signed this 15th day of April, 2019.

P&A
Grant Thornton
An instinct for growth™

Punongbayan & Araullo
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The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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F +63 2 886 5506
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Report of Independent Auditors

The Board of Directors and Stockholders
Philippine Business Bank, Inc., A Savings Bank
350 Rizal Avenue Extension corner 8th Avenue
Grace Park, Caloocan City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

(a) Adoption of PFRS 9, Financial Instruments

Description of the Matter

In 2018, the Bank adopted PFRS 9, *Financial Instruments* which, effective January 1, 2018, replaced Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*. The adoption of this new standard, which primarily affected the Bank's classification and measurement of financial assets and impairment of financial instruments using the expected credit loss (ECL) methodology, is considered significant in our audit because of the complexity of the accounting requirements and the significant judgment and assumptions used by management in applying the standard.

The impact of the adoption of PFRS 9, and the related changes in accounting policies, basis of judgment and estimates, and risk management policies and procedures are disclosed in Notes 2, 3 and 4 to the financial statements.

How the Matter was Addressed in the Audit

We have obtained an understanding of the Bank's implementation process of PFRS 9, including the changes in the Bank's policies and processes. Our main audit procedures for each of the new requirements of PFRS 9 are the following:

(i) Classification and Measurement

- obtaining and understanding the board-approved business models for the Bank's portfolios of financial assets;

- evaluating the appropriateness of the Bank's policy for classification and measurement of financial instruments based on the requirements of PFRS 9;

- evaluating the sufficiency and appropriateness of the business model assessment and contractual cash flows characteristics assessment (i.e., testing if the cash flows arising from financial assets relate solely to payment of principal and interest) and assessing the frequency and relative amount of sales in the past;

- checking the analysis done by the Bank in respect of the classification of its financial assets into amortized cost and fair value through other comprehensive income, and measurement of the assets in their respective classifications; and

- checking and evaluating the appropriateness of transition adjustments applied by management as a result of the adoption of PFRS 9 and ascertaining the adequacy of the related financial statement disclosures, including changes in accounting policies and basis of judgment and estimates.

(ii) Impairment

- evaluating the appropriateness of the Bank's new impairment policy, particularly in respect of areas where the exercise of judgment is necessary such as when a credit exposure has experienced a significant increase in credit risk;

- understanding and assessing the appropriateness of ECL models used, including reasonableness of overlays or forward-looking information (FLI);

- assessing completeness, accuracy, relevance and reliability of inputs in the ECL models, including historical information, write-offs and collateral valuations;

- checking the Bank's assessment of the appropriateness of the ECL models, and assumptions and estimates used; and

- evaluating the appropriateness and reasonableness of the impairment adjustments arising from the transition to PFRS 9 as well as completeness and reasonableness of related ECL disclosures.

(b) Valuation of Loans and Other Receivables and Recognition of Related Interest Income

Description of the Matter

(i) Valuation of Loans and Other Receivables

Loans and other receivables are the most significant resources of the Bank. As at December 31, 2018, the balance of the account is P75.5 billion, which is net of allowance for impairment of P1.0 billion, representing 80% of the Bank's total resources.

The relevant accounting policies of the Bank on the measurement and impairment of financial assets are disclosed in Note 2 to the financial statements. In applying such policies, management has made significant accounting judgments and estimates, particularly in determining when loans and other receivables are impaired and how much impairment should be recognized in the financial statements. Management's application of judgments and estimates in respect of impairment of loans and other receivables is disclosed in Note 3 to the financial statements, and the Bank's analysis of the allowance for impairment of the asset is presented in Note 12 to the financial statements.

As discussed in item (a), in 2018, the Bank adopted PFRS 9, which introduced the ECL model in determining impairment of financial assets. Accordingly, the Bank used the ECL model in determining impairment of its loans and other receivables. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, the associated loss ratios and of default correlations between counterparties. Furthermore, the Bank incorporated FLI into both the assessment of whether the credit risk of an instrument has increased significantly from its initial recognition to the measurement of ECL. The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

The disclosures of the Bank on the allowance for impairment on loans and other receivables, and the related credit risk are included in Notes 4 and 12 to the financial statements.

(ii) Recognition of Interest Income

The Bank measures these financial assets using the effective interest method and recognizes the related interest income using the effective interest rate. In 2018, the interest income recognized on loans and receivables amounted to P5.3 billion which accounts for 96% of the total interest income of the Bank. Because of the materiality of the amount involved and the risk that the amount of interest income recognized in the financial statements could be higher than what have been actually earned, we have considered the recognition of interest income to be a matter of significance in our audit.

How the Matters were Addressed in the Audit

We have established reliance on the Bank's internal control by testing the design and operating effectiveness of internal control including general and application controls over the assessment and approval of customer credit; the capturing of information relevant to calculation of the amount of allowance for impairment (e.g., risk grades, default rates and loss given defaults); the calculation and recognition of impairment loss; and, the calculation and recognition of the interest income using the effective interest method.

In addition, we performed substantive audit procedures, which included, among others:

Valuation of Loans and Other Receivables

- evaluating the appropriateness of the Bank's credit policy and loan impairment process as approved by the Board of Directors;

- testing the Bank's application of internal credit risk rating system by reviewing the ratings of sample credit exposures;

- verifying that the loans are allocated to the appropriate stage of credit impairment by challenging the criteria used to allocate the loan to Stage 1, 2 or 3 in accordance with PFRS 9;

- evaluating the inputs and assumptions as well as the formulas used in the development of the ECL models for each of its loan portfolio. This includes assessing the appropriateness of design of the ECL impairment model and formula used in determining the probability of default, loss given default and exposure at default;

- assessing whether the forecasted macro-economic factors, which generally include but not limited to gross domestic product growth, unemployment rate, inflation rate and interest rates, were appropriate in respect of the FLI used. In addition, assessing the level of significance of correlation of selected macro-economic factors to the default rates and the impact of these variables to the ECL;

- assessing the borrowers' repayment abilities by examining payment history for selected loan accounts; and

- evaluating management's forecast of recoverable cash flows, valuation of collaterals and estimates of recovery from other sources of collection in respect of selected non-performing loan accounts;

Recognition of Interest Income

- testing, on a sampling basis, the reasonableness and appropriateness of the effective interest rate used by the Bank in computing interest income; and

- checking the propriety of the application of payments received by the Bank between principal, interest and penalties, if applicable.

Other Information

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2018 required by the Bureau of Internal Revenue as disclosed in Note 30 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Christopher M. Ferareza.

PUNONGBAYAN & ARAULLO

By: **Christopher M. Ferareza**
Partner

CPA Reg. No. 0097462
TIN 184-595-975
PTR No. 7333693, January 3, 2019, Makati City
SEC Group A Accreditation
Partner - No. 1185-AR-2 (until May 9, 2021)
Firm - No. 0002-FR-5 (until Mar. 26, 2021)
BIR AN 08-002511-34-2017 (until Jun. 19, 2020)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 10, 2019

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2018 AND 2017
(Amounts in Philippine Pesos)

	Notes	2018	2017
RESOURCES			
CASH AND OTHER CASH ITEMS	9	**P 988,547,825**	P 1,002,240,895
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**6,164,361,658**	6,575,270,040
DUE FROM OTHER BANKS	10	**4,528,594,643**	4,012,519,495
TRADING AND INVESTMENT SECURITIES – Net	11		
At fair value through profit or loss (FVPL)		**1,816,806,583**	-
At fair value through other comprehensive income (FVOCI)		**2,279,714,729**	-
At amortized cost - net		**771,055,060**	-
Available-for-sale (AFS)		**-**	2,438,872,511
LOANS AND OTHER RECEIVABLES – Net	12	**75,530,357,441**	70,552,796,381
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net	13	**475,278,837**	486,639,186
INVESTMENT PROPERTIES – Net	14	**429,250,479**	423,348,421
OTHER RESOURCES – Net	15	**1,745,524,716**	1,772,157,992
TOTAL RESOURCES		**P 94,729,491,971**	P 87,263,844,921
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	16		
Demand		**P 1,360,580,445**	P 1,219,946,216
Savings		**29,493,591,196**	26,761,394,203
Time		**46,396,911,610**	45,540,676,996
Total Deposit Liabilities		**77,251,083,251**	73,522,017,415
BILLS PAYABLE	17	**3,696,505,696**	1,933,724,724
ACCRUED EXPENSES AND OTHER LIABILITIES	18	**2,422,845,987**	1,581,874,771
Total Liabilities		**83,370,434,934**	77,037,616,910
EQUITY	19		
Capital stock		**7,057,500,940**	7,057,500,940
Additional paid-in capital		**1,998,396,816**	1,998,396,816
Surplus		**2,479,160,277**	1,249,049,896
Revaluation reserves		**(176,000,996)**	(78,719,641)
Total Equity		**11,359,057,037**	10,226,228,011
TOTAL LIABILITIES AND EQUITY		**P 94,729,491,971**	P 87,263,844,921

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2018	2017	2016
INTEREST INCOME				
Loans and other receivables	12	**P 5,311,070,538**	P 3,672,405,502	P 2,753,015,521
Trading and investment securities	11	**150,073,005**	169,493,706	347,450,912
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	**48,332,797**	38,533,466	106,688,143
Others	21	**83,110**	1,037,221	-
		5,509,559,450	3,881,469,895	3,207,154,576
INTEREST EXPENSE				
Deposit liabilities	16	**1,619,874,200**	826,990,066	734,334,592
Bills payable	17	**112,387,248**	14,841,279	12,786
Others	21	**-**	-	385,402
		1,732,261,448	841,831,345	734,732,780
NET INTEREST INCOME		**3,777,298,002**	3,039,638,550	2,472,421,796
IMPAIRMENT LOSSES	11, 12, 14	**294,731,906**	260,519,609	157,043,157
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**3,482,566,096**	2,779,118,941	2,315,378,639
OTHER INCOME				
Service charges, fees and commissions		**284,823,000**	200,841,789	151,446,102
Trading gains (losses) – net	11	**(30,493,963)**	128,497,849	348,705,833
Miscellaneous – net	20	**103,286,349**	57,739,234	71,411,568
		357,615,386	387,078,872	571,563,503
OTHER EXPENSES				
Salaries and other employee benefits	21	**816,987,670**	735,812,499	635,523,891
Taxes and licenses	30	**552,300,873**	382,355,576	354,104,708
Occupancy	24	**316,885,097**	294,904,718	274,470,716
Insurance		**199,899,999**	163,492,077	139,095,054
Depreciation and amortization	13, 14, 15	**185,904,712**	168,389,752	172,421,326
Management and other professional fees		**144,843,719**	117,575,137	125,373,997
Representation and entertainment		**45,480,967**	33,466,272	34,865,345
Miscellaneous	20	**336,457,187**	356,868,288	276,624,450
		2,598,760,224	2,252,864,319	2,012,479,487
PROFIT BEFORE TAX		**1,241,421,258**	913,333,494	874,462,655
TAX EXPENSE	23	**383,423,004**	273,247,394	205,838,450
NET PROFIT	27	**P 857,998,254**	P 640,086,100	P 668,624,205
Earnings Per Share				
Basic and Diluted	27	**P 1.33**	P 0.99	P 0.92

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2018	2017	2016
NET PROFIT		**P 857,998,254**	P 640,086,100	P 668,624,205
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss				
Gain (loss) on remeasurements of post-employment defined benefit plan	21	**(24,019,637)**	(19,589,334)	22,612,985
Tax income (expense)	23	**7,205,891**	5,876,800	(6,783,896)
		(16,813,746)	(13,712,534)	15,829,089
Items that will be reclassified subsequently to profit or loss	11			
Fair value losses on investment securities at FVOCI during the year - net		**(75,060,232)**	-	-
Expected credit losses for FVOCI securities		**4,229,457**	-	-
Fair value gains on AFS securities during the year - net		**-**	59,748,950	772,317,899
Fair value losses reclassified to profit or loss during the year		**-**	(29,979,364)	(270,581,452)
		(70,830,775)	29,769,586	495,278,728
Other Comprehensive Income (Loss) - Net of Tax		**(87,644,521)**	16,057,052	511,107,817
TOTAL COMPREHENSIVE INCOME		**P 770,353,733**	P 656,143,152	P 1,179,732,022

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	Capital Stock (see Note 19) Preferred Stock	Capital Stock (see Note 19) Common Stock	Additional Paid-in Capital (see Note 19)	Surplus (see Note 19) Appropriated	Surplus (see Note 19) Unappropriated	Revaluation Reserves (see Note 19) Net Unrealized Fair Value Losses on Investment Securities at AFS	Revaluation Reserves (see Note 19) Net Unrealized Fair Value Losses on Investment Securities at FVOCI	Revaluation Reserves (see Note 19) Accumulated Actuarial Losses	Total Equity
BALANCE AS OF JANUARY 1, 2018										
As previously reported		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 7,107,770	P 1,241,942,126	(P 52,250,091)	P -	(P 26,469,550)	P 10,226,228,011
Effect of adoption of PFRS 9 (2014)	2	-	-	-	449,628,263	(77,516,136)	52,250,091	(61,886,925)	-	362,475,293
As restated		620,000,000	6,437,500,940	1,998,396,816	456,736,033	1,164,425,990	-	(61,886,925)	(26,469,550)	10,588,703,304
Appropriation for trust reserves	19, 25	-	-	-	1,200,755	(1,200,755)	-	-	-	-
Appropriation for general loan loss reserve	19	-	-	-	275,750,535	(275,750,535)	-	-	-	-
Total comprehensive income (loss)		-	-	-	-	857,998,254	-	(70,830,775)	(16,813,746)	770,353,733
BALANCE AS OF DECEMBER 31, 2018		**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 733,687,323**	**P 1,745,472,954**	**P -**	**(P 132,717,700)**	**(P 43,283,296)**	**P 11,359,057,037**
BALANCE AS OF JANUARY 1, 2017		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	P -	(P 12,757,016)	P 9,570,084,859
Stock dividends	19	-	1,072,916,570	-	-	(1,072,916,570)	-	-	-	-
Appropriation for trust reserves	19, 25	-	-	-	1,118,218	(1,118,218)	-	-	-	-
Total comprehensive income (loss)		-	-	-	-	640,086,100	29,769,586	-	(13,712,534)	656,143,152
BALANCE AS OF DECEMBER 31, 2017		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 7,107,770	P 1,241,942,126	(P 52,250,091)	P -	(P 26,469,550)	P 10,226,228,011
BALANCE AS OF JANUARY 1, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 4,799,387	P 1,087,656,774	(P 577,298,405)	P -	(P 28,586,105)	P 8,469,552,837
Appropriation for trust reserves	19, 25	-	-	-	1,190,165	(1,190,165)	-	-	-	-
Cash dividends	19	-	-	-	-	(79,200,000)	-	-	-	(79,200,000)
Total comprehensive income		-	-	-	-	668,624,205	495,278,728	-	15,829,089	1,179,732,022
BALANCE AS OF DECEMBER 31, 2016		P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	P -	(P 12,757,016)	P 9,570,084,859

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos)

	Notes	2018	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 1,241,421,258	P 913,333,494	P 874,462,655
Adjustments for:				
Impairment losses	11, 12, 14	294,731,906	260,519,609	157,043,157
Depreciation and amortization	13, 14, 15	185,904,712	168,389,752	172,421,326
Unrealized loss (gain) on foreign currency revaluation of investment securities	11	(80,556,789)	8,938,655	(157,739,246)
Gain on sale of properties - net	14, 15	(13,457,936)	(21,104,197)	(14,957,797)
Amortization of premium (discount)	11	(3,053,009)	8,583,967	(126,136,285)
Reversal of allowance for impairment	11	(547,987)	-	-
Gain on sale of available-for-sale (AFS) securities	11	-	(35,661,078)	(323,546,622)
Operating profit before working capital changes		1,624,442,155	1,303,000,202	905,093,810
Decrease (increase) in trading and investment securities at FVPL		(1,232,591,853)	3,274,168,284	(3,198,225,645)
Increase in loans and other receivables		(4,188,417,087)	(18,946,058,784)	(10,292,691,231)
Decrease (increase) in other resources		(89,607,475)	23,921,740	(383,443,754)
Increase in deposit liabilities		3,729,065,836	14,447,530,766	3,735,627,968
Increase (decrease) in accrued expenses and other liabilities		901,604,515	(166,116,284)	(489,921,837)
Cash generated from (used in) operations		744,496,091	(63,554,076)	(9,723,560,689)
Cash paid for income taxes		(496,975,483)	(334,642,895)	(223,708,542)
Net Cash From (Used in) Operating Activities		247,520,608	(398,196,971)	(9,947,269,231)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of investment securities at FVOCI	11	(783,916,126)	-	-
Acquisitions of investment securities at amortized cost	11	(375,097,281)	-	-
Acquisitions of bank premises, furniture, fixtures and equipment	13	(144,117,676)	(102,838,293)	(142,983,302)
Proceeds from sale of investment and other properties	14, 15	117,426,391	94,683,757	422,360,427
Acquisition of software licenses	15	(77,965,698)	(16,556,063)	(14,989,422)
Proceeds from sale of bank premises, furniture, fixtures and equipment	13	15,588,647	15,532,562	33,672,003
Proceeds from sale of AFS securities	11	-	4,803,015,169	9,013,850,949
Acquisitions of AFS securities	11	-	(3,352,273,750)	(1,844,594,612)
Cash acquired through business combination	15	-	216,156,116	-
Payments for business acquisition	15	-	-	(223,539,299)
Net Cash From (Used in) Investing Activities		(1,248,081,743)	1,657,719,498	7,243,776,744
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of bills payable	17	16,646,397,805	6,424,212,200	-
Settlement of bills payable	17	(14,883,616,833)	(4,490,487,476)	(956,250)
Payment of cash dividends	19	-	(79,200,000)	-
Net Cash From (Used in) Financing Activities		1,762,780,972	1,854,524,724	(956,250)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		762,219,837	3,114,047,251	(2,479,593,301)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR				
Cash and other cash items	9	1,002,240,895	1,098,616,524	1,279,302,155
Due from Bangko Sentral ng Pilipinas	9	6,575,270,040	6,225,701,096	7,672,637,783
Due from other banks	10	4,012,519,495	1,633,340,396	2,825,982,401
Securities under reverse repurchase agreement	12	826,072,472	345,154,260	-
Foreign currency notes and coins on hand	15	60,144,407	59,387,782	63,871,020
		12,476,247,309	9,362,200,058	11,841,793,359
CASH AND CASH EQUIVALENTS AT END OF THE YEAR				
Cash and other cash items	9	988,547,825	1,002,240,895	1,098,616,524
Due from Bangko Sentral ng Pilipinas	9	6,164,361,658	6,575,270,040	6,225,701,096
Due from other banks	10	4,528,594,643	4,012,519,495	1,633,340,396
Securities under reverse repurchase agreement	12	1,500,000,000	826,072,472	345,154,260
Foreign currency notes and coins on hand	15	56,963,020	60,144,407	59,387,782
		P 13,238,467,146	P 12,476,247,309	P 9,362,200,058

Supplemental Information on Non-cash Investing and Financing Activities:

(1) In 2017, the Bank declared and distributed stock dividend amounting to P1,072.9 million (see Note 19).

