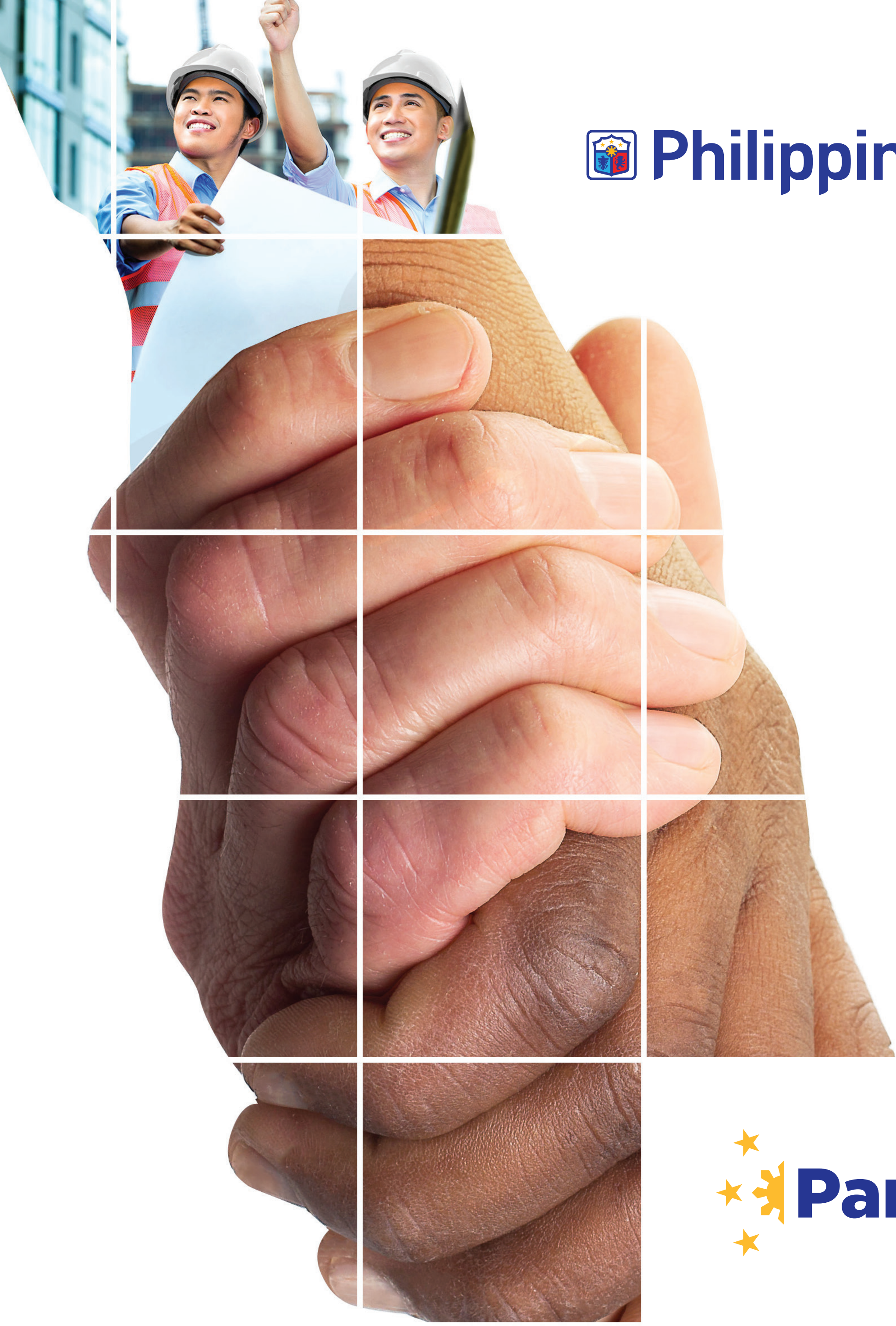
Philippine National Bank



Partner Ng Bayan

2019 Annual Report

About the Cover

As a true *Partner Ng Bayan*, Philippine National Bank aims to foster partnerships that are solid, inclusive, genuine, and timeless.

Annual Report 2019

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We remember
Lucio “Bong” K. Tan, Jr.
1966 - 2019

Bong Tan was a pillar of the Philippine business world, a Renaissance Man who served in top leadership positions at the Lucio Tan Group of Companies. More than a businessman, he was a beloved father, husband, friend, and colleague.

As a member of the PNB Board of Directors, Bong proved to be a wise and an inspirational leader. We liked working with him as he motivated us to become the best versions of ourselves. While his stature precedes him, Bong was truly a down to earth person who has consistently shown his commitment to excellence and unwavering compassion for the welfare of employees.

Throughout his professional life, Bong was a reliable *Partner*. He has been a contributor to various important causes. He participated in numerous, diverse socio-civic, cultural, educational, medical, and charitable endeavors of his family’s Tan Yan Kee Foundation. As an athlete who loved and passionately supported basketball and as a generous patron of sports and youth development, he contributed positively to our nation’s progress.

Bong was a living proof of how kind and gracious a person can be. He was a leader, a team player, a family man, and a spiritual human being. His legacy will stay with us forever.

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Financial Summary/ Financial Highlights

GRI 201-1

In Thousands except Selected Ratios, Per Common Share Data, and Head Count

	CONSOLIDATED		PARENT ENTITY	
MINIMUM REQUIRED DATA	**2019**	2018 (As Restated)	**2019**	2018
Profitability				
Total Net Interest Income	32,443,573	27,064,550	29,446,638	23,461,884
Total Non-Interest Income	8,667,961	11,857,283	6,073,275	11,117,810
Total Non-Interest Expenses	28,440,470	27,612,951	24,245,218	23,713,091
Pre-Provision Profit	12,671,064	11,308,882	11,274,695	10,866,603
Provision For Credit And Impairment Losses	2,909,858	1,752,812	1,593,219	1,401,528
Net Income	9,761,206	9,556,070	9,681,476	9,465,075
Selected Balance Sheet Data				
Liquid Assets	318,200,276	234,630,930	297,298,085	218,059,477
Gross Loans	651,470,434	574,483,591	584,084,209	503,049,694
Total Assets	1,142,290,611	983,648,186	1,069,205,222	911,800,586
Deposits	826,045,480	733,301,478	775,841,999	683,397,406
Total Equity	154,975,400	128,559,012	152,069,646	125,650,447
Selected Ratios				
Return on Equity	6.89%	7.70%	6.97%	7.80%
Return on Assets	0.92%	1.05%	0.98%	1.12%
CET 1 Capital Ratio	14.10%	13.55%	12.13%	10.85%
Tier 1 Capital Ratio	14.10%	13.55%	12.13%	10.85%
Capital Adequacy Ratio	14.80%	14.35%	12.83%	11.63%
Per Common Share Data:				
Net Income per Share:				
Basic	7.05	7.58		
Diluted	7.05	7.58		
Book Value per Share	99.68	100.60		
Others				
Cash Dividends Declared			–	–
Headcount				
Officers			4,318	4,011
Staff			4,232	4,255

Corporate Objective

PNB aims to continually provide the best customer experience to generations of Filipinos here and abroad.

VISION

To be the most admired financial services organization in the country in terms of:

- **Financial performance** – rank #1 or #2 in its businesses in terms of return on equity
- **Innovativeness** – in products, services, distribution and the use of cutting-edge technology
    - o Customer perception
    - o The preferred financial services provider
- **The customer**-centered organization with a passion for service excellence
- **Social responsibility** – the employer of choice, a good corporate citizen and partner in nation-building
- **Long-term vision** – developing competitive advantage on a sustained basis by anticipating changes in customer's preferences and in the manner of doing business

MISSION

We are a leading, dynamic Filipino financial services group with a global presence committed to delivering a whole range of quality products and services that will create value and enrich the lives of our customers, employees, shareholders, and the communities we serve.

ABOUT THE PNB BRAND

For more than a hundred years, Philippine National Bank has established itself as a **"*Bangko ng Bayan*"**, a stable, reliable, and service-oriented financial institution serving generations of Filipinos anywhere in the world. We believe in the right to prosperity for all in support of our customers, employees, shareholders, and communities on the road to success and wealth creation.

Our way of service is ***malalapitan***. We are a customer-centered organization with a passion for financial growth, innovation, and service excellence. We are committed to the highest standard of professionalism and integrity. Our strength lies in our ability to work as an integrated, cohesive entity. We strive to become an employer of choice and a true partner in nation-building.

We live by the tagline, **"*You First*"**.

You First exudes a personal touch encouraging customers to experience a brand of service that is uniquely Filipino and distinctly Philippine National Bank. *You First* is an articulation for the new generation to experience the same service excellence and stability that our current customer base has grown to love. This speaks of our commitment to put the customer at the heart of the financial solutions we offer and embodies our core values such as service orientation ***(Mapaglingkod)***, trustworthiness ***(Mapagkakatiwalaan)***, and commitment ***(Mapagmalasakit).***

More than being a tagline, *You First* is the behavioral pillar that binds us as one nation as we begin the next chapter of our Safe, Aggressive, Profitable Growth story.

PNB VALUES
GRI 102-16

Our shared values bind us together and enable us to achieve our vision and mission.

MAPAGLINGKOD (SERVICE ORIENTATION)
We are committed to deliver the best possible service to our customers, proactively responding to their needs and exceeding expectations as manifestation of the value and respect that the Bank holds for every single one of them.

MAPAGKAKATIWALAAN (TRUSTWORTHINESS)
We hold sacred the consistent adherence to a strict moral and ethical code manifested through honesty, professionalism, fairness, prudence, and respect for the law.

MAPANG-AKMA (ADAPTIVE TO CHANGE)
We nurture within each one of us a positive attitude towards change and innovation, promoting flexibility and celebrating creativity as drivers of our quest for continuous improvement and operational excellence.

MAPAGKAPWA (TEAM ORIENTATION)
We are committed to work together as a family, united in pursuit of common goals and aspirations, valuing meritocracy in promoting the common good.

MAPAGMALASAKIT (COMMITMENT)
As stewards not only of the Bank's business, but of its proud name and enduring heritage, we manifest genuine concern and affection for the Bank, its business, and its core constituents.

MAPAGMALAKI (PRIDE)
We take pride in working with the Bank, of being a Philnabanker, in whatever tasks we undertake. This will be reflected in all our actions, in the passion of how we get things done.

