

COVER SHEET

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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	.

(Company's Full Name)

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

Rolando G. Alvendia

Contact Person

363-3333 local 4023

Company Telephone Number

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Month Day

Fiscal Year

SEC FORM 17 - Q

FORM TYPE

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Month Day

Annual Meeting

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Secondary License Type, if Applicable

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Dept. Requiring this Doc.

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Amended Articles Number/Section

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Total No. of Stockholders

Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **September 30, 2018**
2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **000-005-469-606**
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:



FRANCIS T. LEE
Chairman



ROLANDO R. AVANTE
President & CEO

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 September 30, 2018 and December 31, 2017 and the statements of income, statements of comprehensive income, statements of changes in equity, and statements of cash flows for the nine-month period ending September 30, 2018 and September 30, 2017 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 nine-months ended			
	9/30/2018	9/30/2017	Variance	%
Interest Income				
Loans and other receivables	₱ 3,747,828,998	₱ 2,609,192,187	₱ 1,138,636,811	43.6
Investment and trading securities	103,257,545	141,485,477	(38,227,932)	(27.0)
Due from BSP and other banks	30,486,265	30,651,593	(165,328)	(0.5)
	3,881,572,808	2,781,329,257	1,100,243,551	39.6
Interest Expense	(1,155,180,599)	(587,346,310)	(567,834,289)	96.7
Net Interest Income	2,726,392,209	2,193,982,947	532,409,262	24.3

Interest income on loans and other receivables drove the overall interest income growth of the Bank for the nine-month period ended September. This was ₱1.1 billion higher than the ₱2.6 billion figure in September 2017 to ₱3.7 billion for the nine-month period ended September 2018. As a result, overall interest income stood at ₱3.9 billion, or 39.6% higher year-over-year (YoY).

Overall interest expense as of the third quarter of 2018 expanded by 96.7% due to the ₱511.0 million and ₱56.9 million increases of interest expense in deposit liabilities and bills payable. The growth was driven by the 18.8% increase in deposit volumes and the 199.5% expansion of bills payable versus 9M2017.

As a result, net interest income as of September 30, 2018 recorded a 24.3% growth from ₱2.2 billion last year to ₱2.7 billion.

	For the nine-months ended			
	9/30/2018	9/30/2017	Variance	%
Core income				
Net interest income	₱ 2,726,392,209	₱ 2,193,982,947	₱ 532,409,262	24.3
Service charges, fees and commissions	228,274,515	148,933,828	79,340,687	53.3
Miscellaneous	82,575,707	22,493,679	60,082,028	267.1
	3,037,242,431	2,365,410,454	671,831,977	28.4
Non-interest expenses	(1,961,578,740)	(1,717,449,707)	(244,129,033)	14.2
Core income	1,075,663,691	647,960,747	427,702,944	66.0

Other income ended at ₱310.9 million, or 82.9% increase YoY, broken down into the following: service charges, fees, and commissions of ₱228.3 million and miscellaneous income of ₱82.6 million. Operating expenses as of September 30, 2018 expanded by 14.2% from ₱1.7 billion to

₱2.0 billion in 9M2017. This is due to the 54.2% growth of taxes and licenses expenses incurred during the year as gross receipt tax on interest income grew.

As a result, core income posted a 66.0% growth YoY from ₱648.0 million to ₱1,075.7 million.

	For the nine-months ended			
	9/30/2018	9/30/2017	Variance	%
Core income	₱ 1,075,663,691	₱ 647,960,747	₱ 427,702,944	66.0
Trading gains (losses)	(44,439,200)	114,378,207	(158,817,407)	(138.9)
Pre-tax pre-provision profit	1,031,224,491	762,338,954	268,885,537	35.3
Loan loss provision	(175,336,093)	(177,125,396)	1,789,303	(1.0)
Profit before tax	855,888,398	585,213,558	270,674,840	46.3
Taxes	(245,639,671)	(144,903,060)	(100,736,611)	69.5
Net income	₱ 610,248,727	₱ 440,310,498	₱ 169,938,229	38.6

Pre-tax pre-provision profit rose by 35.3% from ₱762.3 million to ₱1,031.2 million despite the ₱44.4 million trading loss incurred in the nine-month period ending September 2018. The Bank set aside ₱175.3 million on provision for impairment losses, which is 1.0% lower than last year's ₱177.1 million.

As a result, net income as of September 30, 2018 ended at ₱610.2 million, 38.6% higher versus ₱440.3 million figure in the same period last year.

For the quarters ended September 30, 2018 and June 30, 2018:

	For the quarters ended			
	9/30/2018	6/30/2018	Variance	%
Interest Income				
Loans and other receivables	₱ 1,340,355,311	₱ 1,254,435,863	₱ 85,919,448	6.8
Investment and trading securities	37,947,942	35,077,319	2,870,623	8.2
Due from BSP and other banks	23,607,128	1,849,929	21,757,199	1,176.1
	1,401,910,381	1,291,363,111	110,547,270	8.6
Interest Expense	(472,924,662)	(373,023,636)	(99,901,026)	26.8
Net Interest Income	928,985,719	918,339,475	10,646,244	1.2

Interest income from loans and other receivables strengthened by 6.8% versus the last linked quarter ("LLQ"), bringing the Bank's overall interest income to ₱1.4 billion from ₱1.3 billion. Interest expense also grew by 26.8% from ₱373.0 million last quarter to ₱472.9 million on the third quarter of 2018 owing to the expansion of interest expense on deposit liabilities by 30.2%.

Net interest income grew 1.2% from ₱918.3 million to ₱929.0 million.

	For the quarters ended			
	9/30/2018	6/30/2018	Variance	%
Core income				
Net interest income	₱ 928,985,719	₱ 918,339,475	₱ 10,646,244	1.2
Service charges, fees and commissions	162,836,340	30,173,684	132,662,656	439.7
Miscellaneous	(7,965,859)	51,642,742	(59,608,601)	(115.4)
	1,083,856,200	1,000,155,901	83,700,299	8.4
Non-interest expenses	(678,130,299)	(660,068,082)	(18,062,217)	2.7
Core income	405,725,901	340,087,819	65,638,082	19.3

Other income, which consists of service charges, fees, and commissions and miscellaneous income, expanded by 89.3%, or ₱73.1 million, as fees related to the Bank's revised minimum maintaining balance on deposit placements grew.

The Bank's operating expenses for the third quarter of 2018 increased by 2.7% from LLQ's ₱660.1 million to ₱678.1 million on account of the 10.4% growth of insurance expenses.

These changes brought 3Q2018's core income to ₱405.7 million, up 19.3%.

	For the quarters ended						
	9/30/2018		6/30/2018		Variance	%	
Core income	₱	405,725,901	₱	340,087,819	₱	65,638,082	19.3
Trading gains (losses)		12,357,853	(	26,660,871)		39,018,724	(146.4)
Pre-tax pre-provision profit		418,083,754		313,426,948		104,656,806	33.4
Loan loss provision	(	65,336,093)	(	75,000,000)		9,663,907	(12.9)
Profit before tax		352,747,661		238,426,948		114,320,713	47.9
Taxes	(	90,656,490)	(	71,524,345)	(	19,132,145)	26.7
Net income	₱	262,091,171	₱	166,902,603	₱	95,188,568	57.0

Trading gains for the third quarter of 2018 amounted to ₱12.4 million, up by ₱39.0 million versus the second quarter of 2018. This 146.4% increase in trading gains brought the PTPP to ₱418.1 million, a 33.4% growth over last quarter's ₱313.4 million.

Loan loss provision tapered down by 12.9% to ₱65.3 million in the third quarter of 2018 compared to LLQ's ₱75.0 million, bringing profits before tax to a 47.9% increase quarter over quarter.

As a result, net income for the three months ended September 2018 amounted to ₱262.1 million, up by 57.0% versus the second quarter income of ₱166.9 million.

For the quarters ended September 30, 2018 and 2017:

	For the quarters ended						
	9/30/2018		9/30/2017		Variance	%	
Interest Income							
Loans and other receivables	₱	1,340,355,311	₱	966,421,129	₱	373,934,182	38.7
Investment and trading securities		37,947,942		38,260,111	(	312,169)	(0.8)
Due from BSP and other banks		23,607,128		8,099,177		15,507,951	191.5
		1,401,910,381		1,012,780,417		389,129,964	38.4
Interest Expense	(	472,924,662)	(	223,728,343)	(	249,196,319)	111.4
Net Interest Income		928,985,719		789,052,074		139,933,645	17.7

Interest income on loans and other receivables remained as the main driver of the Bank's overall interest income growth. Income on loans and receivables expanded by 38.7% from ₱966.4 million in 3Q2017 to ₱1,340.4 million in the same quarter of 2018, which is a direct result of the 23.4% growth of net loans and other receivables YoY. Overall interest income for the quarter ended September 2018 stood at ₱1,401.9 million, 38.4% higher than the same quarter last year figure of ₱1,012.8 million.

Interest expense on deposit liabilities increased by 105.3% as the Bank's deposit portfolio grew by 18.8% YoY from ₱67.0 billion in 2017 to ₱79.6 billion in 2018. During the third quarter of 2018, PBB incurred additional interest expense on bills payable of ₱17.7 million due to the

199.5% growth of bills payable. These changes brought the total interest expense to ₱472.9 million, higher by 111.4% over 3Q2017.