(2) In 2017 and 2016, the Bank acquired bank premises, furniture, fixtures and equipment amounting to P1.0 million and P5.6 million, respectively, through business combination (see Notes 13 and 15).

(3) On December 29, 2016, the Bank declared cash dividend on preferred shares amounting to P79.2 million which was paid in 2017 (see Note 19).

(4) Loans and other receivables settled through foreclosures of related collateral amounted to P140.7 million in 2018 and P62.9 million in 2017 and P191.9 million in 2016 (see Notes 12, 14 and 15).

(5) On January 1, 2018, the Bank reclassified investment securities amounting to P2,438.9 million from AFS to investment securities at FVPL, FVOCI, and amortized cost (see Note 11).

Other Information -

The securities under reverse repurchase agreement and foreign currency notes and coins are included as part of Cash and Cash Equivalents for cash flow purposes but are presented as part of Loans and Other Receivables and Other Resources, respectively, in the statements of financial position (see Notes 12 and 15).

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018, 2017 AND 2016
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. The Bank is a publicly listed entity in the Philippine Stock Exchange (PSE). It had its initial public offering (IPO) of shares on February 13, 2013 (see Note 19.4).

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. Its activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other relevant laws.

PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under RA Nos. 8791 and 7906 and the Manual of Regulations for Banks. It was granted in April 2010.

The Bank operates in the Philippines and, as of December 31, 2018 and 2017, it has 145 and 142 branches, respectively, located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2018 (including the comparative financial statements as of December 31, 2017 and for the years ended December 31, 2017 and 2016) were authorized for issue by the Bank's Board of Directors (BOD) on April 10, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies that have been used in the preparation of these financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

In 2018, the Bank adopted PFRS 9, *Financial Instruments*, which was applied using the transitional relief allowed by the standard. This allowed the Bank not to restate its prior periods' financial statements. Differences arising from the adoption of PFRS 9 in relation to classification and measurement and impairment of financial assets are recognized in the opening balance of Surplus and Revaluation Reserves in the current year [see Note 2.2(a)(ii)].

Accordingly, the application of the changes in the Bank's accounting policy on financial instruments in relation to its adoption of this new accounting standard did not warrant the presentation of a third statement of financial position.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Bankers Association of the Philippine (BAP) at the end of reporting period for the statement of financial position accounts and at the average BAP for the period for the profit and loss.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2018 that are Relevant to the Bank

The Bank adopted for the first-time the following new PFRS, amendments, and interpretation, which are mandatorily effective for annual periods beginning on or after January 1, 2018:

PAS 40 (Amendments)	:	Investment Property – Reclassification to and from Investment Property
PFRS 9	:	Financial Instruments
PFRS 15	:	Revenue from Contracts with Customers; Clarifications to FPRS 15
International Financial Reporting Interpretations Committee (IFRIC) 22	:	Foreign Currency Transactions and Advance Consideration

Discussed below are the relevant information about these pronouncements.

(i) PAS 40 (Amendments), *Investment Property – Reclassification to and from Investment Property*. The amendments states that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The amendments provided a non-exhaustive list of examples constituting change in use. The application of these amendments had no impact on the Bank's financial statements.

(ii) PFRS 9, *Financial Instruments* (issued in 2014). This new standard on financial instruments replaced PAS 39, *Financial Instruments: Recognition and Measurement,* and PFRS 9 issued in 2009, 2010 and 2013. This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments, i.e., financial assets at amortized costs, fair value through profit and loss (FVPL), and fair value through other comprehensive income (FVOCI);

- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at FVPL, which generally depends on whether there has been a significant increase in credit risk since initial recognition of such financial assets; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

The following are the details of the impact of the Bank's adoption of PFRS 9:

a. Debt Instruments Reclassified from AFS to FVPL

The Bank reclassified to securities at FVPL certain government and corporate debt securities with fair value of P584.2 million, which were previously classified as AFS securities, because these securities are now held by the Bank for trading purposes or with the objective of selling them in the short to medium-term. Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P13.9 million was adjusted to the opening balance Unappropriated Surplus [(see Note 2.2(a)(ii)f] as at January 1, 2018.

b. Debt Instruments Reclassified from Available-for-Sale (AFS) to FVOCI

The Bank reclassified certain government and corporate debt securities under AFS securities to financial assets at FVOCI because the investment objective of the related business model is to hold these investments to collect the contractual cash flows and sell, but are held for long-term strategic investment and are not expected to be traded in the short to medium-term. As a result, these securities valued at amortized cost are remeasured at fair value at the reclassification date. The Bank reclassified an accumulated net unrealized fair value losses on FVOCI securities of P61.9 million, which was adjusted to the opening balance of Net Unrealized Fair Value Losses on Investment Securities at FVOCI under Revaluation Reserves as at January 1, 2018 [(see Note 2.2(a)(ii)f]. In addition, the securities were analyzed for impairment based on the ECL model developed by the Bank [(see Note 2.2(a)(ii)f].

c. Debt Instruments Reclassified from AFS to Amortized Cost

The Bank reclassified certain government and corporate debt securities with fair value of P365.1 million, which were previously classified as AFS securities, that met the criteria to be classified as investment securities at amortized cost under PFRS 9 because the related business model is to hold these debt instruments to collect contractual cash flows, wherein said cash flows pertain solely to payment of principal and interest. Accordingly, the accumulated net unrealized fair value losses on AFS securities amounting to P4.2 million was transferred to Net Unrealized Fair Value Losses on Investment Securities at FVOCI under Revaluation Reserves as at January 1, 2018 [(see Note 2.2(a)(ii)f]. Moreover, the Bank determined whether these securities are impaired based on the ECL model developed by the Bank [(see Note 2.2(a)(ii)f].

d. Unquoted Debt Securities Classified as Loans (UDSCL) Reclassified to Amortized Cost

The Bank reclassified unquoted debt securities amounting to P25.9 million previously classified under loans and other receivables to investment securities at amortized cost that met the business model criteria set for investment securities at amortized cost, which is the collection of the contractual cash flows, wherein said cash flows pertain solely to payments of principal and interest. Furthermore, the securities were analyzed for impairment based on the Bank's ECL model [(see Note 2.2(a)(ii)f].

e. Credit Losses on Loans and Other Receivables

The application of the ECL methodology based on the stages of impairment assessment for loans and other receivables resulted in the reduction in allowance for credit losses on specific loan accounts of P401.3 million as well as the related deferred tax asset of P120.4 million which were charged and credited, respectively, to the opening balance of Unappropriated Surplus [(see Note 2.2(a)(ii)h]. As required under BSP Circular 1011, *Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS) 9 – Financial Instruments*, a general loan loss provision of P449.6 million, which represents the excess of the 1% required allowance under of the BSP over the computed allowance for ECL, was credited by the Bank to Appropriated Surplus as at January 1, 2018 [(see Note 2.2(a)(ii)f].

In addition, the Bank accrued interest income of P232.5 million on Stage 3 loans and recognized a corresponding deferred tax liability of P69.7 million which were credited and debited, respectively, to the opening balance of Unappropriated Surplus [(see Note 2.2(a)(ii)f].

f. Credit Losses on Investment in Debt Securities

All of the Bank's investment in debt securities classified at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized was therefore limited to 12-month expected credit loss. Management considers 'low credit risk' for quoted and government bonds to be an investment grade credit rating with at least one reputable rating agency. Other instruments are considered to have low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. Nevertheless, due to application of ECL methodology, an allowance for impairment of P2.2 million was recognized on debt securities at amortized cost which was debited to the opening balance of the Unappropriated Surplus account.

The table below summarizes the effects of the adoption of PFRS 9 on the carrying amounts and presentation of the categories of certain financial assets in the statement of financial position as of January 1, 2018.

	Notes	Carrying Value PAS 39 December 31, 2017	Reclassification	Remeasurements	Carrying Value PFRS 9 January 1, 2018
Available-for-sale (AFS) securities		P 2,438,872,511	P -	P -	P 2,438,872,511
Reclassification to:					
Investment securities at FVPL	a	-	(584,214,730)	-	(584,214,730)
Investment securities at FVOCI	b	-	(1,489,541,718)	-	(1,489,541,718)
Investment securities at amortized cost	c	-	(365,116,063)	-	(365,116,063)
AFS Securities		**P 2,438,872,511**	**(P 2,438,872,511)**	**P -**	**P -**
Investment securities at FVPL		P -	P -	P -	P -
Reclassification from AFS securities	a	-	584,214,730	-	584,214,730
Investment securities at FVPL		**P -**	**P 584,214,730**	**P -**	**P 584,214,730**

	Notes	Carrying Value PAS 39 December 31, 2017	Reclassification	Remeasurements	Carrying Value PFRS 9 January 1, 2018
Investment securities at FVOCI		P -	P -	P -	P -
Reclassification from AFS securities	b	-	1,489,541,718	-	1,489,541,718
Investment securities at FVOCI		**P -**	**P 1,489,541,718**	**P -**	**P 1,489,541,718**
Investment securities at amortized cost		P -	P -	P -	P -
Reclassification from AFS securities	c		365,116,063	4,243,554	369,359,617
Loans and other receivables	d	-	25,923,421	-	25,923,421
Investment securities at amortized cost		**P -**	**P 391,039,484**	**P 4,243,554**	**P 395,283,038**
Loans and other receivables					
Gross amount		P 72,009,244,549	P -	P -	P 72,009,244,549
Allowance for impairment	e	(1,456,448,168)	-	324,103,199	(1,132,344,969)
Reclassification to Investment securities at amortized cost	d	-	(25,923,421)	-	(25,923,421)
Investment securities at amortized cost		**P 70,552,796,381**	**(P 25,923,421)**	**P 324,103,199**	**P 70,850,976,159**

The table below shows the impact of the adoption of PFRS 9 on the Bank's total equity as at January 1, 2018.

	Effects on Surplus Appropriated	Effects on Surplus Unappropriated	Revaluation Reserves	Total Equity
Balance at January 1, 2018, PAS 39	P 7,107,770	P 1,241,942,126	(P 52,250,091)	P10,226,228,011
Effect of reclassification and remeasurements of financial assets	-	13,880,388	(9,636,834)	4,243,554
Recognition of accrued interest income	-	232,484,800	-	232,484,800
Reversal of allowance on loans	-	401,287,986	-	401,287,986
Recognition of allowance for impairment on:				
Accrued interest receivable	-	(77,184,785)	-	(77,184,785)
Loan commitment	-	(6,058,499)	-	(6,058,499)
Debt securities reclassified to amortized cost	-	(2,165,927)	-	(2,165,927)
Appropriation of surplus free for general loan loss provision per BSP requirement	449,628,263	(449,628,263)	-	-
Decrease in deferred tax asset arising from:				
Remeasurements of financial assets	-	(120,386,396)	-	(120,386,396)
Recognition of accrued interest income	-	(69,745,440)	-	(69,745,440)
	449,628,263	(77,516,136)	(9,636,934)	362,475,293
Balance at January 1, 2018, PFRS 9	**P 456,736,033**	**P 1,164,425,990**	**(P 61,886,925)**	**P10,588,703,304**

As the accounting for financial liabilities remains substantially the same under PFRS 9, the Bank's financial liabilities were not affected by the adoption of PFRS 9.

The Bank's new accounting policies on financial instruments relative to the adoption of PFRS 9 is fully disclosed in Notes 2.5 and 2.8.

(iii) PFRS 15, *Revenue from Contract with Customers*, together with the *Clarifications to PFRS 15* (herein referred to as PFRS 15). This standard replaced PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Bank's significant sources of revenue pertain to its lending and trading activities, which generate interest income and service fees. Except for certain service fees, significant amount of the Bank's revenues are out of the scope of PFRS 15. Recognition and measurement of the Bank's revenue streams within the scope of PFRS 15 did not vary upon transition from PAS 18. Accordingly, the adoption of the new standard, which was applied retrospectively, had no material impact on the Bank's financial statements. Nevertheless, the Bank's accounting policy on revenue recognition has been updated to conform well with the provisions of PFRS 15 in respect of revenues that are in scope (see Notes 2.16 and 20.1).

(iv) IFRIC 22, *Foreign Currency Transactions and Advance Consideration – Interpretation on Foreign Currency Transactions and Advance Consideration*. The interpretation provides more detailed guidance on how to account for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary asset (arising from advance payment) or liability (arising from advance receipt). If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt. The application of this amendment had no impact on the Bank's financial statements.

(b) Effective in 2018 that are not Relevant to the Bank

The following amendments and improvements to existing standards are mandatorily effective for annual periods beginning on or after January 1, 2018 but are not relevant to the Bank's financial statements:

PFRS 2 (Amendments)	:	Share-based Payment – Classification and Measurement of Share-based Payment Transactions
PFRS 4 (Amendments)	:	Insurance Contracts – Applying PFRS 9 with PFRS 4
Annual Improvements to PFRS (2014-2016 Cycle)		
PAS 28 (Amendments)	:	Investment in Associates – Clarification on Fair Value Through Profit or Loss Classification
PFRS 1 (Amendments)	:	First-time Adoption of Philippine Financial Reporting Standards – Deletion of Short-term Exemptions

(c) *Effective Subsequent to 2018 but not Adopted Early*

There are new PFRS, interpretation, amendments and improvements to existing standards effective for annual periods subsequent to 2018, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 19 (Amendments), *Employee Benefits – Plan Amendment, Curtailment or Settlement* (effective January 1, 2019). The amendments require the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity remeasures its net defined benefit liability (asset).

(ii) PFRS 9 (Amendments), *Financial Instruments – Prepayment Features with Negative Compensation* (effective from January 1, 2019). The amendments clarify that prepayment features with negative compensation attached to financial instruments may still qualify under the "solely payments of principal and interests" (SPPI) test. As such, the financial assets containing prepayment features with negative compensation may still be classified at amortized cost or at FVOCI.

PFRS 16, *Leases* (effective from January 1, 2019). The new standard will eventually replace PAS 17, *Leases*, and its related interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. For lessees, it requires to account for leases "on-balance sheet" by recognizing a "right-of-use" asset and a lease liability. The lease liability is initially measured as the present value of future lease payments. For this purpose, lease payments include fixed, non-cancellable payments for lease elements, amounts due under residual value guarantees, certain types of contingent payments and amounts due during optional periods to the extent that extension is reasonably certain. In subsequent periods, the "right-of-use" asset is accounted for similar to a purchased asset subject to depreciation or amortization. The lease liability is accounted for similar to a financial liability which is amortized using the effective interest method. However, the new standard provides important reliefs or exemptions for short-term leases and leases of low value assets. If these exemptions are used, the accounting is similar to operating lease accounting under PAS 17 where lease payments are recognized as expenses on a straight-line basis over the lease term or another systematic basis (if more representative of the pattern of the lessee's benefit).

For lessors, lease accounting is similar to PAS 17's. In particular, the distinction between finance and operating leases is retained. The definitions of each type of lease, and the supporting indicators of a finance lease, are substantially the same as PAS 17's. The basic accounting mechanics are also similar, but with some different or more explicit guidance in few areas. These include variable payments, sub-leases, lease modifications, the treatment of initial direct costs and lessor disclosures.

The management plans to adopt the modified retrospective application of PFRS 16 where the cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of the Unappropriated Surplus account at the date of initial application. The Bank will elect to apply the standard to contracts that were previously identified as leases applying PAS 17 and IFRIC 4 at the date of initial application. Management anticipates that the adoption of this standard will result in an increase in resources and a corresponding lease liability of the Bank as of December 31, 2018.

(iii) IFRIC 23, *Uncertainty Over Income Tax Treatments* (effective from January 1, 2019). The interpretation provides clarification on the determination of taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates when there is uncertainty over income tax treatments. The core principle of the interpretation requires the Bank to consider the probability of the tax treatment being accepted by the taxation authority. When it is probable that the tax treatment will be accepted, the determination of the taxable profit, tax bases, unused tax losses, unused tax credits, and tax rates shall be on the basis of the accepted tax treatment. Otherwise, the Bank has to use the most likely amount or the expected value, depending on the surrounding circumstances, in determining the tax accounts identified immediately above.

(iv) Annual Improvements to PFRS 2015-2017 Cycle (effective from January 1, 2019). Among the improvements, the following amendments are relevant to the Bank but had no material impact on the Bank's financial statements as these amendments merely clarify existing requirements:

- PAS 12 (Amendments), *Income Taxes – Tax Consequences of Dividends*. The amendments clarify that all income tax consequence of dividend payments should be recognized in profit or loss.

- PAS 23 (Amendments), *Borrowing Costs – Eligibility for Capitalization*. The amendments clarify that any specific borrowing which remains outstanding after the related qualifying asset is ready for its intended purpose, such borrowing will then form part of the entity's general borrowings when calculating the capitalization rate for capitalization purposes.

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Negative goodwill which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provision, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments,* is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided. Financial performance on operating segments is presented in Note 8.

2.5 Financial Assets

Financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at FVPL, transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 (Applicable to 2018)

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described as follows.

(i) Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [see Note 3.1(b)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL. The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Other Receivables and as part of Other Resources in respect of security deposits, petty cash fund and foreign currency notes and coins on hand which are included in the account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has no equity instruments as at the reporting periods covered by initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of the Revaluation Reserves account in equity. When the asset is disposed of, the cumulative fair value gains or losses previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus except for those debt securities classified as FVOCI wherein fair value changes are recycled to profit or loss.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. The Bank's financial assets at FVPL include debt securities which are held for trading purposes or designated as at FVPL.

Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gains or Losses in the statement of profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39 (Applicable to 2017 and prior years)

Prior to 2018, financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at FVPL, loans and receivables, HTM investments and AFS financial assets.

A more detailed description of the four categories of financial assets follow.

(i) Financial Assets at FVPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the entity to be carried at FVPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Financial assets at FVPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVPL) may be reclassified out of FVPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(ii) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to a debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, unquoted debt securities, sales contract receivables and all receivables from customers and other banks.

The Bank's financial assets categorized as loans and receivables are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Other Receivables, and as part of Other Resources in respect of security deposits, petty cash fund and foreign currency notes and coins on hand.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any.

(iii) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Bank has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

If the Bank were to sell other than an insignificant amount of HTM investments, the whole category would be tainted and reclassified to AFS securities under PFRS, and the Bank will be prohibited from holding investments under the HTM investments category for the next two financial reporting years after the year the tainting occurred. The tainting provision under PFRS will not apply if the sales or reclassifications of HTM investments are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or are attributable to an isolated event that is beyond the control of the Bank, is nonrecurring and could not have been reasonably anticipated by the Bank.

Subsequent to initial recognition, HTM investments are measured at amortized cost using the effective interest method, less impairment losses, if any.

(iv) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the reporting period. In 2017, the Bank's AFS securities include government securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial assets has not been derecognized.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. Interest calculated using the effective interest method for all categories of financial assets is recognized in the statement of profit or loss.

A financial asset is reclassified out of the FVPL category when the financial asset is no longer held for the purpose of selling or repurchasing it in the near term or under rare circumstances. A financial asset that is reclassified out of the FVPL category is reclassified at its fair value on the date of reclassification. Any gain or loss already recognized in profit or loss is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

(c) Effective Interest Rate Method and Interest Income

Under both PFRS 9 and PAS 39, interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVPL. Interest income on interest-bearing financial assets measured at FVOCI under PFRS 9, similar to interest-bearing financial assets classified as AFS or HTM under PAS 39, are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the statement of financial position with an increase (a reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of profit or loss.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For financial assets that have become credit-impaired subsequent to initial recognition [see Note 2.5(d)], interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

(d) Impairment of Financial Assets Under PFRS 9 (Applicable to 2018)

Starting January 1, 2018, the Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they measured as 12-month ECL:

- all current loan accounts, except restructured loans;
- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments).

'Stage 2' financial instruments also include the following characteristics:

- performing accounts but with occurrence of loss event;
- accounts with missed payments but not yet classified as defaulted;
- current restructured loans; and,
- current loans that are rated as Especially Mentioned based on the Internal Credit Risk Rating System (ICRRS) of the Bank.

A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial assets considered as credit-impaired, purchased or originated credit-impaired assets, and those classified as Past Due and Items in Litigation based on the ECL methodology of the Bank.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.

- *Loss given default (LGD)* – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.

- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Bank shall include the potential availment (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(e) Impairment of Financial Assets Under PAS 39 (Applicable to 2017 and prior years)

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (events) has (have) an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* it is probable that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

The Bank recognizes impairment loss based on the category of financial assets as follows:

(i) *Carried at Amortized Cost – Loans and Receivables and HTM Investments*

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Bank includes the asset in a group of financial asset with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and other receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit loss that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If loans and other receivables or HTM investments have a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets because they are indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date of the impairment is reversed. The amount of the reversal is recognized in profit or loss.

When possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur.

(ii) Carried at Fair Value – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment.

Impairment losses recognized in the statement of profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS securities increases and the increase can be objectively related to an event occurring after the impairment loss was recognized the impairment loss is reversed through profit or loss.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

(iii) Carried at Cost – AFS Financial Assets

The Bank assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

(f) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) Modification of Loans

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Through Modification

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Derivative Financial Instruments

The Bank uses derivative financial instruments, particularly plain vanilla foreign exchange swaps, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive (recognized as part of Miscellaneous under the Other Resources account) and as liabilities (recognized under the Accrued Expenses and Other Liabilities account) when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.8 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities and bills payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.9 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful life of the improvements of 5 to 20 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

Fully depreciated and fully amortized assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment (except land) are reviewed and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.10 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its acquisition price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties, except land, are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

Direct operating expenses related to investment properties, such as real estate taxes are normally charged against current operations in the period in which these costs are incurred.

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain (or Loss) on sale of properties under Miscellaneous Income (or Expenses) in the statement of profit or loss, in the year of retirement or disposal.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, investment in club shares and computer software, which are included as part of Other Resources and are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of these intangible assets which are considered finite. In addition, intangible assets are subject to impairment testing when indications exist, as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets and branch licenses acquired at the date of acquisition. Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill and branch licenses are allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.12 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.13 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus comprises mainly the appropriation for general loan loss provision (GLLP) as prescribed by the BSP under its existing rules and regulations. It also includes the accumulated amount set aside by the Bank for trust business under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus amounts to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise of the remeasurements of post-employment defined benefit plan and unrealized fair value gains or losses on mark-to-market valuation of financial assets at FVOCI (AFS securities prior to 2018), net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and (d) the Bank's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.16 Other Income and Expense Recognition

In 2017 and prior years, other income is recognized to the extent that it is probable that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the costs and expenses incurred and to be incurred can be measured reliably. Starting January 1, 2018, other income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank applies PFRS 9 first to separate and measure the part of the contract that is covered by PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank also earns service fees in various banking services and gains on sale of properties, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15. The following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

a. *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the commission and fees arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

b. *Asset Management Services* – The Bank provides asset management services, which include trust and fiduciary activities. Related fees are recognized as follows:

(i) *Asset management and trust fees* – these are service fees calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on the scheduled collection date. Revenue from asset management services is recognized over time as the services are provided.

(ii) *Non-refundable upfront fees* – are charged to customers when opening certain types of trust account with the Bank. These fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

c. *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Miscellaneous Income or Miscellaneous Expenses in the statement of profit or loss.

2.17 Leases – Bank as Lessee

Leases, which do not transfer to the Bank substantially all the risks and benefits of ownership of the asset, are classified as operating lease. Operating lease payments (net of any incentive received from the lessor) are recognized as an expense in profit or loss on a straight-line basis over the lease term. Associated costs, such as repairs and maintenance and insurance, are expensed as incurred.

The Bank determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI (AFS securities prior to 2018) are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, investment properties, goodwill, branch licenses, computer software, other properties held-for-sale (classified as part of Miscellaneous under Other Resources) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill and branch licenses (see Note 2.11) or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed, except goodwill, if the cash generating units' recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Bloomberg Valuation (BVAL) in 2018; and by Philippine Dealing & Exchange Corp. (PDEx) in 2017 and prior years, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL and PDEx provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) *Post-employment Defined Contribution Plan*

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity (e.g. Social Security System and Philhealth). The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Bonus Plans*

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.22 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.23 Earnings Per Share

Basic earnings per share (EPS) is determined by dividing net profit attributable to common shares by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period, if any.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the Securities and Exchange Commission. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of December 31, 2018 and 2017, the Bank has no convertible preferred shares (see Note 19.1).

2.24 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.25 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at FVOCI and Amortized Cost (Applicable to 2018)

The Bank uses external benchmarking and historical loss rates to calculate ECL for all debt instruments carried at FVOCI and amortized cost as well as loan commitments. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments (Applicable to 2018)

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. These business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, it considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in Bank's investment objective for the business model.

(c) Evaluating Impairment of AFS Securities (Applicable to 2017)

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

Based on the recent evaluation of information and circumstances affecting the Bank's AFS securities, management has assessed that none of the Bank's securities are impaired as of December 31, 2017. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(d) Distinction Between Investment Properties or Other Properties Held for Sale and Owner-occupied Properties

The Bank determines whether a property qualifies as investment property. In making this judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to properties but also to other assets used in the production or supply process.

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other properties held for sale presented as part of Miscellaneous under Other Resources, if the Bank expects that the properties, which are other than land and building, will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties, which could be land and/or building, to earn rental or for capital appreciation.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(e) Determination of Branch Licenses Having Indefinite Useful Lives

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(f) Distinction Between Operating and Finance Leases

The Bank has entered into various lease agreements. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

As of December 31, 2018 and 2017, the Bank has determined that all its leases are operating leases (see Note 24).

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 24.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) Estimation of Allowance for ECL (Applicable to 2018)

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of investment debt securities at amortized cost and at FVOCI, and loans and other receivables together with the analysis of the allowance for impairment on such financial assets, are shown in Notes 11 and 12, respectively.

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVPL and FVOCI (AFS securities prior to 2018) and the amounts of fair value changes recognized on those assets are disclosed in Note 11.

(b) Estimation of Impairment of AFS Securities and Loans and Other Receivables (Applicable to 2017)

The Bank reviews its AFS securities and loans and other receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio.

Moreover, the Bank holds debt securities measured at fair value classified as AFS securities as of December 31, 2017. The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment whether the Bank has an investment classified as AFS is other-than-temporarily impaired, the Bank evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

In determining whether the loans and receivables have any evidence of impairment, the Bank gathers information that include observable data which indicates that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group, including, but not limited to, the length of the Bank's relationship with the customers, the customers' current credit status, average age of accounts, collection experience and historical loss experience.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying value of loans and other receivables and the analysis of the related allowance for impairment on such financial assets are shown in Note 12. There are no impairment losses recognized on AFS securities and HTM investments in 2017 and 2016.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources (i.e. Computer Software)

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, except land, and other resources (i.e., computer software) based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties and other resources (e.g., computer software and branch licenses) are analyzed in Notes 13, 14 and 15, respectively. Based on management assessment, there is no change in the estimated useful lives of these assets during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management has assessed to be fully recoverable, as of December 31, 2018 and 2017 is disclosed in Notes 23.

(e) Determination of Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.

(f) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives (i.e. goodwill and branch licenses), which are annually tested for impairment, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Allowance for impairment recognized on investment properties and other properties held for sale are discussed in Notes 14 and 15. There are no impairment losses recognized in goodwill, branch licenses, bank premises, furniture, fixtures and equipment.

(g) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include, among others, discount rates, expected rate of salary increases and employee turnover. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 21.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes review and approval of large exposure and credit concentration within proper authority. The Bank also reviews plans and progress on the resolution of problem loan accounts. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the overall objective and strategies of the Bank. In addition, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty, and other downside risks within the context of the supervisory risk guidelines of the BSP and aligned best practices on risk management.

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an ICRRS for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

4.3.1 Credit Risk Measurement

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such the credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL as required by PFRS 9 effective January 1, 2018.

The initial recognition of credit risk by individual or group of related counterparties is done via its ICRRS. The ICRRS is tailored to consider various categories of counterparty. The rating system is further supplemented with external data such as credit rating agencies' scoring information on individual borrowers.

The ICRRS is established by the Bank in congruence with and with reference to the credit risk rating methodology used by an established rating agency in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Bank for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between risk ratings). Past due, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated under Especially Mentioned, Substandard, Doubtful or Loss, and the loan loss provision of which are based on the loss given default.

Management considers additional information for each type of loan portfolio held by the Bank:

(i) *Retail or Consumer Loans*

Subsequent to initial recognition, the payment behavior of the borrower is monitored on a periodic basis to develop a behavioral score. At the initial adoption of PFRS 9, due to insufficiency of historical data for group of accounts under a rating grade for consumer loans, the ECL parameters were carried on collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(ii) Corporate and Commercial Loans

For corporate and commercial loans, the rating is determined at the borrower level. A relationship manager will incorporate any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the relationship manager will also update information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This will determine the internal credit rating and the PD.

(iii) Debt Securities at Amortized Cost and at FVOCI

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

In the process of applying the Bank's ICRRS in determining indications of impairment on individually significant items of financial assets at amortized cost and debt securities at FVOCI, the Bank analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Risk Rating	Rating Description/Criteria
Excellent	Borrowers have very strong debt service capacity and have conservative balance sheet leverage
Strong	Borrower normally has a comfortable degree of stability, substance and diversity
Good	Borrowers have low probability of going into default and bear characteristics of some degree of stability and substance though susceptible to cyclical changes and higher degree of concentration of business risk either by product or by market
Satisfactory	Borrowers where clear risk elements exist and the probability of default is somewhat greater
Acceptable	Borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within acceptable period can be expected
Watch list	Borrowers for which unfavorable industry or company-specific risk factors represent a concern

Classified accounts or accounts already in default as defined are further mapped into BSP classification of non-performing accounts as follows:

Risk Rating	Rating Description/Criteria
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan
Substandard	Have well-defined weakness/(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable
Loss	Loans considered absolutely uncollectible or worthless

Credit exposures shall be regularly assessed and loan loss provision be recognized in a timely manner to ensure that capital is adequate to support such risk exposure. To ensure that this is rationally implemented, the Bank developed and adopted an internal loan loss methodology.

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, financial assets measured at amortized cost (2018), FVOCI debt investments (2018) and AFS debt securities (2017). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts for loan commitments and other contingent accounts, the amounts in the table represent the amounts committed. As of December 31, 2018 and 2017, there are no purchased or originated credit-impaired financial assets in the Bank's financial statements.

The following table shows the exposure to credit risk as of December 31, 2018 for each internal risk grade and the related allowance for impairment:

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers - corporate				
Excellent	**P 1,294,018,554**	**P -**	**P -**	**P 1,294,018,554**
Strong	**1,426,380,763**	**-**	**-**	**1,426,380,763**
Good	**26,746,808,452**	**-**	**-**	**26,746,808,452**
Satisfactory	**28,828,290,947**	**-**	**34,777,449**	**28,863,068,396**
Acceptable	**8,123,868,414**	**-**	**-**	**8,123,868,414**
Watchlist	**2,155,093,781**	**264,038,478**	**117,121,887**	**2,536,254,146**
Classified	**-**	**5,102,318**	**1,169,145,731**	**1,174,248,049**
	68,574,460,911	**269,140,796**	**1,321,045,067**	**70,164,646,774**
Expected credit loss allowance	**(223,912,949)**	**(13,268,069)**	**(566,712,181)**	**(803,893,199)**
Carrying amount	**P68,350,547,962**	**P 255,872,727**	**P 754,332,886**	**P69,360,753,575**
Receivables from customers - consumer				
Auto loans	**P 1,083,488,229**	**P 518,950**	**P 65,995,161**	**P 1,150,002,340**
Contract-to-sell	**42,234,804**	**-**	**497,393**	**42,732,197**
Housing loans	**2,834,277,589**	**22,495,477**	**177,531,784**	**3,034,304,850**
Salary loans	**46,077,061**	**-**	**3,305,628**	**49,382,689**
	4,006,077,683	**23,014,427**	**247,329,966**	**4,276,422,076**
Expected credit loss allowance	**(27,088,724)**	**(2,128,563)**	**(56,937,254)**	**(86,154,541)**
Carrying amount	**P 3,978,988,959**	**P 20,885,864**	**P 190,392,712**	**P 4,190,267,535**
Other receivables				
Excellent	**P 1,652,460,398**	**P -**	**P -**	**P 1,652,460,398**
Strong	**8,015,981**	**-**	**-**	**8,015,981**
Good	**78,746,767**	**-**	**-**	**78,746,767**
Satisfactory	**84,114,764**	**-**	**724,227**	**84,838,991**
Acceptable	**103,724,462**	**-**	**-**	**103,724,462**
Watchlist	**5,755,615**	**1,103,102**	**2,001,949**	**8,860,666**
Classified	**-**	**-**	**367,689,676**	**367,689,676**
	1,932,817,987	**1,103,102**	**370,415,852**	**2,304,336,941**
Expected credit loss allowance	**(2,319,779)**	**(19,104)**	**(152,435,039)**	**(154,773,922)**
Carrying amount	**P 1,930,498,208**	**P 1,083,998**	**P 218,460,873**	**P 2,149,563,019**
Loan commitments and other contingent accounts				
Excellent	**P -**	**P -**	**P -**	**P -**
Strong	**-**	**-**	**-**	**-**
Good	**641,068,466**	**-**	**-**	**641,068,466**
Satisfactory	**753,882,953**	**-**	**-**	**753,882,953**
Acceptable	**568,776,041**	**-**	**-**	**568,776,041**
Watchlist	**-**	**-**	**-**	**-**
Classified	**-**	**-**		**-**
	1,963,727,460	**-**	**-**	**1,963,727,460**
Expected credit loss allowance	**(9,563,549)**	**-**	**-**	**(9,563,549)**
Carrying amount	**P 1,954,163,911**	**P -**	**P -**	**P 1,954,163,911**

	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Debt investment securities at FVOCI/ AFS securities				
Grades AAA to B : Current	**P 2,279,714,729**	**P -**	**P -**	**P 2,279,714,729**
Debt investment securities at amortized cost				
Grades AAA to B : Current	**P 772,673,000**	**P -**	**P -**	**P 772,673,000**
Expected credit loss allowance	**(1,617,940)**	**-**	**-**	**(1,617,940)**
Carrying amount	**P 771,055,060**	**P -**	**P -**	**P 771,055,060**

As of December 31, 2018 and 2017, the Bank held Cash and Other Cash Items, Due from Other Banks and Due from BSP totalling to P11,681.5 million and P11,590.0 million, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below (amounts in thousands).

	2018			2017		
	Cash and Cash Equivalents*	**Receivables from Customers****	**Trading and Investment Securities**	Cash and Cash Equivalents*	Receivables from Customers**	Trading and Investment Securities
Concentration by sector:						
Financial and insurance activities	**P 13,238,467**	**P -**	**P 2,480,110**	P 12,476,247	P -	P 2,154,321
Wholesale and retail trade	**-**	**26,141,106**	**371,914**	-	25,028,390	50,995
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	**-**	**8,473**	**-**	-	11,945	-
Electricity, gas, steam and and air-conditioning supply	**-**	**5,210,786**	**190,000**	-	4,697,583	223,221
Manufacturing	**-**	**8,122,405**	**-**	-	7,659,280	-
Transportation and storage	**-**	**7,138,041**	**10,364**	-	5,916,230	10,336
Construction	**-**	**18,306,358**	**-**	-	19,345,728	-
Mining and quarrying	**-**	**369,397**	**-**	-	171,610	-
Agriculture, forestry and fishing	**-**	**1,828,692**	**-**	-	861,697	-
Administrative and support services	**-**	**7,315,811**	**-**	-	7,155,130	-
	P 13,238,467	**P 74,441,069**	**P 3,052,388**	P 12,476,247	P 70,937,593	P 2,438,873

* *Cash and cash equivalents include cash and other cash items, due from BSP and other banks, SPURRA and foreign currency notes and coins on hand (see Note 2.5).*

***Receivables from customers are reported gross of unearned interests or discounts.*

4.3.4 Amounts Arising from Expected Credit Losses

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI have significant increase in credit risk (referred to as Stages 2 and 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, LGD and EAD.