Business Model & Scope of Business

GRI 102-2, 102-6

Philippine National Bank (PNB), the country's first universal bank, is the fourth largest privately-owned Philippine commercial bank. PNB was established by the Government of the Philippines in 1916 and became fully privatized in 2007. As an instrument of economic development, PNB led the industry through the years with its agricultural modernization program and trade finance support for the country's agricultural exports. In addition, the Bank pioneered efforts in the Overseas Filipino Worker (OFW) remittance business and introduced many innovations such as *Bank on Wheels*, computerized banking, Automated Teller Machine (ATM) banking, mobile money changing, domestic traveler's checks, electronic filing and payment system for large taxpayers, and Unit Investment Trust Fund (UITF) ATMs. PNB has the largest number of overseas offices and one of the largest domestic branch networks among local banks.

PNB's principal commercial banking activities include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, fund transfers, remittance servicing, asset management, a full range of retail banking and trust services, and treasury operations. Through its subsidiaries and affiliate, the Bank also engages in full banking services in China and the United Kingdom; banking services in Hong Kong; and a number of diversified financial and related businesses such as remittance servicing in the United States, Canada, and Hong Kong; investment banking; life and non-life insurance; stock brokerage; and leasing and financing services.

The Bank provides a full range of banking and other financial services to its customers through its Head Office, 715 domestic branches/offices and 71 overseas branches, representative offices, remittance centers and subsidiaries in 17 locations in the United States, Canada, Europe, the Middle East, and Asia.

The Bank's customers include corporations, small and medium markets, retail customers, the National Government (NG), local government units (LGUs), government-owned and controlled corporations (GOCCs) and various government agencies.

PNB's banking activities are undertaken through the following groups within its organization, namely:

The **Retail Banking Sector (RBS)** principally focuses on retail deposit products (i.e., current accounts, savings accounts, and high cost accounts), cards products, consumer loan products, cash management solutions, and other services. While the main purpose is the generation of lower cost funding for the Bank's operations, RBS also concentrates on the cross-selling of trust, fixed income, and bancassurance products to existing customers, and referrals of customers by transforming its domestic and overseas branch distribution channels into a sales-focused organization.

The **Retail Lending Group (RLG)** will be the consumer lending arm of the Bank upon the full integration of its wholly-owned thrift bank subsidiary, PNB Savings Bank, into the parent bank. RLG is tasked to provide the Bank's retail clients with home mortgage loans and car financing.

The **International Banking & Remittance Group (IBRG)** covers the Bank's overseas offices across Asia, Middle East, North America, and Europe. It provides convenient and safe remittance services to OFWs as well as full banking services in selected jurisdictions, including overseas bills payment, deposit account opening, corporate, credit and trade facilities. Through IBRG, the Bank offers Own a Philippine Home Loan (OPHL), a financing facility for overseas Filipinos and non-Filipinos for their real estate investments in the Philippines. IBRG is also responsible in forging and maintaining partnerships with remittance agents to further extend the Bank's scope and reach to the OFW market beyond its brick and mortar overseas offices.

The **Institutional Banking Sector (IBS)** is responsible for the establishment, expansion and overall management of banking relationships with large corporates, middle market and SME customers as well as with government entities.

The **Global Banking and Markets Sector (GBMS)** oversees the management of the Bank's liquidity and regulatory reserves as well as the risk positions on interest rates and foreign exchange arising from the daily inherent operations in deposit-taking and lending, and from proprietary trading. Its functions also include providing treasury solutions to clients and an oversight on risk positions of the Bank's foreign branches and subsidiaries. GBMS is likewise responsible for the establishment and maintenance of correspondent banking relationship with foreign and local banks and non-bank financial institutions as well as the acquisition and management of banking relationship with multinational companies.

The **Wealth Management Group (WMG)** helps clients plan for their financial future via investment products that aid in wealth accumulation. WMG offers investment products to clients taking into consideration their risk profiles. WMG's services include brokering of fixed income securities (e.g., Peso- and USD-denominated government and corporate securities), selling of pooled funds (UITFs), Variable Unit-Linked Funds, and other investment vehicles that offer higher yields compared to traditional deposit products.

Trust Banking Group (TBG) provides a full range of trust products and services designed to serve a broad spectrum of market segments. TBG's personal trust products and services include personal management trust, investment management, estate planning, guardianship, life insurance trust, and escrow. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Other fiduciary services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank. TBG also manages thirteen Philippine Peso- and US dollar-denominated UITFs. These include money market funds, bond funds, balanced funds, and equity funds.

Chairperson's Message to Shareholders

GRI 102-14

"The Philippine banking industry remained strong and stable as it continued to support financial stability and promote greater economic activity.

ECONOMIC OVERVIEW

In 2019, the Philippines remained as one of the fastest growing economies in Asia having sustained its growth momentum with real Gross Domestic Product (GDP) increasing by 5.9%. The economic expansion was driven by healthy household consumption and accelerated government expenditures in the latter half of the year as the government ramped-up infrastructure spending after the budget impasse in the first half.

On the production side, growth was buoyed by the resilient services sector, propelled by finance, public administration, and trade. The industry sector led by construction and utilities also supported the economic expansion. Meanwhile, the agricultural sector posted minimal growth as adverse weather conditions weighed down the sector's production.

Inflation was on a downtrend for most part of the year, boosting purchasing power and improving consumer sentiment. The average 2019 inflation narrowed to 2.5% from 5.2% a year-ago with the easing of food prices. This provided monetary space for the Bangko Sentral ng Pilipinas (BSP) to cut its policy rate by a total of 75 bps, bringing BSP's overnight reverse repurchase facility to 4.0% with the overnight lending and deposit facilities settling at 4.5% and 3.5%, respectively. This was complemented by a cumulative 400 bps cut in the banks' reserve requirement ratio (RRR) implemented in stages beginning in April. The RRR cut released at least Php400 billion into the banking system that mitigated the threat of a liquidity crunch and boosted bank lending that rallied growth despite the fiscal handicap. As inflation wound down and monetary accommodation strengthened, the local yield curve compressed with a 10-year yield rallying to 4.5% from 7.8% in the fourth quarter of 2018 when inflation peaked.

Domestic spending, notably business capital spending, slowed down on the first half of 2019. Public construction eased as well with implementation caught up in delayed budget approvals coupled with a ban on public works and new project spending due to the mid-term elections. Against this backdrop, imports of raw materials and capital goods eased that resulted in the narrowing of the country's trade gap. With sustained remittance flows from Overseas Filipino Workers (OFWs), revenues from Business Process Outsourcing (BPO) firms, and other service receipts largely unaffected by the U.S.-China trade conflict, the current account shifted to a near balanced position and supported an improving international reserve position. Amidst improving external trade imbalance, the Philippine Peso (Php) appreciated by 1.7% to an average of Php51.80/USD from Php52.66/USD in 2018.

The Philippine banking industry remained strong and stable as it continued to support financial stability and promote greater economic activity. Total resources increased steadily by 8.4% to reach Php18.3 trillion as of end December 2019 while deposits rose by 7.1% to Php13.7 trillion. Asset quality of Philippine banks continued to be healthy with the banking system's gross non performing loan (GNPL) ratio steady at 2.0% even as bank lending accelerated by 8.8% in 2019. The loan exposures of banks were adequately covered as reflected in the banking system's NPL coverage ratio at 92.3%. The banking industry continued to be well-capitalized as the capital adequacy ratio remained way above the 10% regulatory threshold of the BSP and the 8% minimum requirement by international standards.

STRATEGIC INITIATIVES

Time and again, we have proven our commitment to nation-building by engaging in projects that help strengthen the Philippine economy, empower the Filipino people, and enrich the lives of our customers.

In 2019, we funded several projects in the power, water supply, and infrastructure industries thereby giving underserved areas access to facilities and/ or improving agricultural activity from the rural areas to the metropolis. On the other hand, our overseas branches specifically those located in Hong Kong, Japan, and Singapore actively conducted financial wellness programs to educate our fellow countrymen on the importance of savings and investment. This initiative, coupled with financial literacy programs for students in the greater Metro Manila area, was a fertile ground for the acquisition of new customers.

We recognize the significance of digital transformation in creating a safe, secure, and seamless banking experience for our customers. To support the Philippine government's National Retail Payment System (NPRS), we enhanced our mobile banking services with PESONet and InstaPay. Using the PNB Mobile App, our customers can perform real-time electronic fund transfers to any participating banks in the Philippines. For the millions of Filipinos overseas, we have embarked on a digital strategy of launching a mobile remittance application. Finally, our Trust Banking Group implemented the country's first end-to-end fully automated UITF online facility where customers can enroll, invest, and redeem funds through the internet or with the convenience of their mobile phones.

STRONG CORPORATE GOVERNANCE

Our Bank is defined by the health of our business, the well-being of our employees, customers, and stakeholders, and the good future of generations to come. We aim to contribute positively to the economy, the society, and the environment by focusing on endeavors promoting ethical business practices, strong corporate governance, and sound risk management.

We continue to be recognized by the Institute of Corporate Directors (ICD). In 2019, Philippine National Bank has been bestowed an arrow during the ASEAN Corporate Governance Scorecard (ACGS) Recognition Night. The ACGS is a set of questions developed in accordance with the corporate governance principles of the Organization for Economic Co-operation and Development (OECD) as well as best corporate governance practices of major publicly listed companies in the ASEAN.

We are committed to embodying the values of diversity and inclusion as part of our professional culture. In August 2019, we became the first local bank to join the Philippine Business Coalition form Women Empowerment (PCBWE), an organization comprised of large, influential companies that promote gender equality in the workplace. We aim to undergo the Economic Dividends for Equality (EDGE) Certification, a leading global assessment methodology and business standard for gender equality that evaluates the workplace's performance of an organization against global and industry benchmarks.

We proactively engage our employees in living out the Bank's sustainability mission. In July, we have launched *Project P.L.A.N.E.T.* which stands for *Protect, Love, and Nurture the Environment Together*. This campaign is our journey towards making the Bank a planet-friendly workplace. In November, we held our first Sustainable Lifestyle Fair featuring a bazaar showcasing eco-friendly, sustainably sourced products, and organic food items. During the three-day fair, resource persons were invited for brown bag sessions covering a range of topics such as climate change and zero-waste living. Finally, throughout the year, we have partnered with Tan Yan Kee Foundation, the corporate social responsibility arm of the Lucio Tan Group of Companies, for various projects: (a) relief operations for the earthquake-affected communities in Davao del Sur and North Cotabato; (b) financial literacy seminar for the Barangay Association of Treasurers of the Municipality of Aritao, Nueva Vizcaya; and (c) promoting to our employees the organic fresh produce harvested by the Nueva Vizcaya farmers supported by the foundation.