As a result, net interest income for the third quarter of 2018 stood at ₱929.0 million, up 17.7% or ₱139.9 million, from ₱789.1 million in the same quarter last year.

	For the quarters ended			
	9/30/2018	9/30/2017	Variance	%
Core income				
Net interest income	₱ 928,985,719	₱ 789,052,074	₱ 139,933,645	17.7
Service charges, fees and commissions	162,836,340	99,308,774	63,527,566	64.0
Miscellaneous	(7,965,859)	(72,754,429)	64,788,570	(89.1)
	1,083,856,200	815,606,419	268,249,781	32.9
Non-interest expenses	(678,130,299)	(590,362,268)	(87,768,031)	14.9
Core income	405,725,901	225,244,151	180,481,750	80.1

The Bank's non-interest income expanded by 483.2% from ₱26.6 million in 2017 to ₱154.9 million in 2018 as service charges, fees and commissions grew by 64.0%. Non-interest expenses also increased to ₱678.1 million in the third quarter of 2018 from ₱590.4 million in 3Q2017 owing to the 55.1% growth of gross receipt on interest income.

As a result, core income increased by 80.1% from ₱225.2 million in 3Q2017 to ₱405.7 million in 2018.

	For the quarters ended			
	9/30/2018	9/30/2017	Variance	%
Core income	₱ 405,725,901	₱ 225,244,151	₱ 180,481,750	80.1
Trading gains (losses)	12,357,853	16,674,838	(4,316,985)	(25.9)
Pre-tax pre-provision profit	418,083,754	241,918,989	176,164,765	72.8
Loan loss provision	(65,336,093)	(97,125,396)	31,789,303	(32.7)
Profit before tax	352,747,661	144,793,593	207,954,068	143.6
Taxes	(90,656,490)	(44,803,310)	(45,853,180)	102.3
Net income	₱ 262,091,171	₱ 99,990,283	₱ 162,100,888	162.1

Pre-tax pre-provision profit increased by 72.8% despite the 25.9% drop in trading gains, ending the third quarter of 2018 at ₱418.1 million. Profits before tax also went up by 143.6% from ₱145.0 million in 3Q2017 to ₱352.7 million in 3Q2018 as impairment losses tapered down to ₱65.3 million.

As a result, ₱262.1 million net income was recorded for the third quarter of 2018, a 162.1% growth versus the same quarter last year.

Financial condition as of September 30, 2018 versus December 31, 2017:

Amounts in PHP 000s, except BVPS		<u>9/30/2018</u>	<u>12/31/2017</u>	<u>Variance</u>	<u>%</u>
Loans and Receivables	₱	80,297,911	₱ 70,552,796	₱ 9,745,115	13.8
Non Performing Loans (NPL)		1,670,175	1,504,510	165,665	11.0
Loan Loss Reserves		1,205,275	1,456,448	(251,173)	(17.2)
Trading and Investment Portfolio		3,677,410	2,438,873	1,238,538	50.8
Assets		96,242,742	87,263,845	8,978,897	10.3
Deposit Liabilities		79,619,223	73,522,017	6,097,205	8.3
Equity		11,092,462	10,226,228	866,234	8.5
Book Value Per Share		16.3	14.9	1.3	9.0

Loans and other receivables expanded by 13.8% from ₱70.6 billion in 2017 to ₱80.3 billion as of September 2018. Non-performing loans also grew to ₱1.7 billion versus December 2017's figure of ₱1.5 billion, a ₱165.7 million increase. However, NPL ratio improved to 2.1% in the third quarter of 2018 from 2.2% in December 2017.

PBB's loan loss reserves for the nine months ended September 2018 stood at ₱1.2 billion from ₱1.5 billion in year-end 2017 as a result of the implementation of PFRS 9.

Trading and investment securities as of September 2018 amounted to ₱3.7 billion, 50.8% higher than ₱2.4 billion figure in year-end 2017 as the Bank continued to build up its trading portfolio in line with the BSP's Minimum Liquidity Ratio (MLR) requirement.

Total resources reached ₱96.2 billion in the third quarter of 2018, 10.3% higher than year-end's figure of ₱87.3 billion. Loans and other receivables remain the largest bulk at 83.4% of the total assets in 2018.

Deposit liabilities as of September 2018 was at ₱79.6 billion, up 8.3% from December 2017's figure of ₱73.5 billion as low-cost and high-cost deposits increased by 6.4% and 9.4%, respectively.

Equity ended at ₱11.1 billion as of September 2018 from ₱10.2 billion in December 2017, up 8.5%. Book value per share also grew by 9.0% from ₱14.9 in 2017 to ₱16.3 as of September 2018.

B. Key Performance Indicators

Capital Adequacy Ratio, which is a measure of the Bank's financial strength, stood at 14.16% by the end of the third quarter of 2018. This is 16 basis points (bps) higher than the December 2017 ratio of 14.00%.

Asset Quality: The Bank's non-performing loans (NPL) ratio decreased to 2.14% as of September 30, 2018 from 2.18% in December 31, 2017.

Profitability: Return on average equity (ROAE) decreased from 6.47% in December 31, 2017 to 7.63% in September 30, 2018. Net interest margin declined by 21 bps from 4.30% in 2017 to 4.09% in 3Q2018.

Cost efficiency: Cost-to-income ratio decreased to 65.58% as of the end of September 2018 from 65.74% in December 31, 2017.

Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition (September 30, 2018 vs. December 31, 2017)

- PBB's assets reached ₱96.2 billion as of September 30, 2018. This is 10.3% higher compared to ₱87.3 billion in December 31, 2017. Significant changes in assets were registered in the following accounts:
 - a. Cash and other cash items declined by 36.7% from ₱1,002.2 million to ₱634.7 million
 - b. Due from BSP also decreased by 10.1% as other than mandatory reserves were nil as of 9M2018
 - c. Due from other banks went down to ₱2.7 billion due to the decrease in placements to local banks
 - d. Trading and investment securities increased by 50.8% in line with the MLR compliance of the Bank
 - e. Loans and other receivables expanded by 13.8% from ₱70.6 billion in year-end 2017 to ₱80.3 billion as of September 30, 2018
 - f. Investment properties grew to ₱500.5 million in the third quarter of 2018 from ₱423.3 million in 2017 owing to the ₱117.8 million additional assets acquired through foreclosure for the nine months ended 2018
- The Bank's total liabilities amounted to ₱85.2 billion as of September 30, 2018. This is ₱8.1 billion or 10.5% higher as compared to the December 31, 2017 level of ₱77.0 billion. Significant changes in liabilities were registered in the following accounts:

- a. Low-cost and high-cost deposits grew to ₱29.8 billion and ₱49.8 billion, up 6.4% and 9.4% respectively
 - b. Bills payable, which include those from the BSP and other banks, stood at ₱3.6 billion in September 2018, an 84.2% growth
 - c. Accrued expenses and other liabilities increased by 24.4% due to significant increases in outstanding acceptances, accrued expenses, and bills purchased.
- Shareholder's equity stood at ₱11.1 billion as of 9M2018, up 8.5% from December 2017 figure of ₱10.2 billion. As a result, book value per share increased to ₱16.3 from ₱14.9 as of 2017.

Results of Operations for the Third quarter ended September 30, 2018 and September 30, 2017

- Interest income on loans and other receivables climbed to ₱1,340.4 million in the third quarter of 2018 versus the same quarter last year figure of ₱966.4 million, a 38.7% increase. Overall interest income grew by 38.4% from ₱1,012.8 million in 2017 to ₱1,401.9 million in 2018. Interest expense during the third quarter of 2018 increased by 111.4% as interest expense from deposit liabilities and bills payable grew by ₱231.5 million and ₱17.7 million, respectively. These changes brought the net interest income to a 17.7% growth from ₱789.1 million to ₱929.0 million.
- Non-interest income, composed of service charges, fees and commissions, and miscellaneous income, grew by 483.2% from the third quarter of 2017 and 2018. Non-interest expense also grew by 14.9% from ₱590.4 million to ₱678.1 million owing to the ₱58.2 million growth of gross receipt tax.
- The Bank's core income, composed of net interest income, fee-based income, and non-interest expenses, exclusive of trading gains, expanded from ₱225.2 million to ₱405.7 million or an 80.1% growth as a result of the good lending business this year.
- PBB continued to set aside a portion of its income for impairment losses amounting to ₱65.3 million pesos against the same quarter in 2017 of ₱97.1 million, which brought the Bank's profit before tax to a 143.6% increase 3Q2017 over 3Q2018.
- As a result, net income posted a 162.1% increase from ₱100.0 million in 2017 to ₱262.1 million in 2018.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended September 30, 2018 came from its operations. A significant portion came from the core business of interest income on loans and receivables.