(a) Significant Increase in Credit Risk (SICR)

As outlined in PFRS 9, a '3-stage' impairment model was adopted by the Bank based on changes in credit quality since initial recognition of the financial asset. As discussed in Note 2.5(d), a financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the Bank as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months. If an SICR since initial recognition is identified, the classification will be moved to 'Stage 2' but is not yet deemed to be credit-impaired. Such assessment is based on certain qualitative criteria as follows:

- Borrowers with past due accounts over the cure period of 30 days but with current accounts at the effectivity of the cure period policy shall be downgraded to Watchlist Rating.

- Watchlist borrowers can be upgraded upon completion of the seasoning period which shall be 12 months from the time of downgrading provided an updated ICCR has been conducted. The seasoning means that there is not incident of past due even within the cure period.

- Borrowers with accounts that are all past due over the cure period shall be rated as Classified. Such shall be categorized as:

  (i) Classified secured less than 5 years past due
  (ii) Classified – Clean less than 3 years
  (iii) Classified over Recovery Period

Watchlisted accounts shall be considered as Stage 2 accounts for purposes of provisioning while Classified accounts shall be Stage 3.

(b) Definition of Default and Credit-impaired Assets

Credit impaired assets are those classified as both past due and under Stage 3.
Total credit impaired assets under corporate, consumer, and other receivables amounted to P1,321.0 million, P247.3 million, and P370.4 million, respectively. The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the borrower is more than 30 days past due on its contractual payments.

- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

An instrument is considered to have cured when it no longer meets any of the default criteria for a consecutive period of six months. The cure period sets the tolerance period wherein the borrowers are allowed to update the payments. This period was determined based on an analysis which considers the likelihood of a financial instrument returning to default status. The Bank considers verifiable collection experience and reasonable judgment that support the likelihood.

Unsecured and secured loans qualify for write-off when outstanding for more than 914 days and 1,095 days, respectively, and upon BOD approval.

(c) *Key Inputs, Assumptions and Estimation Techniques Used in Measurement of ECL*

The ECL is measured on either a 12-month or lifetime basis depending on whether an SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of the PD, EAD, and LGD, which are defined in Note 2.5(d). The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (usually, an observation period of five to seven years).

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.3.4(d)]. Further, the assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a quarterly basis.

There have been no significant changes in the estimation techniques or significant assumptions made by the Bank in 2018.

(d) *Overlay of Forward-looking Information in the Measurement of ECL*

The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The MEVs and their associated impact on the PD, EAD and LGD vary by financial instrument. The Bank formulates forecasts of MEVs (one base economic scenario, and two less likely scenarios – one upside and one downside) and are performed by the Bank's ERMG on a quarterly basis and provide the best estimate view of the economy over the next five years. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g. lending interest rate) or a long run average growth rate (e.g. gross domestic product) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The base scenario is aligned with information used by the Bank for strategic planning and budgeting. The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which include gross domestic product and interest rates. The analysis of these scenarios take into account the range of possible outcomes that each chosen scenario is representative of. The assessment of SICR is performed using the lifetime PD under each of the scenario, multiplied by the associated scenario weight, along with qualitative and backstop indicators. This determines whether the whole financial instrument is in Stage 1, Stage 2, or Stage 3, hence, whether a 12-month or lifetime ECL should be recorded.

Following this assessment, the Bank measures ECL as either a probability-weighted 12-month ECL (Stage 1), or a probability-weighted lifetime ECL (Stages 2 and 3). These probability-weighted ECLs are determined by running each scenario through the relevant ECL model and multiplying it by the appropriate scenario weights.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Bank's different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL.

(e) Collective Basis of Measurement of ECL

For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as instrument, product type (auto loans, housing loans, etc.), repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties.

The groupings are subject to the regular review by the Bank's CMD in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(f) Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

4.3.4 Allowance for Expected Credit Loss

The following table show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2018.

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 209,238,344	P 1,706,829	P 686,156,061	P 897,101,234
Transfers to:				
Stage 1	24,120	-	(24,120)	-
Stage 2	-	1,763,019	(1,763,019)	-
Stage 3	(971,467)	(515,107)	1,486,574	-
Net remeasurement of loss allowance	(4,332,130)	10,207,602	208,405,145	214,280,617
New financial assets originated	110,196,491	2,979,206	40,096,398	153,272,095
Derecognition of financial assets	(90,242,409)	(2,873,479)	(39,445,816)	(132,561,704)
Write-offs	-	-	(328,199,043)	(328,199,043)
Balance at December 31	P 223,912,949	P 13,268,070	P 566,712,180	P 803,893,199
Receivables from customers – consumer				
Balance at January 1	P 29,473,763	P 163,268	P 69,315,419	P 98,952,450
Transfers to:				
Stage 1	16,848,554	-	(16,848,554)	-
Stage 2	-	-	-	-
Stage 3	(521,581)	-	521,581	-
Net remeasurement of loss allowance	(30,294,204)	1,948,201	22,705,898	(5,640,105)
New financial assets originated	15,598,373	657,751	11,053,830	27,309,954
Derecognition of financial assets	(4,016,181)	(640,657)	(9,778,553)	(14,435,391)
Write-offs	-	-	(20,032,367)	(20,032,367)
Balance at December 31	P 27,088,724	P 2,128,563	P 56,937,254	P 86,154,541
Other receivables				
Balance at January 1	P 851,083	P 6,027	P 145,415,838	P 146,272,948
Transfers to:				
Stage 1	406,607	-	(406,607)	-
Stage 2	70,792	337	(71,129)	-
Stage 3	(2,668)	-	2,668	-
Net remeasurement of loss allowance	5,880,181	7,865	(8,868,247)	(2,980,200)
New financial assets originated	4,107,171	4,875	21,989,278	26,101,324
Derecognition of financial assets	(8,993,387)	-	(4,886,263)	(13,879,650)
Write-offs	-	-	(740,500)	(740,500)
Balance at December 31	P 2,319,779	P 19,104	P 152,435,039	P 154,773,922

	2018			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments				
Balance at January 1	P 6,058,499	P -	P -	P 6,058,499
Net remeasurement of loss allowance	245,976	-	-	245,976
New financial assets originated or purchased	8,510,678	-	-	8,510,678
Derecognition of financial assets	(5,251,604)	-	-	(5,251,604)
Balance at December 31	P 9,563,549	P -	P -	P 9,563,549
Debt investment securities at FVOCI (2018) /AFS securities (2017)				
Balance at January 1	P -	P -	P -	P -
Net remeasurement of loss allowance	4,229,457	-	-	4,229,457
Balance at December 31	P 4,229,457	P -	P -	P 4,229,457
Debt investment securities at amortized cost (2018)/HTM securities (2017)				
Balance at January 1	P -	P -	P -	P -
Net remeasurement of loss allowance	2,165,927	-	-	2,165,927
Reversal of impairment	(547,987)	-	-	(547,987)
Balance at December 31	P 1,617,940	P -	P -	P 1,617,940

4.3.5 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of financial instruments in 2018 contributed to the changes in the allowance for ECL.

	2018			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P65,706,362,030	P 2,313,439	P1,463,590,523	P67,172,265,992
Transfers to:				
Stage 1	3,000,000	-	(3,000,000)	-
Stage 2	-	22,627,168	(22,627,168)	
Stage 3	(211,661,592)	(43,117,709)	254,779,301	-
New financial assets originated	44,925,708,041	287,718,454	429,932,069	45,643,358,564
Derecognition of financial assets	(41,848,947,568)	(400,557)	(473,430,616)	(42,322,778,741)
Write-offs	-	-	(328,199,043)	(328,199,043)
Balance at December 31	P 68,574,460,911	P 269,140,796	P 1,321,045,067	P70,164,646,774
Receivables from customers – consumer				
Balance at January 1	P 3,126,168,221	P 22,417,729	P 285,549,313	P3,434,135,263
Transfers to:				
Stage 1	81,384,427	-	(81,384,427)	-
Stage 2	-	-	-	-
Stage 3	(53,125,437)	-	53,125,437	-
New financial assets originated	1,779,206,092	8,139,499	61,749,964	1,849,095,555
Derecognition of financial assets	(927,555,620)	(7,542,801)	(51,677,954)	(986,776,375)
Write-offs	-	-	(20,032,367)	(20,032,367)
Balance at December 31	P 4,006,077,683	P 23,014,427	P 247,329,966	P 4,276,422,076
Other receivables				
Balance at January 1	P 1,118,672,343	P 65,211	P 72,963,243	P1,191,700,797
Transfers to:				
Stage 1	1,932,781	-	(1,932,781)	-
Stage 2	(219,914)	902,711	(682,797)	-
Stage 3	(2,525,886)	-	2,525,886	-
New financial assets originated	855,565,212	135,181	313,960,874	1,169,661,266
Derecognition of financial assets	(40,606,549)	-	(15,678,073)	(56,284,622)
Write-offs	-	-	(740,500)	(740,500)
Balance at December 31	P 1,932,817,987	P 1,103,102	P 370,415,852	P2,304,336,941

	2018			
	Stage 1	Stage 2	Stage 3	Total
Loan commitments				
Balance at January 1	P 2,861,681,871	P -	P -	P2,861,681,871
New financial assets originated or purchased	1,761,099,684	-	-	1,761,099,684
Derecognition of financial assets	(2,659,054,095)	-	-	(2,659,054,095)
Foreign exchange	-	-	-	-
Balance at December 31	P 1,963,727,460	P -	P -	P1,963,727,460
Debt investment securities at FVOCI (2018) /AFS securities (2017)				
Balance at January 1	P 2,438,872,511	P -	P -	P2,438,972,511
Effect of adoption of PFRS 9 (see Note 2.2)	(949,330,793)	-	-	(949,330,793)
New financial assets purchased	783,916,126	-	-	783,916,126
Fair value losses	75,060,232			75,060,232
Foreign currency revaluation and others	81,317,117	-	-	81,317,117
Balance at December 31	P 2,279,714,729	P -	P -	P2,279,714,729
Debt investment securities at amortized cost (2018)/HTM securities (2017)				
Balance at January 1	P -	P -	P -	P -
Effect of adoption of PFRS 9 (see Note 2.2)	393,117,111			393,117,111
New financial assets purchased	375,097,281	-	-	375,097,281
Amortization of discount	2,292,681			2,292,681
Net remeasurement of loss allowance	547,987	-	-	547,987
Balance at December 31	P 771,055,060	P -	P -	P 771,055,060

4.3.6 Impaired Financial Assets – Comparative Information Under PAS 39

The Bank regularly reviews and monitors defaults of borrowers identified either individually or by group, and incorporates this information into its credit risk evaluation. Where available at a reasonable cost, external credit ratings and/or reports on customers are obtained and used. In addition, for a significant proportion of loans, post-dated checks are received to mitigate credit risk.

The following table shows detailed analysis of the Bank's maximum exposure to credit risk on loans and other receivables as of December 31, 2017 (amounts in thousands):

Individually impaired	
Wholesale and retail trade	P 516,798
Services	340,601
Consumption	201,956
Manufacturing	149,487
Real estate, renting and construction	122,952
Others	201,745
Gross amount	1,533,539
Allowance for impairment	(861,045)
Carrying amount	672,494

Forward

Collectively impaired		
Wholesale and retail trade	P	14,114,505
Services		12,162,896
Real estate, renting and construction		14,641,842
Manufacturing		4,374,867
Others		1,682,427
Gross amount		46,976,537
Allowance for impairment	(	595,403)
Carrying amount		46,381,134
Past due but unimpaired		
Carrying amount		196,988
Neither past due nor impaired		
Carrying amount		23,302,180
Total carrying amount	P	70,552,796

The Bank's financial assets that are past due but unimpaired pertains only to certain loans and other receivable items.

In addition to default and concentration risk arising from lending activities, the Bank has an incremental issuer credit risk exposure emanating from trading and investment securities and due from other banks amounting to P2,438.9 million and P4,012.5 million, respectively, as of December 31, 2017. These are, however, neither past due nor impaired.

The balance of the Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims. Hence, no significant credit risk is anticipated on this account.

The carrying amounts of loans and other receivables are partially secured by collateral mainly consisting of real estate and chattel mortgages, and hold-out deposits.

The Bank's financial assets that are past due but unimpaired pertains only to certain loans and other receivable items. An analysis of the past due but unimpaired loans and other receivables reckoned from the last payment date follows (amounts in thousands).

Up to 30 days	P	122,859
31 to 90 days		74,129
	P	196,988

The credit risk for cash and cash equivalents such as Due from BSP, Due from Other Banks and SPURRA are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its resources and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in the overall liquidity and funding conditions in the market.

Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

The breakdown of the financial assets and financial liabilities as to foreign currency (translated into Philippine pesos) and Philippine peso-denominated balances as of December 31, 2018 and 2017 follow (amounts in thousands):

	Foreign Currency	Philippine Peso	Total
2018			
Financial Assets:			
Cash and other cash items	**P -**	**P 988,548**	**P 988,548**
Due from BSP	**-**	**6,164,362**	**6,164,362**
Due from other banks	**3,187,792**	**1,340,803**	**4,528,595**
Investment securities at:			
FVPL	**1,057,827**	**758,980**	**1,816,807**
FVOCI	**1,761,243**	**518,472**	**2,279,715**
Amortized cost	**-**	**771,055**	**771,055**
Loans and other receivables - net	**972,207**	**74,558,150**	**75,530,357**
Other resources	**56,963**	**33,602**	**90,565**
	P 7,036,032	**P 85,133,972**	**P 92,170,004**
Financial Liabilities:			
Deposit liabilities	**P 5,733,260**	**P 71,517,823**	**P 77,251,083**
Bills payable	**-**	**3,696,506**	**3,696,506**
Accrued expenses and other liabilities	**-**	**2,354,185**	**2,354,185**
	P 5,733,260	**P 77,568,514**	**P 83,301,774**
2017			
Financial Assets:			
Cash and other cash items	P -	P 1,002,241	P 1,002,241
Due from BSP	-	6,575,270	6,575,270
Due from other banks	3,122,080	890,439	4,012,519
Financial assets at FVPL	-	-	-
AFS securities	2,073,757	365,116	2,438,873
Loans and other receivables - net	444,176	70,108,620	70,552,796
Other resources	54,223	36,055	90,278
	P 5,694,236	P 78,977,741	P 84,671,977
Financial Liabilities:			
Deposit liabilities	P 5,463,248	P 68,058,769	P 73,522,017
Bills payable	-	1,933,725	1,933,725
Accrued expenses and other liabilities	-	1,403,001	1,403,001
	P 5,463,248	P 71,395,495	P 76,858,743

(b) Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing resources and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

The analyses of the groupings of resources, liabilities, capital funds and off-book financial position items as of December 31, 2018 and 2017 based on the expected interest realization or recognition follows (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
2018						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 988,548	P 988,548
Due from BSP	6,164,362	-	-	-	-	6,164,362
Due from other banks	4,528,595	-	-	-	-	4,528,595
Trading and investment securities	-	-	38,942	4,828,634	-	4,867,576
Loans and other receivables - net	43,097,889	8,837,454	7,737,870	849,747	15,007,397	75,530,357
Other resources*	-	-	-	-	2,650,054	2,650,054
Total Resources	53,790,846	8,837,454	7,776,812	5,678,381	18,645,999	94,729,492
Liabilities and Equity:						
Deposit liabilities	18,135,290	17,542,332	7,611,648	2,972,865	30,988,948	77,251,083
Bills payable	2,000,000	125,000	375,000	-	1,196,506	3,696,506
Accrued expenses and other liabilities	-	-	-	-	2,422,846	2,422,846
Total Liabilities	20,135,290	17,667,332	7,986,648	2,972,865	34,608,300	83,370,435
Equity	-	-	-	-	11,359,057	11,359,057
Total Liabilities and Equity	20,135,290	17,667,332	7,986,648	2,972,865	45,967,357	94,729,492

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Forward

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-rate Sensitive	Total
On-book Gap	P33,655,556	(P 8,829,878)	(P 209,836)	P 2,705,516	(P 27,321,358)	P -
Cumulative On-book Gap	33,655,556	24,825,678	24,615,842	27,321,358	-	-
Contingent Resources	-	-	-	-	3,419,351	3,419,351
Contingent Liabilities	-	-	-	-	3,775,968	3,775,968
Off-book Gap	-	-	-	-	(356,617)	(356,617)
Net Periodic Gap	33,655,556	(8,829,878)	(209,836)	2,705,516	(27,677,975)	(356,617)
Cumulative Total Gap	**P 33,655,556**	**P24,825,678**	**P24,615,824**	**P27,321,358**	**(P 356,617)**	**P -**
2017						
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 1,002,241	P 1,002,241
Due from BSP	6,575,270	-	-	-	-	6,575,270
Due from other banks	4,012,519	-	-	-	-	4,012,519
Trading and investment securities	-	-	77,321	2,361,552	-	2,438,873
Loans and other receivables - net	41,850,742	9,995,861	5,447,947	1,782,787	11,475,459	70,552,796
Other resources*	-	-	-	-	2,682,146	2,682,146
Total Resources	52,438,531	9,995,861	5,525,268	4,144,339	15,159,846	87,263,845
Liabilities and Equity:						
Deposit liabilities	19,500,474	13,537,109	12,157,472	1,693,532	26,633,430	73,522,017
Bills payable	1,000,000	-	-	-	933,725	1,933,725
Accrued expenses and other liabilities	-	-	-	-	1,581,875	1,581,875
Total Liabilities	20,500,474	13,537,109	12,157,472	1,693,532	29,149,030	77,037,617
Equity	-	-	-	-	10,226,228	10,226,228
Total Liabilities and Equity	20,500,474	13,537,109	12,157,472	1,693,532	39,375,258	87,263,845
On-book Gap	31,938,057	(3,541,248)	(6,632,204)	2,450,807	(24,215,412)	-
Cumulative On-book Gap	31,938,057	28,396,809	21,764,605	24,215,412	-	-
Contingent Resources	-	-	-	-	-	-
Contingent Liabilities	-	-	-	-	816,409	816,409
Off-book Gap	-	-	-	-	(816,409)	(816,409)
Net Periodic Gap	31,938,057	(3,541,248)	(6,632,204)	2,450,807	(25,031,821)	(816,409)
Cumulative Total Gap	P31,938,057	P28,396,809	P21,764,605	P24,215,412	(P 816,409)	P -

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

(c) Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs VaR methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement; i.e., losses could exceed the VaR in one out of 100 trading days.