NEW BEGINNINGS

On November 11, 2019, we mourned the passing of Lucio "Bong" K. Tan, Jr. He is a great loss to the Bank and the country's business community. We honor his steadfast generosity and passion for service. His legacy will live on.

We are delighted to welcome Domingo H. Yap and Sheila T. Pascual as members of the Board of Directors. Their backgrounds on banking, manufacturing, and real estate sustain the diversity of the Board and allow them to perform their duties capably. Our sincerest gratitude to Cecilio K. Pedro, who retired from the Board in August 2019. His wisdom, leadership, and contributions have been invaluable.

In closing, we express appreciation to the Board of Directors for the guidance and motivation; to our Management Team and employees for their work ethic and dedication; and to our customers and shareholders for your trust and confidence in our institution.

(Original Signed)
FLORENCIA G. TARRIELA
Chairperson of the Board of Directors

President and CEO's Message to Shareholders

Philippine National Bank sustained healthy financial results in 2019 and scored milestones in various areas in the business.

FINANCIAL PERFORMANCE

Philippine National Bank sustained healthy financial results in 2019 and scored milestones in various areas in the business. PNB registered a net income of Php9.8 billion, slightly higher than the earnings of Php9.6 billion in 2018. The growth in net profit resulted from sustained efforts in strengthening the Bank's core business. Excluding the impact of non-recurring gains from the sale of foreclosed assets, the Bank's core net income grew by 57% year-on-year.

Net interest income reached Php32.4 billion, 20% higher compared to the previous year, driven by improved earnings from loans to corporate, commercial and small and medium enterprises, and other interest-earning assets. Loan receivables registered double digit growth to Php657.9 billion, higher by 12% from 2018. On the other hand, deposit liabilities reached Php826.0 billion, up by 13% versus 2018 year-end level.

Net service fees and commission income grew by 20%, propelled by enhanced cross selling efforts resulting in improvements in underwriting fees from capital market transactions as well as loan, deposit and credit card-related fees. Net trading and foreign exchange gains expanded by 97%, resulting mainly from favorable opportunities in the market.

Meanwhile, net gains from sale of acquired assets declined to Php690.6 million compared to last year's Php5.9 billion. Despite the reduction, total operating income registered a 6% improvement on account of solid growth in core revenues. Excluding net gains from sales of foreclosed assets, total operating income increased by 22% year-on-year.

PNB's total consolidated resources stood at Php1.1 trillion, up Php158.6 billion or 16% from year-ago level. The year's financial results reflect the strength of PNB's franchise in its wholesale and retail businesses.

The Bank's asset quality remained strong with non-performing loan (NPL) ratios of 0.68% net of valuation reserves and 1.99% at gross. NPL coverage on the other hand stood at 118.92%. PNB's consolidated risk-based capital adequacy ratio (CAR) stood at 14.80%, exceeding the minimum regulatory requirement of 10% and Common Equity Tier (CET) 1 ratio at 14.10% by end-2019.

PARTNER NG BAYAN

In 2019, we celebrated our 103rd Anniversary of being a *Partner Ng Bayan* or the partner of every Filipino in their financial journey. It has been a very good year for PNB as we ended the year on a high note.

Apart from growing our core business, PNB revitalized its role in helping build the country's economy by creating opportunities for our clients to grow their business. In 2019, we funded several projects in the power, water supply, and infrastructure industries thereby giving underserved areas access to facilities and/ or improving agricultural activity from the rural areas to the metropolis.

PNB continues to be very active in offering investment opportunities to customers. During the year, we issued Php8.22 billion Long-Term Negotiable Certificates of Time Deposit (LTNCDs), at a coupon rate of 5.750% per annum with a tenor of five years and six months. This is the largest LTNCD issuance of the Bank to date and was 2.7 times oversubscribed. PNB likewise listed its maiden offering for fixed rate Philippine Peso bonds, which reached Php13.9 billion, equivalent to an oversubscription of almost three times the announced issue size of Php5 billion.

Moreover, we issued USD750 million worth of Senior Notes, which is the largest in the Philippine banking history. At orderbook value of over USD3.25 billion, this is likewise the biggest in terms of demand size in Philippine banking history. To commemorate our 103rd Anniversary, we launched a Php12 billion Stock Rights Offering, earning a positive feedback from investors. With the additional capital, we foresee a solid support for our growth strategy in the medium term.

At the overseas front, we explored ways to build our business corridors in the United States, specifically in Los Angeles and New York where our presence is known. We met with U.S. regulators and introduced PNB to several companies to let them know that we are open for business. We also had the opportunity to become part of the Philippine Delegation in President Duterte's visit to Russia. We were able to network with both Filipino and Russian businessmen with the objective of building business corridors between the Philippines and Russia.

Last year, we hosted the 36th Asian Bankers Association Conference and General Meeting. With the theme, *Reshaping the Asian Financial Landscape*, the gathering is the largest conference of its kind in Asia, bringing together more than 150 different decision-makers of peer banks across Asia. We likewise became the official partner of the 30th South East Asian Games held in the country. This momentous event granted us significant exposure, not only with Filipinos, but also the international community. Our Prepaid Card product was issued to 9,000 volunteers where their allowances were credited.

LOOKING FORWARD

For over a century, we have proudly worked with our countrymen through thick and thin, through every financial challenge. Like the Filipino, PNB has overcome many storms with our resilience and passionate spirit.

As a new decade unfolds, 2020 ushers in a landscape filled with potentials for growth. Moving forward, we will continue to strengthen our core business and digital capabilities to make end-to-end banking seamless for customers. We want you to know that PNB is part of your community. We are your *Partners*, your neighbors that will help you with your financial needs. No matter who you are or where you came from, PNB will gladly open its doors as it is the bank that you can always lean on.

On behalf of the top management and all Philnabankers, we thank our customers and business partners for your continued trust and support to PNB.

Maraming Salamat!

(Original Signed)
JOSE ARNULFO "WICK" A. VELOSO
President and Chief Executive Officer

Operational Highlights

RETAIL BANKING

Branch Banking

Branch Banking Group (BBG) ended 2019 with 715 Branches, 507 or 78% of which were renovated to fit the savvy PNB brand. The Bank's Automated Teller Machine (ATM) network in the Philippines rose by 158 or 10%, including Cash Accept Machines (CAMs), producing a total of 1,553 terminals by year-end. In support of the Bangko Sentral Ng Pilipinas' (BSP's) objective of financial inclusion, three (3) branch-lite units were opened to bring banking facilities to far-flung areas or unbanked communities. With the upcoming integration of PNB Savings Bank and PNB, BBG's network is expected to grow by 68 branches and 73 ATMs in 2020.

Anchored on its commitment as a *Partner for New Beginnings*, the Group sustained its *Get-Keep-Grow* mechanism to fuel its sales and marketing efforts with the objective of increasing the Bank's client base, raising its deposit levels, and cross-selling products.

Get schemes include (a) intensified sales programs which ramped up leads generation through expanded mapping activities; (b) awareness campaigns on the Bank's financial products and digital applications; and (c) monthly marketing activities. BBG intensified its cross-selling efforts by strategically tapping potential customers from the Bank's current pool of corporate clients. One of the Bank's product push in 2019, which supports the financial inclusiveness agenda of the BSP, is the *MyFirst* Savings Account. Through the Bank's client-schools, the Group offered *MyFirst* to students teaching them the value of saving.

Moreover, through the *Keep* and *Grow* mechanisms, various system improvements were rolled out in 2019. Chief of this was the migration of passbook accounts to the Bank's digital platforms, allowing clients to easily avail of investment products, loans, e-banking, cash management solutions, and bancassurance products.

715
Branches

3
Branch-Lites

1,553
ATMs & CAMs

Cards Banking Solutions

2019 is another profitable year for the Cards Banking Solutions Group (CBSG) and its credit card business.

Throughout the year, CBSG has been consistent in releasing new product offerings.

In March, the Business Credit Card, a Mastercard-branded payment tool, was launched. The first of its kind in the market, this product provides business owners and/ or entrepreneurs opportunities to pay suppliers online or via Point-of-Sale (POS) terminals. The Business Credit Card also allows its cardholders to avail of cash under flexible installment terms and competitive rates. This cash may be used as capital for expanding their business.

In September, the Personal Installment Card was introduced to the market. Targeting individuals who need cash for immediate spending, this product offers flexible installment terms up to 60 months and competitive rates.

In October, the PNB-PAL Mabuhay Miles Prepaid Mastercard was launched at a prestigious, interactive event graced by the members of the press and social media influencers. The travel destinations which can be visited were showcased during the launch. The Prepaid Card is multi-currency where cardholders can enjoy loading money in up to ten (10) major currencies.

In support of the Bank's digital strategy, CBSG implemented a facility for online credit card application via PNB's internet banking. This allows individuals to apply for a credit card, submit the corresponding requirements, and know the status of their application instantly.

To boost the Bank's reputation as a *Partner for New Beginnings*, a thematic campaign featuring all card products (i.e., Credit, Debit, and Prepaid) was advertised on mainstream television, cable channels, radio stations, cinemas, print ads, and strategic out-of-home sites. With a tagline "*More Ways to Experience More Firsts with PNB Cards*", the campaign demonstrates financial inclusion: that there is a PNB Card for everyone, whoever they are and wherever they may be in the course of their lives. Moreover, in November 30 to December 11, 2019, PNB became the official bank partner of the 30th Southeast Asian (SEA) Games where 9,000 Prepaid Cards were issued to volunteers for crediting of their allowances. Activation and Fan Zone booths were deployed in various locations in the Philippines thereby increasing the public's awareness on the PNB brand.

International Banking & Remittance

International Banking & Remittance Group (IBRG) has a solid network composed of PNB's 71 overseas offices and 123 agents and partners in Asia, Europe, Middle East, and North America. In addition to offering a convenient and safe remittance service, the overseas offices deliver full banking facilities (in selected jurisdictions), overseas bills payment, deposit account opening, corporate credit and trade, and consumer financing facility via the Own a Philippine Home Loan (OPHL), to millions of Filipinos worldwide.