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 September 30, 2018 and 2017 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 September 30, 2018 (Unaudited) and December 31, 2017 (Audited)

And for the Nine Months Ended September 30, 2018 and 2017 (Unaudited)

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2018 AND DECEMBER 31, 2017
(Amounts in Philippine Pesos)

	Notes	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	8	P 634,747,580	P 1,002,240,895
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	5,910,488,741	6,575,270,040
DUE FROM OTHER BANKS	9	2,702,260,032	4,012,519,495
TRADING AND INVESTMENT SECURITIES - Net	10	3,677,410,196	2,438,872,511
LOANS AND OTHER RECEIVABLES - Net	11	80,297,911,459	70,552,796,381
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12	476,235,711	486,639,186
INVESTMENT PROPERTIES - Net	13	500,535,223	423,348,421
OTHER RESOURCES - Net	14	<u>2,043,153,141</u>	<u>1,772,157,992</u>
TOTAL RESOURCES		<u>P 96,242,742,083</u>	<u>P 87,263,844,921</u>
<u>LIABILITIES AND EQUITY</u>			
DEPOSIT LIABILITIES	15		
Demand		P 1,362,169,393	P 1,219,946,216
Savings		28,419,614,062	26,761,394,203
Time		<u>49,837,439,195</u>	<u>45,540,676,996</u>
Total Deposit Liabilities		79,619,222,650	73,522,017,415
BILLS PAYABLE	16	3,562,514,387	1,933,724,724
ACCRUED EXPENSES AND OTHER LIABILITIES	17	<u>1,968,542,757</u>	<u>1,581,874,771</u>
Total Liabilities		<u>85,150,279,794</u>	<u>77,037,616,910</u>
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		2,233,718,085	1,249,049,896
Revaluation reserves		(197,153,552)	(78,719,641)
Total Equity		<u>11,092,462,289</u>	<u>10,226,228,011</u>
TOTAL LIABILITIES AND EQUITY		<u>P 96,242,742,083</u>	<u>P 87,263,844,921</u>

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2018 AND SEPTEMBER 30, 2017
(Amounts in Philippine Pesos)

	For the quarter ended Sept. 30, 2018	<i>Re-stated</i> For the quarter ended Sept. 30, 2017	Unaudited For the nine months ended Sept. 30, 2018	<i>Re-stated</i> Unaudited For the nine months ended Sept. 30, 2017
INTEREST INCOME				
Loans and other receivables	P 1,340,355,311	P 966,421,129	P 3,747,828,998	P 2,609,192,187
Investment and trading securities	37,947,942	38,260,111	103,257,545	141,485,477
Due from Bangko Sentral ng Pilipinas and other banks	<u>23,607,128</u>	<u>8,099,177</u>	<u>30,486,265</u>	<u>30,651,593</u>
	<u>1,401,910,381</u>	<u>1,012,780,417</u>	<u>3,881,572,808</u>	<u>2,781,329,257</u>
INTEREST EXPENSE				
Deposit liabilities	451,437,098	219,938,439	1,094,540,324	583,556,406
Bills payable	<u>21,487,564</u>	<u>3,789,904</u>	<u>60,640,275</u>	<u>3,789,904</u>
	<u>472,924,662</u>	<u>223,728,343</u>	<u>1,155,180,599</u>	<u>587,346,310</u>
NET INTEREST INCOME	928,985,719	789,052,074	2,726,392,209	2,193,982,947
IMPAIRMENT LOSSES	<u>65,336,093</u>	<u>97,125,396</u>	<u>175,336,093</u>	<u>177,125,396</u>
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	<u>863,649,626</u>	<u>691,926,678</u>	<u>2,551,056,116</u>	<u>2,016,857,551</u>
OTHER INCOME				
Trading gains - net	12,357,853	16,674,838	(44,439,200)	114,378,207
Service charges, fees and commissions	162,836,340	99,308,774	228,274,515	148,933,828
Miscellaneous	(<u>10,822,441</u>)	(<u>72,754,429</u>)	<u>82,575,707</u>	<u>22,493,679</u>
	<u>164,371,752</u>	<u>43,229,183</u>	<u>266,411,022</u>	<u>285,805,714</u>
OTHER EXPENSES				
Salaries and other employee benefits	210,733,351	188,053,482	607,150,850	568,728,757
Taxes and licenses	163,742,056	105,572,820	453,773,322	294,286,054
Occupancy	78,219,208	24,766,004	233,924,529	219,373,313
Management and other professional fees	33,849,570	25,291,076	98,233,226	86,965,937
Depreciation and amortization	43,190,011	38,472,134	138,180,833	125,124,711
Insurance	52,610,843	41,905,353	151,721,997	118,651,588
Representation and entertainment	11,000,646	8,037,169	33,952,454	23,482,567
Miscellaneous	<u>81,928,032</u>	<u>158,264,230</u>	<u>244,641,529</u>	<u>280,836,782</u>
	<u>675,273,717</u>	<u>590,362,268</u>	<u>1,961,578,740</u>	<u>1,717,449,709</u>
PROFIT BEFORE TAX	352,747,661	144,793,593	855,888,398	585,213,556
TAX EXPENSE	<u>90,656,490</u>	<u>44,803,310</u>	<u>245,639,671</u>	<u>144,903,059</u>
NET PROFIT	<u>P 262,091,171</u>	<u>P 99,990,283</u>	<u>P 610,248,727</u>	<u>P 440,310,497</u>
Earnings Per Share				
Basic	<u>P 0.41</u>	<u>P 0.16</u>	<u>P 0.95</u>	<u>P 0.68</u>
Diluted	<u>P 0.41</u>	<u>P 0.16</u>	<u>P 0.95</u>	<u>P 0.68</u>

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

	Note	2018	2017
NET PROFIT		<u>P 610,248,727</u>	<u>P 440,310,498</u>
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment defined benefit plan		-	(22,612,984)
Tax income		-	6,783,895
		<u>-</u>	<u>(15,829,089)</u>
Items that will be reclassified subsequently to profit or loss			
Fair value losses on investment securities at fair value through other comprehensive income	10	(108,797,077)	-
Fair value losses reclassified to profit or loss during the period		-	(13,338,626)
Fair value gains on available-for-sale-securities during the period - net		-	75,901,154
		<u>(108,797,077)</u>	<u>62,562,528</u>
Other Comprehensive Income (Loss) - Net of Tax		<u>(108,797,077)</u>	<u>46,733,439</u>
TOTAL COMPREHENSIVE INCOME		<u>P 501,451,650</u>	<u>P 487,043,937</u>

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

Notes	Capital Stock (see Note 18)		Additional Paid-in Capital (see Note 18)	Surplus		Revaluation Reserves (see Note 18)		Total Equity
	Preferred Stock	Common Stock		Appropriated	Unappropriated	Unrealized Fair Value Losses on Investment Securities at FVOCI	Accumulated Actuarial Losses	
BALANCE AS OF JANUARY 1, 2018								
As previously reported	P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 7,107,770	P 1,241,942,126	(P 52,250,091)	(P 26,469,550)	P 10,226,228,011
Effect of adoption of PFRS 9 (2014)	-	-	-	500,509,237	(90,346,172)	(9,636,834)	-	400,526,231
As restated	620,000,000	6,437,500,940	1,998,396,816	507,617,007	1,151,595,954	(61,886,925)	(26,469,550)	10,626,754,242
Appropriation for trust reserves	-	-	-	925,840	(925,840)	-	-	-
Appropriation for general loan loss reserve	-	-	-	18,599,680	(54,343,283)	-	-	(35,743,603)
Total comprehensive income (loss)	-	-	-	-	610,248,727	(108,797,077)	-	501,451,650
BALANCE AS OF SEPTEMBER 30, 2018	P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 527,142,527	P 1,706,575,558	(P 170,684,002)	(P 26,469,550)	P 11,092,462,289
BALANCE AS OF JANUARY 1, 2017	P 620,000,000	P 5,364,584,370	P 1,998,396,816	P 5,989,552	P 1,675,890,814	(P 82,019,677)	(P 12,757,016)	P 9,570,084,859
Stock dividends	-	1,072,916,706	-	-	(1,072,916,706)	-	-	-
Appropriation for trust reserves	-	-	-	820,250	(820,250)	-	-	-
Total comprehensive income (loss)	-	-	-	-	440,310,498	62,562,528	(15,829,089)	487,043,937
BALANCE AS OF SEPTEMBER 30, 2017	P 620,000,000	P 6,437,501,076	P 1,998,396,816	P 6,809,802	P 1,042,464,356	(P 19,457,149)	(P 28,586,105)	P 10,057,128,796

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(Amounts in Philippine Pesos)
(UNAUDITED)

