



108142019003761

**SECURITIES AND EXCHANGE COMMISSION**

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Company Information

SEC Registration No. PW00000686

Company Name PHIL. BANK OF COMMUNICATIONS

Industry Classification

Company Type Stock Corporation

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Department CFD

Remarks

SEC Number **PW-686**
Company TIN **000-263-340**

PHILIPPINE BANK OF COMMUNICATIONS
(Company's Full Name)

PBCOM Tower, 6795 Ayala Ave. cor. V.A. Rufino St., Makati City
(Company's Address: No. Street City/Town/Province)

830-7000
(Company's Telephone Number)

December 31
(Fiscal Year Ending)
(Month & Day)

3rd Tuesday of June
Annual Meeting

SEC Form 17-Q
(Quarterly Report Pursuant to Section 17 of the Securities
Regulation Code and SRC Rule 17(2)(b) Thereunder)
(FORM TYPE)

N/A
Amendment Designation (If Applicable)

None
(Secondary License Type. If any)

Atty. Michael Stephen H. Lao
(Company Representative)

212-167-776
(TIN)

June 16, 1983
(Birth Date)

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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 June 30, 2019.
2. Commission identification number PW-686 3. BIR Tax Identification No. 000-263-340.
4. Exact name of issuer as specified in its charter
Philippine Bank of Communications.
5. Province, country or other jurisdiction of incorporation or organization Philippines.
6. Industry Classification Code: (e Only)
7. Address of issuer's principal office PBCOM Tower 6795 Ayala Ave., Cor. V.A. Rufino St., Makati City Postal Code 1226.
8. Issuer's telephone number, including area code
(632) 830-7000.
9. Former name, former address and former fiscal year, if changed since last report
NA.
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
<u>PBCOM Common Shares</u>	<u>480,645,163 shares</u>
<u> </u>	<u> </u>

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

Yes [X] No []

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

Philippine Stock Exchange Common 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 1. Financial Statements.

Please see attached

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

Please see attached

PART II--OTHER INFORMATION


The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

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 BANK OF COMMUNICATIONS

By:



PATRICIA MAY T. SIY
President & CEO



ARLENE M. DATU
SVP & Comptroller
(Comptroller & Principal Accounting Officer)

August 14, 2019

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2019
(With Comparative Figures as of December 31, 2018)

	Consolidated		Parent Company	
	June 30, 2019 (Unaudited)	December 31, 2018	June 30, 2019 (Unaudited)	December 31, 2018
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	1,269,383	1,389,869	1,241,690	1,357,609
Due from Bangko Sentral ng Pilipinas	11,082,159	15,224,382	11,019,653	15,168,302
Due from Other Banks	1,527,280	379,723	1,308,329	228,578
Interbank Loans Receivable	409,560	206,964	409,560	206,964
Financial assets at Fair Value through Profit or Loss	815,534	893,216	815,534	893,216
Financial assets at Fair Value through Other Comprehensive Income	4,033,884	6,798,230	4,033,884	6,798,230
Investment Securities at Amortized Cost	13,163,545	13,341,599	13,163,545	13,341,599
Loans and Other Receivables	55,505,527	60,079,206	53,676,176	58,221,179
Investment in an Subsidiaries and Associate	13,575	13,318	988,603	990,226
Property and Equipment	970,886	1,021,349	866,366	922,943
Investment Properties				
Condominium units for lease	1,808,434	1,832,726	1,808,434	1,832,726
Foreclosed properties	864,444	772,425	705,653	612,535
Office units for lease	3,449	3,624	3,449	3,624
Goodwill	182,227	182,227	-	-
Intangible Assets	695,019	703,775	431,040	439,983
Deferred Tax Assets	74,487	74,487	40,808	40,808
Other Assets	1,399,475	832,202	1,375,907	808,283
TOTAL ASSETS	93,818,868	103,749,322	91,888,631	101,866,805
LIABILITIES AND EQUITY				
Liabilities				
Deposit Liabilities				
Demand	24,434,213	20,257,138	24,444,871	20,262,969
Savings	8,084,036	7,810,642	7,551,781	7,262,325
Time	36,726,963	43,058,221	35,507,802	41,907,303
Long-term negotiable certificates of deposits	2,902,730	2,902,730	2,902,730	2,902,730
	72,147,942	74,028,731	70,407,184	72,335,327
Bills Payable	8,268,265	17,659,083	8,211,092	17,591,284
Outstanding Acceptances	107,218	46,344	107,218	46,344
Manager's Checks	173,523	97,447	173,523	97,447
Accrued Interest, Taxes and Other Expenses	736,113	685,009	684,401	642,697
Income Tax payable	17,563	3,735	15,510	1,791
Deferred Tax Liabilities - Net	66,261	66,261	-	-
Other Liabilities	1,370,728	836,798	1,349,052	816,605
TOTAL LIABILITIES	82,887,613	93,423,408	80,947,980	91,531,495
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock	12,016,129	12,016,129	12,016,129	12,016,129
Additional paid-in capital	2,252,826	2,252,826	2,262,246	2,262,246
Surplus reserves	105,893	105,893	105,893	105,893
Deficit	(3,316,962)	(3,916,336)	(3,316,962)	(3,916,336)
Unrealized gain on financial assets at fair value through other comprehensive income	76,019	19,416	76,019	19,416
Cumulative translation adjustment	(227,695)	(177,059)	(227,695)	(177,059)
Remeasurement losses on defined benefit liability	25,021	25,021	25,021	25,021
	10,931,231	10,325,890	10,940,651	10,335,310
NON-CONTROLLING INTERESTS	24	24	-	-
TOTAL EQUITY	10,931,255	10,325,914	10,940,651	10,335,310
TOTAL LIABILITIES AND EQUITY	93,818,868	103,749,322	91,888,631	101,866,805

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM CONDENSED STATEMENTS OF INCOME

