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 s a v i n g s b a n k

(Company's Full Name)

3 5 0   R I Z A L   A V E N U E   E X T E N S I O N

C O R N E R   8 T H   A V E N U E   G R A C E   P A R K

C A L O O C A N   C I T Y

(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 - Q

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

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2019**

2. 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 the securities listed on a Stock Exchange?

    Yes [x] No [ ]

    The Bank was listed in Philippine Stock Exchange last February 19, 2013

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Indicate by check mark whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes [√] No [ ]

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

Yes [ ] No [√]

PART I – FINANCIAL INFORMATION

Item I:
Financial Statements (Attachment 1 - Unaudited Interim Financial Statements)

Item II:
Management's Discussion & Analysis of Financial Position and Results of Operations

PART II – OTHER INFORMATION

Please refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables
Attachment 3 – Consolidated Financial Ratios

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

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

PHILIPPINE BUSINESS BANK, INC.
Issuer

By:

ROLANDO R. AVANTE
President & CEO

ROSELLE M. BALTAZAR
Assistant Comptroller

ROLANDO G. ALVENDIA
Chief Accountant

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial reporting package (FRP) of Philippine Business Bank ("PBB" or the "Bank") which comprise the Bank's financial position as of March 31, 2019 and December 31, 2018 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the three-months period ending March 31, 2019 and March 31, 2018 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

A. Management's Discussion and Analysis

	For the three-months ended			
	3/31/2019	3/31/2018	Variance	%
Interest Income				
Loans and other receivables	₱ 1,509,233,235	₱ 1,136,702,277	₱ 372,530,958	32.8
Investment and trading securities	65,005,413	30,232,284	34,773,129	115.0
Securities purchased under reverse repurchase agreement	13,604,251	10,859,816	2,744,435	25.3
Due from BSP and other banks	7,448,284	10,504,939	(3,056,655)	(29.1)
	1,595,291,183	1,188,299,316	406,991,867	34.2
Interest Expense	(645,178,555)	(309,232,301)	(335,946,254)	108.6
Net Interest Income	**950,112,628**	**879,067,015**	**71,045,613**	**8.1**

Interest income on loans and other receivables was 32.8% higher in the first quarter of 2019 reflecting the interest rate hikes happened last year. This drove the overall interest income to a 34.2% growth from ₱1,188.3 million in the first three months of 2018 to ₱1,595.3 million during the same period of 2019.

Overall interest expense as of March 2019 stood at ₱645.2 million from ₱309.2 million last year, up by 108.6%. The growth is due to the increases of interest expense on deposit liabilities and bills payable brought about by the expansion of volumes and interest rates.

Net interest income for the quarter ended at ₱950.1 million, 8.1% higher against the same period last year amounting to ₱879.1 million.

	For the three-months ended			
	3/31/2019	3/31/2018	Variance	%
Core income				
Net interest income	₱ 950,112,628	₱ 879,067,015	₱ 71,045,613	8.1
Service charges, fees and commissions	28,670,395	35,264,491	(6,594,096)	(18.7)
Miscellaneous	43,812,385	41,755,406	2,056,979	4.9
	1,022,595,408	956,086,912	66,508,496	7.0
Non-interest expenses	(693,494,788)	(626,236,941)	(67,257,847)	10.7
Core income	**329,100,620**	**329,849,971**	**(749,351)**	**(0.2)**

Service charges, fees, and commissions declined by 18.7% due to the decreases in penalties on deposit liabilities while miscellaneous income rose to ₱43.8 million owing to foreign exchange gains.

Non-interest expenses also expanded by 10.7% from ₱626.2 million in 1Q18 to ₱693.5 million as of 1Q19. The growth was accounted to the ₱17.4 million documentary stamp tax expense due to the increase in time deposit placements.

	For the three-months ended			
	3/31/2019	3/31/2018	Variance	%
Core income	₱ 329,100,620	₱ 329,849,971	(₱ 749,351)	(0.2)
Trading gains (losses)	96,019,775	(30,136,182)	126,155,957	(418.6)
Pre-tax pre-provision profit	**425,120,395**	**299,713,789**	**125,406,606**	**41.8**
Loan loss provision	(75,000,000)	(35,000,000)	(40,000,000)	114.3
Profit before tax	350,120,395	264,713,789	85,406,606	32.3
Taxes	(99,072,201)	(83,458,836)	(15,613,365)	18.7
Net income	**251,048,194**	**181,254,953**	**69,793,241**	**38.5**

Trading gains as of the first quarter of 2019 amounted to ₱96.0 million from a loss of ₱30.1 million last year. This brought pre-tax pre-provsion profit to a 41.8% increase from March 2018's ₱299.7 million.