Operational Highlights

71
Overseas Offices

123
Agents & Partners in Asia, Europe, Middle East & North America

Moreover, the overseas branches specifically those located in Hong Kong, Japan, and Singapore, actively conduct financial wellness programs with the objective of educating fellow Filipinos on the importance of savings and investment. This initiative, together with the Pre-Orientation Seminars (PDOS) for OFWs and financial literacy programs for students in the greater Metro Manila area, became a fertile ground for the acquisition of new customers.

Meanwhile, IBRG participated in various local and international events throughout the year to further strengthen the Bank's presence. These included the Seafarer's Convention, the OFW and Family Summit, the Philippine Independence Day Celebration in New York, the Federation of Philippine American Chamber of Commerce International Conference in Chicago, and the Philippine Christmas Festival in Tokyo, among others. The Bank was likewise a key sponsor to a concert of a top-rated Philippine musical variety show in California, attended by thousands of Filipinos from the Bay Area. PNB was also featured in a program shown in The Filipino Channel.

To reinforce PNB's reputation as a *Partner for Noble Breadwinners*, i.e. to the millions of Filipinos overseas, the Group is committed to the Bank's digital strategy through the launch of a mobile remittance application.

Additionally, enhancements to various products and systems managed by IBRG, as well as new partnerships and joint marketing campaigns in the pipeline, are expected to boost the Bank's profitability and growth in the coming years.

Retail Lending

In mid-2019, the Retail Lending Group (RLG) was established as an offshoot of the integration of PNB Savings Bank and PNB with the objective of boosting the consumer loan business through PNB's extensive branch network and wholesale distribution channels.

Housing loan's success throughout the year was driven by the volume of referrals borne by RLG's Broker's Incentive Program. In addition, RLG also launched the Party On-Us Promo, a highly anticipated three-month program ran in September to November, with the objective of generating referrals from real estate developers. On the other hand, several programs were also implemented for the auto loan business to ensure competitiveness in the market.

Believing that people are the most important resources of the Bank, the Group executed a capability program designed to equip colleagues on core credit and consumer lending. A total of 728 participants completed this program by year-end.

The unified efforts of integrating PNB Savings Bank into PNB entails fortification of RLG's sales and support structure and distribution network. Moreover, as a true *Partner for New Beginnings*, the Group continues to fine-tune its backroom operations through various systems, processes, and customer service improvements.

Cash Management Solutions Division

Cash Management Solutions Division (CMSD) delivers end-to-end financial solutions for the Bank's customers. Its main thrust is to drive incremental growth in the Bank's deposits using cash management products as tools.

CMSD implemented a series of improvements in 2019, specifically, for the Bank's payroll product. A bulk account opening facility called the Corporate Account Portal System (CAPS) was launched with the objective of ensuring that the customers' account opening process is simple, seamless, and secure. By automating the account opening process for hundreds to thousands of payroll accounts, customers no longer need to visit the PNB Branches to open their accounts. On July 22, 2019, a Service Excellence Award was earned for the implementation of CAPS and its contribution to process improvement, customer service, and revenue generation.

In addition to CAPS, CMSD introduced an improvement for the collection of cash from the Bank's customers through the launch of Corporate Cash Accept Machine (CCAM). CCAM is an innovative variant of PNB's deposit pick-up product (i.e., Cash Mover).

Products and services managed by CMSD proves its commitment to becoming a true *Partner that Nurtures Businesses* by (a) fostering strategic relationships with customers; (b) positioning the Bank as a financial intermediary for the management and flow of funds for customers; and (c) promoting operational efficiency by launching innovative products and introducing process improvements.

INSTITUTIONAL BANKING

Institutional Banking Sector's (IBS's) consistent and solid performance over the years is backed by the Sector's commitment to being a *Partner for Nation-Building*. IBS continues to be at the helm of deals that strengthen the nation's economy as PNB funded several projects most notably in the power, water supply, and infrastructure industries. In 2019, PNB partially funded the construction and development of a cement-finishing mill in western Mindanao in order to

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service cement requirements in the underserved areas of the Zamboanga Peninsula. Said mill will substantially reduce logistics cost for both contractors and end users alike. The Bank also solely funded the construction of a hydroelectric plant in Central Visayas that fortifies steady power supply to neighboring areas. Additionally, PNB funded the construction of several highways and thoroughfares converging into Metro Manila to further improve agricultural activity from rural regions to the metropolis.

IBS also continues to show strong support towards local government progress as seen through the funding of water supply and distribution systems across several municipalities in Luzon. Such systems will improve water quality and stabilize distribution to underserved areas with limited or intermittent water connections. Projects will also increase growth in pipeline connections thus improving services, facilities, and efficiencies particularly on improving non-revenue water reduction. PNB also financed several infrastructure and development projects that include the construction of multi-purpose courts, public markets, convention centers, and streetlamps in different local government units across the country.

GLOBAL BANKING & MARKETS

Global Markets

Global Markets Group (GMG) is composed of three (3) divisions, namely: Global Markets Sales, Trading, and Asset Liability Management. This dynamic group aims to cater to client needs, manage risks and provide returns, supported by a robust internal control structure.

Global Markets Sales Division developed its core franchise business by amplifying regional customer engagement with emphasis on the middle market segment. In collaboration with other Bank units, the Division established mechanisms by which to better understand customer needs in order to provide an array of tailor-fit banking solutions. These mechanisms resulted in increased client conversion, transaction volume, and recognition. Global Markets Sales Division

was awarded as the Top Securities Broker by the Philippine Dealing System (PDS).

The Trading Division provided suitable pricing to clients, executed by traders with an in-depth understanding of the market. With this, PNB gained ground on its competitors, specifically, on the Fixed Income and Foreign Exchange markets. Both desks were among the top dealers in the industry. In November, the Bank was awarded by the Bureau of Treasury (BTr) as a Government Securities Eligible Dealer (GSED) – Market Maker for 2020. The Trading Division was also recognized by PDS as one of the Top 5 Fixed Income Cash Settlement Banks.

Throughout the year, the Asset Liability Management Division actively managed the seasonal and medium-term liquidity and funding gaps ensuring that resources are available for loans and surplus deposits are effectively deployed. PNB raised Php26.7 billion through bonds and LTNCD issuances; and USD1.0 billion for both the parent bank and Tokyo Branch. Proceeds were utilized to support asset growth initiatives, while ensuring compliance with regulatory ratios. The Asset Liability Management Division's efforts did not go unnoticed. In 2019, PNB received an accolade from The Asset Triple A Country Awards in Hong Kong as the Best FIG Bond in the Philippines for its USD750 million bond issuance.

As a formidable *Partner that Nurtures Businesses*, the Group aims to sustain its growth targets by: (a) driving its franchise business; (b) maintaining strong internal controls; and (c) delivering efficient liquidity and funding support.

Financial Institutions

Amid very competitive market conditions in 2019, the Sector's Financial Institutions Division (FID) sustained the growth momentum by building and deepening relationships with its corporate clients, local banks, and foreign banks. Aiding in sourcing alternative funding for PNB, FID also tapped the credit facilities provided by foreign banks, on top of the local banks on-lending programs. FID continued to be a net fund provider for the Bank.

Through FID initiatives, PNB fulfills its role as a reliable financial partner of government agencies. For tax payments to the Bureau of Internal Revenue (BIR), the Bank accredited 208 PNB Branches as collecting agents, for a total of 522 branches. Likewise, the full automation of BIR payment acceptance has led to zero delays in the transmission of reports and eliminated penalty charges for the customer.

Meanwhile, PNB's unwavering support to serve Filipino pensioners was recognized by the Social Security System (SSS) in 2019 when the agency awarded the Bank as "Best Paying Bank" in its "Kabalikat ng Bayan" awards program.

FID will march forward in 2020 as a dependable *Partner that Nurtures Businesses*, providing banking solutions for various bank and non-bank financial

Operational Highlights

institutions while helping the Philippine government deliver financial services to Filipinos.

Multinationals

On the fourth quarter of 2019, the Global Banking & Markets Sector established the Multinationals Division to serve the financial requirements of the continuously growing market segment comprised of multinational companies (MNCs), primarily, business process offshoring (BPO) firms and companies in the special economic zones.

The Multinationals Division focused its efforts on identifying potential clients and collaborating with the Bank's business and support units to develop tailor-fit corporate financial solutions such as cash management, foreign exchange, term deposits, and supplier/receivables financing.

As global companies begin to experience the PNB brand through the Multinationals Division, the Global Banking & Markets Sector is on its way to fulfilling its purpose of being a *Partner that Nurtures Businesses*.

TRUST BANKING

PNB's Trust Banking Group (TBG) offers a full range of products and services designed for a broad spectrum of market segments. Its personal trust products and services comprise of escrow, estate planning, guardianship, investment management, life insurance trust, and personal management trust.

Corporate trust products and services, on the other hand, include administration of employee benefit plans, corporate trusteeship, pension and retirement plans, portfolio management, securitization, and trust indenture. Other fiduciary services are composed of roles such as bond registrar, collecting and paying agent, escrow agent, loan facility agent, share transfer agent, and receiving bank.

To address the investment requirements of clients, specifically retail investors, TBG offers a wide array of Unit Investment Trust Funds (UITFs). For conservative investors, PNB offers the PNB Prime Peso and Dollar money market funds which are purely invested in

To support PNB's innovation strategy, TBG launched the Philippines' first end-to-end, fully automated UITF Online Facility.

deposit instruments and provides better returns than time deposits.

For moderately aggressive investors, it has the PNB Balanced Fund, suitable for investors who want the best of both worlds: the high growth potential of the equities market and the stability and income-generating capability of fixed income instruments.

For more aggressive investors who want to invest in the local stock market, the bank offers the PNB High Dividend Fund (HDF). Its portfolio is invested in listed companies belonging to the Philippine Stock Exchange (PSE) that have an established history of paying dividends and have high dividend yields.

Lastly, PNB TBG also offers the PNB Phil-Index Tracker Fund, which aims to invest in all of the securities that make up the Philippine Stock Exchange Index (PSEi), using the index weighting in order to track/mimic its performance.