	Consolidated		Parent Company	
	For the six months ended June 30 (January to June)			
	2019	2018	2019	2018
	(Amounts in Thousands, Except Earnings per Share)			
INTEREST INCOME				
Investment securities	379,931	324,867	379,931	324,867
Loans and receivables	2,374,900	1,844,288	2,227,488	1,701,066
Interbank loans receivable and securities purchased under resale agreements	8,844	26,415	8,844	26,415
Deposits with other banks and others	6,158	5,110	6,014	4,755
	2,769,833	2,200,680	2,622,277	2,057,103
INTEREST AND FINANCE CHARGES				
Deposit liabilities	889,135	523,372	854,778	497,633
Bills payable, borrowings and others	354,856	156,300	352,936	155,575
	1,243,991	679,672	1,207,714	653,208
NET INTEREST INCOME	1,525,842	1,521,008	1,414,563	1,403,895
Trading and securities gain - net	306,126	31,041	306,126	31,041
Rent Income	357,743	314,582	357,743	314,669
Service charges, fees and commissions	210,755	175,817	190,870	164,737
Foreign exchange gain - net	27,736	15,014	27,736	15,014
Gain (loss) on asset exchange	(6,089)	7,286	(6,089)	7,286
Profit from assets sold/ exchange	25,999	56,079	19,373	2,017
Income from trust operations	10,464	7,488	10,464	7,488
Miscellaneous	72,077	59,938	68,972	47,031
TOTAL OPERATING INCOME	2,530,653	2,188,253	2,389,758	1,993,178
Compensation and fringe benefits	550,969	582,617	489,324	523,349
Taxes and licenses	290,036	292,889	275,963	276,419
Depreciation and amortization	226,950	197,780	218,374	188,482
Occupancy and other equipment - related costs	95,947	126,361	86,477	118,523
Provision for impairment losses	187,169	127,501	176,439	116,498
Insurance	74,442	70,511	70,942	67,027
Management and professional fees	59,697	52,984	58,273	51,812
Security, clerical, messengerial and janitorial services	57,808	53,516	50,015	46,163
Entertainment, amusement and recreation	37,990	41,392	37,828	41,391
Communication	26,170	27,868	25,342	26,400
Miscellaneous	213,462	186,506	191,163	168,358
TOTAL OPERATING EXPENSES	1,820,640	1,759,925	1,680,140	1,624,422
NET INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	710,013	428,328	709,618	368,756
Share in net income (loss) of subsidiaries and an associat	258	104	(1,623)	52,981
INCOME BEFORE INCOME TAX	710,271	428,432	707,995	421,737
PROVISION FOR INCOME TAX	117,305	115,986	115,029	109,298
NET INCOME	592,966	312,446	592,966	312,439
Attributable to:				
Equity holders of the Parent Company	592,966	312,439		
Non-controlling interest	-	7		
	592,966	312,446		
Basic/ Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company	1.23	0.65		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM CONDENSED STATEMENTS OF INCOME

	Consolidated		Parent	
	For the three months ended June 30 (April to June)			
	2019	2018	2019	2018
	(Amounts in Thousands, Except Earnings per Share)			
INTEREST INCOME				
Investment securities	177,443	165,667	177,443	165,667
Loans and receivables	1,201,655	971,212	1,126,275	893,259
Interbank loans receivable and securities purchased under resale agreements	707	14,656	707	14,656
Deposits with other banks and others	3,074	2,324	3,000	2,178
	1,382,879	1,153,859	1,307,425	1,075,760
INTEREST AND FINANCE CHARGES				
Deposit liabilities	426,084	274,624	408,259	261,856
Bills payable, borrowings and others	167,331	89,554	166,345	88,829
	593,415	364,178	574,604	350,685
NET INTEREST INCOME	789,464	789,681	732,821	725,075
Trading and securities gain - net	118,700	9,141	118,700	9,141
Rent Income	183,990	162,235	183,990	162,322
Service charges, fees and commissions	104,615	87,793	93,995	82,618
Foreign exchange gain (loss) - net	7,644	9,804	7,644	9,804
Gain on asset exchange	(5,577)	(105)	(5,577)	43
Profit/(Loss) from Assets Sold/Exchanged	9,811	3,072	3,370	1,979
Income from Trust Operations	4,894	3,748	4,894	3,748
Miscellaneous	38,679	24,166	37,010	25,888
TOTAL OPERATING INCOME	1,252,220	1,089,535	1,176,847	1,020,618
Compensation and fringe benefits	274,680	298,331	243,191	268,215
Taxes and licenses	141,499	152,458	133,736	146,441
Depreciation and amortization	115,276	99,492	110,671	94,585
Occupancy and other equipment - related costs	51,922	65,518	47,012	61,530
Provision for impairment losses	168,681	66,552	165,176	57,181
Insurance	37,035	35,478	35,400	33,872
Management and professional fees	35,321	30,296	34,558	29,594
Security, clerical, messengerial and janitorial services	28,967	27,078	24,934	23,342
Entertainment, amusement and recreation	18,257	19,108	18,108	19,160
Communication	12,801	14,048	12,397	13,523
Miscellaneous	103,155	102,077	91,560	92,638
TOTAL OPERATING EXPENSES	987,594	910,436	916,743	840,081
NET INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES AND AN ASSOCIATE	264,626	179,099	260,104	180,537
Share in net income of subsidiaries and an associate	148	61	3,460	11,197
INCOME BEFORE INCOME TAX	264,774	179,160	263,564	191,734
PROVISION FOR INCOME TAX	54,408	43,595	53,199	56,170
NET INCOME	210,366	135,565	210,365	135,564
Attributable to:				
Equity holders of the Parent Company	210,365	135,564		
Non-controlling interest	1	1		
	210,366	135,565		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated	Parent Company		
	For the six months ended June 30 (January to June)			
	2019	2018	2019	2018
	(Amounts in Thousands)			
NET INCOME FOR THE PERIOD	592,966	312,446	592,966	312,439
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX				
Items that may be reclassified to profit or loss in subsequent periods:				
Net movement in cumulative translation adjustment	(50,636)	(54,457)	(50,636)	(54,457)
Unrealized gain (loss) on financial assets carried at fair value through other comprehensive income	56,603	(74,378)	56,603	(74,378)
	5,967	(128,835)	5,967	(128,835)
Items that may not be reclassified to profit or loss in subsequent periods:				
Unrealized loss on financial assets carried at fair value through other comprehensive income	-	-	-	-
Remeasurements of defined benefit liabilities	-	3,603	-	3,603
	-	3,603	-	3,603
	5,967	(125,232)	5,967	(125,232)
TOTAL OTHER COMPREHENSIVE INCOME	598,933	187,214	598,933	187,207
Attributable to:				
Equity holders of the Parent Company	598,933	187,207		
Non-controlling interest	-	7		
TOTAL OTHER COMPREHENSIVE INCOME	598,933	187,214		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated		Parent Company	
	For the three months ended June 30 (April to June)			
	2019	2018	2019	2018
	(Amounts in Thousands)			
NET INCOME FOR THE PERIOD	210,366	135,565	210,365	135,564
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD, NET OF TAX				
Items that may be reclassified to profit or loss in subsequent periods:				
Net movement in cumulative translation adjustment	1,497	(44,282)	1,497	(44,282)
Unrealized gain (loss) on financial assets carried at fair value through other comprehensive income	(9,280)	(50,751)	(9,280)	(50,751)
	(7,783)	(95,033)	(7,783)	(95,033)
Items that may not be reclassified to profit or loss in subsequent periods:				
Unrealized loss on financial assets carried at fair value through other comprehensive income	-	-	-	-
Remeasurements of defined benefit liabilities	-	3,603	-	3,603
	-	3,603	-	3,603
	(7,783)	(91,430)	(7,783)	(91,430)
TOTAL OTHER COMPREHENSIVE INCOME	202,583	44,135	202,582	44,134
Attributable to:				
Equity holders of the Parent Company	202,582	44,134		
Non-controlling interest	1	1		
TOTAL OTHER COMPREHENSIVE INCOME	202,583	44,135		