	Notes	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 855,888,398	P 585,213,558
Adjustments for:			
Depreciation and amortization	12, 13, 14	138,180,833	125,124,711
Foreign currency revaluation on investment securities	10	(127,084,169)	(1,478,353)
Impairment losses	10, 11	175,336,093	177,125,396
Gain on sale of properties - net	19	(20,465,623)	(5,936,040)
Gains on sale of available-for-sale securities (AFS)	10	-	(13,338,626)
Operating profit before working capital changes		1,021,855,532	866,710,646
Decrease (increase) in investment securities at FVPL		(598,569,117)	3,274,168,284
Increase in loans and other receivables		(7,178,748,035)	(14,198,414,654)
Increase in other resources		(166,019,236)	(30,358,393)
Increase in deposit liabilities		6,097,205,235	8,139,477,598
Increase in accrued expenses and other liabilities		361,923,756	308,919,682
Cash used in operations		(462,351,865)	(1,639,496,837)
Cash paid for income taxes		(341,400,365)	(248,666,265)
Net Cash Used in Operating Activities		(803,752,230)	(1,888,163,102)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of investment securities at FVOCI	10	(508,924,529)	-
Acquisitions of investment securities at amortized cost		(150,012,207)	-
Acquisitions of bank premises, furniture, fixtures and equipment	12	(112,023,080)	(78,931,969)
Acquisition of software licenses	14	(65,235,009)	(9,579,357)
Proceeds from sale of investment securities at amortized cost		39,332,888	-
Proceeds from sale of investment and other properties	13, 19	36,107,709	15,220,000
Proceeds from sale of bank premises, furniture, fixtures and equipment	12	17,357,363	13,374,036
Proceeds from sale of AFS securities		-	11,767,095,140
Acquisitions of AFS securities		-	(11,252,523,005)
Net Cash From (Used In) Investing Activities		(743,396,865)	454,654,845
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	19	12,672,424,699	2,170,653,547
Settlement of bills payable	19	(11,043,635,036)	(981,348,015)
Payment of cash dividends		-	(79,200,000)
Net Cash From Financing Activities		1,628,789,663	1,110,105,532
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		81,640,568	(323,402,725)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
Cash and other cash items	8	1,002,240,895	1,034,745,504
Due from Bangko Sentral ng Pilipinas	8	6,575,270,040	6,225,701,096
Due from other banks	9	4,012,519,495	1,633,340,396
Securities under reverse repurchase agreement	11	826,072,472	345,154,260
Foreign currency notes and coins on hand	17	60,144,407	63,871,020
		<u>12,476,247,309</u>	<u>9,302,812,276</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items	8	634,747,580	630,722,434
Due from Bangko Sentral ng Pilipinas	8	5,910,488,741	6,016,289,502
Due from other banks	9	2,702,260,032	2,276,842,383
Securities under reverse repurchase agreement	11	3,250,000,000	-
Foreign currency notes and coins on hand	17	60,391,524	55,555,232
		<u>P 12,557,887,877</u>	<u>P 8,979,409,551</u>

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO INTERIM FINANCIAL STATEMENTS
SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)
(With Comparative Audited Figures as of December 31, 2017)
(Amounts in Philippine Peso 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 21.4).

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 September 30, 2018, it has 144 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 Interim Financial Statements

The interim financial statements of the Bank as of and for the nine months ended September 30, 2018 (including the comparatives as of December 31, 2017 and for the nine months ended September 30, 2017) were authorized for issue by the Bank's Board of Directors (BOD) on October 17, 2018.

2. BASIS OF PREPARATION OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The interim financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. This interim financial statements do not include all of the information required for annual financial statements, and should be read in conjunction with the annual financial statements of the Bank as of and for the year ended December 31, 2017 which have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

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

The Banks's accounting policies adopted in the preparation of these interim financial statements are consistent with those applied in the preparation of the Banks's annual financial statements as of and for the year ended December 31, 2017 and the corresponding interim reporting period, except for the adoption of the following new PFRSs:

- PFRS 9 (2014), *Financial Instruments*, and,
- PFRS 15, *Revenue from Contracts with Customers*.

The impact of the adoption of PFRS 9 (2014) are disclosed in Note 3. PFRS 15 and the various amendments to PFRS did not have significant impact on the Bank's accounting policies and did not require retrospective adjustments.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

3.1 *Impact of Adoption of PFRS 9 (2014)*

The Bank adopted PFRS 9 (2014) effective January 1, 2018, the date of adoption. This new standard on financial instruments replaced PAS 39, Financial Instruments: Recognition and Measurement, and PFRS 9 (2009, 2010, and 2013 versions) – hereinafter referred to as PFRS 9. PFRS 9 has been early adopted by the Bank on January 1, 2014. In addition to the principal classification categories for financial assets and financial liabilities and hedge accounting under PFRS 9, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value measurement through other comprehensive income for eligible debt securities; and,
- an expected credit loss (ECL) model in determining impairment of all debt financial assets that are not measured at fair value through profit or loss (FVPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

The adoption of PFRS 9 (2014) from January 1, 2018 resulted in changes in accounting policies and adjustments to the amounts previously reported in the Bank's financial statements. The new accounting policies are set out in Note 3.2 in the succeeding page. As allowed and in accordance with the transitional provisions of this new standard, comparative figures have not been restated but the Bank is required to provide the related transition disclosure requirements under PFRS 7, Financial Instruments: Disclosures.

3.2 Accounting Policies Applied from January 1, 2018

(a) Classification and Measurement of Financial Assets

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. From January 1, 2018, in accordance with the new provisions on classification and measurement of financial assets under PFRS 9 (2014), the Bank classifies and measures financial assets as follows:

(i) Debt Instruments at amortized cost

The Bank classifies debt instruments under amortized cost when the asset is held to collect contractual cash flows. Debt instruments at amortized cost are measured at amortized cost less impairment allowance recognized in profit or loss. Interest income and foreign exchange gains and losses are recognized in profit or loss.

(ii) Debt Instruments at FVPL

The Bank classifies debt instruments under FVPL when they do not meet the criteria of FVOCI or amortized cost. Debt instruments at FVPL are measured at fair value with gains and losses arising from changes in fair value recognized in profit or loss.

(iii) Debt Instruments at FVOCI

The Bank classifies debt instruments under FVOCI when both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding.

Debt securities at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost. On derecognition, cumulative gains or

losses previously recognized in other comprehensive income are reclassified to profit or loss.

(b) *Impairment of Financial Assets*

From January 1, 2018, the Bank assesses on a forward-looking basis the ECL for all financial assets. The allowance for credit losses is based on the ECLs associated with the probability of default in the next twelve months, unless there has been a significant increase in credit risk since origination of the financial asset, in such case, a lifetime ECL for the instrument is recognized. If the financial asset meets the definition of a purchased or originated credit impaired, the allowance for losses is based on the change in the ECLs over the life of the asset.

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 increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. In accordance with the Bank's policy, a financial asset is assessed for impairment based on the following stages:

- Stage 1: When a financial asset is first recognized, the Bank recognizes credit losses based on the twelve-month ECLs. Stage 1 financial asset also include facilities where the credit risk has improved and has been reclassified from Stage 2.
- Stage 2: When a financial asset has shown a significant increase in credit risk since origination, the Bank recognizes an allowance for the lifetime ECL. Stage 2 financial asset also include facilities where the credit risk has improved and has been reclassified from Stage 3.
- Stage 3: When a financial asset is considered as credit impaired, the Bank recognizes an allowance for the lifetime ECL.

The key elements used in the calculation of ECL are as follows:

- *Probability of Default* – is an estimate of likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the instrument has not been previously derecognized and is still in the portfolio.
- *Loss Given Default* – is an estimate of loss arising in case where a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Group would expect to receive, including the realization of any collateral.
- *Exposure at Default* – represents the gross carrying amount of the financial instruments subject to the impairment calculation.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's interim financial statements in accordance with PAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements. Actual results may vary from these estimates.

In preparing these interim financial statements, the significant judgments made by management in applying the Bank's accounting policies and the key sources of estimation uncertainty were the same as those applied in the Bank's last annual financial statements as of and for the year ended December 31, 2017, except for those relevant to financial instruments arising from the adoption of PFRS 9 (2014). Under the Bank's new impairment methodology, the allowance for credit losses for financial assets are based on assumptions about probability of default, loss given default, and the exposures at default, which requires determination of the most appropriate loss rates (see Note 3). The Bank uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the historical credit performance and quality of the instrument, existing market conditions as well as forward-looking estimates at the end of each reporting period.

5. RISK MANAGEMENT POLICIES AND OBJECTIVES

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.

The interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; hence, they should be read in conjunction with the Bank's annual financial statements as of and for the year ended December 31, 2017.

There have been no significant changes in the risk management structure of the Bank or in any risk management policies since the previous annual period.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 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 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 value 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Bank uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

6.2 Financial Instruments Measured at Fair Value

The table shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of September 30, 2018 and December 31, 2017 (amounts in millions).

	<u>September 30, 2018 (Unaudited)</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets at FVOCI:				
Corporate debt securities	P 1,784	P -	P -	P 1,784
Government debt securities	<u>233</u>	<u>-</u>	<u>-</u>	<u>233</u>
	<u>P 2,017</u>	<u>P -</u>	<u>P -</u>	<u>P 2,017</u>
Financial assets at FVPL:				
Corporate debt securities	P 1,183	P -	P -	P 1,183
Government debt securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>P 1,183</u>	<u>P -</u>	<u>P -</u>	<u>P 1,183</u>
<u>December 31, 2017 (Audited)</u>				
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
AFS securities				
Government debt securities	P 1,490	P 77	P -	P 1,567
Corporate debt securities	<u>872</u>	<u>-</u>	<u>-</u>	<u>872</u>
	<u>P 2,362</u>	<u>P 77</u>	<u>P -</u>	<u>P 2,439</u>

The Bank has no outstanding derivative liabilities as of September 30, 2018 and December 31, 2017. Derivative financial assets are categorized within Level 2, and are determined through valuation techniques using the net present value computation.

The fair value of the debt securities of the Bank determined as follows:

- (a) 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 (Level 1), 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 June 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.

6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amount in millions).