Loan loss provision for the first quarter of 2019 was ₱40.0 million higher against last year's ₱35.0 million to account for the Bank's loan portfolio growth.

As a result, net income for the first quarter of 2019 recorded a 38.5% growth from ₱181.3 million in 2018 to ₱251.0 million in 2019.

Annualized Return on Equity (ROE) and Return on Assets (ROA) were at 8.84% and 1.06%, respectively.

Financial condition as of March 31, 2019 versus December 31, 2018:

Amounts in Thousand Pesos	3/31/2019	12/31/2018	Variance	%
Loans and other receivables - net	₱ 76,793,364	₱ 75,530,357	₱ 1,263,006	1.7
Non-performing loans	1,594,861	1,306,298	288,563	22.1
Loan loss reserves	1,434,396	1,044,822	389,574	37.3
Deposits	78,680,286	77,251,083	1,429,203	1.9
Assets	94,654,002	94,729,492	(75,490)	(0.1)
Equity	11,365,949	11,359,057	6,892	0.1

Net loans and other receivables as of the first quarter of 2019 stood at ₱76,793.4 million, up 1.7% versus year-end 2018's of ₱75,530.4 million, a ₱1,263.0 million increase.

The Bank's non-performing loans increased by ₱288.6 million bringing the total NPL to ₱1,594.9 million as of the first quarter of the year.

Loan loss reserves stood at ₱1,434.4 million as of March 2019 from ₱1,044.8 million as of audited 2018. The difference represents adjustments to comply with PFRS 9 amounting to ₱401.0 million on the audit of PBB's books of accounts as of December 31, 2018 net of provision booked in 2019 amounting to ₱75.0 million. Audit adjustment was booked April 2019.

Deposit liabilities ending March 2019 reached ₱78,680.3 million, up 1.9% as low-cost deposits increased by 3.4%.

Total assets dropped by 0.1% in the first quarter owing to the decrease in due from other banks. Resources ended at ₱94,654.0 million as of March 31, 2019.

Shareholder's equity reached ₱11,365.0 million in 2019, up 0.1% versus audited 2018. Book value per share net of preferred shares was at ₱16.69, higher than year end's ₱16.68.

B. Key Performance Indicators

Capital Adequacy Ratio. CAR, which is a measure of a bank's financial strength, reached 14.32% by the end of the first quarter.

Asset quality. The Bank's non-performing loans (NPL) ratio as of end March 2019 stood at 2.07%, with total NPL at ₱1,594.9 million.

Profitability. Return on average equity as of March 31, 2019 was at 9.00%, 159 bps higher than year-end 2018's 7.41%. Net interest margin stood at 4.15% in the first three months of 2019.

Liquidity. The Bank's loans-to-deposit ratio as of March 31, 2018 was at 97.60% from 97.77%, down 17 bps.

Cost efficiency. Cost-to-income ratio decreased from 44.29% in December 2018 to 39.32% in March 2019.

Book value per share as of March 2019 was at ₱16.69 from ₱16.68 in December 2018.

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

Vertical and Horizontal Analysis

Financial Condition (March 31, 2019 vs. December 31, 2018)

- Total resources ended at ₱94,654.0 million as of the first quarter of 2019, 0.1% lower than audited 2018's figure of ₱94,729.5 million. Significant changes (more than 5%) in assets were registered in the following accounts:

    - Cash and other cash items declined by 23.9% as cash used for operating activities particularly the increase in loans and other receivables
    - Due from other banks also dropped by 64.2% due to the lower placements to local and foreign banks
    - Trading and investment securities recorded a 37.2% growth as the Bank continued to build up its trading portfolio
    - Net investment properties was 20.2% lower due to disposals
    - Other resources expanded by 21.5% from ₱1.7 billion to ₱2.1 billion

- Total liabilities as of March 31, 2019 grew to ₱83,288.1 million. This is 0.1% lower than the ₱83,370.4 million recorded liabilities as of December 31, 2018.

    - Bills payable declined by 28.8% as ₱2,623.3 million matured during the first quarter of 2019
    - Accrued expenses and other liabilities also decreased by 18.5% as account payable declined to ₱440.0 million

- As of March 31, 2019, the Bank's equity totaled ₱11,365.9 million versus ₱11,359.1 million figure as of year-end 2018. Book value per share as of March 2019 was at ₱16.69 from ₱16.68 in 2018.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended March 31, 2019 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/losses from the sale of Peso securities.

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 nine months period ended March 31, 2019 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.