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENT OF CASH FLOWS

	Consolidated		Parent Company	
	For the Six Months Ended			
	June 30			
	2019	2018	2019	2018
	(Amounts in Thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	710,271	428,432	707,995	421,737
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:				
Accretion of interest on unquoted debt securities	(78,518)	(47,277)	(78,518)	(47,277)
Depreciation and amortization	226,950	197,780	218,374	188,482
Provision for impairment losses	187,169	127,501	176,439	116,498
Loss (Profit) on asset exchange	6,089	(7,286)	6,089	(7,286)
Profit from asset sold or exchange	(25,999)	(56,079)	(19,373)	(2,017)
Unrealized (gain) loss on financial assets at FVTPL	56,603	(131,279)	56,603 [^]	(131,279) [^]
Share in net loss (earnings) of subsidiaries and an associ	(257)	(104)	1,623	(52,982)
Changes in operating assets and liabilities				
Decrease (increase) in the amounts of:				
Loans and Receivable	4,465,028	(3,899,477)	4,447,082	(3,687,019)
Other Assets	(579,731)	(138,259)	(579,881)	(130,553)
Financial assets at FVTPL	77,682	2,446,980	77,682	2,446,980
Increase (decrease) in the amounts of:				
Deposit liabilities	(1,880,789)	3,513,678	(1,928,143)	3,501,134
Manager's checks	76,076	(55,503)	76,076	(55,532)
Accrued interest, taxes and other expenses	57,512	148,793	48,112 [^]	139,133
Other liabilities	508,636	(51,336)	507,153	(44,365)
Net cash generated from operations	3,806,722	2,476,564	3,717,313	2,655,654
Income taxes paid	(103,477)	(87,371)	(101,310)	(83,978)
Net cash provided by operating activities	3,703,245	2,389,193	3,616,003	2,571,676
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in interbank loans receivable	13,144	(160,350)	13,144	(160,350)
Acquisition of:				
Financial assets at FVOCI	(51,470,705)	(5,111,448)	(51,470,705) [^]	(5,111,448)
Property and equipment	(59,277)	(68,978)	(59,277)	(68,978)
Investment properties	(238,485)	(199,425)	(238,485)	(199,425)
Software cost	(23,171)	(14,125)	(22,722)	(13,521)
Proceeds from disposals of:				
Financial assets at FVOCI	54,413,105	3,381,555	54,413,105	3,381,555
Property and equipment	(11,822)	(11,578)	2,406	(5,499) [^]
Investment properties	129,839 [^]	222,448	122,114 [^]	171,026
Proceeds from maturity of Investment securities	-	205,000	-	205,000
Net cash provided (used in) investing activities	2,752,629	(1,756,901)	2,759,580	(1,801,641)
CASH FLOWS FROM FINANCING ACTIVITIES				
Availments of:				
Bills payable	287,590,286	79,701,273	287,590,286	79,566,192
Outstanding acceptance	91,974	157,021	91,974	157,021
Marginal deposits	429,841	714	429,841	714
Settlements of:				
Bills payable	(296,981,104)	(80,750,103)	(296,970,478)	(80,750,103)
Outstanding acceptance	(31,100)	(166,730)	(31,100)	(166,730)
Marginal deposits	(404,547)	(738)	(404,547)	(738)
Net cash used in financing activities	(9,304,650)	(1,058,563)	(9,294,024)	(1,193,644)

forward

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENT OF CASH FLOWS

	Consolidated		Parent Company	
	For the Six Months Ended			
	June 30			
	2019	2018	2019	2018
	(Amounts in Thousands)			
EFFECTS OF FXCY TRANSLATION ADJUSTMENTS	(50,636)	(54,457)	(50,636)	(54,457)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,899,412)	(480,729)	(2,969,077)	(478,066)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD				
Cash and Other Cash Items	1,389,869	974,207	1,357,609	941,823
Due from Bangko Sentral ng Pilipinas	15,224,382	15,340,711	15,168,302	15,279,084
Due from Other Banks	379,723	1,166,063	228,578	965,820
Interbank Loans Receivable and Securities				
Purchased Under Resale Agreements	193,820	472,513	193,820	472,513
	17,187,794	17,953,494	16,948,309	17,659,240
CASH AND CASH EQUIVALENTS AT ENDING OF THE PERIOD				
Cash and Other Cash Items	1,269,383	973,542	1,241,690	943,190
Due from Bangko Sentral ng Pilipinas	11,082,159	15,003,245	11,019,653	14,942,127
Due from Other Banks	1,527,280	629,203	1,308,329	429,082
Interbank Loans Receivable and Securities				
Purchased Under Resale Agreements	409,560	866,775	409,560	866,775
	14,288,382	17,472,765	13,979,232	17,181,174

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARIES
UNAUDITED INTERM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