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>September 30, 2018 (Unaudited)</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 635	P -	P -	P 635
Due from BSP	5,910	-	-	5,910
Loans under reverse repurchase agreement	3,250	-	-	3,250
Due from other banks	2,702	-	-	2,702
Loans and other receivable	-	-	76,590	76,590
Other financial assets	<u>92</u>	<u>-</u>	<u>-</u>	<u>92</u>
	<u>P 12,589</u>	<u>P -</u>	<u>P 76,590</u>	<u>P 89,179</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 79,619	P 79,619
Bills payable	-	-	3,563	3,563
Accrued expenses and other liabilities	<u>-</u>	<u>-</u>	<u>1,762</u>	<u>1,762</u>
	<u>P -</u>	<u>P -</u>	<u>P 84,944</u>	<u>P 84,944</u>
<u>December 31, 2017 (Audited)</u>				
<i>Financial Assets:</i>				
Cash and other cash items	P 1,002	P -	P -	P 1,002
Due from BSP	6,575	-	-	6,575
Due from other banks	4,013	-	-	4,013
Loans and other receivable	-	-	60,760	60,760
Other financial assets	<u>90</u>	<u>-</u>	<u>-</u>	<u>90</u>
	<u>P 11,680</u>	<u>P -</u>	<u>P 60,760</u>	<u>P 72,440</u>
<i>Financial Liabilities:</i>				
Deposit liabilities	P -	P -	P 73,466	P 73,466
Bills payable	-	-	1,934	1,934
Accrued expenses and other liabilities	<u>-</u>	<u>-</u>	<u>1,403</u>	<u>1,403</u>
	<u>P -</u>	<u>P -</u>	<u>P 76,803</u>	<u>P 76,803</u>

7. 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.

There were no changes in the Group's operating segments as of September 30, 2018 and December 31, 2017.

7.1 Analysis of Primary Segment Information

The contribution of these various business activities to the Bank's revenues and income for the nine months ended September 30, 2018, and for the years ended September 30, 2018 and 2017 are as follows (amounts in millions):

	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Total</u>
September 30, 2018 (Unaudited)				
Revenues				
From external customers				
Interest income	P 232	P 3,516	P 133	P 3,881
Interest expense	(50)	(968)	(137)	(1,155)
Net interest income	182	2,548	(4)	2,726
Non-interest income	-	264	(41)	2
<i>Balance forwarded</i>	<u>182</u>	<u>2,812</u>	<u>(45)</u>	<u>2,949</u>

	<u>Consumer</u>	<u>Corporate</u>	<u>Treasury</u>	<u>Total</u>
<i>Balance forwarded</i>	<u>182</u>	<u>2,812</u>	<u>(45)</u>	<u>2,949</u>
Expenses				
Operating expenses excluding depreciation and amortization	81	1,549	218	1,848
Depreciation and amortization	<u>5</u>	<u>97</u>	<u>14</u>	<u>116</u>
	<u>86</u>	<u>1,646</u>	<u>232</u>	<u>1,964</u>
Segment operating income (loss)	<u>P 96</u>	<u>P 1,166</u>	<u>(P 277)</u>	<u>P 985</u>
Total resources and liabilities				
Total resources	<u>P 4,590</u>	<u>P 77,972</u>	<u>P 13,220</u>	<u>P 95,782</u>
Total liabilities	<u>P 3,726</u>	<u>P 71,297</u>	<u>P 10,069</u>	<u>P 85,092</u>
<u>September 30, 2017 (Unaudited)</u>				
Revenues				
From external customers				
Interest income	P 204	P 2,373	P 204	P 2,781
Interest expense	<u>(32)</u>	<u>(470)</u>	<u>(85)</u>	<u>(587)</u>
Net interest income	172	1,903	119	2,194
Non-interest income	<u>-</u>	<u>114</u>	<u>170</u>	<u>284</u>
	<u>172</u>	<u>2,017</u>	<u>289</u>	<u>2,478</u>
Expenses				
Operating expenses excluding depreciation and amortization	84	1,280	227	1,591
Depreciation and amortization	<u>7</u>	<u>99</u>	<u>19</u>	<u>125</u>
	<u>91</u>	<u>1,379</u>	<u>246</u>	<u>1,716</u>
Segment operating income	<u>P 81</u>	<u>P 638</u>	<u>P 43</u>	<u>P 762</u>
<u>December 31, 2017 (Audited)</u>				
Total resources and liabilities				
Total resources	<u>P 3,997</u>	<u>P 68,874</u>	<u>P 14,327</u>	<u>P 87,198</u>
Total liabilities	<u>P 3,614</u>	<u>P 60,642</u>	<u>P 10,087</u>	<u>P 74,343</u>

7.2 Reconciliation

Presented below is a reconciliation of the Bank's segment information to the key financial information presented in its consolidated financial statements (amounts in millions).

	For the Nine Months Ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Revenue		
Total segment revenues	P 2,949	P 2,488
Unallocated income	<u>44</u>	<u>(10)</u>
Revenues as reported in profit or loss	<u>P 2,993</u>	<u>P 2,478</u>
Profit or loss		
Total segment operating income	P 985	P 789
Unallocated profit	<u>46</u>	<u>(27)</u>
Group net profit as reported in profit or loss	<u>P 1,031</u>	<u>P 762</u>
	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Resources		
Total segment resources	P 95,782	P 87,198
Unallocated assets	<u>1</u>	<u>66</u>
Total resources	<u>P 95,783</u>	<u>P 87,264</u>
Liabilities		
Total segment liabilities	P 85,092	P 74,343
Unallocated liabilities	<u>(1)</u>	<u>2,695</u>
Total liabilities	<u>P 85,091</u>	<u>P 77,038</u>

The Bank has no intersegment revenues during 2018 and 2017.

8. CASH AND CASH EQUIVALENTS

This account is composed of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Cash and other cash items	P 634,747,580	P 1,002,240,895
Due from BSP		
Mandatory reserves	5,910,488,741	5,475,270,040
Other than mandatory reserves	<u>-</u>	<u>1,100,000,000</u>
	<u>5,910,488,741</u>	<u>6,575,270,040</u>
	<u>P 6,545,236,321</u>	<u>P 7,577,510,935</u>

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items other than currency and coins on hand (see Note 17) 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.

Loans under reverse repurchase agreement represent loans and receivables, but are classified as Cash and Cash Equivalent, from BSP as of September 30, 2018 and December 31, 2017 that arise from overnight lending from excess liquidity. These are secured by certain treasury bills of the BSP, thus no allowance for impairment is necessary since Loss Given Default (LGD) is 0% for purposes of computing the allowance.

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 bear annual effective interest rates ranging from 3.65% to 4.50% in 2018, and 0.0% to 2.5% in 2017, respectively. The total interest income earned in 2018 and 2017 amounted to P9.5 million and P24.4 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

9. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Local banks	P 1,918,900,739	P 3,538,289,535
Foreign banks	<u>783,359,293</u>	<u>474,229,960</u>
	<u>P 2,702,260,032</u>	<u>P 4,012,519,495</u>

Interest rates on these deposits range from 0.25% to 1.75% per annum in 2018 and 2017. The total interest income earned in 2018 and 2017 amounted to P21 million and P14.1 million, respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

The breakdown of due from other banks by currency follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
US dollars	P 668,601,637	P 3,122,079,557
Philippine peso	<u>2,033,658,395</u>	<u>890,439,938</u>
	<u>P 2,702,260,032</u>	<u>P 4,012,519,495</u>

10. FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME SECURITIES

This account is composed of the following:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Government debt securities	P 1,741,621,376	P -
Corporate bonds – quoted	<u>275,131,964</u>	<u>-</u>
	<u>P 2,016,753,340</u>	<u>P -</u>

As to currency, this account consists of the following:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Foreign currencies	P 1,784,040,211	P -
Philippine pesos	<u>232,713,129</u>	<u>-</u>
	<u>P 2,016,753,340</u>	<u>P -</u>

The current and non-current portion of this account is shown below.

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Current	P -	P -
Non-current	<u>2,016,753,340</u>	<u>-</u>
	<u>P 2,016,753,340</u>	<u>P -</u>

Changes in the FVOCI securities are summarized below.

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
	<u>Notes</u>	
Balance at beginning of year	P -	P -
Additions	514,790,326	-
Disposals ²	-	-
Fair value gains	(175,482,923)	-
Foreign currency revaluation	127,084,169	-
Amortization of premium – net	(1,066,876)	-
Reclassification from AFS investments	3.1a <u>1,551,428,644</u>	<u>-</u>
Balance at end of year	<u>P 2,016,753,340</u>	<u>P -</u>

The reconciliation of unrealized fair value losses on FVOCI securities reported under equity is shown below.

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Balance at beginning of year	P -	P -
Change on unrealized fair value gains (losses) during the year:		
Fair value gains (losses) during the year	(7,098,648)	-
Changes on unrealized fair value losses on reclassified securities during the year:		
Fair value losses during the year	(106,497,349)	-
Reclassified unrealized fair value gains on FVOCI reclassified from AFS securities in 2018	(61,886,926)	
Amortization of fair value losses on reclassified AFS to FVOCI	-	-
	<u>(168,384,275)</u>	-
Balance at end of year	<u>(P 175,482,923)</u>	P -

FVOCI securities earn annual interest ranging from 3.7% to 6.3% in 2018. The total interest income earned in 2018 amounting to P52.7 million are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Government debt securities	P -	P -
Corporate bonds – quoted	<u>1,182,783,846</u>	-
	<u>P 1,182,783,846</u>	<u>P -</u>

As to currency, this account consists of the following:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Foreign currencies	P 1,182,783,846	P -
Philippine pesos	-	-
	<u>P 1,182,783,846</u>	<u>P -</u>

The current and non-current portion of this account is shown below.