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and ten days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

The table below shows the VaR position and ranges of the Bank's financial assets at FVPL and at FVOCI (AFS securities prior to 2018) portfolios as at December 31 (amounts in millions).

	2018	2017
VaR Position:		
Financial assets at FVPL	**P 1,816**	P -
Financial assets at FVOCI	**2,279**	-
AFS securities	**-**	855
VaR Ranges:		
Minimum	**33**	17
Maximum	**1,840**	4,404
Average	**1,036**	595

Stress test on the December 31, 2018 and 2017 portfolio shows the potential impact on profit and capital funds of parallel increase in interest rates of financial assets at FVPL and at FVOCI (AFS securities prior to 2018) as follows:

2018				
	Current	**Sensitivities**		
Currency	**Market Value**	**+100 bps**	**+300 bps**	**+500 bps**
Philippine peso	P1,277,451,215	(P 65,703,574)	(P 197,110,723)	(P 328,517,871)
US dollar	2,819,070,097	(179,512,119)	(538,536,358)	(897,560,596)
Total	**P4,096,521,312**	**(P245,215,693)**	**(P 735,647,081)**	**(P 1,226,078,467)**

2017				
	Current	Sensitivities		
Currency	Market Value	+100 bps	+300 bps	+500 bps
Philippine peso	P 365,116,063	(P 24,835,395)	(P 74,506,184)	(P 124,176,973)
US dollar	2,073,756,448	(196,166,788)	(588,500,365)	(980,833,941)
Total	P2,438,872,511	(P221,002,183)	(P 663,006,549)	(P 1,105,010,914)

(d) Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioral and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

The analysis of the cash flow gap analysis of resources, liabilities, capital funds and off-book financial position items as of December 31, 2018 and 2017 follows (amounts in thousands).

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
2018					
Resources:					
Cash and other cash items	P 988,548	P -	P -	P -	P 988,548
Due from BSP	6,164,362	-	-	-	6,164,362
Due from other banks	4,528,595	-	-	-	4,528,595
Trading and investment securities	-	-	38,942	4,828,634	4,867,576
Loans and other receivables	13,483,189	14,564,446	14,781,467	32,701,255	75,530,357
Other resources*	385,794	219,171	183,582	1,861,507	2,650,054
Total Resources	25,550,488	14,783,617	15,003,991	39,391,396	94,729,492
Liabilities and Equity:					
Deposit liabilities	48,911,835	17,754,735	7,611,648	2,972,865	77,251,083
Bills payable	2,166,417	459,874	1,070,215	-	3,696,506
Accrued expenses and other liabilities	1,377,624	682,912	305,342	56,968	2,422,846
Total Liabilities	52,455,876	18,897,521	8,987,205	3,029,833	83,370,435
Equity	-	-	-	11,359,057	11,359,057
Total Liabilities and Equity	52,455,876	18,897,521	8,987,205	14,388,890	94,729,492
On-book Gap	(26,905,388)	(4,113,904)	6,016,786	25,002,506	-
Cumulative On-book Gap	(26,905,388)	(31,019,292)	(25,002,506)	-	-
Contingent Resources	-	-	-	3,419,351	3,419,351
Contingent Liabilities	2,633,255	745,382	397,320	11	3,775,968
Off-book Gap	(2,633,255)	(745,382)	(397,320)	3,419,340	(356,617)
Net Periodic Gap	(29,538,643)	(4,859,286)	5,619,466	28,421,846	(356,617)
Cumulative Total Gap	**(P 29,538,643)**	**(P 34,397,929)**	**(P 28,778,463)**	**(P 356,617)**	**P -**
2017					
Resources:					
Cash and other cash items	P 1,002,241	P -	P -	P -	P 1,002,241
Due from BSP	6,575,270	-	-	-	6,575,270
Due from other banks	4,012,519	-	-	-	4,012,519
Trading and investment securities	-	-	77,321	2,361,552	2,438,873
Loans and other receivables	621,570	23,805,844	15,857,374	30,268,008	70,552,796
Other resources*	181,293	343,017	1,543,579	614,257	2,682,146
Total Resources	12,392,893	24,148,861	17,478,274	33,243,817	87,263,845
Liabilities and Equity:					
Deposit liabilities	1,269,750	14,230,983	20,172,409	37,848,875	73,522,017
Bills payable	1,127,543		-	806,182	1,933,725
Accrued expenses and other liabilities	1,581,875	-	-	-	1,581,875
Total Liabilities	3,979,168	14,230,983	20,172,409	38,655,057	77,037,617
Equity	-	-	-	10,226,228	10,226,228
Total Liabilities and Equity	3,979,168	14,230,983	20,172,409	48,881,285	87,263,845

** Other resources includes Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Resources.*

Forward

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Total
On-book Gap	P 8,413,725	P 9,917,878	(P 2,694,135)	(P 15,637,468)	P -
Cumulative On-book Gap	8,413,725	18,331,603	15,637,468	-	-
Contingent Resources	-	-	-	-	-
Contingent Liabilities	-	37,930	-	-	37,930
Off-book Gap	-	(37,930)	-	-	(37,930)
Net Periodic Gap	8,413,725	9,879,948	(2,694,135)	(15,637,468)	37,930
Cumulative Total Gap	P 8,413,725	P 18,293,673	P 15,599,538	(P 37,930)	P -

The negative liquidity gap in the MCO is due to the timing difference in the contractual maturities of assets and liabilities. The MCO measures the maximum funding requirement the Bank may need to support its maturing obligations. To ensure that the Bank maintains a prudent and manageable level of cumulative negative gap, the Bank maintains a pool of highly liquid assets in the form of tradable investment securities. Moreover, the BOD has approved the MCO Limits which reflect the Bank's overall appetite for liquidity risk exposure. This limit is reviewed every year. Compliance to MCO Limits is monitored and reported to the BOD and senior management. In case of breach in the MCO Limit, the Risk Management Center elevates the concern to the BOD through the ROC for corrective action.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit and Collection Department Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risk.

The following are the risk-based capital adequacy of the Bank as of December 31, 2018, 2017 and 2016 (amounts in millions):

	2018		2017		2016	
Net Tier 1 Capital	**P**	**11,124**	P	9,809	P	9,241
Tier 2 Capital		**779**		678		470
Total Qualifying Capital	**P**	**11,903**	P	10,487	P	9,711
Risk Weighted Assets						
Credit Risk Weighted Assets	**P**	**74,044**	P	68,887	P	48,738
Operational Risk Weighted Assets		**4,118**		3,941		3,930
Market Risk Weighted Assets		**1,254**		2,092		4,477
Total Risk-Weighted Assets	**P**	**79,417**	P	74,920	P	57,145
Capital ratios:						
Total qualifying capital expressed as percentage of total risk-weighted assets		**15.0%**		14.0%		17.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets		**14.0%**		13.1%		16.2%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(b) Investments in debt capital instruments of unconsolidated subsidiary banks;

(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

(d) Reciprocal investments in equity of other banks/enterprises; and,

(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of December 31, 2018 and 2017, the Bank has no exposure in item (a) to item (e) above. There were no material changes in the Bank's management of capital during the current year.

As of December 31, 2018 and 2017, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

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" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of the financial assets and financial liabilities in the statements of financial position:

	Notes	Carrying Values	Fair Values
December 31, 2018:			
Financial Assets			
At amortized cost:			
Cash and other cash items	9	**P 988,547,825**	**P 988,547,825**
Due from BSP	9	**6,164,361,658**	**6,164,361,658**
Due from other banks	10	**4,528,594,643**	**4,528,594,643**
Loans and other receivables - net	12	**75,530,357,441**	**69,844,432,133**
Other resources	15	**90,565,430**	**90,565,430**
FVPL securities	11	**1,816,806,583**	**1,816,806,583**
FVOCI securities	11	**2,279,714,729**	**2,279,714,729**
Amortized cost securities - net	11	**771,055,060**	**760,373,635**
		P 92,170,003,369	**P 86,473,396,636**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	16	**P 77,251,083,251**	**P 71,557,678,415**
Bills payable	17	**3,696,505,696**	**3,696,505,696**
Accrued expenses and other liabilities	18	**2,354,184,964**	**2,354,184,964**
		P 83,301,773,911	**P 77,608,369,075**
December 31, 2017:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	P 1,002,240,895	P 1,002,240,895
Due from BSP	9	6,575,270,040	6,575,270,040
Due from other banks	10	4,012,519,495	4,012,519,495
Loans and other receivables - net	12	70,552,796,381	60,760,296,589
Other resources	15	90,278,157	90,278,157
AFS securities	11	2,438,872,511	2,438,872,511
		P 84,671,977,479	P 74,879,477,687
Financial Liabilities			
At amortized cost:			
Deposit liabilities	16	P 73,522,017,415	P 73,465,834,285
Bills payable	17	1,933,724,724	1,933,724,724
Accrued expenses and other liabilities	18	1,403,000,937	1,403,000,937
		P 76,858,743,076	P 76,802,559,946

The Bank concluded that the carrying amounts of foregoing other financial assets and financial liabilities which are measured at amortized cost approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Bank's debt securities are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets, presented in the statements of financial position at gross amounts, are covered by enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position		
		Financial Instruments	Collateral received	Net amount
December 31, 2018				
Loans and receivables - net	**P 75,530,357,441**	**(P 4,197,858,340)**	**P -**	**P 71,332,499,101**
Deposit liabilities	**77,251,083,251**	**(2,374,719,446)**	**-**	**74,876,363,805**
Bills Payable	**3,696,505,696**	**(1,191,604,686)**	**-**	**2,504,901,010**
December 31, 2017				
Loans and receivables - net	P 70,552,796,381	(P 4,063,170,283)	P -	P 66,489,626,098
Deposit liabilities	73,522,017,415	(2,901,897,730)	-	70,620,119,685
Bills payable	1,933,724,724	(932,490,528)	-	1,000,234,196

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

7.2 Financial Instruments Measured at Fair Value

The table shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2018 and 2017 (amounts in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial assets at FVPL				
Government debt securities	**P 447**	**P 759**	**P -**	**P 1,206**
Corporate debt securities	**611**	**-**	**-**	**611**
	P 1,058	**P 759**	**P -**	**P 1,817**
Financial assets at FVOCI				
Government debt securities	**P 1,494**	**P 518**	**P -**	**P 2,012**
Corporate debt securities	**268**	**-**	**-**	**268**
	P 1,762	**P 518**	**P -**	**P 2,280**
December 31, 2017				
AFS securities				
Government debt securities	P 1,490	P 77	P -	P 1,567
Corporate debt securities	872	-	-	872
	P 2,362	P 77	P -	P 2,439

As of December 31, 2017 (nil for 2018), the Bank had an outstanding derivative financial assets amounting to P0.6 million presented as part of Miscellaneous under the Other Resources account in the statement of financial position (see Note 15). The Bank has no outstanding derivative liabilities as of December 31, 2018 and 2017. Derivative financial assets are categorized within Level 2, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

(a) In 2018, fair values of peso-denominated government debt securities issued by the Philippine government, are based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithm of direct observations or observed comparables. In 2017, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals, the simple average of all firm bids per benchmark tenor or interpolated yields. This is consistent with BSP Circular No. 813, *Amendment on Market Valuation of Government Securities*, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

7.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	Level 1	Level 2	Level 3	Total
December 31, 2018				
Financial Assets:				
Cash and other cash items	**P 989**	**P -**	**P -**	**P 989**
Due from BSP	**6,164**	**-**	**-**	**6,164**
Due from other banks	**4,529**	**-**	**-**	**4,529**
Investment securities at amortized cost	**693**	**67**	**-**	**760**
Loans and other receivable	**-**	**-**	**69,844**	**69,844**
Other financial assets	**60**	**-**	**31**	**91**
	P 12,435	**P 67**	**P 69,875**	**P 82,377**
Financial Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 71,558**	**P 71,558**
Bills payable	**-**	**-**	**3,697**	**3,697**
Accrued expenses and other liabilities	**-**	**-**	**2,354**	**2,354**
	P -	**P -**	**P 77,609**	**P 77,609**
December 31, 2017				
Financial Assets:				
Cash and other cash items	P 1,002	P -	P -	P 1,002
Due from BSP	6,575	-	-	6,575
Due from other banks	4,013	-	-	4,013
Loans and other receivable	-	-	60,760	60,760
Other financial assets	59	-	31	90
	P 11,649	P -	P 60,791	P 72,440

	Level 1		Level 2		Level 3		Total
December 31, 2017							
Financial Liabilities:							
Deposit liabilities	P	-	P	-	P	73,466	P 73,466
Bills payable		-		-		1,934	1,934
Accrued expenses and other liabilities		-		-		1,403	1,403
	P	-	P	-	P	76,803	P 76,803

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) Loans and Other Receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) Other Financial Assets

Other financial assets pertain to foreign currency notes and coins, security deposits and petty cash fund which are included in the Other Resources account. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(d) Deposits and Bills Payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount of short term bills payable approximate their fair values.

(e) Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

7.4 Fair Value Measurement of Investment Properties Carried at Cost

The total estimated fair values of the Bank's investment properties, categorized under Level 3 of the fair value hierarchy amount to P684.7 million and P554.6 million as of December 31, 2018 and 2017, respectively (see Note 14).

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the acquisition dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use which is generate positive future cash flows through sale.

The fair value of these investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

(b) Fair Value Measure for Building and Improvements

The Level 3 fair value of the buildings and improvements included in Investment Properties was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2018 and 2017.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;

(b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

8.1 Analysis of Primary Segment Information

The contribution of these various business activities to the Bank's revenues and income for the years 2018, 2017 and 2016 are as follows (amounts in millions):

	Consumer	Corporate	Treasury	Total
2018:				
Net interest and other income				
From external customers				
Interest income	P 320	P 4,944	P 246	P 5,510
Interest expense	(78)	(1,447)	(207)	(1,732)
Net interest income	242	3,497	39	3,778
Non-interest income	-	321	-	321
	242	3,818	39	4,099
Expenses				
Operating expenses excluding depreciation and amortization	108	2,222	318	2,648
Depreciation and amortization	9	142	22	173
	117	2,364	340	2,821
Segment operating income (loss)	**P 125**	**P 1,454**	**(P 301)**	**P 1,278**
Total resources and liabilities				
Total resources	**P 4,535**	**P 71,809**	**P 16,606**	**P 92,950**
Total liabilities	**P 3,669**	**P 67,611**	**P 9,676**	**P 80,956**

	Consumer	Corporate	Treasury	Total
2017:				
Net interest and other income				
From external customers				
Interest income	P 276	P 3,395	P 209	P 3,880
Interest expense	(41)	(687)	(114)	(842)
Net interest income	235	2,708	95	3,038
Non-interest income	-	227	139	366
	235	2,935	234	3,404
Expenses				
Operating expenses excluding depreciation and amortization	99	1,919	276	2,294
Depreciation and amortization	7	115	19	141
	106	2,034	295	2,435
Segment operating income (loss)	P 129	P 901	(P 61)	P 969
Total resources and liabilities				
Total resources	P 3,997	P 68,874	P 14,327	P 87,198
Total liabilities	P 3,614	P 60,642	P 10,087	P 74,343
2016:				
Net interest and other income				
From external customers				
Interest income	P 241	P 2,512	P 454	P 3,207
Interest expense	(37)	(521)	(177)	(735)
Net interest income	204	1,991	277	2,472
Non-interest income	7	214	335	556
	211	2,205	612	3,028
Expenses				
Operating expenses excluding depreciation and amortization	92	1,376	475	1,943
Depreciation and amortization	8	100	39	147
	100	1,476	514	2,090
Segment operating income (loss)	P 111	P 729	P 98	P 938
Total resources and liabilities				
Total resources	P 3,844	P 50,059	P 16,271	P 70,174
Total liabilities	P 3,021	P 39,780	P 15,503	P 58,304

8.2 Reconciliation

Presented below is a reconciliation of the Bank's segment information to the key financial information presented in its consolidated financial statements (amounts in millions).

	2018	2017	2016
Net interest and other income			
Total segment revenues	**P 4,099**	P 3,404	P 3,028
Unallocated income	**36**	22	15
Net interest and other income as reported in profit or loss	**P 4,135**	P 3,426	P 3,043
Profit or loss			
Total segment operating income	**P 1,278**	P 969	P 938
Unallocated profit	**(37)**	(56)	(64)
Net profit before tax as reported in profit or loss	**P 1,241**	P 913	P 874
Resources			
Total segment resources	**P 92,950**	P 87,198	P 70,174
Unallocated assets	**1,779**	66	92
Total resources	**P 94,729**	P 87,264	P 70,266
Liabilities			
Total segment liabilities	**P 80,956**	P 74,343	P 58,304
Unallocated liabilities	**2,414**	2,695	2,392
Total liabilities	**P 83,370**	P 77,038	P 60,696

The Bank has no intersegment revenues during 2018, 2017 and 2016.

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2018	2017
Cash and other cash items	**P 988,547,825**	P 1,002,240,895
Due from BSP		
Mandatory reserves	**5,964,361,658**	5,475,270,040
Other than mandatory reserves	**200,000,000**	1,100,000,000
	6,164,361,658	6,575,270,040
	P 7,152,909,483	P 7,577,510,935

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items other than currency and coins on hand (see Note 15) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims (see Note 16).