	Consolidated							
	Equity Attributable to Equity Holders of the Parent Company							
	Common Stock	Additional Paid-in Capital	Surplus reserves	Deficit	Through Other Comprehensive Income	Cumulative Translation Adjustment	Remeasurement Losses on Retirement Liabilities	Non-Controlling Interest
Balance at January 1, 2019	12,016,129	2,252,826	105,893	(3,916,336)	19,416	(177,059)	25,021	24
Effect of the adoption of PFRS 16, Leases				6,408				
Total comprehensive income (loss) for the period				592,966	56,603	(50,636)	-	-
Balance at June 30, 2019 (unaudited)	12,016,129	2,252,826	105,893	(3,316,962)	76,019	(227,695)	25,021	24
Balance at January 1, 2018	12,016,129	2,252,826	105,824	(4,311,607)	64,104	(122,263)	(61,868)	26
Effect of the adoption of PFRS 9, Financial Instruments				(302,992)				(5)
Total comprehensive income (loss) for the period				312,439	(74,378)	(54,457)	3,603	7
Balance at June 30, 2018 (unaudited)	12,016,129	2,252,826	105,824	(4,302,160)	(10,274)	(176,720)	(58,265)	28
Parent Company								
Balance at January 1, 2019	12,016,129	2,262,246	105,893	(3,916,336)	19,416	(177,059)	25,021	-
Effect of the adoption of PFRS 16, Leases				6,408				
Total comprehensive income (loss) for the period				592,966	56,603	(50,636)	-	
Balance at June 30, 2019 (unaudited)	12,016,129	2,262,246	105,893	(3,316,962)	76,019	(227,695)	25,021	-
Balance at January 1, 2018	12,016,129	2,262,246	105,824	(4,311,607)	64,104	(122,263)	(61,868)	-
Effect of the adoption of PFRS 9, Financial Instruments				(302,992)				
Total comprehensive income (loss) for the period				312,439	(74,378)	(54,457)	3,603	
Balance at June 30, 2018 (unaudited)	12,016,129	2,262,246	105,824	(4,302,160)	(10,274)	(176,720)	(58,265)	-

10,325,914
6,408
598,933
10,931,255
9,943,145
(302,992)
187,207
9,827,388
10,335,310
6,408
598,933
10,940,651
9,952,565
(302,992)
187,207
9,836,780

PHILIPPINE BANK OF COMMUNICATIONS (Consolidated)
AGING OF LOANS & SELECTED RECEIVABLES
As of June 30, 2019
(In thousands)

TYPE OF LOAN/PARTICULARS	OUTSTANDING BALANCE	CURRENT	P A S T D U E F O R			
			90 DAYS OR LESS	91 TO 180 DAYS	181 DAYS - 1 YR.	MORE THAN 1 YR.
Loans and Discounts	44,999,635	42,768,807	371,646	538,211	338,027	982,944
Agrarian Reform/Other Agricultural Credit Loans	3,438,937	3,426,826	0	0	0	12,112
Bills Purchased	2,002,437	1,974,298	0	765	1,507	25,867
Customers' Liability on Drafts under LC/TR	4,334,832	4,144,688	0	0	6,400	183,744
Customers' Liab. for this Bank's Acceptances	107,218	107,218	0	0	0	0
Restructured Loans	156,098	100,964	32,415	2,159	6,205	14,355
Items in Litigation	1,020,256	0	452	581	49,718	969,505
SUB TOTAL	56,059,413	52,522,801	404,512	541,717	401,857	2,188,527
Unquoted Debt Securities	1,198,316	1,198,316	0	0	0	0
Accounts Receivable	427,073	386,971	3,187	5,155	3,587	28,174
Accrued Interest Receivable	850,661	422,822	3,689	4,683	4,590	414,877
Sales Contract Receivables	167,571	114,310	29,325	8,132	327	15,478
GRAND TOTAL	58,703,034	54,645,218	440,713	559,686	410,361	2,647,056

PHILIPPINE BANK OF COMMUNICATIONS

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. The Parent Company's principal place of business is at the PBCOM Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to a regular commercial banking.

On February 26, 2014, the Bank's Board of Directors (BOD) approved the acquisition of the Rural Bank of Nagcarlan, Inc. (RBNI) and Banco Dipolog, Inc. (BDI). The acquisitions were completed in 2014 and both rural banks were consolidated with the Parent from the time the latter gained control.

On May 9, 2014, the SEC approved the incorporation of the Parent's wholly-owned subsidiaries, PBCOM Insurance Services Agency, Inc. (PISAI).

On December 11, 2017, the SEC approved the merger of BDI, RBNI and Rural Bank of Kabasalan, Inc. (RBKI), with BDI as a surviving entity.

On July 9, 2018, through the approval granted by the SEC, BDI officially changed its corporate name to PBCom Rural Bank, Inc. On July 27, 2018, BSP authorized the change in the corporate name.

The Parent Company's subsidiaries and an associate are engaged in the following businesses:

Entity	Effective ownership	Line of business
<i>Subsidiaries</i>		
PBCom Rural Bank, Inc. (formerly Banco Dipolog, Inc A Rural Bank) (PBCRB)	99.99%	Rural Bank
PBCom Insurance Services Agency, Inc. (PISAI)	100.00%	Insurance Agent
<i>Associate</i>		
PBCom Finance Corporation	40.00%	Financing Company

On July 26, 2018, the Monetary Board of BSP, in its Resolution No. 1220, approved the Parent Company's issuance of the Long Term Negotiable Certificate of Deposits (LTNCD) of up to ₱5.0 billion in one or more tranches over the course of one year with minimum tenor of 5 years and 1 day to a maximum of 7 year. The purpose of the issuance is for long term funding.

The Parent Bank was able to raised ₱2.9 billion in its maiden issuance of LTNCD. The LTNCD bear fixed interest rate of 5.625 per annum and payable quarterly from October 8, 2018 until April 8, 2024. The amount was more than the initial planned volume of P2.0 billion

Strategic third party investors

On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares valued at ₱33.00 per share. These shares were issued out of the unissued portion of the Parent Company's authorized capital stock.

The subscription by PGH to the new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. PGH and VFC are beneficially owned by the family of Mr. Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015, June 29, 2016 and September 11, 2017, the Parent Company received the second, third and final installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH (see Note 23 of AFS).