These funds are managed by a team of professional fund managers who have a wealth of training and experience under their belts.

To support PNB's innovation strategy, TBG launched the Philippines' first end-to-end, fully automated UITF Online Facility. This system allows clients to enroll, invest, and redeem funds through the internet or mobile phones, eliminating the need to visit a PNB Branch. With this facility in place, clients conveniently open an Auto Invest Plan (AIP) with PNB where a portion of their savings can be allocated to their PNB UITF product of choice.

Moreover, in line with the Bank's thrust on financial inclusion and financial literacy, various investor forums in key provincial cities such as Bacolod, Baguio, Cagayan de Oro, Iloilo, and Legazpi were rolled out by the Group throughout the year. Financial literacy seminars were also conducted for the Overseas Filipino Workers (OFWs) in Hong Kong, Japan, and Singapore as campaign to encourage OFWs in developing a habit of investing their hard-earned money. These activities are a testament to TBG's commitment as a bona fide *Partner for New Beginnings*.

TBG has, time and again, positioned itself as a major player in the trust banking industry through its personalized service, superior products, and a highly skilled workforce capable of meeting the needs of the country's dynamic market.

WEALTH MANAGEMENT

The Wealth Management Group is the investment distribution group of the bank that caters to individuals (High Net Worth and Retail) who want to make the most out of their wealth. The Group helps clients plan for their financial future by working closely with them in developing a diversified investment portfolio based on clients' financial condition, risk tolerance, sophistication and knowledge of financial markets and products. It offers various investment products including fixed income securities (government and corporate securities), mutual funds, UITF, single pay

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insurance and other investment vehicles. By leveraging on the Research Group of the Bank, the Group will continue to offer the best investment ideas to clients.

True to its commitment of being a *Partner for Noble Breadwinners*, the Group also began to offer products and services to the Bank's overseas clients specifically those of PNB Singapore and PNB New York, encouraging them to place their hard-earned money in suitable investments.

PNB SAVINGS BANK

In 2019, PNB Savings Bank (PNBSB), the consumer lending arm of PNB, undertook activities in preparation for its integration into its parent bank. The integration is a major step PNB has taken to deliver a more efficient banking experience to customers of both banks. PNBSB will benefit from the parent bank's ability to efficiently raise low-cost funds, while PNB will be able to drive profitability better through the consumer loan portfolio of PNBSB.

Key deliverables for the integration were completed to ensure a seamless transition for PNBSB's customers and employees. These activities included, among others, the harmonization of operational processes and credit policies; finalization of tables of organization and alignment of products and services; data migration and updating of customer information; and communication to internal and external stakeholders.

Meanwhile, PNBSB's consistent efforts to provide customers with innovative products and services were recognized once again by the Asian Banking and Finance in the 2019 Retail Banking Awards in Singapore. The savings bank received the Service Innovation of the Year award for its SME Power Pack product - an integrated business solutions package that includes a comprehensive payroll program, accounting system, and check-writing facility.

PNBSB is expected to be fully integrated into PNB within the first half 2020.

Awards and Recognitions

The Asset Triple A Country Awards

PNB received an award for “Best FIG Bond-Philippines”, recognizing our USD750 million fixed rate notes issued in June 27, 2019. The deal marked the Bank’s successful return to the offshore bond market with the largest offering size from the Philippine banking sector. The proceeds of the Notes are being used to support our loan growth, as we focus on opportunities brought by the positive momentum of the Republic of the Philippines’ economic growth.

SSS Balikat ng Bayan Awards

Social Security System (SSS) recognized PNB as its “Best Paying Commercial Bank” partner during the 2019 Balikat ng Bayan Awards. We have been consistently a reliable partner in providing diverse banking services to SSS and its members.

Asian Banking and Finance Retail Banking Awards

PNB scored two awards from the Asian Banking & Finance’s Retail Banking Awards. The Bank’s subsidiary, PNB Capital and Investment Corporation, won the “Best Debt Deal of the Year – Philippines” for its key role in the issuance and listing of Phoenix Petroleum Philippines Inc.’s Php7 Billion Commercial Papers on the Philippine Dealing and Exchange Corp. (PDEx). Meanwhile, PNB Savings Bank was cited as the “Service Innovation of the Year” for its SME Power Pack product.

Awards and Recognitions

ASEAN Corporate Governance Scorecard (ACGS) Arrow

PNB was recognized for the second straight year by the Institute of Corporate Directors (ICD) for being one of the awardees of its ASEAN Corporate Governance Scorecard (ACGS) Arrow for 2018.

Anvil Awards

The Public Relations Society of the Philippines (PRSP) recognized PNB with three Silver Anvils during the 54th Anvil Awards' Gabi ng Parangal. The Bank won for our Customer Appreciation Events 2018 under the PR Tools category for Exhibit and Special Event. Meanwhile, PNB's affiliate, Allianz PNB Life, won two Silver Anvils: for its Annual Report under the PR Tools category for Publications and for its 'Dare to be Fit' program under the category for Programs Directed at Specific Stakeholders.

Philippine Quill Awards

PNB and its life insurance affiliate, Allianz PNB Life, was honored by the International Association of Business Communicators (IABC) with four awards during the 17th Philippine Quill Awards. PNB was cited for its internal electronic newsletter, PNBlog, which won an Award of Merit in the Publication category. On the other hand, Allianz PNB Life won two Awards of Merit for its "Day of Courage" event (Special and Experiential Events category) and its "Dare 2B Fit" campaign (Employee Engagement category). Its "Project Sanlahi" received an Award of Excellence (Corporate Social Responsibility category).

Plans for 2020

PNB will continue its overall Safe, Aggressive, Profitable Growth strategy in 2020. Its brand promise, "*You First,*" will be the anchor in all customer-centric endeavors. In the crafting of the strategies for its specific business segments, PNB will be mindful of its corporate goal of being an active partner of the government in nation-building. Having a strong presence in the provinces, PNB is well positioned to help bring about financial inclusion that will improve the lives of the Filipinos in the countryside. In this regard, the Bank plans to establish additional branch-lite units in the provincial areas.

PNB will sustain the growth of its corporate book as well as its commercial banking business where the Bank is already strong. Alongside, the Bank will build its consumer finance business within the next few years by accelerating the growth of this segment together with small- and medium-sized enterprises (SME) lending in all branches around the archipelago. By folding in its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB) to the Parent Bank, PNB will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNBSB will have access to the Bank's wide array of financial solutions.

PNB will also leverage on the capabilities of its international network by booking more consumer finance products such as "Own a Philippine Home Loan", a unique product that PNB can offer overseas.

To address the customer's evolving needs, the Bank will further enhance its products and services across multiple channels by strengthening its digital technology capability to make end-to-end banking seamless for the customers.

While pursuing initiatives that will drive business and profitability, PNB will ensure that a strong corporate governance and risk management framework are in place to support sustainability goals.

Message from the Board Audit and Compliance Committee Chairman

EDGAR A. CUA
DIRECTOR

The Board Audit and Compliance Committee of the Philippine National Bank is a standing Committee of the Board of Directors. The Committee has prepared this Annual Report with the purpose of evaluating its operations and organization in 2019.

For the year 2019, the Committee was composed of three (3) members, who are all Independent Directors and are highly qualified business professionals with excellent educational credentials and hold a broad range of expertise in the areas of accounting, auditing, financial management, and related banking practices that provide value to the strengthening and upholding of good governance practices in the Bank.

During the year, the Committee held 18 meetings – 12 regular meetings and 6 special meetings wherein the Committee ensured the fulfillment of its duties and responsibilities to:

- Oversee the financial reporting framework to ensure generation and preparation of accurate and comprehensive information and reports;
- Ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management is conducted at least annually;
- Ensure that a review of the effectiveness of the institution's internal controls, including financial, operational and compliance controls, and risk management is conducted at least annually;
- Oversee the compliance, internal, and external audit functions;
- Oversee the implementation of corrective actions in a timely manner to address issues identified by auditors and other control functions;
- Investigate significant issues or concerns raised;
- Establish and maintain whistleblowing mechanism to ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

The Committee also had a separate meeting with external auditors, without anyone from Management present, as mandated by BSP Memorandum 2014-11 and BSP Circular 969.

The Chief Audit Executive provided an independent, objective assurance, and consulting activities to the Committee, the Board of Directors, and the Senior Management that, based on the overall evaluation by the Internal Audit Group, the Bank's risk management, internal control, and governance processes is Satisfactory as Bank's units' rating profile remained concentrated at Low Risk. Furthermore, the Bank's compliance framework is effective and dynamic as there is no significant regulatory deviations noted by the Chief Compliance Officer based on the compliance assessment, review, testing, and monitoring on the implementation of policies, laws, and regulations.

With the robust governance of the Board of Directors and Senior Management in promoting high ethical and integrity standards; establishing appropriate culture that emphasizes, demonstrates, and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud, the Committee is highly confident that the internal control environment of the Philippine National Bank remains effective and dynamic in responding to risks within the organization's risk management, governance, operations, information and compliance systems that provide reasonable assurance on the attainment of its business objectives.

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EDGAR A. CUA
Board Audit and Compliance Committee Chairman

Message from the Board IT Governance Committee Chairperson

VIVIENNE K. TAN
DIRECTOR

The Board IT Governance Committee (BITGC) was created and approved by the Board of Directors on April 10, 2014. BITGC's mission is to assist the Board in performing its oversight functions in reviewing, approving, and monitoring the IT Risk Management Framework and IT Strategic Plan of PNB.

In May 2019, the Bangko Sentral ng Pilipinas (BSP) acknowledged that one of the strong areas and recognizable improvement of 2019 were in the areas of IT governance and operations.

The BITGC remains committed in sustaining the 2019 milestones by continuing to enforce and monitor IT performance metrics to ensure a stable and robust IT governance and risk management.

The Bank's Information Technology Group (ITG), with the guidance of the BITGC, commits to continually align and improve its services to meet the business' service expectations.

Major Technology Initiatives for 2019

Organizational Transformation. ITG is now on its second year of transformation program for the continuous improvement of its processes and service delivery. Part of the program includes identifying experienced and knowledgeable business relationship managers with sound project management skills that supported various projects in 2019.