Due from BSP other than mandatory reserves bears annual effective interest rates ranging from 3.7% to 4.5% in 2018, and 0.0% to 2.5% in 2017 and 2016. The total interest income earned in 2018, 2017 and 2016 amounted to P12.1 million, P24.4 million and P89.1 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2018	2017
Local banks	**P 3,112,087,845**	P 3,538,289,535
Foreign banks	**1,416,506,798**	474,229,960
	P 4,528,594,643	P 4,012,519,495

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2018, 2017 and 2016. The total interest income earned in 2018, 2017 and 2016 amounted to P36.2 million, P14.1 million and P17.6 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	2018	2017
US dollars	**P 3,187,791,963**	P 3,122,079,557
Philippine peso	**1,340,802,680**	890,439,938
	P 4,528,594,643	P 4,012,519,495

11. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	Notes	2018	2017
Financial assets at FVPL	11.1	**P 1,816,806,583**	P -
Financial assets at FVOCI	11.2	**2,279,714,729**	-
Investment securities at amortized cost – net	11.3	**771,055,060**	-
AFS securities	11.2	**-**	2,438,872,511
		P 4,867,576,372	P 2,438,872,511

11.1 Investment Securities at FVPL

This account is composed of government securities and corporate bonds with fair value amounting to P1,816.8 million as of December 31, 2018. Because of better earning opportunities in other form of investments, management decided to dispose of this financial instrument in 2017; hence, the nil balance as at December 31, 2017. Annual coupon interest rates on these investments range from 3.0% to 5.5% in 2018 and 3.5% to 8.0% in 2016. The total interest income earned in 2018, 2017 and 2016 amounted to P48.8 million, P16.4 million, and P23.6 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value amounted to P17.5 million in 2018 and P29.0 million in 2016 (nil in 2017). The net realized trading loss in 2018 amounted to P13.0 million and net realized trading gains in 2017 and 2016 amounted to P92.8 million and P54.2 million, respectively. These are presented as part of Trading Gains (Losses) in the statements of profit or loss.

11.2 Investment Securities at FVOCI/AFS Securities

The account is composed of the following:

	2018 (FVOCI)	2017 (AFS)
Government debt securities	**P 2,012,190,318**	P 1,566,860,912
Corporate bonds – quoted	**267,524,411**	872,011,599
	P 2,279,714,729	P 2,438,872,511

As to currency, this account consists of the following:

	2018 (FVOCI)	2017 (AFS)
Foreign currencies	**P 1,761,243,341**	P 2,073,756,448
Philippine pesos	**518,471,388**	365,116,063
	P 2,279,714,729	P 2,438,872,511

An analysis of the maturity profile of the Bank's financial assets at FVOCI and AFS securities:

	2018 (FVOCI)	2017 (AFS)
Within one year	**P -**	P 77,488,754
Beyond one year	**2,279,714,729**	2,361,383,757
	P 2,279,714,729	P 2,438,872,511

Government debt securities issued by the Republic of the Philippines and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual coupon rates ranging from 3.7% to 6.3%, from 0.0% to 8.1% and from 3.5% to 8.1% in 2018, 2017, and 2016 respectively.

The total interest income earned in 2018, 2017, and 2016 amounted to P75.8 million, P153.1 million and P144.8 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss. In 2018, provision for probable loss and accumulated impairment losses on these securities amounted to P4.2 million and is presented as part of Impairment Losses and Unrealized Fair Value Losses on Investment Securities at FVOCI in the 2018 statement of profit or loss and statement of changes in equity, respectively. No similar amounts were recognized in 2017 and 2016 since the Bank applied the transitional relief allowed by the new standard (see Note 2.2).

The net fair value gains recycled to profit or loss from equity resulting from the sale of AFS securities amounted to P35.7 million, and P323.5 million in 2017 and 2016 (nil in 2018), respectively. These are included as part of Trading Gains in the statements of profit or loss.

The fair values of these securities have been determined directly by reference to published prices in an active market (see Note 7.2).

In compliance with current banking regulations relative to the Bank's trust functions, certain securities of the Bank, with a face value of P40.0 million and P35.0 million as of December 31, 2018 and 2017, respectively, are deposited with the BSP (see Note 25).

Changes in the securities at FVOCI/AFS securities are summarized below.

	2018 (FVOCI)	2017 (AFS)
Balance at beginning of year		
As previously stated	**P -**	P 3,811,726,524
Effect of adoption of PFRS 9 [see Note 2.2(a)(ii)] – reclassifications from AFS securities	**1,489,541,718**	-
As restated	**1,489,541,718**	3,811,726,524
Additions	**783,916,126**	3,352,273,750
Disposals	**-**	(4,767,354,091)
Fair value gains (losses)	**(75,060,232)**	59,748,950
Foreign currency revaluation	**80,556,789**	(8,938,655)
Amortization of discount (premium)	**760,328**	(8,583,967)
Balance at end of year	**P 2,279,714,729**	P 2,438,872,511

The reconciliation of unrealized fair value losses on securities at FVOCI/AFS securities reported under equity is shown below.

	2018 (FVOCI)	2017 AFS	2016 AFS
Balance at beginning of year,			
As previously stated	**P -**	(P 82,019,677)	(P 577,298,405)
Effect of adoption of PFRS 9 [(see Note 2.2(a)(ii)h] – reclassifications from AFS securities	**(61,886,925)**	-	-
As restated	**(61,886,925)**	(82,019,677)	(577,298,405)
Changes on unrealized fair value gains (losses) during the year:			
Fair value gains (losses) during the year	**1,484,005**	59,748,950	(78,227,452)
Realized fair value losses (gains) on AFS securities disposed during the year - net	**-**	(29,979,364)	74,648,222
	1,484,005	29,769,586	(3,579,230)
Changes on unrealized fair value gains (losses) on reclassified securities during the year:			
Amortization of fair value gains (losses) on reclassified securities in 2014	**-**	-	(6,457,719)
Fair value gain (loss) on AFS investments reclassified to FVOCI securities in 2018	**(76,544,237)**	-	-
Fair value gain (loss) on HTM investments reclassified to AFS securities in 2016		-	850,545,351
Expected credit losses on AFS investments reclassified to FVOCI securities in 2018	**4,229,457**	-	-
Realized fair value gains on HTM investments reclassified to AFS securities in 2016	**-**	-	(345,229,674)
	(72,314,780)	-	498,857,958
	(70,830,775)	29,769,586	495,278,728
Balance at end of year	**(P 132,717,700)**	(P 52,250,091)	(P 82,019,677)

11.3 Investment Securities at Amortized Cost/HTM Investment

This account is composed of the following:

	2018 (Amortized Cost)	2017 (HTM)
Government securities	**P 482,673,000**	P -
Corporate debt securities	**290,000,000**	-
	772,673,000	-
Allowance for impairment	**(1,617,940)**	-
	P 771,055,060	P -

All of the Bank's investment securities at amortized cost are in Philippine peso and has a maturity profile of beyond one year.

The reconciliation of the carrying amounts of investment securities at amortized cost in 2018 are presented below.

Balance at beginning of year	
As previously stated	P -
Effect of adoption of PFRS 9 [(see Note 2.2(a)(ii)h]	
Reclassification from:	
AFS securities	369,359,617
Loans and other receivables	25,923,421
Recognition of allowance for impairment	(2,165,927)
As restated	393,117,111
Additions	375,097,281
Amortization of discount	2,292,681
Reversal of impairment	547,987
Balance at end of year	**P 771,055,060**

Interest rate on these investments range from 3.5% to 8.1% in 2018. The total interest income earned amounted to P25.4 million in 2018 and P179.1 million in 2016 (nil in 2017), and is included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

12. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2018	2017
Receivable from customers:		
Loans and discounts	**P 70,546,193,193**	P66,993,743,115
Unearned discount	**(170,226,689)**	(120,049,688)
	70,375,866,504	66,873,693,427
Bills purchased	**10,707,079**	366,130,161
Customers' liabilities on acceptances, letters of credit and trust receipts	**3,884,168,578**	3,577,720,164
	74,270,842,161	70,817,543,752

Forward

	2018	2017
Other receivables:		
SPURRA	**P 1,500,000,000**	P 826,072,472
Accrued interest receivable	**602,780,238**	207,680,908
Sales contracts receivable	**91,967,808**	35,934,861
Deficiency claims receivable	**71,164,766**	55,056,218
Accounts receivable	**38,424,130**	41,032,917
Unquoted debt securities	**-**	25,923,421
	2,304,336,942	1,191,700,797
	76,575,179,103	72,009,244,549
Allowance for impairment	**(1,044,821,662)**	(1,456,448,168)
	P 75,530,357,441	P70,552,796,381

SPURRA are secured by certain treasury bills of the BSP. SPURRA represent loans and receivables from BSP as of December 31, 2018 and 2017 arise from overnight lending from excess liquidity.

Non-performing loans of the Bank amount to P1,306.3 million and P1,504.5 million as of December 31, 2018 and 2017, respectively, while restructured loans amount to P195.3 million and P40.6 million, respectively. Interest income recognized on impaired loans and receivables amounted to P63.8 million in 2018.

A summary of the Bank's maximum exposure to credit risk on loans and other receivables is disclosed in Note 4.3.

An analysis of the maturity profile of the Bank's receivable from customers, gross of allowance and unearned discount, follows (amounts in thousands):

	2018	2017
Within one year	**P 36,706,354**	P 38,358,514
Beyond one year	**37,734,715**	32,579,079
	P 74,441,069	P 70,937,593

As to security, receivable from customers, gross of allowance and unearned discount, are classified into the following (amounts in thousands):

	Note	2018	2017
Secured:			
Real estate mortgage		**P 34,345,108**	P 28,816,083
Chattel mortgage		**6,607,784**	4,860,906
Deposit hold-out	6.2	**2,374,719**	2,901,898
Others		**2,061,646**	782,717
Unsecured		**29,051,812**	33,575,989
		P 74,441,069	P 70,937,593

The changes in the allowance for impairment on loans and other receivables are summarized below.

	2018	2017
Balance at beginning of year		
As previously restated	**P 1,456,448,168**	P 1,233,668,289
Effect of adoption of PFRS 9		
[see Note 2.2(a)(ii)h]	**(324,103,199)**	-
As restated	**1,132,344,969**	1,233,668,289
Impairment losses for the year	**276,741,832**	260,519,609
Write-off	**(348,231,409)**	-
Reversal of allowance for impairment	**(16,033,730)**	(37,739,730)
Balance at end of year	**P 1,044,821,662**	P 1,456,448,168

Of the total loans and discounts of the Bank as of December 31, 2018 and 2017, 80.0% and 81.0%, respectively, are subject to periodic interest repricing.

The annual effective interest rates of loans and discounts range from 1.0% to 42% in 2018, 0.8% to 72.9% in 2017 and 1.3% to 30.0% in 2016, while the annual effective interest rates of interest-bearing other receivables range from 5.0% to 12.0% in 2018, 2.0% to 8.59% in 2017 and 3.0% to 4% in 2016. The total interest income earned from loans and discounts amounted to P5,296.1 million, P3,631.7 million and P2,570.2 million in 2018, 2017 and 2016, respectively, while total interest income earned from interest-bearing other receivables amounted to P15.0 million, P40.7 million and P182.8 million in 2018, 2017 and 2016, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amount to P1,191.6 million and P932.5 million as of December 31, 2018 and 2017, respectively (see Note 17).

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below.

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
December 31, 2018						
Cost	**P 90,802,205**	**P 130,629,198**	**P 513,076,860**	**P 164,618,199**	**P 577,847,097**	**P 1,476,973,559**
Accumulated depreciation and amortization	**-**	**(59,892,868)**	**(353,671,048)**	**(104,555,882)**	**(483,574,924)**	**(1,001,694,722)**
Net carrying amount	**P 90,802,205**	**P 70,736,330**	**P 159,405,812**	**P 60,062,317**	**P 94,272,173**	**P 475,278,837**
December 31, 2017						
Cost	P 90,802,205	P 118,392,293	P 453,608,640	P 154,979,127	P 545,555,882	P 1,363,338,147
Accumulated depreciation and amortization	-	(51,867,987)	(311,120,293)	(86,070,295)	(427,640,386)	(876,698,961)
Net carrying amount	P 90,802,205	P 66,524,306	P 142,488,347	P 68,908,832	P 117,915,496	P 486,639,186

	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improve-ments	Total
January 1, 2017						
Cost	P 89,848,156	P 118,429,528	P 412,938,957	P 148,470,474	P 528,612,606	P 1,298,299,721
Accumulated depreciation and amortization	-	(48,493,151)	(266,048,782)	(83,554,014)	(364,208,136)	(762,304,083)
Net carrying amount	P 89,848,156	P 69,936,377	P 146,890,175	P 64,916,460	P 164,404,470	P 535,995,638

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 is shown below.

	Land	**Building**	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improve-ments**	**Total**
Balance at January 1, 2018, net of accumulated depreciation and amortization	**P 90,802,205**	**P 66,524,306**	**P 142,488,347**	**P 68,908,832**	**P 117,915,496**	**P 486,639,186**
Additions		**8,271,626**	**78,379,744**	**21,237,283**	**36,229,023**	**144,117,676**
Disposals	**-**	**-**	**(10,708,963)**	**(4,774,013)**	**(105,671)**	**(15,588,647)**
Depreciation and amortization charges for the year	**-**	**(4,059,602)**	**(50,753,316)**	**(25,309,785)**	**(59,766,675)**	**(139,889,378)**
Balance at December 31, 2018, net of accumulated depreciation and amortization	**P 90,802,205**	**P 70,736,330**	**P 159,405,812**	**P 60,062,317**	**P 94,272,173**	**P 475,278,837**
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 89,848,156	P 69,936,377	P 146,890,175	P 64,916,460	P 164,404,470	P 535,995,638
Additions	954,049	95,000	47,084,886	36,530,060	18,174,298	102,838,293
Disposals	-	(121,341)	(5,641,260)	(7,802,619)	(1,967,342)	(15,532,562)
Depreciation and amortization charges for the year	-	(3,385,730)	(45,845,454)	(24,735,069)	(62,695,930)	(136,662,183)
Balance at December 31, 2017, net of accumulated depreciation and amortization	P 90,802,205	P 66,524,306	P 142,488,347	P 68,908,832	P 117,915,496	P 486,639,186

As of December 31, 2018 and 2017, the cost of the Bank's fully depreciated bank premises, furniture, fixtures and equipment that are still used in operations amounts to P191.1 million and P160.7 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2018 and 2017, the Bank has satisfactorily complied with this requirement.

14. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land, and buildings and improvements acquired through foreclosure or dacion for the settlement of outstanding loans of borrowers who are unable to pay their loan in cash.

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2018 and 2017 are shown below.

	Land	Buildings and Improvements	Total
December 31, 2018			
Cost	**P 417,254,063**	**P 143,752,934**	**P 561,006,997**
Accumulated depreciation	**-**	**(89,251,044)**	**(89,251,044)**
Allowance for impairment	**(37,259,583)**	**(5,245,891)**	**(42,505,474)**
Net carrying amount	**P 379,994,480**	**P 49,255,999**	**P 429,250,479**
December 31, 2017			
Cost	P 394,712,982	P 143,032,494	P 537,745,476
Accumulated depreciation	-	(85,652,200)	(85,652,200)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 368,161,121	P 55,187,300	P 423,348,421
January 1, 2017			
Cost	P 390,539,220	P 153,159,794	P 543,699,014
Accumulated depreciation	-	(66,564,578)	(66,564,578)
Allowance for impairment	(26,551,861)	(2,192,994)	(28,744,855)
Net carrying amount	P 363,987,359	P 84,402,222	P 448,389,581

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2018, net of accumulated depreciation and impairment	**P 368,161,121**	**P 55,187,300**	**P 423,348,421**
Additions	**126,037,932**	**12,668,370**	**138,706,302**
Disposals	**(103,496,851)**	**(471,602)**	**(103,968,453)**
Depreciation for the year	**-**	**(15,075,172)**	**(15,075,172)**
Impairment loss	**(10,707,722)**	**(3,052,897)**	**(13,760,619)**
Balance at December 31, 2018, net of accumulated depreciation and impairment	**P 379,994,480**	**P 49,255,999**	**P 429,250,479**
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 363,987,359	P 84,402,222	P 448,389,581
Additions	47,140,723	10,645,458	57,786,181
Disposals	(42,966,961)	(30,612,599)	(73,579,560)
Depreciation for the year	-	(9,247,781)	(9,247,781)
Balance at December 31, 2017, net of accumulated depreciation and impairment	P 368,161,121	P 55,187,300	P 423,348,421

In 2018, 2017 and 2016, gains on sale of investment properties amounted to P13.5 million, P15.2 million and P13.2 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 20.1). Expenses incurred on investment properties include real property taxes and depreciation. Real property taxes incurred on these investment properties amounted to P13.2 million, P9.3 million and P12.1 million in 2018, 2017 and 2016, respectively, and are presented as part of Miscellaneous, as Litigation on asset acquired, under Other Expenses in the statements of profit or loss (see Note 20.2). Depreciation recognized in 2018 and 2017, as shown above, and in 2016 were included in Depreciation and Amortization under Other Expenses in profit or loss.

The total estimated fair values of the Bank's investment properties amount to P684.7 million and P554.6 million as of December 31, 2018 and 2017, respectively (see Note 7.4).

15. OTHER RESOURCES

This account consists of the following as of December 31:

	Notes	2018	2017
Other investment	15.1	**P 575,030,000**	P 575,030,000
Deferred tax assets – net	23	**287,532,960**	493,343,661
Branch licenses	15.2	**250,500,000**	250,380,060
Prepaid expenses		**122,267,747**	30,175,044
Goodwill	15.3	**121,890,408**	121,890,408
Computer software – net		**92,893,978**	45,868,442
Due from head office or branches		**72,628,444**	70,311,672
Foreign currency notes and coins on hand	6	**56,963,020**	60,144,407
Club shares		**38,000,000**	-
Security deposits	6	**33,602,410**	29,782,252
Stationery and supplies		**16,969,490**	14,905,921
Sundry debits		**690,469**	3,819,865
Deferred charges		**-**	13,383,687
Retirement benefit asset	21.2	**-**	1,202,348
Miscellaneous	15.4	**78,210,527**	76,958,649
		1,747,179,453	1,787,196,416
Allowance for impairment		**(1,654,737)**	(15,038,424)
		P 1,745,524,716	P 1,772,157,992

A reconciliation of the allowance for impairment of other resources, which mainly pertain to deferred charges, at the beginning and end of 2018 and 2017 is shown below.