In 2015, both PGH and VFC bought additional 2.40 million shares. The following year, additional 0.49 million shares and 9.49 million shares were acquired by PGH and VFC, respectively. In 2018, PGH bought an additional 2.27 million shares while VFC acquired 0.97 million additional shares in 2019 bringing the Co Family's total stake in the Parent Company at 53.85%.

As of June 30, 2019, the Parent Bank had a total network of 89 regular branches, 3 branch-lite unit and 151 ATMs (85 onsite and 66 offsite). PBCRB has 17 regular branches, 9 branch-lite and 1 onsite ATM.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation

The unaudited interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis, except for Financial Assets at Fair Value through Profit or Loss (FVTPL) and Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI) that are measured at fair value. The financial statements are presented in Philippine Peso (PHP) and all values are rounded to the nearest thousands, unless otherwise stated.

On July 17, 2017, the BSP in its Resolution No. 1189 dated July 13, 2017 approved the request of the Bank to continue using fair value model for the 2017 audited financial statements and to revert to cost model starting in 2018.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company and its subsidiaries are in Philippine peso.

Statement of Compliance

The unaudited interim condensed consolidated financial statements as of and for the six months ended June 30, 2019 had been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual audited financial statements as at and for the year ended December 31, 2018.

Basis of Consolidation

The unaudited interim condensed consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries and are prepared for the same reporting period as the Parent Company using consistent accounting policies. Subsidiaries are consolidated from the date on which control is transferred to the Parent Company. The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without a loss of control, is accounted for within equity as an adjustment to 'Additional paid-in capital'. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, resulting in loss of control over the subsidiary, the Parent Company:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

Non-controlling Interests

Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the unaudited interim condensed consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. Changes in Accounting Policies and Disclosures

PFRS 9, Financial Instruments

The Bank had an early adoption of the PFRS 9, 2010 version in 2014. The final version of the standard becomes mandatory beginning January 1, 2018. The said version of PFRS 9 introduced the new FVTOCI classification of debt financial assets where the objective of the model is achieved by both collecting contractual cash flows and selling financial assets.

For impairment, the Bank is required to record based on Expected Credit Losses (ECL) on all type of assets that are not measured at Fair Value Through Profit or Loss.

The application of ECL significantly changed the Group's credit loss methodology and models.

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. The allowance for credit losses is based on the ECLs associated with the probability of default in the next 12 months unless there has been a significant increase in credit risk (SICR) since origination or initial recognition. As a result, ECL allowances is measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition. If the financial asset meets the definition of purchased or originated credit impaired, the allowance is based on the change in the ECLs over the life of the asset.

The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument. In comparison, the present incurred loss model recognizes lifetime credit losses only when there is objective evidence of impairment.

Application of Cost Method of Accounting for Investment Properties and Land

PAS 40, Investment Property, allows the use of either fair value model or cost model in accounting for investment property. However, the BSP requires the use of cost method for statutory and reporting purposes. Thus, in February 2016, the BSP, through its report on examination, directed the Parent Company to change the method of accounting for investment properties from fair value model to cost model and restate comparative information in its audited financial statements.

On July 17, 2017, the BSP in its Resolution no. 1189, approved the request of the Parent Company to continue using the fair value model for the 2017 audited financial statements, and to revert to the cost model only in 2018. In April 2018, upon clarification with the BSP, it was confirmed that the directive issued in 2016 to change the accounting treatment to cost model include land accounted for under the revaluation model.

Accordingly, on January 1, 2018, the Parent Company changed its accounting policy on investment properties and land.

PFRS 16, Leases

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (for example, personal computers) and short-term leases (that is, leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The adoption of the PFRS 16 resulted in the recognition of Right-of-Use Assets amounting to ₱371.5 million under the Other Assets and the related Lease Liability of the same amount as of January 1, 2019.

4. Fair Value Measurement

The Bank uses three level hierarchies as a valuation technique in determining and disclosing the fair value of financial instruments:

- Level 1 – quoted (unadjusted) market prices in active market for identical assets or liabilities.
- Level 2 – valuation technique for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – valuation technique for which the lowest level input that is significant to the fair value measurement is unobservable i.e. not based on observable market data.

As of June 30, 2019, the Bank used the following level of measurements:

Assets measured at fair value	Carrying value	Quoted Price in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets at FVTPL Government securities	₱815,534	₱-	₱815,534	₱-
Financial assets at FVTOCI Government securities	2,173,354	1,718,568	454,786	-
Private bonds	1,755,411	1,755,411	-	-
Equity securities	105,119	-	74,210	30,909

There are no transfers between Levels 1 and 2 and no transfers into and out of Level 3.

The Bank evaluates and classifies financial instruments whether it is quoted or not in an active market. Quoted prices in an active market are readily and regularly available and represent actual and regularly occurring market transactions on arm's length basis.

5. Material Transaction During the Period

As part of the Parent Company's core strategy to focus on branch-referred accounts and drive synergies with other Lucio Co-led companies, it sold its dealer-generated auto loan portfolio to East West Banking Corporation. The asset represents 5% of the Bank's total loan portfolio and comprises a small portion of its interest income.

6. Financial Risk Management

Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

Compared with December 31, 2018, there have been no changes in the financial risk exposures that may materially affect the unaudited interim condensed consolidated financial statements of the Group as of June 30, 2019. The Group is exposed to the following risks from its financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk
 - i. Interest rate risk
 - ii. Foreign currency risk
 - iii. Equity price risk

On credit risk, the Group manages and controls it by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. Credit risk management was likewise strengthened with the implementation of ECL models. The Group's ECL calculations are output of complex models with number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

7. Consolidated Segment Information

The following tables present income and profit and certain asset and liability information regarding the Group's operating segments as of June 30, 2019 and 2018.