Attachment 1

PHILIPPINE BUSINESS BANK, INC.
As of March 31, 2019 (Unaudited) and December 31, 2018 (Audited)
And for the Three Months Ended March 31, 2019 and 2018 (Unaudited)

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2019 AND DECEMBER 31, 2018
(Amounts in Philippine Pesos)

	Notes		2019		2018
RESOURCES					
CASH AND OTHER CASH ITEMS	9	**P**	**752,732,634**	P	988,547,825
DUE FROM BANGKO SENTRAL NG PILIPINAS	9		**5,878,914,859**		6,164,361,658
DUE FROM OTHER BANKS	10		**1,623,078,230**		4,528,594,643
TRADING AND INVESTMENT SECURITIES – Net	11				
At fair value through profit or loss (FVPL)			**3,229,786,774**		1,816,806,583
At fair value through other comprehensive income (FVOCI)			**2,662,541,099**		2,279,714,729
At amortized cost - net			**786,522,562**		771,055,060
Available-for-sale (AFS)			**-**		-
LOANS AND OTHER RECEIVABLES – Net	12		**76,793,363,690**		75,530,357,441
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net			**464,496,221**		475,278,837
INVESTMENT PROPERTIES – Net			**342,581,426**		429,250,479
OTHER RESOURCES – Net	13		**2,119,984,953**		1,745,524,716
TOTAL RESOURCES		**P**	**94,654,002,448**	P	94,729,491,971
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15				
Demand		**P**	**1,367,121,227**	P	1,360,580,445
Savings			**30,524,102,207**		29,493,591,196
Time			**46,789,062,699**		46,396,911,610
Total Deposit Liabilities			**78,680,286,133**		77,251,083,251
BILLS PAYABLE	16		**2,632,885,327**		3,696,505,696
ACCRUED EXPENSES AND OTHER LIABILITIES	17		**1,974,881,736**		2,422,845,987
Total Liabilities			**83,288,053,196**		83,370,434,934
EQUITY	18				
Capital stock			**7,057,500,940**		7,057,500,940
Additional paid-in capital			**1,998,396,816**		1,998,396,816
Surplus			**2,298,739,910**		2,479,160,277
Revaluation reserves			**11,311,586**		(176,000,996)
Total Equity			**11,365,949,252**		11,359,057,037
TOTAL LIABILITIES AND EQUITY		**P**	**94,654,002,448**	P	94,729,491,971

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF PROFIT OR LOSS
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2019 AND MARCH 31, 2018
(Amounts in Philippine Pesos)

	Notes	2019	2018
INTEREST INCOME			
Loans and other receivables	12	P 1,509,233,235	P 1,142,178,008
Trading and investment securities	11	65,005,413	30,232,284
Securities purchased under reverse repurchase agreements		13,604,251	10,859,816
Due from Bangko Sentral ng Pilipinas and other banks	9, 10	7,448,284	5,029,208
Others		-	-
		1,595,291,183	1,188,299,316
INTEREST EXPENSE			
Deposit liabilities	15	612,804,211	296,299,646
Bills payable	16	32,374,344	12,932,655
Others		-	-
		645,178,555	309,232,301
NET INTEREST INCOME		950,112,628	879,067,015
IMPAIRMENT LOSSES		75,000,000	35,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		875,112,628	844,067,015
OTHER INCOME			
Service charges, fees and commissions		28,670,395	35,264,491
Trading gains (losses) – net		96,019,775	(30,136,182)
Miscellaneous – net		43,812,385	41,755,406
		168,502,555	46,883,715
OTHER EXPENSES			
Salaries and other employee benefits		218,423,288	195,196,739
Taxes and licenses		153,054,011	126,467,582
Occupancy		82,994,245	77,944,486
Insurance		41,254,939	51,468,457
Depreciation and amortization		43,238,047	46,608,694
Management and other professional fees		37,999,657	33,095,897
Representation and entertainment		13,872,708	12,322,642
Miscellaneous		102,657,893	83,132,444
		693,494,788	626,236,941
PROFIT BEFORE TAX		350,120,395	264,713,789
TAX EXPENSE		99,072,201	83,458,836
NET PROFIT		P 251,048,194	P 181,254,953
Earnings Per Share			
Basic and Diluted	20	P 0.39	P 0.28

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND MARCH 31, 2018
(Amounts in Philippine Pesos)