	September 30, 2018	December 31, 2017
	<u>(Unaudited)</u>	<u>(Audited)</u>
Current	P -	P -
Non-current	<u>1,182,783,846</u>	<u>-</u>
	<u>P 1,182,783,846</u>	<u><u>P -</u></u>

Interest rates on these investments range from 3.0% to 4.6% in 2018. The total interest income earned in 2018 and 2017 amounted to P35.3 million, P16.3 million, respectively, and are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

The related net unrealized fair value losses, presented as part of Trading (Losses) Gains – net in the statements of profit or loss, amounted to P25.4 million in 2018 (nil in 2017). The net realized trading loss amounting to P19.0 million in 2018 and net realized trading gains amounting to P101.0 million are presented as part of Trading (Losses) Gains – net in the statements of profit or loss.

Interest rate on these investments range from 3.5% to 8.1% in 2018. The total interest income earned in 2018 amounting to P15.3 million are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

12. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Government debt securities	P -	P 1,566,860,912
Corporate bonds – quoted	<u>-</u>	<u>872,011,599</u>
	<u>P -</u>	<u>P 2,438,872,511</u>

As to currency, this account consists of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Foreign currencies	P -	P 2,073,756,448
Philippine pesos	<u>-</u>	<u>365,116,063</u>
	<u>P -</u>	<u>P 2,438,872,511</u>

The current and non-current portion of this account is shown below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Current	P -	P 77,488,754
Non-current	<u>-</u>	<u>2,361,383,757</u>
	<u>P -</u>	<u>P 2,438,872,511</u>

Changes in the AFS securities are summarized below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
	<u>Notes</u>	
Balance at beginning of year	P 2,438,872,511	P 3,811,726,524
Additions	-	3,352,273,750
Disposals	-	(4,767,354,091)
Fair value gains	-	59,748,950
Foreign currency revaluation	-	(8,938,655)
Amortization of discount (premium)	-	(8,583,967)
Reclassification to FVOCI	10 (1,489,541,718)	-
Reclassification to FVPL	11 (584,214,729)	-
Reclassification to amortized cost	12 (365,116,063)	<u>-</u>
Balance at end of year	<u>P -</u>	<u>P 2,438,872,511</u>

The reconciliation of unrealized fair value losses on AFS securities reported under equity is shown below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	(P 52,250,091)	(P 82,019,677)
Changes on unrealized fair value gains (losses) during the year:		
Fair value gains (losses) during the year	-	59,748,950
Realized fair value losses (gains) on AFS securities disposed during the year – net	<u>-</u>	<u>(29,979,364)</u>
	<u>-</u>	<u>29,769,586</u>
Changes on unrealized fair value (gains) losses on reclassified securities during the year:		
Reclassified unrealized fair value gains on FVOCI reclassified from AFS securities in 2018	61,886,926	-
Realized fair value gains on FVPL investments reclassified from AFS securities in 2018	(13,880,389)	-
Realized fair value gains on amortized cost investments reclassified from AFS securities in 2018	<u>4,243,554</u>	<u>-</u>
	<u>52,250,091</u>	<u>-</u>
	<u>52,250,091</u>	<u>29,769,586</u>
Balance at end of year	P -	(P 52,250,091)

AFS securities earn annual interest ranging from 0.0% to 8.125% in. The total interest income earned in 2017 amounting to P125.1 million are included as part of Interest Income on Trading and Investment Securities in the statements of profit or loss.

13. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Receivables from customers:		
Loans and discounts	P 73,426,261,129	P66,993,743,115
Unearned discount	(159,306,742)	<u>(120,049,688)</u>
	<u>73,266,954,387</u>	<u>66,873,693,427</u>
Bills purchased	525,785,144	366,130,161
Customers' liabilities on acceptances, letters of credit and trust receipts	<u>4,067,162,057</u>	<u>3,577,720,164</u>
<i>Balance forwarded</i>	<u>77,859,901,588</u>	<u>70,817,543,752</u>
	September 30,	December 31,

	2018 (Unaudited)	2017 (Audited)
<i>Balance forwarded</i>	<u>77,859,901,588</u>	<u>70,817,543,752</u>
Other receivables:		
SPURRA	3,250,000,000	826,072,472
Accrued interest receivable	261,369,661	207,680,908
Deficiency claims receivable	71,164,766	55,056,218
Accounts receivable	26,245,367	41,032,917
Sales contracts receivable	34,505,493	35,934,861
Unquoted debt securities	<u>-</u>	<u>25,923,421</u>
	<u>3,643,285,287</u>	<u>1,191,700,797</u>
	81,503,186,875	72,009,244,549
Allowance for impairment	<u>(1,205,275,416)</u>	<u>(1,456,448,168)</u>
	<u>P 80,297,911,459</u>	<u>P70,552,796,381</u>

In 2018, the Bank reclassified to Investment securities at amortized cost certain corporate debt securities previously included as part of Unquoted debt securities above amounting to P25.9 million (see Note 3.1). There was no similar transaction in 2017.

Non-performing loans of the Bank amount to P1,670.2 million and P1,504.5 million as of September 30, 2018 and December 31, 2017, respectively, while restructured loans amount to P67.6 million and P40.6 million, respectively.

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Within one year	P 45,015,395	P 38,358,514
Beyond one year	<u>33,003,813</u>	<u>32,579,079</u>
	<u>P 78,019,208</u>	<u>P 70,937,593</u>

The annual effective interest rates of loans and discounts range from 0.8% to 72.9% in 2018, and 0.8% to 72.9% in 2017, while the annual effective interest rates of interest-bearing other receivables range from 2.0% to 8.59% in 2018 and 2.0% to 8.59% in 2017. The total interest income earned from loans and discounts amounted to P3,744.0 million and P2,569.9 million in 2018 and 2017, respectively, while total interest income earned from interest-bearing other receivables amounted to P3.8 million and P39.3 million in 2018 and 2017, respectively. These are presented as Interest Income on Loans and Other Receivables in the statements of profit or loss.

The Bank's concentration of credit as to industry for its receivables from customer's portfolio, gross of allowance, follows (amounts in thousands):

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Wholesale and retail trade	P 26,278,319	P 25,028,390
Construction	22,474,983	19,435,728
Manufacturing	7,962,298	7,659,280
Administrative and support services	7,010,737	7,155,130
Transportation and storage	7,198,994	5,916,230
Electricity, gas, steam and air-conditioning supply	5,124,944	4,697,583
Agriculture, fishery and forestry	1,561,363	861,697
Mining and quarrying	398,912	171,610
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	8,658	11,945
	<u>P 78,019,208</u>	<u>P 70,937,593</u>

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Secured:		
Real estate mortgage	P 36,313,997	P 28,816,083
Chattel mortgage	6,672,417	4,860,906
Deposit hold-out	2,705,616	2,901,898
Others	2,343,298	782,717
Unsecured	<u>29,983,880</u>	<u>33,575,989</u>
	<u>P 78,019,208</u>	<u>P 70,937,593</u>

14. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2018 and 2017 are shown below.

	<u>Land</u>	<u>Building</u>	<u>Fixtures and Equipment</u>	<u>Furniture, Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
September 30, 2018						
Cost	P 90,802,205	P 129,345,710	P 503,987,025	P 161,409,996	P 560,092,441	P 1,445,637,377
Accumulated depreciation and amortization	-	(58,683,579)	(341,628,929)	(100,181,591)	(468,907,567)	(969,401,666)
Net carrying amount	<u>P 90,802,205</u>	<u>P 70,662,131</u>	<u>P 162,358,096</u>	<u>P 61,228,405</u>	<u>P 91,184,874</u>	<u>P 476,235,711</u>
December 31, 2017						
Cost	P 90,802,205	P 118,392,293	P 453,608,640	P 154,979,127	P 545,555,882	P 1,363,338,147
Accumulated depreciation and amortization	-	(51,867,987)	(311,120,293)	(86,070,295)	(427,640,386)	(876,698,961)
Net carrying amount	<u>P 90,802,205</u>	<u>P 66,524,306</u>	<u>P 142,488,347</u>	<u>P 68,908,832</u>	<u>P 117,915,496</u>	<u>P 486,639,186</u>
January 1, 2017						
Cost	P 89,848,156	P 118,429,528	P 412,938,957	P 148,470,474	P 528,612,606	P 1,298,299,721
Accumulated depreciation and amortization	-	(48,493,151)	(266,048,782)	(83,554,014)	(364,208,136)	(762,304,083)
Net carrying amount	<u>P 89,848,156</u>	<u>P 69,936,377</u>	<u>P 146,890,175</u>	<u>P 64,916,460</u>	<u>P 164,404,470</u>	<u>P 535,995,638</u>

A reconciliation of the carrying amounts at the beginning and end of 2018 and 2017 is shown below.