AS OF JUNE 30, 2019

Particulars	Branch Banking	Corporate Banking	Treasury Segment	Consumer Finance Segment *	Trust and Wealth Management Segment	Rentals & Headquarters	Total
Segment results							
Revenue, net of interest expense							
Third party	(1,001,603)	1,644,079	172,955	603,729	990	105,692	1,525,842
Intersegment	1,804,192	(1,316,784)	(118,573)	(332,606)	(2,047)	(34,182)	-
Net interest income	802,589	327,295	54,382	271,123	(1,057)	71,510	1,525,842
Rent income	-	-	-	-	-	357,743	357,743
Service charges, fees and commissions	42,660	122,794	1	38,380	-	6,920	210,755
Foreign Exchange gain - net	4,919	4,334	18,483	-	-	-	27,736
Income from Trust Operations	-	-	-	-	10,464	-	10,464
Trading and securities gain (loss) - net	-	-	306,126	-	-	-	306,126
Gain on asset exchange	-	-	-	-	-	(6,089)	(6,089)
Profit from asset sold/ exchange	-	-	-	6,626	-	19,373	25,999
Miscellaneous	4,297	10,240	313	4,728	-	52,499	72,077
Total Operating Income	854,465	464,663	379,305	320,857	9,407	501,956	2,530,653
Compensation and fringe benefits	150,565	31,847	22,474	88,710	7,022	250,351	550,969
Taxes and licenses	105,204	85,870	28,324	41,170	760	28,708	290,036
Depreciation and amortization	69,663	1,259	590	10,619	399	144,420	226,950
Provision for impairment losses	-	299,679	680	500	-	(113,690)	187,169
Occupancy and Other equipment-related costs	69,424	12,594	487	16,806	963	(4,327)	95,947
Other operating expense	162,844	26,957	44,993	55,326	2,055	177,394	469,569
Total Operating Expense	557,700	458,206	97,548	213,131	11,199	482,856	1,820,640
Income before share in net income of an associate	296,765	6,457	281,757	107,726	(1,792)	19,100	710,013
Share in net income of an associate	-	-	-	-	-	258	258
Income before income tax	296,765	6,457	281,757	107,726	(1,792)	19,358	710,271
Provision for income Tax	-	3,946	33,631	2,276	-	77,452	117,305
Net Income (loss)	296,765	2,511	248,126	105,450	(1,792)	(58,094)	592,966
Segment assets							
Property and equipment	326,346	-	-	104,520	-	540,020	970,886
Investment properties	-	-	-	158,791	-	2,517,536	2,676,327
Unallocated assets	11,877,391	45,205,592	12,102,539	8,394,599	70,180	12,521,354	90,171,655
Total segment assets	12,203,737	45,205,592	12,102,539	8,657,910	70,180	15,578,910	93,818,868
Total segment liabilities	74,358,594	360,010	1,747,683	1,942,226	-	4,479,100	82,887,613

* include rural bank subsidiaries

AS OF JUNE 30, 2018

Particulars	Branch Banking	Corporate Banking	Treasury Segment	Consumer Finance Segment *	Trust and Wealth Management Segment	Rentals & Headquarters	Total
Segment results							
Revenue, net of interest expense							
Third party	(453,688)	1,127,166	261,549	591,300	901	(6,220)	1,521,008
Intersegment	1,076,895	(786,358)	(156,232)	(253,072)	(1,414)	120,181	-
Net interest income	623,207	340,808	105,317	338,228	(513)	113,961	1,521,008
Rent income	-	-	-	(87)	-	314,669	314,582
Service charges, fees and commissions	39,274	99,560	1	35,710	-	1,272	175,817
Foreign Exchange gain - net	8,763	4,669	1,582	-	-	-	15,014
Income from Trust Operations	-	-	-	-	7,488	-	7,488
Trading and securities gain (loss) - net	-	-	31,041	-	-	-	31,041
Gain on asset exchange	-	-	-	-	-	7,286	7,286
Profit from asset sold/ exchange	-	-	-	54,061	-	2,018	56,079
Miscellaneous	10,312	4,473	(6,363)	12,904	-	38,612	59,938
Total Operating Income	681,556	449,510	131,578	440,816	6,975	477,818	2,188,253
Compensation and fringe benefits	144,788	39,899	20,441	118,659	4,104	254,726	582,617
Taxes and licenses	115,855	54,843	46,019	46,788	480	28,904	292,889
Depreciation and amortization	52,829	1,769	854	13,002	249	129,077	197,780
Provision for impairment losses	-	36,198	-	90,479	-	824	127,501
Occupancy and Other equipment-related costs	86,855	11,437	429	15,451	876	11,313	126,361
Other operating expense	137,464	27,562	29,465	64,397	1,093	172,796	432,777
Total Operating Expense	537,791	171,708	97,208	348,776	6,802	597,640	1,759,925
Income before share in net income of an associate	143,765	277,802	34,370	92,040	173	(119,822)	428,328
Share in net income of an associate	-	-	-	-	-	104	104
Income before income tax	143,765	277,802	34,370	92,040	173	(119,718)	428,432
Provision for income Tax	-	3,811	67,957	6,688	-	37,530	115,986
Net Income (loss)	143,765	273,991	(33,587)	85,352	173	(157,248)	312,446
Segment assets							
Property and equipment	401,492	-	-	99,408	-	557,548	1,058,448
Investment properties	-	-	-	191,139	-	2,460,706	2,651,845
Unallocated assets	10,809,254	40,035,935	24,664,038	15,028,600	70,403	3,179,774	93,788,004
Total segment assets	11,210,746	40,035,935	24,664,038	15,319,147	70,403	6,198,028	97,498,297
Total segment liabilities	64,259,970	2,661,296	17,328,306	2,030,341	-	1,390,996	87,670,909

* include rural bank subsidiaries

8. Events After the Reporting Period

On July 29, 2019, the Parent Company sold its 99.99% shareholdings of PBCRB to Producers Savings Banking Corporation for ₦555.8 million as part of the its' strategy to focus on its core business and expand in the market. The sale resulted to the Parent Company losing control and significant influence in PBCRB.

9. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

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

	June 2019	December 2018
Trust department accounts	6,125,675	5,425,824
Standby LC	1,324,663	517,012
Spot exchange:		
Bought	1,462,044	630,800
Sold	1,504,125	630,508
Sight LC outstanding	186,139	654,229
Usance LC outstanding	140,316	128,412
Inward bills for collection	50,869	284,355
Outstanding shipping guarantees	467,154	534,542
Currency forwards:		
Bought	-	203,574
Sold	-	204,301
Outward bills for collection	16,105	16,977
Items held for safekeeping	17	98
Items held as collateral	11	11
Other contingent	5,418	89,852

Changes on the above figures are part of the regular operations of the Bank.