	Capital Stock		Additional Paid-in Capital	Surplus		Value Losses on Investment Securities at AFS	Value Losses on Investment Securities at FVOCI	Accumulated Actuarial Losses	Total Equity
	Preferred Stock	Common Stock		Appropriated	Unappropriated				
BALANCE AS OF JANUARY 1, 2019	P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 733,687,323	P 1,745,472,954	-	(P 132,717,700)	(P 43,283,296)	P 11,359,057,037
Appropriation for trust reserves	-	-	-	-	-	-	-	-	-
Adjustments of prior year	-	-	-	(449,628,263)	18,159,703	-	(4,229,458)	16,813,746	(418,884,272)
Total comprehensive income (loss)	-	-	-	-	251,048,194	-	174,728,292	-	425,776,486
BALANCE AS OF MARCH 31, 2019	**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 284,059,060**	**P 2,014,680,851**	**-**	**P 37,781,134**	**(P 26,469,550)**	**P 11,365,949,251**
BALANCE AS OF JANUARY 1, 2018	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
Adjustments of prior year	-	-	-	-	(5,986,491)	-	-	-	(5,986,491)
Total comprehensive income (loss)	-	-	-	-	181,254,953	(56,814,578)	-	(2,116,554)	122,323,821
BALANCE AS OF MARCH 31, 2018	**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 7,107,770**	**P 1,417,210,588**	**(P 109,064,669)**	**-**	**(P 28,586,104)**	**P 10,342,565,341**

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2019 AND MARCH 31, 2018
(Amounts in Philippine Pesos)

	2019	2018
NET PROFIT	P 251,048,194	P 181,254,953
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified subsequently to profit or loss		
Fair valuelosseson investment securities at FVOCI during the year - net	174,519,292.00	(53,297,049.00)
Realized fairvalue (gains) losses on FVOCI securities disposed during the year - Net	209,000.00	
Expected credit losses on AFS investments reclassified to FVOCI securities in 2018	(4,229,457.00)	(4,885,174.00)
Amortization of fair value losses on reclassified securities	-	1,367,646
	170,498,835	(56,814,577)
Other Comprehensive Income (Loss) - Net of Tax	170,498,835	(56,814,577)
TOTAL COMPREHENSIVE INCOME	P 421,547,029	P 124,440,376

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THREE MONTHS PERIOD ENDED MARCH 31, 2019 AND MARCH 31, 2018
(Amounts in Philippine Pesos)

	Notes		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before tax		P	350,120,395	P	264,713,788
Adjustments for:					
Impairment losses			75,000,000		35,000,000
Depreciation and amortization			43,238,047		46,608,694
Unrealized loss (gain) on foreign currency revaluation of investment se			2,885,834		-
Gain(Loss) on sale of properties - net		(	15,588,657)		-
Amortization of premium (discount)		(	5,227,577)		-
Operating profit before working capital changes			450,428,042		346,322,482
Decrease (increase) in trading and investment securities at FVPL		(	1,412,980,191)	(	1,244,531,223)
		(	15,467,502)	(	410,413,445)
Increase in loans and other receivables		(	1,338,006,249)	(	3,379,810,750)
Decrease (increase) in other resources		(	351,960,237)		693,391
Increase in deposit liabilities			1,429,202,882		472,468,051
Increase (decrease) in accrued expenses and other liabilities		(	1,087,563,177)		22,017,871
Cash generated from (used in) operations		(	2,326,346,432)	(	4,193,253,623)
Cash paid for income taxes			99,142,454	(	25,265,490)
Net Cash From (Used in) Operating Activities		(	2,227,203,978)	(	4,218,519,113)
CASH FLOWS FROM INVESTING ACTIVITIES					
Acquisitions of investment securities at FVOCI		(	262,376,984)		879,662,159
Acquisitions of investment securities at amortized cost			-		-
Acquisitions of bank premises, furniture, fixtures and equipment		(	32,455,431)	(	61,307,876)
Proceeds from sale of investment and other properties			102,257,710	(	8,547,652)
Proceeds from sale of AFS securities			56,620,649		-
			-		-
Net Cash From (Used in) Investing Activities		(	135,954,056)		809,806,631
CASH FLOWS FROM FINANCING ACTIVITIES					
Net borrowings (Payments)of bills payable		(	1,063,620,369)		1,933,724,724
			-		-
Net Cash From (Used in) Financing Activities		(	1,063,620,369)		1,933,724,724
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(	3,426,778,403)	(	1,474,987,758)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR					
Cash and other cash items	9		988,547,825		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
			11,681,504,126		11,590,030,430
CASH AND CASH EQUIVALENTS AT END OF THE YEAR					
Cash and other cash items	9		752,732,634		801,657,730
Due from Bangko Sentral ng Pilipinas	9		5,878,914,859		5,594,392,725
Due from other banks	10		1,623,078,230		2,188,034,417
		P	8,254,725,723	P	8,584,084,872

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2019 AND DECEMBER 31, 2018
(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 18.4).