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improve- ments</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and amortization	P 90,802,205	P 66,524,306	P 142,488,347	P 68,908,832	P 117,915,946	P 486,639,186
Additions (see Note 17.1)	-	6,990,138	69,272,110	17,257,605	18,503,227	112,023,080
Disposals	-		(11,518,606)	(5,677,226)	(161,531)	(17,357,363)
Depreciation and amortization charges for the year	-	(2,852,313)	(37,883,755)	(19,260,806)	(45,072,318)	(105,069,192)
Balance at September 30, 2018, net of accumulated depreciation and amortization	<u>P 90,802,205</u>	<u>P 70,662,131</u>	<u>P 162,358,096</u>	<u>P 61,228,405</u>	<u>P 91,184,874</u>	<u>P 476,235,711</u>

	<u>Land</u>	<u>Building</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improvements</u>	<u>Total</u>
Balance at January 1, 2017, net of accumulated depreciation and amortization	P 89,848,156	P 69,936,377	P 146,890,175	P 64,916,460	P 164,404,470	P 535,995,638
Additions (see Note 17.1)	954,049	95,000	47,084,886	36,530,060	18,174,298	102,838,293
Disposals	-	(121,341)	(5,641,260)	(7,802,619)	(1,967,342)	(15,532,562)
Depreciation and amortization charges for the year	<u>-</u>	<u>(3,385,730)</u>	<u>(45,845,454)</u>	<u>(24,735,069)</u>	<u>(62,695,930)</u>	<u>(136,662,183)</u>
Balance at December 31, 2017, net of accumulated depreciation and amortization	<u>P 90,802,205</u>	<u>P 66,524,306</u>	<u>P 142,488,347</u>	<u>P 68,908,832</u>	<u>P 117,915,496</u>	<u>P 486,639,186</u>

As of September 30, 2018 and December 31, 2017, the cost of the Bank's fully depreciated bank premises, furniture, fixtures and equipment that are still used in operations amounts to P160.7 million and P160.7 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of September 30, 2018 and December 31, 2017, the Bank has satisfactorily complied with this requirement.

15. INVESTMENT PROPERTIES

Investment properties consist of various parcels of land, and buildings and improvements acquired through foreclosure or dacion for the settlement of outstanding loans of borrowers who are unable to pay their loan in cash.

The gross carrying amounts and accumulated depreciation and allowance for impairment of investment properties at the beginning and end of 2018 and 2017 are shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
September 30, 2018			
Cost	P 473,120,663	P 141,763,325	P 614,883,988
Accumulated depreciation	-	(74,769,757)	(74,769,757)
Allowance for impairment	(<u>26,551,861</u>)	(<u>13,027,147</u>)	(<u>39,579,008</u>)
Net carrying amount	<u>P 446,568,802</u>	<u>P 53,966,421</u>	<u>P 500,535,223</u>
December 31, 2017			
Cost	P 394,712,982	P 143,032,494	P 537,745,476
Accumulated depreciation	-	(85,652,200)	(85,652,200)
Allowance for impairment	(<u>26,551,861</u>)	(<u>2,192,994</u>)	(<u>28,744,855</u>)
Net carrying amount	<u>P 368,161,121</u>	<u>P 55,187,300</u>	<u>P 423,348,421</u>

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
January 1, 2017			
Cost	P 390,539,220	P 153,159,794	P 543,699,014
Accumulated depreciation	-	(66,564,578)	(66,564,578)
Allowance for impairment	(<u>26,551,861</u>)	(<u>2,192,994</u>)	(<u>28,744,855</u>)
Net carrying amount	<u>P 363,987,359</u>	<u>P 84,402,222</u>	<u>P 448,389,581</u>

A reconciliation of the carrying amounts of investment properties at the beginning and end of 2018 and 2017 is shown below.

	<u>Land</u>	<u>Buildings and Improvements</u>	<u>Total</u>
Balance at January 1, 2018, net of accumulated depreciation and impairment	P 368,161,121	P 55,187,300	P 423,348,421
Additions	85,725,414	32,086,760	117,812,174
Disposals	(15,427,746)	(10,533,338)	(25,961,084)
Reclassification	8,110,013	(834,720)	7,275,293
Depreciation for the year	-	(11,105,428)	(11,105,428)
Impairment loss	<u>-</u>	<u>(10,834,153)</u>	<u>(10,834,153)</u>
Balance at September 30, 2018, net of accumulated depreciation and impairment	<u>P 446,568,802</u>	<u>P 53,966,421</u>	<u>P 500,535,223</u>
Balance at January 1, 2017, net of accumulated depreciation and impairment	P 363,987,359	P 84,402,222	P 448,389,581
Additions	47,140,723	10,645,458	57,786,181
Disposals	(42,966,961)	(30,612,599)	(73,579,560)
Depreciation for the year	<u>-</u>	<u>(9,247,781)</u>	<u>(9,247,781)</u>
Balance at December 31, 2017, net of accumulated depreciation and impairment	<u>P 368,161,121</u>	<u>P 55,187,300</u>	<u>P 423,348,421</u>

In 2018 and 2017, gains on sale of investment properties amounted to P20.5 million and P5.9 million, respectively, and are presented as part of Gain on sale of properties under Miscellaneous Income in the statements of profit or loss (see Note 22.1). Expenses incurred on investment properties include real property taxes and depreciation. Real property taxes incurred on these investment properties amounted to P12.6 million and P7.0 million in 2018 and 2017, respectively, and are presented as part of Miscellaneous, as Litigation on asset acquired, under Other Expenses in the statements of profit or loss (see Note 22.2). Depreciation recognized in 2018, as shown above, and 2017 were included in Depreciation and Amortization under Other Expenses in profit or loss.

16. OTHER RESOURCES

This account consists of the following as of December 31:

	September 30, 2018	December 31, 2017
Note	<u>(Unaudited)</u>	<u>(Audited)</u>
Deferred tax assets – net	P 554,843,664	P 493,343,661
Branch licenses	250,480,060	250,380,060
Prepaid expenses	154,898,339	30,175,044
Goodwill	121,895,408	121,890,408
Computer software – net	89,097,238	45,868,442
Due from head office or branches	86,851,213	70,311,672
Foreign currency notes and coins on hand	8 60,391,524	60,144,407
Security deposits	31,732,162	29,782,252
Stationery and supplies	16,312,788	14,905,921
Sundry debits	7,170,942	3,819,86
Retirement benefit asset	1,202,348	1,202,348
Other investments	2,000	575,030,000
Deferred charges	-	13,383,687
Miscellaneous	<u>669,930,192</u>	<u>76,958,649</u>
	2,044,807,878	1,787,196,416
Allowance for impairment	<u>(1,654,737)</u>	<u>(15,038,424)</u>
	<u>P 2,043,153,141</u>	<u>P 1,772,157,992</u>

Movements of computer software is shown below.

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Balance at beginning of year	P 45,868,442	P 51,792,167
Additions	65,235,009	16,556,063
Amortization	(22,006,213)	(22,479,788)
Balance at end of year	<u>P 89,097,238</u>	<u>P 45,868,442</u>

17. DEPOSIT LIABILITIES

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Within one year	P 75,708,870,075	P 71,593,063,292
Beyond one year	<u>3,910,352,575</u>	<u>1,928,954,123</u>
	<u>P 79,619,222,650</u>	<u>P 73,522,017,415</u>

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Philippine peso	P 73,772,828,410	P 68,058,769,464
Foreign currencies	<u>5,846,394,240</u>	<u>5,463,247,951</u>
	<u>P 79,619,222,650</u>	<u>P 73,522,017,415</u>

Annual interest rates on deposit liabilities range from 0.3% to 2.5% in 2018 and 0.3% to 2.9% in 2017. The total interest expense incurred in 2018 and 2017 amounted to P1,094.5 million and P583.6 million, respectively, and these are presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

Deposit liabilities as of September 30, 2018 and December 31, 2017 include those that are from DOSRI as of September 30, 2018 and December 31, 2017 (see Note 23).

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 September 30, 2018 and December 31, 2017 amount to P5,910.5 million and P5,475.3

million, respectively, and is in compliance with these regulations with the BSP requirement (see Note 8).

18. **BILLS PAYABLE**

The bills payable are denominated in Philippine pesos and have maturities of less than one year. Annual interest rates range from 3.5% to 4.5%, include those from the BSP and other banks.

The total interest expense incurred in 2018 and 2017 amounted to P60.6 million and P3.8 million, respectively, and these are presented as Interest Expense on Bills Payable in the statements of profit or loss.

Movements of bills payable is shown below.

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Balance at beginning of year	P 1,933,724,724	P -
Proceeds of borrowings	12,672,424,699	6,424,212,200
Repayments	<u>(11,043,635,036)</u>	<u>(4,490,487,476)</u>
Balance at end of year	<u>P 3,562,514,387</u>	<u>P 1,933,724,724</u>

19. **ACCRUED EXPENSES AND OTHER LIABILITIES**

The breakdown of this account follows:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Bills purchased	P 501,455,315	P 355,563,117
Accounts payable	440,849,370	452,617,596
Accrued expenses	369,719,171	239,720,661
Manager's checks	335,052,681	242,451,472
Income tax payable	104,542,975	138,803,669
Outstanding acceptances	52,375,550	22,183,416
Withholding taxes payable	42,629,038	40,070,165
Due to BSP	12,691,294	18,023,886
Others	<u>109,227,363</u>	<u>72,440,789</u>
	<u>P 1,968,542,757</u>	<u>P 1,581,874,771</u>

Bills purchased pertain to availments of the bills purchase line which are settled on the third day from the transaction date.