	2018	2017
Balance at beginning of year	**P 15,038,424**	P 15,038,424
Write-offs	**(13,383,687)**	-
Balance at end of year	**P 1,654,737**	P 15,038,424

The current and non-current portion of this account is shown below.

	2018	2017
Current	P 275,181,267	P 189,487,993
Non-current	1,470,343,449	1,582,669,999
	P 1,745,524,716	P 1,772,157,992

Movements of computer software is shown below.

	2018	2017
Balance at beginning of year	P 45,868,442	P 51,792,167
Additions	77,965,698	16,556,063
Amortization	(30,940,162)	(22,479,788)
Balance at end of year	P 92,893,978	P 45,868,442

15.1 Other Investment

In July 2015, the Bank's BOD approved the acquisition of all outstanding shares of Insular Savers Bank, Inc. (ISBI), which is still subject to BSP's approval as at December 31, 2017, with an agreed initial purchase price of P518.2 million. Of this purchase price, the Bank directly paid P101.2 million to the shareholders of ISBI and deposited P417.0 million with the designated escrow agent. In 2016, the agreed purchase price was increased by P82.5 million but was subsequently reduced by P25.7 million in 2017 because of the revaluation of ISBI which brings the agreed purchase price to P575.0 million as at December 31, 2017 from P549.3 million as at December 31, 2016. As of December 31, 2016, the Bank has already released from the escrow fund P252.9 million as payment for the ISBI shares. The unpaid balance of the purchase price (i.e., net of amounts released from the escrow fund and direct payment made) is presented as part of Accounts payable under Accrued Expenses and Other Liabilities in the statements of financial position (see Note 18).

On December 20, 2018, the BSP issued an approval of the merger between the Bank and ISB, with the Bank as the surviving entity. Such merger shall be completed within six (6) months with effectivity on the date the SEC issues a certificate of merger. As of December 31, 2018, the application for certificate of merger is yet to be submitted to the SEC.

15.2 Branch Licenses

In 2016, the Bank have opened various branches in the CAMANAVA, Vis-Min Area and Central Luzon area which total cost of branch licenses amounted to P1.8 million.

On February 27, 2014, the Bank received an approval from the BSP regarding its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated a portion of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon.

In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

15.3 Goodwill

Goodwill arose from the following acquisitions:

Rural Bank of Kawit (RBK)	P	59,513,648
Kabalikat Rural Bank, Inc. (KRBI)		49,878,393
Bataan Savings and Loan Bank, Inc. (BLSB)		12,498,367
	P	121,890,408

In September 2014, as part of the Bank's expansion strategy, the BOD approved the acquisition of all the assets and assumption of all the obligation of RBK in exchange for P15.0 million. The approval of the BSP was not obtained until 2016; hence, the acquisition price was temporarily lodged as part of Other investments under Other Resources. Upon approval by the BSP on February 1, 2016, the Bank recognized the assets and liabilities of RBK at their fair values, resulting in the recognition of P59.9 million goodwill.

KRBI, which is located in Sta. Maria Bulacan, Philippines, was acquired in 2010.

In July 2015, the Bank entered into a Sale and Purchase Agreement with BLSB, whereby the Bank shall acquire all the assets of BLSB and assume the payment of all its obligation. The agreed purchase price was P68.8 million which has been fully paid by the Bank in 2015. As of December 31, 2016, the transaction is still subject to BSP approval and, as such, the purchase price was temporarily lodged as part of Other investments under Other Resources in the 2016 statement of financial position. On July 12, 2017, the BSP approved the acquisition. Upon BSP's approval of the transaction, the Bank recognized the assets and liabilities of BLSB at their approximate fair values resulting in the recognition of P12.5 million goodwill.

The Bank acquired the foregoing smaller banks with the objective of availing the branch incentives under the Strengthening Program for Rural Bank Plus; and, its expected future economic benefits and synergies that will result from incorporating the operations of these acquired rural banks with that of the Bank which expands its presence in the small and medium enterprise market. Accordingly, the Bank acquired them at a premium resulting in the recognition of goodwill.

As indicated in Notes 2.19 and 3.2(g), goodwill is tested for impairment annually. In 2018 and 2017, using discount rates of 5.2% and 4.7%, respectively, management estimated the present value of expected future cash flows from each branch where the goodwill originated from. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period using the estimated growth rates of 6.1% and 6.7% in 2018 and 2017, respectively. The growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. As at December 31, 2018 and 2017, the Bank has assessed that the carrying amount of the goodwill is fully recoverable Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

15.4 Others

Other properties held for sale, which pertain to various personal properties (included under Miscellaneous) amount to P2.3 million and P9.2 million as of December 31, 2018 and 2017, respectively. Additions to other properties held for sale, as a result of foreclosure, amounted to P2.0 million and P5.1 million in 2018 and 2017, respectively. In 2018, 2017 and 2016, certain properties with a book value of P9.0 million, P2.7 million and P14.7 million, respectively, were sold. Gain on the disposal of the assets amounted to P5.9 million and P1.7 million in 2017 and 2016 (nil in 2018), respectively, and was presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 20.1).

16. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2018	2017
Within one year	**P 73,502,888,467**	P 71,593,063,292
Beyond one year	**3,748,194,784**	1,928,954,123
	P 77,251,083,251	P 73,522,017,415

The classification of the Bank's deposit liabilities as to currency follows:

	2018	2017
Philippine peso	**P 71,517,822,829**	P 68,058,769,464
Foreign currencies	**5,733,260,422**	5,463,247,951
	P 77,251,083,251	P 73,522,017,415

Annual interest rates on deposit liabilities range from 0.3% to 5.5% in 2018, and from 0.3% to 2.9% in 2017 and 2016.

Deposit liabilities as of December 31, 2018 and 2017 include those that are from DOSRI as of December 31, 2018 and 2017 (see Note 22.1).

Under existing BSP regulations, the Bank is subject to reserve requirement equivalent to 8.0% of non-FCDU deposit liabilities. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the recent amendment, cash and other cash items are no longer considered as eligible reserves. The Bank's available reserves as of December 31, 2018 and 2017 amount to P5,964.4 million and P5,475.3 million, respectively, and is in compliance with these regulations with the BSP requirement (see Note 9).

17. BILLS PAYABLE

The bills payables of the Bank are as follows:

	2018	2017
BSP	**P 661,907,329**	P 933,724,724
Local banks	**3,034,598,367**	1,000,000,000
	P 3,696,505,696	P 1,933,724,724

Annual interest rates on bills payable range from 4.5% to 6.9% and 3.5% to 3.8% in 2018 and 2017, respectively.

The total interest expense incurred in 2018, 2017 and 2016 amounted to P112.4 million, P14.8 million and P0.01 million, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss.

Presented below is the reconciliation of the Bank's bills payable as of December 31, 2018.

	2018	2017
Balance at beginning of year	**P 1,933,724,724**	P -
Proceeds of borrowings	**16,646,397,805**	6,424,212,200
Repayments	**(14,883,616,833)**	(4,490,487,476)
Balance at end of year	**P 3,696,505,696**	P 1,933,724,724

As of December 31, 2018, bills payable are secured with certain Bank's loans and receivables (see Notes 6.2 and 12).

18. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2018	2017
Accounts payable	15.1	**P 1,580,375,639**	P 452,617,596
Manager's checks		**301,645,798**	242,451,472
Accrued expenses		**298,467,638**	239,720,661
Outstanding acceptances		**99,601,899**	22,183,416
Withholding taxes payable		**50,108,220**	40,070,165
Due to BSP		**19,558,325**	18,023,886
Retirement benefit obligation	21.2	**16,186,371**	-
Allowance for loan commitments		**9,563,549**	-
Income tax payable		**2,366,432**	138,803,669
Bills purchased		**-**	355,563,117
Others		**44,972,116**	72,440,789
		P 2,422,845,987	P1,581,874,771

The current and non-current portion of this account is shown below.

	2018	2017
Current	P 2,252,522,052	P 972,248,647
Non-current	170,323,935	609,626,124
	P 2,422,845,987	P 1,581,874,771

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Accrued expenses include primarily accruals on Agri-agra penalty, profit sharing of the employees, other employee benefits, utilities, janitorial and security services fees.

Outstanding acceptances pertain to obligations recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

19. EQUITY

19.1 Capital Stock

Capital stock consists of:

	Number of Shares		Amount	
	2018	2017	2018	2017
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and outstanding	62,000,000	62,000,000	P 620,000,000	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued and outstanding				
Balance at beginning of year	643,750,094	536,458,437	P 6,437,500,940	P5,364,584,370
Stock dividends (see Note 19.2)	-	107,291,657	-	1,072,916,570
Balance at end of year	643,750,094	643,750,094	P 6,437,500,940	P6,437,500,940

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8.0% per annum.

On February 17, 2017, the BOD approved the redemption of all the issued and outstanding preferred shares of the Bank at par value of P620.0 million through staggered redemption. However, as at December 31, 2018 and 2017, none of the preferred shares have been redeemed yet and the Bank is now considering conversion of the preferred shares to common shares instead. Both options require regulatory approvals which remains pending as at December 31, 2018.

On January 9, 2013, the PSE approved the Bank's application for the listing of its common shares. The approval covered the IPO of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013, its day of listing. The Bank offered its 101,333,400 unissued common to the public at the approved P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Note 19.4).

As of December 31, 2018 and 2017, the Bank has 71 holders of its listed common stock. The Bank has 643,750,094 common shares traded in the PSE as of December 31, 2018 and 2017 and its share price closed at P11.98 as at the same dates.

19.2 Dividends

On March 15, 2017, the BOD approved the declaration of 20% stock dividend on common shares totaling 107.3 million or P1,072.9 million to stockholders of record as of August 4, 2017 and paid on August 18, 2017. The dividend distribution was approved by the stockholders on May 26, 2017. No dividend declarations were made in 2018.

On December 29, 2016, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P79.2 million at P1.28 per share which were fully paid in 2017.

19.3 Appropriated Surplus

In 2018, 2017 and 2016, additional appropriations of surplus amounting to P1.2 million, P1.1 million and P1.2 million, respectively, representing portion of the Bank's income from trust operations were made in compliance with BSP regulations (see Note 25).

On January 1, 2018, as part of its transition to PFRS 9 [(see Note 2.2(a)(ii)h] and in compliance with the requirements of the BSP, under Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on-balance sheet loan accounts, the Bank appropriated P449.6 million for GLLP representing the excess of the 1% required allowance of the BSP over the computed allowance for ECL on loans (see Note 2). During 2018, the Bank appropriated an additional P275.8 million of its Unappropriated Surplus which pertains to GLLP.

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of December 31, 2018 and 2017, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

19.4 Paid-in Capital from IPO

As mentioned in Note 19.1, the Bank's common shares were listed at the PSE in February 2013. The total proceeds received from the IPO amounted to P3,191.9 million which exceeded par value by P1,998.4 million, net of share issuance cost of P180.2 million. The excess over par value is presented as Additional Paid-in Capital in the statements of financial position.

19.5 Revaluation Reserves

Revaluation reserves pertain to the accumulated actuarial losses of post-employment defined benefit plan (see Note 21.2) and unrealized fair value losses on FVOCI and AFS securities (see Note 11.2).

	Notes	Net Unrealized Fair Value Losses on Securities at FVOCI (2018)/ AFS Securities (2017)	Accumulated Actuarial Losses	Total
Balance at January 1, 2018, as previously stated		**(P 52,250,091)**	**(P 26,469,550)**	**(P 78,719,641)**
Effects of adoption of PFRS 9	2.2(a)	**(9,636,834)**	**-**	**(9,636,834)**
Balance as of January 1, 2018, as restated		**(61,886,925)**	**(26,469,550)**	**(88,356,475)**
Fair value losses on reclassified FVOCI securities	11.2	**(76,544,237)**	**-**	**(76,544,237)**
Fair value gains on FVOCI securities during the year	11.2	**1,484,005**	**-**	**1,484,005**
Credit losses on financial assets at FVOCI	11.2	**4,229,457**	**-**	**4,229,457**
Remeasurements of post-employment defined benefit plan	21.2	**-**	**(24,019,637)**	**(24,019,637)**
Other comprehensive income before tax		**(70,830,775)**	**(24,019,637)**	**(94,850,412)**
Tax income	23	**-**	**7,205,891**	**7,205,891**
Other comprehensive income after tax		**(70,830,775)**	**(16,813,746)**	**(87,644,521)**
Balance at December 31, 2018		**(P 132,717,700)**	**(P 43,283,296)**	**(P 176,000,996)**
Balance at January 1, 2017		(P 82,019,677)	(P 12,757,016)	(P 94,776,693)
Fair value gains on AFS securities during the year	11.2	59,748,950	-	59,748,950
Fair value losses reclassified to profit or loss	11.2	(29,979,364)	-	(29,979,364)
Remeasurements of post-employment defined benefit plan	21.2	-	(19,589,334)	(19,589,334)
Other comprehensive income before tax		(52,250,091)	(32,346,350)	(84,596,441)
Tax expense	23	-	5,876,800	5,876,800
Balance at December 31, 2017		(P 52,250,091)	(P 26,469,550)	(P 78,719,641)

20. MISCELLANEOUS INCOME AND EXPENSES

20.1 Miscellaneous Income

This include the following:

	Notes	**2018**	2017	2016
Gain on sale of properties – net	14, 15.4	**P 13,457,936**	P 21,104,197	P 14,957,797
Trust fees	25	**12,007,548**	11,182,180	11,901,649
Others		**77,820,865**	25,452,957	44,552,122
		P 103,286,349	P 57,739,234	P 71,411,568

Others include penalty on loans, foreign currency gains or losses, rental of safe/night deposit box.

20.2 Miscellaneous Expenses

This include the following:

	Note	**2018**	2017	2016
Transportation and travel		**P114,263,243**	P 97,444,635	P 96,504,349
Communication		**48,858,305**	46,063,281	36,024,924
Fines, penalties and other charges		**40,157,731**	91,399,481	39,600,153
Banking fees		**29,655,680**	23,207,790	22,528,788
Information technology		**22,178,590**	12,630,837	10,752,537
Office supplies		**17,981,420**	12,324,174	13,374,619
Litigation on asset acquired	14	**13,237,538**	9,254,859	12,053,842
Donations and contributions		**12,064,237**	6,051,921	2,050,658
Advertising and publicity		**4,534,674**	15,128,405	7,494,481
Freight		**4,233,744**	2,931,697	3,226,217
Amortization of deferred charges		**3,824,567**	6,556,401	2,731,845
Membership dues		**1,872,577**	1,609,507	2,740,285
Others		**23,594,881**	32,265,300	27,541,752
		P336,457,187	P356,868,288	P276,624,450

Others include brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

21. EMPLOYEE BENEFITS

21.1 Salaries and Other Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are broken down below.

	Note	2018	2017	2016
Salaries and wages		**P502,459,087**	P443,200,726	P383,868,028
Bonuses		**34,240,510**	29,419,622	23,545,447
Post-employment defined benefit plan	21.2	**27,491,517**	25,930,263	27,422,063
Social security costs		**26,513,191**	24,228,311	22,051,522
Short-term medical benefits		**1,105,982**	613,216	518,914
Other short-term benefits		**225,177,383**	212,420,361	178,117,917
		P816,987,670	P735,812,499	P635,523,891

21.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by the Bank's trust department that is legally separated from the Bank. The Bank's Retirement Plan Committee, in coordination with the Bank's trust department, who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2018 and 2017.

The amounts of post-employment defined benefit asset (obligation) (see Notes 15 and 18) recognized in the statements of financial position are determined as follows:

	2018	2017
Fair value of plan assets	**P 209,762,625**	P 205,904,139
Present value of the defined benefit obligation	**(225,948,996)**	(204,633,257)
Effect of the asset ceiling	**-**	(68,534)
	(P 16,186,371)	P 1,202,348

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2018	2017
Balance at beginning of year	**P 204,633,257**	P 172,249,214
Current service cost	**27,491,517**	25,930,263
Interest expense	**11,664,096**	9,267,008
Remeasurements:		
Actuarial losses (gains) arising from changes in:		
Experience adjustments	**36,781,004**	20,013,938
Demographic assumptions	**1,224,194**	(4,173,390)
Financial assumptions	**(22,317,198)**	(2,976,570)
Benefits paid	**(33,527,874)**	(15,677,206)
Balance at end of year	**P 225,948,996**	P 204,633,257

The movements in the fair value of plan assets are presented below.

	2018	2017
Balance at beginning of year	**P 205,904,139**	P 181,260,159
Contributions to the plan	**34,039,326**	37,133,819
Interest income	**11,751,112**	10,328,979
Return on plan assets (excluding amounts included in net interest)	**(8,404,078)**	(7,141,612)
Benefits paid	**(33,527,874)**	(15,677,206)
Balance at end of year	**P 209,762,625**	P 205,904,139

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2018	2017
Cash and cash equivalents	**P 27,206,212**	P 43,514,685
Government bonds	**5,453,828**	123,655,184
Corporate bonds	**169,131,605**	23,659,300
Equity instruments	**14,284,835**	14,376,000
Accrued expense	**(6,313,855)**	698,970
	P 209,762,625	P 205,904,139

The fair values of the above equity instruments, government and corporate bonds are determined based on quoted market prices in active markets.

The plan assets earned actual return of P3.3 million and P3.2 million in 2018 and 2017, respectively.

Plan assets include certain financial instruments of the Bank (see Note 22.3).