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 March 31, 2019, it has 146 branches 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 three month period ended March 31, 2019 (including the comparative financial statements as of December 31, 2018 and for the three months period ended March 31, 2019 and 2018) were authorized for issue by the Bank's Board of Directors (BOD) on April 17, 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 asset.

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 Philippine Dealing

System closing rates (PDSCR) at the end of reporting period for the statement of financial position accounts and at the average PDSCR 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 PFRS 15
International Financial Reporting Interpretations Committee (IFRIC)22	:	Foreign Currency Transactions and Advance Consideration

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.

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");

- 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 and subsequent approval of the BSP.

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 purchases 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 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 life lives of these intangible assets 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 acquired and branch licenses 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 (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 cost 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 on 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) *Gains or Losses 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 AFS securities 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 2.12) 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 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 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 carry forward 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 March 31, 2019 and December 31, 2018, the Bank has no convertible preferred shares (see Note 20).

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.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the judgments discussed in the succeeding pages, 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 judgement 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 instruments.

(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 outflow, 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 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 (i.e., 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 file of the financial instrument.

In addition, if more than an infrequent sale is made out of 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 judgement, 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-temporary 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 March 31, 2019. Future changes in those information and circumstances 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 of 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 March 31, 2019 and December 31, 2018, the Bank has determined that all its leases are operating leases.

(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.

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

Discussed in below and in the succeeding pages 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 resources and liabilities within the next reporting period.

(a) Estimation of Impairment of AFS Securities and Loans and Other Receivable (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.

(b) Estimate 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 behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumption and estimation used in measuring ECL is further detailed in Notes 4.3.

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 instruments. 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.

(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.

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.

(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) Estimation of 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.

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 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.

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 over-all 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 internal credit risk rating system (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.

Pursuant to regulatory requirements and best practices, the Bank also conducts sensitivity analysis and stress testing of the credit portfolio to assess sensitivity of the Bank's capital to BOD-approved credit risk scenarios.

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.

(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.

(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 PDEx and 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.

(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 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 P0.5million 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 RANo.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 March 31, 2019, December 31, 2018 and 2017 (amounts in millions):

	2019	2018	2017
Net Tier 1 Capital	**P 10,641**	P 11,124	P 9,809
Tier 2 Capital	**736**	779	678
Total Qualifying Capital	**P 11,377**	P 11,903	P 10,487
Risk Weighted Assets			
Credit Risk Weighted Assets	**P 73,514**	P 74,044	P 68,887
Operational Risk Weighted Assets	**5,051**	4,118	3,941
Market Risk Weighted Assets	**2,539**	1,254	2,092
Total Risk-Weighted Assets	**P 81,104**	P 79,417	P 74,920
Capital ratios:			
Total qualifying capital expressed as percentage of total risk-weighted assets	**14.0%**	15.0%	14.0%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	**13.1%**	14.0%	13.1%

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 March 31, 2019 and December 31, 2018, 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 March 31, 2019 and December 31, 2018, 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 those financial assets and financial liabilities in the statements of financial position:

	Notes	Carrying Values	Fair Values
March 31, 2019:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	9	**P 752,732,634**	**P 752,732,634**
Due from BSP	9	**5,878,914,859**	**5,878,914,859**
Due from other banks	10	**1,623,078,230**	**1,623,078,230**
Loans and other receivables	14	**76,793,363,690**	**71,012,359,271**
Other resources	15	**104,379,351**	**104,379,351**
FPVL securities		**3,229,786,774**	**3,229,786,774**
FVOCI securities		**2,279,714,729**	**2,279,714,729**
Amortized cost securities - Net	12	**786,522,562**	**786,522,562**
		P 91,448,492,829	**P 85,667,488,410**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	19	**P 78,680,286,133**	**P 72,757,234,193**
Bills payable	20	**2,632,885,327**	**2,632,885,327**
Accrued expenses and other liabilities	21	**1,677,902,925**	**1,677,902,925**
		P 82,991,074,385	**P 77,068,022,445**

	Notes	Carrying Values	Fair Values
December 31, 2018:			
Financial Assets			
Loans and receivables:			
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	14	75,530,357,441	69,844,432,133
Other resources	15	90,565,430	90,565,430
FPVL securities		1,816,806,583	1,816,806,583
FVOCI securities		2,279,714,729	2,279,714,729
Amortized cost securities - Net	12	771,055,060	760,373,635
		P 92,170,003,369	P 86,473,396,636
Financial Liabilities			
At amortized cost:			
Deposit liabilities	19	P 77,251,083,251	P 71,557,678,415
Bills payable	20	3,696,505,696	3,696,505,696
Accrued expenses and other liabilities	21	2,354,184,964	2,354,184,964
		P 83,301,773,911	P 77,608,369,075

The Bank considers 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

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, 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 classified 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 fair value of the debt securities of the Bank determined as follows:

(a) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals (Level1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, 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 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 amounts of deposits and bills payable already 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 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 under Investment Properties account 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 2017 and 2016.