Accrued expenses include primarily accruals on 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.

20. EQUITY

20.1 Capital Stock

Capital stock consists of:

	<u>Number of Shares</u>		<u>Amount</u>	
	<u>September 30, 2018 (Unaudited)</u>	<u>December 31, 2017 (Audited)</u>	<u>September 30, 2018 (Unaudited)</u>	<u>December 31, 2017 (Audited)</u>
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and outstanding	<u>62,000,000</u>	<u>62,000,000</u>	<u>P 620,000,000</u>	<u>P 620,000,000</u>
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued and outstanding				
Balance at beginning of year	<u>643,750,094</u>	<u>536,458,437</u>	<u>P 6,437,500,940</u>	<u>P 5,364,584,370</u>
Stock dividends (see Note 21.2)	<u>-</u>	<u>107,291,657</u>	<u>-</u>	<u>1,072,916,570</u>
Balance at end of year	<u>643,750,094</u>	<u>643,750,094</u>	<u>P 6,437,500,940</u>	<u>P 6,437,500,940</u>

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 21.4).

As of September 30, 2018 and December 31, 2017, the Bank has 71 holders of its listed common stock. The Bank has 643,750,094 common shares traded in the PSE as of September 30, 2018 and December 31, 2017 and its share price closed at P11.50 and P11.98 as at the same date, respectively.

20.2 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.

20.3 Appropriated Surplus

In September 30, 2018 and 2017, additional appropriations of surplus amounting to P0.9 million and P0.8 million, respectively, representing portion of the Bank's income from trust operations were made in compliance with BSP regulations (see Note 25).

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 September 30, 2018 and December 31, 2017, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

20.4 Paid-in Capital from IPO

As mentioned in Note 21.1, 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.

21. MISCELLANEOUS EXPENSE

This include the following:

	<u>For the Nine Months Ended</u>	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Transportation and travel	P 86,317,803	P 74,662,807
Communication	35,549,584	34,490,437
Fines, penalties and other charges	23,805,400	82,161,257
Banking fees	22,390,974	16,874,300
Office supplies	15,637,052	12,328,869
Litigation on asset acquired	12,625,914	6,997,292
Information technology	9,807,777	8,387,445
Donations and contributions	9,054,437	3,039,232
Amortization of deferred charges	3,824,567	4,917,301
Advertising and publicity	3,573,400	14,536,999
Freight	3,067,136	1,773,169
Membership dues	1,331,042	1,156,024
Others	17,656,443	19,511,650
	<u>P 244,641,529</u>	<u>P 279,358,429</u>

Others include brokerage fees, commissions, appraisal and processing fees incurred by the Bank.

22. RELATED PARTY TRANSACTIONS

A summary of the Bank's transactions with related parties include its transactions with DOSRI, key management and retirement fund is presented below.

Related Party Category	Note	September 30, 2017 (Unaudited)		December 31, 2017 (Audited)	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
DOSRI:					
Deposit liabilities	23.1	(P 2,347,228,949)	P 5,038,898,158	P 914,160,412	P 7,386,127,107
Interest expense	23.1	61,708,396	-	66,106,681	-
Loans	23.2	256,107,724	928,888,910	527,860,985	767,983,251
Interest income	23.2	26,809,466	923,226	29,782,815	969,508
Retirement Fund:					
Contribution	23.3	27,850,364	-	37,133,819	-
Plan assets	23.3	-	202,904,139	163,694,753	202,904,139
Key management compensation	23.4	85,738,030	-	113,530,990	-

Based on management's assessment as at September 30, 2018 and December 31, 2017, no impairment is required to be recognized on the Bank's receivable from related parties. Details of the foregoing transactions follow:

22.1 DOSRI Deposits

The total balance of DOSRI deposits are inclusive of the corresponding accrued interest as of September 30, 2018 and December 31, 2017.

Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18). Annual interest rates on deposit liabilities range from 0.3% to 2.5% in 2018, and from 0.3% to 2.9% in 2017.

22.2 DOSRI Loans

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

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15% of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. However, non-risk loans, which include those that are secured by assets, are excluded in both individual and aggregate ceiling computation. As of September 30, 2018 and December 31, 2017, the Bank has satisfactorily complied with the BSP requirement on DOSRI limits.

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

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Total outstanding DOSRI loans	P 928,888,910	P 767,983,251
Unsecured DOSRI loans	14,004,260	29,210,591
Past due DOSRI loans	-	-
% to total loan portfolio	0.0%	0.0%
% of unsecured DOSRI loans to total DOSRI loans	1.51%	3.92%
% of past due DOSRI loans to total DOSRI loans	0.0%	0.0%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

As of September 30, 2018 and December 31, 2017, the Bank has an approved line of credit to certain related parties totaling P883.8 million and P694.0 million, respectively, and all were used to guarantee the obligation of the respective related parties to other creditors up to the extent of the unused line of credit.

22.3 Transactions with Retirement Fund

The Bank's transactions with its retirement fund as of September 30, 2018 and December 31, 2017 relate only to its contributions to the plan and certain placements made by the plan to the Bank.

The following retirement plan assets are placed with the Bank comprise cash in bank, short-term placements, and equity shares of the Bank:

	September 30, 2018 <u>(Unaudited)</u>	December 31, 2017 <u>(Audited)</u>
Cash and cash equivalents	P 40,518,233	P 40,518,233
Equity and debt instruments	161,690,485	161,690,485
Accrued interest	<u>695,421</u>	<u>695,421</u>
	<u>P 202,904,139</u>	<u>P 202,904,139</u>

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

22.4 Key Management Personnel Compensation

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Short-term benefits	P 85,738,030	P 104,997,794
Post-employment benefits	<u>-</u>	<u>8,533,196</u>
	<u>P 85,738,030</u>	<u>P 113,530,990</u>

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

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Salaries and wages	P 73,714,832	P 81,600,760
Bonuses	8,782,342	20,562,459
Social security costs	1,326,403	1,550,625
Other short-term benefits	<u>1,914,453</u>	<u>1,283,950</u>
	<u>P 85,738,030</u>	<u>P 104,997,794</u>

23. 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 P109.5 million and P102.0 million in 2018 and 2017, respectively, are included as part of Occupancy under Other Expenses in the statements of profit or loss.

As of September 30, 2018 and December 31, 2017, future minimum rental payments required by the lease contracts are as follows:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Within one year	P 86,325,833	P 111,369,071
After one year but not more than five years	120,672,877	352,772,317
More than five years	<u>3,398,736</u>	<u>6,864,383</u>
	<u>P 210,397,446</u>	<u>P 471,005,771</u>

(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:

	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
Investment management accounts	P 2,472,009,726	P 2,352,423,750
Trust and other fiduciary accounts	812,846,135	753,922,571
Outstanding letters of credit	914,031,959	626,860,238
Unit investment trust fund	29,315,583	31,562,003
Late payment/deposits received	5,959,466	14,996,909
Outward bills for collection	5,819,380	4,358,349
Items held for safekeeping	116,330	93,083
Items held as collateral	11,083	11,066
Other contingent accounts	649,924,276	239,479,318

24. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	For the Nine Months Ended	
	September 30, 2018 (Unaudited)	September 30, 2017 (Unaudited)
Net profit	P 610,248,727	P 440,310,498
Dividends on preferred shares	<u>-</u>	<u>-</u>
Net profit attributable to common shareholders	610,248,727	440,310,498
Divided by the weighted average number of outstanding common shareholders	<u>643,750,094</u>	<u>643,750,108</u>
Basic earnings per share	<u>P 0.95</u>	<u>P 0.68</u>

As of September 30, 2018 and 2017, 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 September 30, 2018

Current Accounts (by maturity)	
Up to 12 months	47,111,943,739
Over 1 year to 3 years	4,863,620,756
Over 3 years to 5 years	9,485,066,093
Over 5 years	18,365,902,221
Past due and items in litigations	1,778,839,415
Loans Receivables (gross)	81,605,372,224
Less:	
Unearned and other deferred income	159,306,742
Allowance for credit losses	1,148,154,023
Loans Receivables (Net)	80,297,911,459

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	'September 30, 2018	'December 31, 2017
Current Ratio ⁽¹⁾	1.69%	1.10%
Solvency Ratio ⁽²⁾	1.13%	1.13%
Debt-to-equity ⁽³⁾	7.63%	7.53%
Asset-to-equity ⁽⁴⁾	8.68%	8.53%
Interest rate coverage ratio ⁽⁵⁾	174.09%	208.49%
Return on Equity ⁽⁶⁾	7.63%	6.47%
Return on Assets ⁽⁷⁾	0.89%	1.00%
Net Interest Margin ^{(8) (9)}	4.09%	4.30%
Cost-to-Income Ratio ⁽¹⁰⁾	65.54%	65.74%

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
Net income divided by average total equity for the periods indicated (annualized)
- (6) Net income divided by average total assets for the periods indicated (annualized)
- (7) Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
- (8) 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 in Q1 2012 would have been 7.3% if this was to be calculated on same basis as that of Q1 2013
- (9) Other expenses (excl. provision for impairment and credit losses) divided by the sum of interest and other income for the periods indicated