10. There are no other items affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size, or incidents.
11. Except for effects of PFRS 9 on ECL models used for impairment of financial assets which are considered significant accounting judgements and estimates, there are no other changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years that may have a material effect in the current interim period.
12. There were no dividends declared or paid as of June 30, 2019 by the Parent Bank.
13. There are no changes in the composition of the bank in terms of business combinations, acquisition or disposal of subsidiaries, restructurings and discontinuing operations for the period. As to long-term investments, the bank continues to maintain holdings on marketable long-term bonds.
14. There are no contingencies and any other events or transactions that are material for the current interim period.

SEC Form 17-Q

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

1. Management's Discussion & Analysis

The Bank registered a net income of ₱593.0 Million for the first half of 2019, ₱280.5 Million or 89.8% higher than the ₱312.4 Million earned in the same period last year. Total operating income increased by ₱342.4 Million or by 15.7% as the Bank sustains its business growth. Interest income from loans and receivables is higher by 28.8% compared to the same period last year as the Bank continue to focus its efforts in expanding its corporate and consumer loan portfolios and increasing loan yields, bringing in ₱530.6 Million higher revenues in 2019. Interest expense, however, grew by ₱564.3 Million compared to prior year period primarily from the rise in cost of funds and the impact of the increase in volume from the Bank's maiden issuance of Long Term Negotiable Certificates of Time Deposit (LTNCD). Low-cost deposit volume has improved as the Bank grew its demand and savings deposit base to ₱32.5 Billion from ₱29.1 Billion in June of the previous year while time deposits and bills payable declined by 18.7% and 28.2%, respectively.

Trading results improved further this semester as the Bank recognized ₱306.1 Million in gains, an 886.2% increase compared to the same period last year. Higher rent income as well as service charges and fees also contributed to the growth to the Bank's bottom line. Total operating expenses slightly went up by 3.5% from last year primarily due to higher provision for losses but this was offset by lower compensation and benefits from lower headcount.

Total Assets of PBCOM Group stood at ₱93.8 Billion at the end of the first half, from ₱103.7 Billion as of December 2018 primarily from lower total loans and receivable due to the sale of a portion of the Bank's auto loan portfolio, lower Due from the BSP and lower Financial Assets at Fair Value through other Comprehensive Income. The Group's gross NPL ratio increased to 5.7% from the end of the second quarter of 2018's level of 5.0%. Total Liquid Assets remain stable at ₱32.3 Billion which is slightly lower by 15.5% from the year-end level of ₱38.2 Billion. Moreover, Total Liabilities amounted to ₱82.9 Billion with a decrease of 11.3% from the last year's end level of ₱93.4 Billion. This resulted mostly from lower bills payable by ₱9.4 Billion and lower time deposits by ₱6.3 Billion. Total Capital on the other hand amounted to ₱10.9 Billion from ₱10.3 Billion last December 2018. Improvement in capital by 9.6% was mainly contributed by the earnings of the Bank for the first two quarters of the year.

On quarter on quarter basis, the Bank registered a net income of ₱210.4 Million for the second quarter of 2019, ₱74.8 Million or 55.2% higher than the ₱135.6 Million earned in the same period last year. Total operating income increased by ₱162.7 Million or by 14.9% as the Bank sustains its business growth. Interest income from loans and receivables is higher by 23.7% compared to the same quarter last year as the Bank continued in focusing its efforts in expanding its corporate and consumer loan portfolios and increasing loan yields, bringing in ₱230.4 Million higher revenues for the second quarter. Interest expense however grew by ₱229.2 Million compared to prior year period primarily from the rise in cost of funds and the impact of the increase in volume from the Bank's maiden issuance of Long Term Negotiable Certificates of Time Deposit (LTNCD). Trading results improved further this quarter as the Bank recognized ₱118.7 Million in gains, a 1198.6% increase compared to the same quarter last year. Higher rent income and service charges and fees also contributed to the growth to the Bank's bottom line. Total operating expenses slightly went up by 8.5% from last year primarily due to higher provision for losses but this was offset by lower compensation and benefits from lower headcount and lower taxes and licenses because of the decrease in documentary stamp taxes.

2. Discussion of various key indicators:

A. Key Financial Performance (consolidated)

Ratio	June 2019	June 2018	Remarks
Net Profit Margin (Net income divided by Gross income)	23.43%	14.28%	Net Profit Margin increased by 9.15% due to higher net income by 89.78% attributable to the average balance increase of 3.5% of loans and receivables.
Return on Average Asset (Net income divided by Average assets)	0.60%	0.32%	Higher net income during the current period and increase in Average Assets resulted to higher ROA compared to June 2019.
Return on Average Equity (Net income divided by Average equity)	5.58%	3.16%	Return on Average Equity increased due to combination of higher net income and Average Equity by 89.78% and 7.52%, respectively.
Capital Adequacy Ratio (Basel 3) (Qualifying capital divided by total of risk-weighted assets that include credit, market and operational risk)	16.48%	15.12%	Capital ratio improved by 1.36% due to higher Qualifying Capital by ₱893.4 million while Total Risk Weighted Assets remain stable at ₱76 Billion despite decrease by ₱942 Million.
Basic Earnings per share (Net income divided by average no. of common shares)	1.23	0.65	Increase in net income by 89.78% during the current period attributed to the rise of basic earnings per share.

B. Financial Soundness (consolidated)

Ratio	June 2019	December 2018	Remarks
Liquidity Ratio (Liquid Assets to Total Deposits) <i>Liquid Assets include cash, due from banks, interbank loans, and trading and inv. Securities Total deposit refers to the total of peso and foreign currency deposits.</i>	44.77%	51.65%	Ratio declined by 6.88%, resulting from lower liquid assets and total deposits of ₱5.9 Billion and ₱1.8 Billion, respectively.
Debt Ratio (Total Liability to Total Assets) <i>Debt refers to the total liabilities while assets refers to total Assets</i>	88.35%	90.05%	Debt ratio was lower by 1.70% as a result of decrease in both total liabilities and total assets of ₱10.5 billion and ₱9.9 billion, respectively
Asset to Equity Ratio (Total Asset to Total Equity)	8.58	10.05	Ratio is lower by 1.47 as result of decrease in total assets of ₱9.9 billion arising from lower loans and receivable partially from the sale of a portion of the Bank's auto loan portfolio.
Interest Rate Coverage Ratio (Earnings before interest & taxes to Interest Expense)	157.08%	163.02%*	Bank's interest rate coverage declined due to increase in interest expenses, which outpaced the improvement of income registered in 2019.
Net Interest Margin Net interest income over Average Earning assets	1.94%	2.04%*	Ratio dropped by 0.10% as Average Earning Assets improved for the period by ₱3.9 Billion.