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.

9. CASH AND DUE FROM BSP

This account is composed of the following:

		2019		2018
Cash and other cash items	**P**	**752,732,634**	P	988,547,825
Due from BSP				
Mandatory reserves		**5,878,914,859**		5,964,361,658
Other than mandatory reserves		**-**		200,000,000
		5,878,914,859		6,164,361,658
	P	**6,631,647,493**	P	7,152,909,483

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 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.

Due from BSP other than mandatory reserves bears annual effective interest rates ranging from 0% to 1.75% in 2019 and 0% to 1.75% in 2018. The total interest income earned in 2018 and 2017 amounted to P1.1 million and P36.2 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:

		2019		2018
Local banks	**P**	**1,104,236,925**	P	3,112,087,845
Foreign banks		**518,841,305**		1,416,506,798
	P	**1,623,078,230**	P	4,528,594,643

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2019 and 2018.The total interest income earned in 2019 and 2018 amounted to P6.3 million and P36.2 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:

	2019	2018
US dollars	**P 790,898,623**	P 3,187,791,963
Philippine peso	**832,179,607**	1,340,802,680
	P 1,623,078,230	P 4,528,594,643

11. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	2019	2018
Financial assets at FVPL	**P 3,229,786,774**	P 1,816,806,583
Financial assets at FVOCI	**2,662,541,099**	2,279,714,729
Investment Securities at amortized cost - net	**786,522,562**	771,055,060
	P 6,678,850,435	P 4,867,576,372

11.1 Investment Securities at FPVL

This accounts is compose of government securities and corporate bonds with fair value amounting to P3,229.8 million and P1,816.8 million as of March 31, 2019 and December 31, 2018, respectively. Annual coupon interest rates on these investments range from 3.0% to 5.5% in March 31, 2019 and 3.0% to 5.5% in December 31, 2018. The total interest income earned in 2019 and 2018 amounted to P23.3 million and P11.7 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statement of profit and loss.

11.2 Investment Securities at FVOCI

This account is composed of the following:

	2019	2018
Government debt securities	**P 2,390,612,099**	P 2,012,190,318
Corporate bonds – quoted	**271,929,000**	267,524,411
	P 2,662,541,099	P 2,279,714,729

As to currency, this account consists of the following:

		2019		2018
Foreign currencies	**P**	**-**	P	1,761,243,341
Philippine pesos		**2,662,541,099**		518,471,388
	P	**2,662,541,099**	P	2,279,714,729

11.3 Investment Securities at Amortized Cost/HTM

This account is composed of the following:

		2019		2018
Government debt securities	**P**	**496,522,563**	P	482,673,000
Corporate bonds – quoted		**290,000,000**		290,000,000
		786,522,563		772,673,000
Allowance for impairment		**-**	(	1,617,940)
	P	**786,522,563**	P	771,055,060

12. LOANS AND OTHER RECEIVABLES

This account consists of the following:

		2019		2018
Receivables from customers:				
Loans and discounts	**P**	**73,113,228,211**	P	70,546,193,193
Unearned discount	**(**	**182,247,690)**	(	170,226,689)
		72,930,980,521		70,375,966,504
Bills purchased		**8,167,045**		10,707,079
Customers' liabilities on acceptances, letters of credit and trust receipts		**4,107,807,007**		3,884,168,578
		77,046,954,573		74,270,842,161
Other receivables:				
SPURRA		**650,000,000**		1,500,000,000
Accrued interest receivable		**309,776,700**		602,780,238
Deficiency claims receivable		**67,273,882**		71,164,766
Accounts receivable		**28,273,576**		38,424,130
Sales contracts receivable		**125,480,811**		91,967,808
		1,180,804,969		2,304,336,942
		78,227,759,542		76,575,179,103
Allowance for impairment	**(**	**1,434,395,852)**	(	1,044,821,662)
	P	**76,793,363,690**	P	75,530,357,441

SPURRA are secured by certain treasury bills of the BSP. SPURRA represent loans and receivables from BSP as of March 31, 2019 and December 31, 2018 arise from overnight lending from excess liquidity.