People Training. Significant progress was made in ensuring skills of the ITG employees, its most critical resource, are appropriately addressed to keep abreast with the changing technology landscapes and to support the ongoing process improvement initiatives. In 2019, the Bank has invested in training programs focusing on system & database administration, application & system engineering, service quality management, and cybersecurity programs, affirming PNB's strong commitment and support in transforming ITG into a service-oriented, technology capable, and goal-driven organization.

Process Improvements. The main objective of the process transformation program is to transition the ITG organization to a level of maturity that is anchored on industry standards and best practices while supporting the business strategic goals. In 2019, enhanced guidelines and processes were delivered covering strategic planning, project management, service availability and capacity, IT risk management, and outsourcing.

System Stability. As a key enabler for business, it is the responsibility of ITG to provide and sustain adequate resources that will enable the Bank to support its growing business. In 2019, ITG was able to maintain resource capacity for all computing platforms within industry-accepted thresholds. Close monitoring of this key performance indicator is being performed and reported to the Technology Management Committee regularly.

Operational Level Commitment. Significant improvements were noted in the service operations area in terms of meeting service level deliveries. Clear, simple, and standard service levels were identified, defined and agreed with the business units to facilitate measurement of key performance metrics and areas for improvement. To manage and minimize business disruptions, ITG continued to implement the approved "green zones" where changes to production systems are authorized to be implemented. Change management process also sustained collaborative review checkpoints and impact analysis to mitigate or address potential implementation risks.

Digital Innovation. PNB continued to pursue digital transformation, focusing on innovation and simplicity, business process re-engineering, and customer experience.

System Enhancements. ITG remains committed to support the enhancements of the Bank's systems development ensuring timely delivery to fulfill the changing business requirements and manage customers & users' expectations.

New Systems. Several system development and acquisition projects under the 2019-2020 Strategic Plan are in the pipeline including Cash Management System (CMS), Treasury Management System, Asset & Liability Management (ALM), and Integrated Management Information System (IMIS). These are expected to be delivered within the first half of 2020.

Infrastructure & Cybersecurity Investments. PNB continues to pour in major investments on its network communications, server-storage infrastructure, and cybersecurity systems in line with its annual technology refresh to support, sustain, and strengthen the Bank's operational efficiencies and user experience. PNB also upgraded its IBM mainframe from Model Z13 to Model Z14 with dual processors, which hosts its core banking system, enabling faster encryption & additional workload capacity requirements. In addition, ITG invested in open systems capacity-on-demand storage provisioning subscription services to reduce IT capital expenditures. Phase 2 of the enterprise endpoint & server security protection were implemented to fully support the encryption, management control, security and patching requirement for the entire organization.

Productivity and Operational Efficiency. In September 2019, ITG completed the rollout of Office 365 suite as the standard productivity, email & collaboration tools to all users in both domestic and overseas offices, replacing Open Office and Lotus Notes.

Business Continuity. ITG continued to support the requirements for business continuity by investing in virtual tape & solid-state storage backup systems, dark fiber links, dual links for branches, and conducting various tests for both domestic and overseas branches, ensuring that their Business Continuity Planning (BCP) objectives are met in terms of data recovery, business restoration, and availability of critical system.

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VIVIENNE K. TAN
Board IT Governance Committee Chairperson

Message from the Board Oversight RPT Committee Chairman

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DOMINGO H. YAP
DIRECTOR

As part of a large, diversified conglomerate with a strong presence and a dominant position in key Philippine industries, we recognize that conflicts of interest may arise due to dealings and transactions with related parties. We remain steadfast and committed to conducting PNB's affairs with objectivity, fairness, and integrity. As a matter of policy, Related Party Transactions (RPTs) must always be conducted on an arm's length basis to prevent risks of potential abuse.

Although the Organization for Economic Co-operation and Development (OECD) claims that there is no strong definition of 'related parties', the Bangko Sentral Ng Pilipinas (BSP), for purposes of monitoring such transactions has defined related parties as encompassing the following: (a) the bank's subsidiaries as well as affiliates and any party that the bank exerts direct or indirect control over or that exerts direct or indirect control over the bank; (b) the bank's directors, officers, stockholders, and related interests; (c) and their close family members, as well as corresponding persons in affiliated companies. This shall include such other person or juridical entity whose interest may pose potential conflict with the interest of the financial institution and, hence, is identified as a related party.

In accordance with PNB's policy, RPT dealings must be treated in the normal course of business, on an arm's length basis. This means that RPTs are undertaken in the same manner as similar transactions with non-related parties. No corporate or business resource of the Bank is to be misappropriated or misapplied and sound judgment must always be exercised for the Bank's best interests. Material RPTs are reviewed and endorsed by the Board Oversight RPT Committee (BORC) to the Board of Directors for notation and approval.

In this light, PNB ensures that individual and aggregate exposures to related parties are within prudent levels; consistent with defined limit; monitored through independent reviews by the Internal Audit Group and Global Compliance Group; and covered by disclosures and reportorial requirements.

Board members are required to disclose to the Board of Directors if they directly, indirectly, or on behalf of third parties, have financial interest in any transaction or matters affecting the Bank. Directors and officers involved in possible conflicts of interest shall inhibit themselves from the decision-making process and abstain from participating in the discussion, approval, and management of such transactions or matters affecting PNB. The BORC may inform the Corporate Governance and Sustainability Committee of the directors' or officers' actual potential conflicts of interest with the Bank, as necessary.

The following critical factors are to be considered in the evaluation of RPTs: (a) the related party's relationship to the Bank and interest in the transaction; (b) the material facts of the proposed RPT, including the proposed aggregate value of such transactions; (c) the benefits to the Bank of the proposed RPT; (d) the availability of other sources of comparable products or services; and (e) the comparative assessment between the proposed RPT and similar non-related party transactions.

Accomplishments in 2019

Established in 2019, the BORC continues to assist the Board of Directors in performing its oversight functions on monitoring and managing potential conflicts of interests, ensuring that exposures to related parties are effectively managed, and appropriate steps to control or mitigate the risks and write-offs of such exposures are made according to standard policies and processes.

On a periodic basis, the BORC performs its critical function of reviewing and approving the guidelines for appropriate handling of RPTs, consistent with existing laws, rules and regulations, and global best practices. Our RPT Policy Framework has five (5) key elements designed to promote good governance: (a) well-defined Board and Senior Management oversight; (b) updated and Board-approved policies and procedures; (c) enterprise-wide RPT training program; (d) robust management information system (MIS) reporting; and (e) effective assessment and monitoring system.

The Committee is composed of five (5) regular members, including three (3) independent directors, and two (2) non-voting members, the Chief Audit Executive and the Chief Compliance Officer. The Global Compliance Group acts as the secretariat to handle the administrative requirements of the Committee.

In 2019, BORC held a total of thirteen (13) meetings. The Committee's charter stipulates that monthly meetings shall be conducted or as necessary to properly perform its duties and responsibilities. Meetings can only be held if attended by majority of the members less one member; but the vote of majority of the quorum which, in no case is less than two members, is required to approve any act in all Committee meetings.

Meanwhile, the Securities and Exchange Commission (SEC) has issued Memorandum Circular No. 10, Series of 2019, promulgating the Rules on Material Related Party Transactions for Publicly Listed Companies (the "Rules") which took effect on April 2019. According to the Circular, a material RPT refers to transfer of resources, services, or obligations between a publicly-listed company and a related party, either individually or over in an aggregate 12-month period with the same related party, amounting to at least 10% of the listed company's total assets based on its latest audited financial statement and regardless of whether a price was actually charged. It includes not only transactions that are entered into with related parties, but also outstanding transactions that are entered into with an unrelated party that subsequently becomes a related party.

Subsequently, the Committee has reviewed our RPT Policy Manual (the "Manual") to align with the pertinent provisions of the newly issued SEC regulation. The Manual contains new provisions on the following, among others: (a) identification of related parties; (b) coverage of material RPT Policy; (c) adjusted thresholds; (d) identification and prevention or management of potential or actual conflicts of interest which may arise out of or in connection with material RPTs; and (e) guidelines in ensuring arm's length terms.

In 2020, the Bank shall continue to fulfill its commitment to be a responsible financial institution, bound by principles of equality, fairness, and impartiality.

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DOMINGO H. YAP
Board Oversight RPT Committee Chairman

Message from the Board Strategy & Policy Committee Chairman

FELIX ENRICO R. ALFILER
VICE-CHAIRMAN/DIRECTOR

Cognizant that the strategic planning is critical to the Bank's long-term success, the Board Strategy and Policy Committee (BSPC) was formed to assist the Bank's Board of Directors in performing its oversight duties with respect to the development and implementation of the Bank's strategic business plan and the risks associated with such plan. The Committee is tasked to foster an interactive strategic planning process between the Board and Management to ensure that the execution of approved strategies is consistent with the Bank's overall objectives and resources are adequate to pursue the Bank's initiatives. Likewise, the BSPC makes certain that the Bank's operations, procedures, policies, risk appetite, capital program, and investments in human resources and technology are all consistent and focused in achieving the Bank's strategic objectives.

In carrying out its oversight responsibilities in strategic planning, the BSPC reviews and discusses with Management the Bank's strategic direction as well as the key issues and external developments impacting the Bank's strategies. The BSPC meets with Management on a regular basis to monitor the Bank's progress with respect to implementation of any approved strategy and regularly apprises the Board on this.

As part of its oversight on the adoption and implementation of the Bank's Board-approved Internal Capital Adequacy Assessment Process (ICAAP) and Recovery Plan, the BSPC reviews, evaluates, approves, and endorses for Board approval the policies and procedures pertaining to the capital planning and risk assessment, stress testing framework, options to improve the Bank's capital adequacy, and possible equity investment or divestment of the Bank.

In 2019, the BSPC included in its sessions economic updates that may impact the Bank's operations and strategies. Topics such as the Rice Tarrification Law, TRABAHO Bill, China-US trade wars were discussed. Likewise, the BSPC discussed trends and innovations in the banking industry including developments that could disrupt traditional banking services. Topics on digital trends were tackled in line with the Bank's digitization strategy. Advancing the technological capabilities of the Bank that would support the goal of growing the business across multiple channels continued to be a primary initiative undertaken during the year.