* As of June 2018

3. Discussion and Analysis of Material Event/s and Uncertainties

- a. The Bank does not foresee any event that will trigger direct or contingent financial obligation that is material to the company.

- b. The Bank does not have any material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- c. As of June 30, 2019, the unspent amount from the approved capital expenditures budget on technology enhancement, realignment and facility improvement amounted to ₱98.0 Million.
- d. There are no known trends, events or uncertainties that are expected to have a material impact on net sales or revenues of the Bank in the near future.
- e. There is no recorded significant income or losses during the quarter that did not come from the Bank's regular operations.
- f. Interest income on non-discounted loan is recognized based on the accrual method of accounting while unearned discounts are amortized to income over the term of the loans. As such, there is no seasonal aspect that has a material impact on the Bank's interest revenues. Non-interest revenues, on the other hand, are largely dependent on market dynamics and economic trends rather than on seasonal factors.

Statement of Condition: June 2019 vs. December 2018 (consolidated)

	Increase (Decrease)	Percentage	Remarks
Cash and Other Cash Items	(120,486)	-8.67%	Lower cash on hand
Due from BSP	(4,142,223)	-27.21%	Lower requirement for reserve
Due from Other Banks	1,147,557	302.21%	Higher funds with foreign banks
Interbank Loans Receivable	202,596	97.89%	Higher investment in interbank loans during the period
Financial assets at Fair Value through Profit or Loss	(77,682)	-8.70%	Net sale of investments in FVTPL
Financial assets at Fair Value thorough Other Comprehensive Income	(2,764,346)	-40.66%	Sale of investments in FVOCI
Investment securities at Amortized Cost	(178,054)	-1.33%	Decline in HTC investments
Loans and Receivables	(4,573,679)	-7.61%	Decline in loan volume during the reporting period primarily from the sale of a portion of the Bank's auto loan portfolio
Property and Equipment	(50,463)	-4.94%	Depreciation recognized for the period
Investment Properties	67,552	2.59%	ROPA acquisitions, offset by depreciation of condo and office units for lease
Intangible Assets	(8,756)	-1.24%	Lower due to amortization of software during the period
Other Assets	567,273	68.17%	Higher mostly due to higher prepaid expenses on the early quarters of the year (PDIC insurance, manpower benefits, etc.), increase in ROPA (auto), higher CWT, and Right Of Use Assets recognized in compliance with PFRS 16
Demand Deposits	4,177,075	20.62%	Lower deposits volume primarily in TD due to the Bank's efforts to increase volume of low-cost source of funds
Savings Deposits	273,394	3.50%	
Time Deposits	(6,331,258)	-14.70%	
Bills Payable	(9,390,818)	-53.18%	Lower due to lower BP-BSP and deposit substitutes volume partially offset by increase in bills payable – REPO
Outstanding Acceptances	60,874	131.55%	Due to higher bills of exchange accepted by the Bank
Manager's Checks	76,076	78.07%	Higher un-negotiated MC's as of report date
Accrued Interest, Taxes and Other Expenses Payable	51,104	7.46%	Higher expense accruals as of the period
Income Tax payable	13,828	370.23%	Higher income tax due for the period
Other Liabilities	533,930	63.81%	Higher mainly due to lease liability recognized in compliance with PFRS 16

Statement of Income and Expenses : January-June 2019 vs January-June 2018 (consolidated)

	Increase (Decrease)	Percentage	Remarks
Interest Income on investment securities	55,064	16.95%	Higher interest income mainly due to higher yields and increase in volume
Interest Income on Loans and receivable	530,612	28.77%	Higher interest income mainly due to increase in volume and higher yields
Interest Income on IBCL	(17,571)	-66.52%	Decline from lower volume
Interest Income on Deposit with other Banks and others	1,048	20.51%	Slight increase from higher yield
Interest Expense on Deposit Liabilities	365,763	69.89%	Higher due to higher cost of funds and slightly higher volume (LTNCD)
Interest Expense on Bills payable, borrowings and others	198,556	127.04%	Increase in interest expense mainly due to higher cost of funds
Trading and Securities Gain – net	275,085	886.20%	Higher trading gains, mostly realized
Rent Income	43,161	13.72%	Higher contract rates from renewals and vacancy in 2019
Service Charges, Fees & Commissions	34,938	19.87%	Increase mainly because of higher TFR income and penalty interest
Foreign Exchange Gain (Loss) –Net	12,722	84.73%	Increase is mainly due to foreign exchange revaluation gain in 2019 vs foreign exchange revaluation loss in 2018 partially offset by lower realized foreign exchange gains
Gain on asset exchange	(13,375)	-183.57%	Lower gain on asset exchange of ROPA vs prior year
Profit/(Loss) from Assets Sold/Exchanged	(30,080)	-53.64%	Lower gain on sale of ROPA vs prior year recognized by a subsidiary in 2018
Income from Trust Operations	2,976	39.74%	The Bank registered higher trust fees during the comparative period from increase in assets under management
Miscellaneous Income	12,139	20.25%	Higher other income from leasing
Compensation and Fringe Benefits	(31,648)	-5.43%	Lower costs from lower headcount
Taxes and Licenses	(2,853)	-0.97%	Lower from the decline in DST charges offset by higher GRT from higher income
Depreciation and Amortization	29,170	14.75%	Higher depreciation mainly from the impact of depreciation of right of use asset in compliance with PFRS 16
Occupancy and other equipment-related costs	(30,414)	-24.07%	Lower rent expense mainly from the impact of depreciation of right of use asset in compliance with PFRS 16
Provision for impairment losses	59,688	46.80%	Higher provision requirement in 2019
Miscellaneous	36,792	8.50%	Increase is mainly due to higher litigation costs, brokerage fees, insurance charges, business promo costs, etc.
Provision for income tax	1,319	1.14%	Higher income tax due to higher taxable income base
Share in net income of subsidiaries and an associate	154	148.08%	Slight increase in income from affiliate for the period