Non-performing loans of the Bank amount to P1,594.9 million and P1,306.3 million as of March 31, 2019 and December 31, 2018, respectively, while restructured loans amount to P377.6 million and P195.3 million, respectively.

An analysis of the maturity profile of the Bank's receivables from customers, gross of allowance, follows (amounts in thousands):

		2019		2018
Within one year	**P**	**39,019,446**	P	36,706,354
Beyond one year		**38,209,756**		37,734,715
	P	**77,229,202**	P	74,441,069

As to security, receivable from customers, gross of allowance, are classified into the following (amounts in thousands):

		2019		2018
Secured:				
Real estate mortgage	**P**	**34,376,213**	P	34,345,108
Chattel mortgage		**6,630,413**		6,607,784
Deposit hold-out		**1,762,742**		2,374,719
Others		**2,024,057**		2,061,646
Unsecured		**32,435,777**		29,051,812
	P	**77,229,202**	P	74,441,069

Of the total loans and discounts of the Bank as of March 31, 2019 and December 31, 2018, 81.0% and 81.0%, respectively, are subject to periodic interest repricing.

Loans receivables pledged as collaterals to secure borrowings under rediscounting privileges amount to P1,191.6 million as of March 31, 2019 and P932.5 million as of December 31, 2018.

13. OTHER RESOURCES

This account consists of the following as of March 31, 2019 and December 31, 2018:

		2019		2018
Other investments	**P**	**575,030,000**	P	575,030,000
Deferred tax assets – net		**287,532,960**		287,532,960
Branch licenses		**250,500,000**		250,500,000
Goodwill		**121,890,408**		121,890,408
Due from head office or branches		**73,346,148**		72,628,444
Foreign currency notes and coins on hand		**70,417,441**		56,963,020
Computer software – net		**88,109,654**		92,893,978
Prepaid expenses		**104,664,707**		122,267,747
Security deposits		**33,602,410**		33,602,410
Club shares		**38,000,000**		38,000,000
Stationery and supplies		**17,186,961**		16,969,490
Sundry debits		**2,204,402**		690,469
Miscellaneous		**459,154,599**		78,210,527
		2,121,639,690		1,747,179,453
Allowance for impairment	**(**	**1,654,737)**	(	1,654,737)
	P	**2,119,984,953**	**P**	1,745,524,716

13.1 Other Investments

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 a direct payment made) is presented as part of Accounts Payable under Accrued Expenses and Other Liabilities in the statement of financial position.

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 March 31, 2019, the application for certificate of merger is yet to be submitted to the SEC.

13.2 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 P1.7 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 a total of 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.

14. GOODWILL

Goodwill arose from the following acquisitions:

	Notes	**2019**	2018
RBK	17	**P 59,513,648**	P 59,513,648
Kabalikat Rural Bank, Inc. (KRBI)		**49,878,393**	49,878,393
BLSB	17	**12,498,367**	12,498,367
		P 121,890,408	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 P59.0 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 P68.7 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.

15. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

		2019		2018
Within one year	**P**	**74,414,469,149**	P	73,502,888,467
Beyond one year		**4,265,816,984**		3,748,194,784
	P	**78,680,286,133**	P	77,251,083,251

The classification of the Bank's deposit liabilities as to currency follows:

		2019		2018
Philippine peso	**P**	**72,780,041,211**	P	71,517,822,829
Foreign currencies		**5,900,244,922**		5,733,260,422
	P	**78,680,286,133**	P	77,251,083,251

Annual interest rates on deposit liabilities range from 0.3% to 5.5% in 2019 and 2018.

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 March 31, 2019 and December 31, 2018 amount to P5,878.9 million and P5,964.4 million, respectively, and is in compliance with these regulations with the BSP requirement.

16. BILLS PAYABLE

Bills payable are denominated in Philippine pesos and have maturities of less than one year.

The total interest expense incurred in 2019 and 2018 amounted to P32.4 million and P112.4 million respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss.

This account is composed of the following:

		2019		2018
Interbank	**P**	**1,925,000,000**	P	3,034,598,367
Other - BSP		**707,885,327**		661,907,329
	P	**2,632,885,327**	P	3,696,505,696

As of March 31, 2019 and December 31, 2018, bills payable are secured with certain Bank's loans and receivables.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	**2019**	2018
Accounts payable		**P 439,967,668**	P 1,580,375,639
Manager's checks		**300,406,726**	301,645,798
Accrued expenses		**614,181,675**	298,467,638
Income tax payable		**223,081,087**	2,366,432
Withholding taxes payable		**57,711,353**	50,108,220
Outstanding acceptances		**276,023,529**	99,601,899
Due to BSP		**27,059,008**	19,558,325
Retirement benefit obligation		**16,186,371**	16,186,371
Allowance for loan commitments		**9,563,549**	9,563,549
Dividends payable	20	**-**	-
Others		**10,700,770**	44,972,116
		P 1,974,881,736	P 2,422,845,987

Accrued expenses include primarily accruals on 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.