To ensure that the implementation of strategies is on track, the BSPC conducted progress reviews with the Bank's business and support groups and its subsidiaries in 2019. Taking these steps had provided the BSPC the capability of seeing specific and measurable improvement in multiple areas that enabled the Committee to sustain the Bank in its safe and aggressive growth path. Decisions to continue or change certain strategies as well as implement new projects and programs were done in a timely and effective way. Alongside, manuals were consistently reviewed and revised in order to ensure the efficiency of the Bank's processes and flexibility to the changes in the regulatory environment.

More importantly, the BSPC discussed the plans for the timely and effective generation of resources, whether through capital raising or borrowing to ensure that the Bank's asset growth is consistent with the objective of maintaining its status as the fourth largest Philippine bank. Along this line, the Bank successfully issued and listed 276,625,172 common shares priced at Php43.38 per share from its stock rights offering in July 2019. Proceeds from the offering strengthened the Bank's CET1 capital, thus further solidifying its capital adequacy and financial strength. The strong capital positioned the Bank to support its critical strategic growth initiatives including expanding its balance sheet to meet increased demand from the growing Philippine economy across the Bank's target markets.

The BSPC also provided oversight on the Bank's domestic and foreign subsidiaries, specifically on the integration of its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB) to the Parent Bank effective March 1, 2020. The integration will result in capital optimization as the excess capital in the savings bank can be utilized by PNB to accelerate its asset growth while continuing the strategy of growing consumer lending. The consumer lending business will likewise benefit from PNB's ability to raise low cost funding due to a much bigger retail customer base.

As the changing financial landscape brings forth new business opportunities for the Bank and at the same time gives rise to regulatory, legal, security and reputational challenges and risks, the BSPC will remain steadfast in fulfilling its role as the overseer of PNB's strategies and policies. The Committee will relentlessly be on the look-out for disruptive financial technologies to incorporate in the Bank's strategic plans, ensuring that the Bank remains in its growth trajectory.

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FELIX ENRICO R. ALFILER
Board Strategy and Policy Committee Chairman

Capital Structure and Adequacy

The Group's consolidated capital adequacy ratio were 14.80%, 14.35% and 15.35% as of December 31, 2019, 2018, and 2017 respectively, which are well above the minimum 10% required by BSP. The following table sets the regulatory capital as reported to BSP as at December 31, 2019, 2018, and 2017 (amounts in millions):

	Consolidated			Solo		
	2019	2018	2017	2019	2018	2017
Common Equity Tier 1 (CET1) Capital	**146,808**	**121,744**	**112,345**	**144,654**	**117,541**	**108,606**
Common stock	61,031	49,966	49,966	61,031	49,966	49,966
Additional Paid In Capital	32,107	31,331	31,331	32,107	31,331	31,331
Retained Earnings	48,835	40,887	32,797	50,231	40,372	32,336
Other comprehensive income	1,971	(3,335)	(4,358)	1,286	(4,128)	(5,027)
Undivided profits	-	-	-	-	-	-
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned (for consolidated basis)	2,864	2,895	2,609	-	-	-
Regulatory Adjustments to CET1 Capital	**22,303**	**22,110**	**23,401**	**47,960**	**46,665**	**47,409**
Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	2	1	2	2	1	2
Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	937	782	2,264	937	782	2,264
Deferred tax assets	1,581	1,503	1,501	976	974	974
Goodwill	13,516	13,516	13,516	13,516	13,516	13,516
Other intangible assets	2,794	2,979	2,740	2,718	2,893	2,652
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable)	-	-	-	26,170	25,014	24,457
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable)	673	434	527	840	590	692
Significant minority investments (10%-50% of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	2,798	2,893	2,849	2,799	2,893	2,850
Other equity investments in non-financial allied undertakings and non-allied undertakings	2	2	2	2	2	2
TOTAL COMMON EQUITY TIER 1 CAPITAL	**124,505**	**99,634**	**88,943**	**96,694**	**70,876**	**61,196**

Capital Structure and Adequacy

	Consolidated			Solo		
	2019	2018	2017	2019	2018	2017
Additional Tier 1 Capital (AT1)	-	-	-	-	-	-

	Consolidated			Solo		
	2019	2018	2017	2019	2018	2017
TOTAL TIER 1 CAPITAL	**124,505**	**99,634**	**88,943**	**96,694**	**70,876**	**61,196**
Tier 2 (T2) Capital	**6,183**	**5,882**	**4,697**	**5,564**	**5,079**	**4,229**
Appraisal increment reserve – bank premises, as authorized by the Monetary Board	292	292	292	292	292	292
General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	5,891	5,590	4,405	5,272	4,787	3,937
Regulatory Adjustments to Tier 2 capital	-	-	-	-	-	-
Total Tier 2 Capital	**6,183**	**5,882**	**4,697**	**5,564**	**5,079**	**4,229**
TOTAL QUALIFYING CAPITAL	**130,688**	**105,516**	**93,640**	**102,258**	**75,955**	**65,425**

Risk Weighted Assets

The risk-weighted assets of the Group and Parent as of December 31, 2019, 2018 and 2017 are as follows:

	Consolidated			Solo		
	2019	2018	2017	2019	2018	2017
Total Risk Weighted On-Balance Sheet Assets	713,284	614,662	527,832	637,724	539,922	467,534
Total Risk-Weighted Off-Balance Sheet Assets	31,435	34,166	23,936	30,838	34,022	23,881
Total Counterparty Risk-Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions)	2,139	3,376	3,256	2,139	3,376	3,256
Total Counterparty Risk-Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions)	1,016	870	801	993	840	763
Total Risk-Weighted Amount of Credit Linked Notes in the Banking Book	-	-	-	-	-	-
Total Risk-Weighted Securitization Exposures	-	-	-	-	-	-
General loan loss provision [in excess of the amount permitted to be included in Upper Tier 2]						
Total Credit Risk Weighted Assets	747,874	653,074	555,825	671,694	578,160	495,434
Market Risk Weighted Assets	80,683	33,709	9,980	79,128	33,563	9,910
Operational Risk-Weighted Assets	54,498	48,549	44,401	46,127	41,365	38,428
Total Risk Weighted Assets	**883,055**	**735,332**	**610,106**	**796,949**	**653,088**	**543,772**

Capital Adequacy Ratios

	Consolidated			Solo		
Capital Ratios	2019	2018	2017	2019	2018	2017
CET1 Capital (BASEL III)	14.10%	13.55%	14.58%	12.13%	10.85%	11.25%
Capital Conservation Buffer	8.10%	7.55%	8.58%	6.13%	4.85%	5.25%
Tier 1 capital ratio	14.10%	13.55%	14.58%	12.13%	10.85%	11.25%
Capital Adequacy Ratio	**14.80%**	**14.35%**	**15.35%**	**12.83%**	**11.63%**	**12.03%**

ICAAP & Capital Adequacy Ratio Report

The Bank's consolidated Qualifying Capital (QC) as of December 31, 2019 stands at P130,688 million with a corresponding Capital Adequacy Ratio (CAR) of 14.80%. The current consolidated QC still provides a good and sufficient margin above the minimum regulatory capital requirement of P88,306 million, 10% of the bank's P883,055 million Risk Weighted Assets (RWA).

Figure 1: PNB Consolidated CAR 2019

PNB - Consolidated (in P Million)	As of date indicated			
	Mar-19	Jun-19	Sep-19	Dec-19
Total Qualifying Capital	109,187	112,275	126,687	130,688
CAR	13.98%	14.00%	14.58%	14.80%
CET 1/Tier 1 Ratio	13.23%	13.23%	13.78%	14.10%
Total RWA – Pillar 1	781,097	801,963	868,755	883,055

Under SOLO basis, current QC of Php102,258M and CAR of 12.83% still has 283bps leeway above the regulatory of Php79,695M to cover the PHP796,949M Risk Weighted Assets (RWA) as of December 31, 2019.

Figure 2: PNB Solo CAR 2019

PNB - Solo (in P Million)	As of date indicated			
	Mar-19	Jun-19	Sep-19	Dec-19
Total Qualifying Capital	79,444	83,469	98,326	102,258
CAR	11.51%	11.72%	12.55%	12.83%
CET 1/Tier 1 Ratio	10.77%	10.97%	11.72%	12.13%
Total RWA - Pillar 1	690,221	712,393	783,233	796,949

Message from the Risk Oversight Committee Chairman

FEDERICO C. PASCUAL
DIRECTOR

Philippine National Bank (PNB) is accountable to all its stakeholders – regulators, shareholders, employees, and customers - to whom the Bank maintains its goals of profitability, sustainable development, and social responsibilities.

The Bank operates in a highly regulated business environment, where changing conditions and uncertainties also create opportunities for the entire organization. As the global markets remain volatile, the emphasis on the oversight of key risks is of utmost importance. The Board closely reviews the risk management framework, engages in defining the organization's risk appetite, continually assesses its risk profile, and ensures that risk thresholds are regularly monitored. Business results are continually evaluated against business objectives while keeping within an effective risk control environment.

PNB follows a strong Enterprise Risk Management Framework (ERM) and consistently maintains high standards of internal controls and risk management processes against the Bank's risk appetite. The same framework is used to ensure the optimizing of the risk / return ratio through the monitoring processes against limits and thresholds. Risk awareness is present at all levels of the Bank and is embedded in our core values. The concept of the 3 lines of defense (3LoD) for good risk management has been deeply ingrained in the PNB culture.

In 2019, the Risk Oversight Committee (comprised of 6 Directors and 3 Independent Directors) met 15 times to discuss the Bank's risk exposures from the identified material risks against the Bank's Strategy.

2019 was characterized by significant milestones: (1) Creation of the Independent Model Validation Team within the Risk Management Group. This strengthens oversight on the growing use of mathematical models within the Bank; (2) Initiation of a Governance, Risk, and Compliance (GRC) System to replace the Bank's Treasury System, and purchase of an Asset/ Liability Management (ALM) System, which will allow further oversight into the Bank's Operations; and (3) Strengthening of the technology service delivery and the Business Continuity Plan (BCP) process to ensure continued service to clients and stakeholders.

The Committee continues to keep a tight rein on the increasing risks under the context of new product and service offerings, as well as emerging trends on risks. The Bank's response is characterized by increased diligence in identifying risks, compliance to the changing regulatory environment, and the emergence of cyber security as a priority focus of awareness and risk mitigation. Moving forward into 2020, the Committee will continue to emphasize that *Risk is everyone's businesses*.