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2018	2017	2016
Reported in profit or loss:			
Current service cost	**P 27,491,517**	P 25,930,263	P 27,422,063
Net interest expense (income)	**(83,110)**	(1,037,221)	385,402
	P 27,408,407	P 24,893,042	P 27,807,465
Reported in other comprehensive income:			
Actuarial losses (gains) arising from changes in:			
Experience adjustments	**P 36,781,004**	P 20,013,938	P 3,502,031
Demographic assumptions	**1,224,194**	(4,173,390)	(43,677,175)
Financial assumptions	**(22,317,198)**	(2,976,570)	10,267,235
Return on plan assets (excluding amounts included in net interest expense)	**8,404,078**	7,141,612	6,834,885
Effect of the asset ceiling	**(72,441)**	(416,256)	460,039
	P 24,019,637	P 19,589,334	(P 22,612,985)

Current service cost is presented as part of Salaries and Other Employee Benefits (see Note 21.1) under the caption Other Expenses while net interest income in 2018 and 2017 and net interest expense in 2016 is presented as Interest Income and Interest Expense in the statements of profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2018	2017	2016
Discount rates	**7.53%**	5.70%	5.38%
Expected rate of salary increases	**8.0%**	8.0%	8.0%
Employee turnover	**13.86%**	14.0%	19.0%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 32 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon bond government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents and debt securities. Due to the long-term nature of the plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described as follows.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit asset as of December 31, 2018 and 2017:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2018			
Discount rate	**+5.2%/-4.7%**	**P 10,647,157**	**(P 11,703,028)**
Salary rate	**+5.1%/-4.7%**	**(11,537,601)**	**10,697,461**
Increase in DBO if no attrition rate	**+36.5%**	**82,570,806**	**-**
December 31, 2017			
Discount rate	+4.7%/-4.3%	P 8,725,892	(P 9,624,779)
Salary rate	+3.7%/-3.4%	(7,551,671)	6,992,089
Increase in DBO if no attrition rate	+70.7%	144,574,435	-

The sensitivity analysis discussed in the preceding page is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its Retirement Plan Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

As of December 31, 2018 and 2017, the plan is heavily invested in cash and cash equivalents and debt securities. The Bank believes that cash and cash equivalents and debt securities offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan currently is underfunded by P16.2 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the Bank is funding its plan assets to manage the cash flow risk in about 32 years' time when a significant number of employees is expected to retire.

The Bank expects to pay P34.0 million as contribution to retirement benefit plan in 2019.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	2018	2017
Within one year	**P 79,034,893**	P 72,974,848
More than one year to five years	**32,368,467**	24,128,488
More than five years to ten years	**222,715,583**	139,517,012
	P 334,118,943	P 236,620,348

The weighted average duration of the defined benefit obligation at the end of the reporting period is 5.0 years.

22. RELATED PARTY TRANSACTIONS

A summary of the Bank's transactions with related parties; i.e., with DOSRI, key management and retirement fund, is presented below.

Related Party Category	Note	Amount of Transaction 2018	Amount of Transaction 2017	Amount of Transaction 2016	Outstanding Balance 2018	Outstanding Balance 2017
DOSRI:						
Deposit liabilities	22.1	**(P2,305,623,210)**	P 914,160,412	P6,891,205,514	**P5,080,503,897**	P7,386,127,107
Interest expense	22.1	**101,498,910**	66,106,681	64,390,172	**-**	-
Loans	22.2	**257,708,642**	527,860,985	1,217,879,975	**927,636,924**	767,983,251
Interest income	22.2	**37,866,916**	29,782,815	44,013,008	**1,081,314**	969,508
Retirement Fund:						
Contribution	22.3	**34,039,326**	37,133,819	37,133,819	**-**	-
Plan assets	22.3	**6,858,486**	163,694,753	83,356	**209,762,625**	202,904,139
Key management compensation	22.4	**158,028,243**	113,530,990	101,934,057	**-**	-

Based on management's assessment as at December 31, 2018 and 2017, no impairment is required to be recognized on the Bank's receivable from related parties. Details of the foregoing transactions follow:

22.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding accrued interest as of December 31, 2018 and 2017.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 16). Annual interest rates on deposit liabilities range from 0.3% to 5.5% in 2018, and from 0.3% to 2.9% in 2017 and 2016.

22.2 DOSRI Loans

The Bank has loan transactions with its DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks and are normally settled in cash.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. However, non-risk loans, which include those that are secured by assets, are excluded in both individual and aggregate ceiling computation. As of December 31, 2018 and 2017, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI in accordance with BSP reporting guidelines:

	2018	2017
Total outstanding DOSRI loans	**P 927,636,924**	P 767,983,251
Unsecured DOSRI loans	**33,929,983**	29,210,591
Past due DOSRI loans	**-**	-
% to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**3.7%**	3.9%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

As of December 31, 2018 and 2017, the Bank has an approved line of credit to certain related parties totaling P955.9 million and P694.0 million, respectively, and all were used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

22.3 Transactions with Retirement Fund

The Bank's transactions with its retirement fund as of December 31, 2018 and 2017 relate only to its contributions to the plan and certain placements made by the plan to the Bank.

The following retirement plan assets are placed with the Bank comprise cash in bank, short-term placements, and equity shares of the Bank as disclosed in Note 21.2:

	2018	2017
Cash and cash equivalents	**P 27,206,212**	P 40,518,233
Equity and debt instruments	**188,870,268**	161,690,485
Accrued interest	**(6,313,855)**	695,421
	P 209,762,625	P 202,904,139

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments by any restrictions or liens.

22.4 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2018	2017	2016
Short-term benefits	**P124,500,369**	P104,997,794	P 92,909,936
Post-employment benefits	**33,527,874**	8,533,196	9,024,121
	P158,028,243	P113,530,990	P101,934,057

The composition of the Bank's short-term benefits are as follows:

	2018	2017	2016
Salaries and wages	**P 96,765,374**	P 81,600,760	P 72,088,807
Bonuses	**24,276,370**	20,562,459	17,987,189
Social security costs	**1,524,668**	1,550,625	1,508,717
Other short-term benefits	**1,933,957**	1,283,950	1,325,223
	P124,500,369	P104,997,794	P 92,909,936

23. TAXES

The components of tax expense for the years ended December 31, 2018, 2017 and 2016 follow:

	2018	2017	2016
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%			
Regular Banking Unit (RBU)	**P332,722,041**	P303,401,295	P183,050,792
FCDU	**3,297,583**	48,534	669,447
Final tax at 20%, 10% and 7.5%	**24,518,622**	43,428,072	99,688,898
	360,538,246	346,877,901	283,409,137
Deferred tax expense (income) relating to origination and reversal of temporary differences	**22,884,758**	(73,630,507)	(77,570,687)
	P383,423,004	P273,247,394	P205,838,450
Reported in other comprehensive income			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(P 7,205,891)**	(P 5,876,800)	P 6,783,896

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss is presented below.

	2018	2017	2016
Tax on pretax profit at 30%	**P372,426,376**	P274,000,048	P262,338,797
Adjustment for income subjected to lower tax rates	**(17,509,476)**	(10,238,755)	(39,204,162)
Tax effects of:			
Non-deductible expenses	**64,590,710**	98,883,937	158,214,458
Non-taxable income	**(36,084,606)**	(89,397,836)	(175,510,643)
Tax expense	**P383,423,004**	P273,247,394	P205,838,450

The Bank is subject to minimum corporate income tax (MCIT) computed at 2% of gross income, as defined under the tax regulations or RCIT, whichever is higher.

The net deferred tax assets, which included as part of the Other Resources account, (see Note 15) as of December 31, 2018 and 2017 relate to the following:

	2018	2017
Deferred tax assets:		
Allowance for impairment	**P 338,519,460**	P439,084,724
Accumulated depreciation of Investment properties	**24,607,433**	27,303,025
Provision for bonus and accrued leave conversion	**23,698,424**	23,698,424
Unamortized past service cost	**12,528,405**	12,876,327
Post-employment benefit liability	**4,855,911**	-
	404,209,633	502,962,500
Deferred tax liabilities:		
Accrued interest receivable	**(95,972,874)**	-
Unamortized payments on documentary stamp tax	**(20,703,799)**	(9,258,135)
Post-employment benefit assets	**-**	(360,704)
	(116,676,673)	(9,618,839)
Net deferred tax assets	**P287,532,960**	P493,343,661

Movements in net deferred tax assets for the years ended December 31 follow:

	Statements of Profit or Loss			Statements of Comprehensive Income		
	2018	2017	2016	**2018**	2017	2016
Accrued interest income	**P 26,227,434**	P -	-	**P -**	P -	P -
Impairment losses	**(19,821,130)**	(70,377,418)	(P 43,783,790)	**-**	-	-
Unamortized payments on documentary stamp tax	**11,445,664**	9,258,135	-	**-**	-	
Post-employment benefit obligation	**1,989,276**	3,672,232	2,797,906	**(7,205,891)**	(5,876,800)	6,783,896
Depreciation expense of investment properties	**2,695,592**	(6,251,286)	(3,209,679)	**-**	-	-
Unamortized past service cost	**347,922**	(1,752,050)	(1,133,804)	**-**	-	-
Gain on initial exchange of investment properties	**-**	(3,253,633)	(23,166,773)	**-**	-	-
Provision for bonus and accrued leave conversion	**-**	(4,926,487)	(9,074,547)	**-**	-	-
Deferred tax expense (income)	**P 22,884,758**	(P 73,630,507)	(P 77,570,687)	**(P 7,205,891)**	(P 5,876,800)	P 6,783,896

Following the adoption of PFRS 9 in 2018, the Bank reduced the opening balance of deferred tax assets due to remeasurement of financial assets and recognition of accrued interest income amounting to P120.4 million and P69.7 million, respectively, with corresponding charge to the Unappropriated Surplus [see Note 2.2(a)(ii)h]. As of December 31, 2018 and 2017, the Bank has unrecognized deferred tax assets amounting to P8.3 million and P10.5 million, respectively.

For the years ended December 31, 2018 and 2017, the Bank opted to claim itemized deductions.

24. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

(a) The Bank leases the premises occupied by its branch offices for periods ranging from 5 to 20 years, renewable upon mutual agreement between the Bank and the lessors. The rent expense amounting to P150.7 million, P138.1 million and P130.8 million in 2018, 2017 and 2016, respectively, are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of December 31, 2018, 2017 and 2016, future minimum rental payments required by the lease contracts are as follows:

	2018	2017	2016
Within one year	**P 108,264,290**	P 128,930,621	P 120,003,028
After one year but not more than five years	**195,711,242**	297,601,525	403,712,835
More than five years	**3,398,736**	9,772,744	30,754,149
	P 307,374,268	P 436,304,890	P 554,470,012

(b) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the financial statements.

(c) The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

(d) The following is a summary of the Bank's commitments and contingent accounts as of December 31:

	2018	2017
Outstanding letters of credit	**P 3,134,027,226**	P 626,860,238
Investment management accounts	**2,565,027,140**	2,352,423,750
Trust and other fiduciary accounts	**825,233,891**	753,922,571
Unit investment trust fund	**29,090,261**	31,562,003
Late payment/deposits received	**3,432,354**	14,996,909
Outward bills for collection	**2,631,626**	4,358,349
Items held for safekeeping	**106,563**	93,083
Items held as collateral	**11,487**	11,066
Other contingent accounts	**635,759,087**	239,479,318

As of December 31, 2018 and 2017, the Bank's management believes that losses, if any, from the above commitments and contingencies will not have a material effect on the Bank's financial statements.

(e) There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. As of December 31, 2018 and 2017, management is of the opinion that losses, if any, from these items will not have a material effect on the Bank's financial statements.

25. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank:

	2018	2017
Loans and other receivables	**P 902,588,483**	P 928,978,473
Due from banks	**613,193,295**	551,824,158
Investment securities	**1,883,273,948**	1,640,703,015
Investment property – net	**7,569,224**	-
	P 3,406,624,950	P 3,121,505,646

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Government bonds owned by the Bank with face value of P40.0 million and P35.0 million as of December 31, 2018 and 2017, respectively, are deposited with the BSP (see Note 11.2); and

(b) 10% of the trust income is transferred to appropriated surplus. This transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock (see Note 19.3). Additional reserve for trust functions amounted to P1.2 million, P1.1 million and P1.2 million in 2018, 2017 and 2016, respectively, and are presented as Appropriated Surplus in the Bank's statements of changes in equity.

Income from trust operations, shown as part of Miscellaneous Income, amounted to P12.0 million, P11.2 million and P11.9 million for the years ended December 31, 2018, 2017 and 2016, respectively, in the statements of profit or loss (see Note 20.1).

26. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

	Notes	**2018**	2017
Balance at beginning of year:			
Loans and other receivables	12	**P 1,456,448,168**	P 1,233,668,289
Investment properties	14	**28,744,855**	28,744,855
Other resources	15	**15,038,424**	15,038,424
Balance before adoption of PFRS 9		**1,500,231,447**	1,277,451,568
Effect of adoption of PFRS 9:	2.2(a)(ii)		
Investment securities at amortized cost		**2,165,927**	-
Loans and other receivables	12	**(324,103,199)**	1,233,668,289
		(321,937,272)	-
Balance as restated		**1,178,294,175**	1,277,451,568
Impairment losses – net	11, 12, 14	**290,502,451**	260,519,609
Write-offs	12, 15	**(361,615,096)**	-
Reversals	11.3	**(16,581,717)**	(37,739,730)
		(P 87,694,362)	P 222,779,879
Balance at end of year:			
Investment securities at amortized cost	11.3	**P 1,617,940**	P -
Loans and other receivables	12	**1,044,821,662**	1,456,448,168
Investment properties	14	**42,505,474**	28,744,855
Other resources	15	**1,654,737**	15,038,424
		P 1,090,599,813	P 1,500,231,447

In 2018, the Bank provided impairment loss on debt securities measured as FVOCI amounting to P4.2 million. The impairment losses on debt securities classified as FVOCI are recognized as part of items that are or will be reclassified subsequently to profit or loss in the statement of comprehensive income (see Note 11.2). Moreover, in 2018, the Bank provided impairment loss on loan commitments and other contingent accounts amounting to P3.5 million which is recognized as Allowance for loan commitments under Accrued expenses and Other Liabilities in the statement of financial position (see Note 18).

27. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some of the financial performance indicators of the Bank:

	2018	2017	2016
Return on average capital			
Net profit / Average total capital accounts	**7.9%**	6.5%	7.4%
Return on average resources			
Net profit / Average total resources	**1.0%**	1.0%	1.0%
Net interest margin			
Net interest income / Average interest earning resources	**4.3%**	4.3%	3.9%
Capital to risk assets ratio			
Total capital / Risk resources	**15.0%**	14.0%	17.0%
Liquidity ratio			
Current assets / Current liabilities	**1.2**	1.1	1.5
Debt-to-equity ratio			
Liabilities / Equity	**7.3**	7.5	6.3
Asset-to-equity ratio			
Asset / Equity	**8.3**	8.5	7.3
Interest rate coverage ratio			
Earnings before interests and taxes / Interest expense	**1.7**	1.1	2.2

b. Secured Liabilities and Resources Pledged as Security

As of December 31, 2018 and 2017, bills payable are the only secured liabilities (see Note 17).

28. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2018	2017	2016
Net profit	**P 857,998,254**	P 640,086,100	P 668,624,205
Dividends on preferred shares	**-**	-	(79,200,000)
Net profit attributable to common shareholders	**857,998,254**	640,086,100	589,424,205
Divided by the weighted average number of outstanding common shares	**643,750,094**	643,750,094	643,750,094
Basic earnings per share	**P 1.33**	P 0.99	P 0.92

The 2016 earnings per share of the Bank was restated to account for the stock dividends declared in 2017 which is considered as a bonus issue under PAS 33, *Earnings per Share*. PAS 33 requires stock dividends issued to be recognized at the beginning of the earliest period presented for earnings per share computation.

As of December 31, 2018, 2017 and 2016, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

29. EVENT AFTER THE REPORTING PERIOD

On February 20, 2019, Republic Act No. 11232, *An Act Providing for the Revised Corporation Code of the Philippines* (the Revised Corporation Code), was signed into law. Among the provisions of the Revised Corporation Code, the following would impact the Bank's financial statements:

- removal of the 50-year maximum corporate term, hence, stock corporation may have unlimited life unless otherwise provided in the articles of incorporation; and,

- removal of the subscription requirement of 25% of authorized capital stock and paid-up capital requirement of 25% of subscribed capital stock.

The management deems further that other amendments and new provisions contained in the Revise Corporation Code is not material to the Bank.

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under Revenue Regulation No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

In 2018, the Bank reported total GRT amounting to P219,787,914 shown as part of Taxes and licenses in the 2018 statement of profit or loss [see Note 30 (c)].

GRT is levied on the Bank's lending income, which includes interest, commission and discounts arising from instruments with maturity of five years or less and other income. The tax is computed at the prescribed rates of either 5% or 1% of the related income.

(b) Documentary Stamp Tax

The Bank is enrolled under the Electronic Documentary Stamp Tax (e-DST) System starting July 2010. In 2018, DST remittance thru e-DST amounted to P746,847,784, while DST on deposits for remittance amounted to P785,000,009. In general, the Bank's DST transactions arise from the execution of debt instruments, lease contracts and deposit liabilities.

DST on loan documents and letters of credit in 2018 amounting to P1,652,838 were charged to borrowers and these were properly remitted by the Bank.

DST accruing to the Bank amounted to P311,677,255 and is presented as part of the Taxes and licenses in the 2018 statement of profit or loss [see Note 30 (c)].

(c) Taxes and Licenses

Details of taxes and licenses for the year ended December 31, 2018 follow:

	Note		
DST	30 (b)	P	311,677,255
Gross receipts tax	30 (a)		219,787,914
Business tax			12,913,224
Real property tax			1,122,415
Miscellaneous			6,800,065
		P	**552,300,873**

Taxes and licenses allocated to tax exempt income and FCDU totaling P19,879,002 were excluded from the itemized deductions for purposes of income tax computation (see Note 23). DST includes unamortized amount of P30.9 million recognized as deductible in full for income tax purposes (see Note 23).

(d) *Withholding Taxes*

Details of total withholding taxes for the year ended December 31, 2018 are shown below.

Final	P	301,145,242
Compensation and benefits		58,068,198
Expanded		38,262,381
	P	**397,475,821**

(e) *Deficiency Tax Assessments and Tax Cases*

As of December 31, 2018, the Bank does not have any outstanding final deficiency tax assessments from the BIR nor does it have tax cases under preliminary investigation, litigation and/or prosecution in courts or bodies outside the BIR in any open taxable year.

(f) *Other Required Tax Information*

The Bank did not have any transactions in 2018 which are subject to excise tax, customs duties and tariff fees.