18. EQUITY

18.1 Capital Stock

Capital stock consists of:

	Number of Shares		Amount	
	2019	2018	**2019**	2018
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**	**643,750,094**	**P 6,437,500,940**	P6,437,500,940
Stock dividends (see Note 18.2)	**-**	**-**	**-**	**-**
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, 2016, 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, 2017 and 2016, 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.

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 18.4).

As of March 31, 2019 and December 31, 2018, the Bank has 71 holders of its listed common stock. The Bank has 643,750,094 common shares traded in the PSE as of March 31, 2019 and December 31, 2018 and its share price closed as of March 31, 2019 and December 31, 2018 at P13.80 and P11.98 as at the same date, respectively.

18.2 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.

18.3 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.

On January 1, 2018, as part of its transition to PFRS 9 [(see Notes 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, 2017 and 2016, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

18.4 Paid-in Capital from IPO

As mentioned in Note 18.1, 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. 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.

(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.

The following is a summary of the Bank's commitments and contingent accounts as of March 31, 2019 and December 31, 2018:

		2019		2018
Investment management accounts	**P**	**2,657,971,540**	P	2,565,027,140
Trust and other fiduciary accounts		**1,354,091,964**		825,233,891
Outstanding letters of credit		**443,342,633**		3,134,027,226
Unit investment trust fund		**28,582,614**		29,090,261
Late payment/deposits received		**3,533,417**		3,432,354
Outward bills for collection		**10,240,023**		2,631,626
Items held for safekeeping		**105,864**		106,563
Items held as collateral		**11,732**		11,487
Other contingent accounts		**555,522,528**		635,759,087

As of March 31, 2019 and December 31, 2018, 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.

(a) 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 March 31, 2019 and December 31, 2018, management is of the opinion that losses, if any, from these items will not have a material effect on the Bank's financial statements.

20. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

		2019		2018
Net profit	**P**	**251,048,194**	P	181,254,953
Dividends on preferred shares		**-**		-
Net profit attributable to common shareholders		**251,048,194**		181,254,953
Divided by the weighted average number of outstanding common shares		**643,750,094**		643,750,094
Basic earnings per share	**P**	**0.39**	P	0.28

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 March 31, 2019 and December 31, 2018, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

SCHEDULE OF AGING OF LOANS RECEIVABLES
(PSE Requirement per Circular No. 2164-99)
As of March 31, 2019

Current Accounts (by maturity)	
Up to 12 months	44,102,682,532
Over 1 year to 3 years	28,569,909,474
Over 3 years to 5 years	425,629,680
Over 5 years	3,297,110,392
Past due and items in litigations	1,502,395,775
Loans Receivables (gross)	78,410,007,232
Less:	
Unearned and other deferred income	182,247,690
Allowance for credit losses	1,434,395,852
Loans Receivables (Net)	76,793,363,690

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	March 31, 2019	December 31, 2018
Current Ratio (1)	1.3%	1.2%
Solvency Ratio (2)	113.7%	113.6%
Debt-to-equity (3)	7.3%	7.5%
Asset-to-equity (4)	8.3%	8.3%
Interest rate coverage ratio (5)	154.3%	171.7%
Return on Equity (6)	8.8%	7.9%
Return on Assets (7)	1.0%	1.0%
Net Interest Margin (8) (9)	4.1%	4.3%
Cost-to-Income Ratio (10)	39.3%	44.3%

Notes:

(1) Current assets divided by current liabilities
(2) Total assets divided by total liabilities
(3) Total liabilities divided by total equity
(4) Total assets divided by total equity
(5) Income before interest and taxes divided by interest expense
(6) Net income divided by average total equity for the periods indicated (annualized)
(7) Net income divided by average total assets for the periods indicated (annualized)
(8) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
(9) Starting April 2012, the BSP stopped paying interest on reserves on customer deposits of banks. The Q1 2013 computation considered the Bank's deposit with BSP as non-earning. In Q1 2012 and previous to that, it is considered part of earning assets. NIM is Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013
(10) Other expenses (excl. provision for impairment and credit losses) divided by the sum of interest and other income for the periods indicated