(Original Signed)
FEDERICO C. PASCUAL
Risk Oversight Committee Chairman

Risk Management Disclosure

GRI 102-11, 102-15, 102-30

INTRODUCTION

A clear understanding of risks surrounding the business activities is crucial for any organization to create sustainable stakeholder value in executing its strategies. Therefore, it is essential to reinforce the overall strategy of an organization with a prudent risk management framework so that the opportunities are optimized while minimizing the effects of downside risks.

PNB, as one of the leading financial institutions in the country, with various allied undertakings and with an international footprint, performs a vital role of financial intermediation in the economy and in each of the communities it serves. With evolving global best practices standards towards continuing financial stability and resilience, we remain committed to comply with the regulatory guidelines and legislative framework in each of the jurisdictions in which we operate.

The nature and the impact of future changes in laws and regulations are not always predictable. These changes have implications on the way our business is conducted and with corresponding potential impact to capital and liquidity.

RISK GOVERNANCE

A disciplined risk management culture and framework facilitates oversight of and accountability for risk at all levels of the organization and across all risk types. Our Board of Directors, through the Risk Oversight Committee (ROC), exercises oversight and provides guidance to our experienced Senior Management Team who works closely with their respective units in managing risk. There is a rich risk culture, which seamlessly flows through not only within the Bank, but also across the Group subsidiaries and affiliates.

The Board of Directors has delegated specific responsibilities to various Board Committees, which are integral to PNB's risk governance framework and allow executive management, through Management Committees, to evaluate the risks inherent in the business and to manage them effectively.

Strong independent oversight has been established at all levels within the Bank. Figure 1 below provides a list of the Board Committees and Management Committees. Their corresponding functions, roles and responsibilities are highlighted in the Corporate Governance portion of this Annual Report.

Executive officers are assigned to various Management Committees that provide the leadership and execution of the vision and policies approved by the Board of Directors. Business strategies are driven, for the most part, by the day-to-day directions decided by the Management Committees with approvals and notation by the various Board Committees.

Risk Management Disclosure

Figure 1: Board & Management Committees

BOARD OF DIRECTORS	PRESIDENT & CEO
• Board Audit and Compliance Committee (BACC)	• Acquired Asset Disposal Committee (AADC)
• Board Information Technology Governance Committee (BITGC)	• Accreditation of Overseas Remittance Agent – Selection of Expatriate Personnel and Branch Site (Overseas Offices)
• Board Oversight Related Party Transaction Committee (BORPTC)	• Anti-Money Laundering Review Committee
• Board Strategy & Policy Committee (BSPC)	• Asset and Liability Committee (ALCO)
• Corporate Governance Committee (CorGov)	• Asset Disposal Committee (Head Office)
• Executive Committee (EXCOM)	• Asset Liability Committee / Capital Management Sub-Committee of ALCO
• Risk Oversight Committee (ROC)	• Branch Site Selection Committee (Domestic Branches)
• Trust Committee	• Capital Management Sub-Committee of ALCO
	• Committee on Decorum and Investigation
	• Ethical Standards Committee (ESC)
	• IT Evaluation Committee (ITEC)
	• Management Committee (MANCOM)
	• Occupational Safety, Health and Family Welfare Committee (OSH-FW)
	• Operations Committee (OPCOM)
	• Procurement Committee
	• Product Committee
	• Promotion Committee(s)
	• Sectoral / Regional Credit Committee(s)
	• Senior Management Credit Committee (SMCC)
	• Technology Committee (TechCom)

Risk Oversight Committee (ROC)

PNB's Board Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to Management.

The risk management policy includes:

- a comprehensive risk management approach;
- a detailed structure of limits, guidelines, and other parameters used to govern risk-taking;
- a clear delineation of lines of responsibilities for managing risk;
- an adequate system for measuring risk; and
- effective internal controls and a comprehensive monitoring and risk-reporting process.

As of December 31, 2019, ROC membership is composed of at least six (6) members of the Board of Directors, majority of whom are Independent Directors including the Chairperson. The Chairperson shall not be the Chairperson of the Board of Directors, or any other Board Committee.

The members shall possess a range of expertise as well as adequate knowledge of the Bank's risk exposures. They must also meet the requirements of the Securities and Exchange Commission (SEC), the *Bangko Sentral ng Pilipinas* (BSP), and other applicable laws, rules, and regulations.

Risk Oversight Committee Charter

The ROC has the following mandated functions *(BSP Cir. 969 – Enhanced Corporate Governance Guidelines):*

1. Oversee the risk management framework;
2. Oversee adherence to risk appetite; and
3. Oversee the risk management function;

ENTERPRISE RISK MANAGEMENT FRAMEWORK (ERM)

The approach to managing risk is outlined on the Bank's Enterprise Risk Management (ERM) framework, which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored, and managed.

Our risk management framework banks on a dynamic process that supports the development and implementation of overall Bank strategy. The process revolves around methodically addressing risks associated with the business lines of PNB. The ERM framework, with regular reviews and updates, has served us well and has been resilient through economic cycles. We have placed a strong reliance on this risk governance framework and the three lines-of-defense model (see Figure 2), which are fundamental to our aspiration of becoming world-class at managing risk.

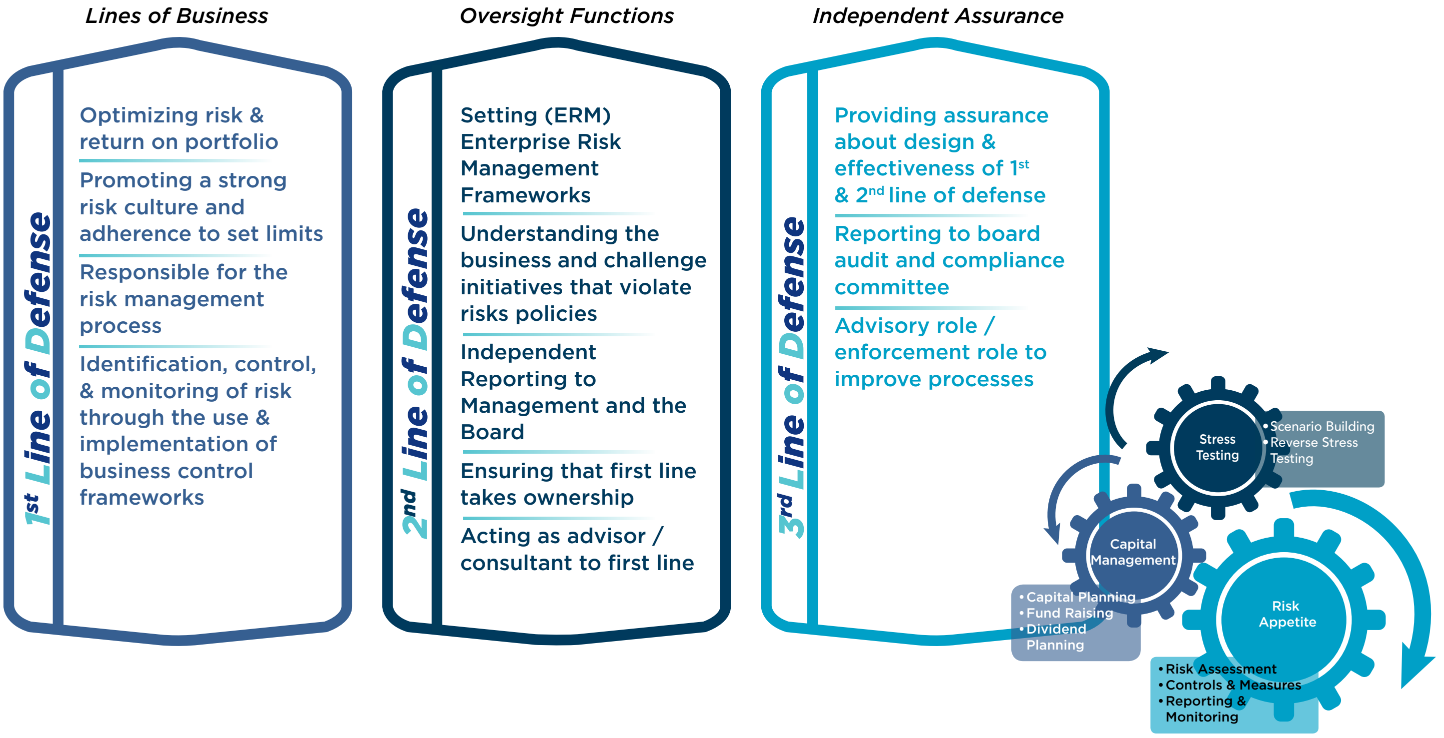
This model provides an effective method for organizations to enhance communication regarding risk and control by clarifying roles and responsibilities.

1. The *first line of defense* is made up of the management of business lines and legal entities. Business units are responsible for their risks. Effective first line management includes:
    - 1.1. the proactive self-identification / assessment of issues and risks, including emerging risks;
    - 1.2. the design, implementation, and ownership of appropriate controls;
    - 1.3. the associated operational control remediation; and
    - 1.4. a strong control culture of effective and transparent risk partnership.

2. The *second line of defense* comes from both the risk management function and the compliance function of the Bank, which are independent of business operations. Our risk management unit implements the risk management framework, helps risk owners in reporting adequate risk-related information up and down the Bank, provides independent oversight over specific Board directives and conducts regular reporting to the ROC. Our compliance unit ensures that strong security policies are in place and effectively monitored and aligned with the risks of the Bank's individual business processes. Compliance testing function reports directly to the Board Audit & Compliance Committee (BACC). The second line of defense may also recommend implementation of action plans, corrective actions or service recovery in managing the risk impact and prevent recurrence.

3. The *third line of defense* is the internal audit function which provides independent assessment of the adequacy and effectiveness of the overall risk management framework and governance structures. The internal audit function & compliance testing function report directly to the BACC.

Figure 2: Three lines-of-defense Model



Risk Management Disclosure

Risk Management Group

Risk Management Group (RMG) is independent from the business lines and is organized into eight (8) divisions:

- Credit Risk Division;
- BASEL/ICAAP/Operational Risk Management Division, Market & ALM Division;
- Information Technology Risk Division (to include Business Continuity Management, Outsourcing Risk, Project Management Monitoring);
- Data Privacy Management Division;
- Trust Risk Division
- Business Intelligence & Data Warehouse Division; and
- the recent addition of the Model Validation Division.

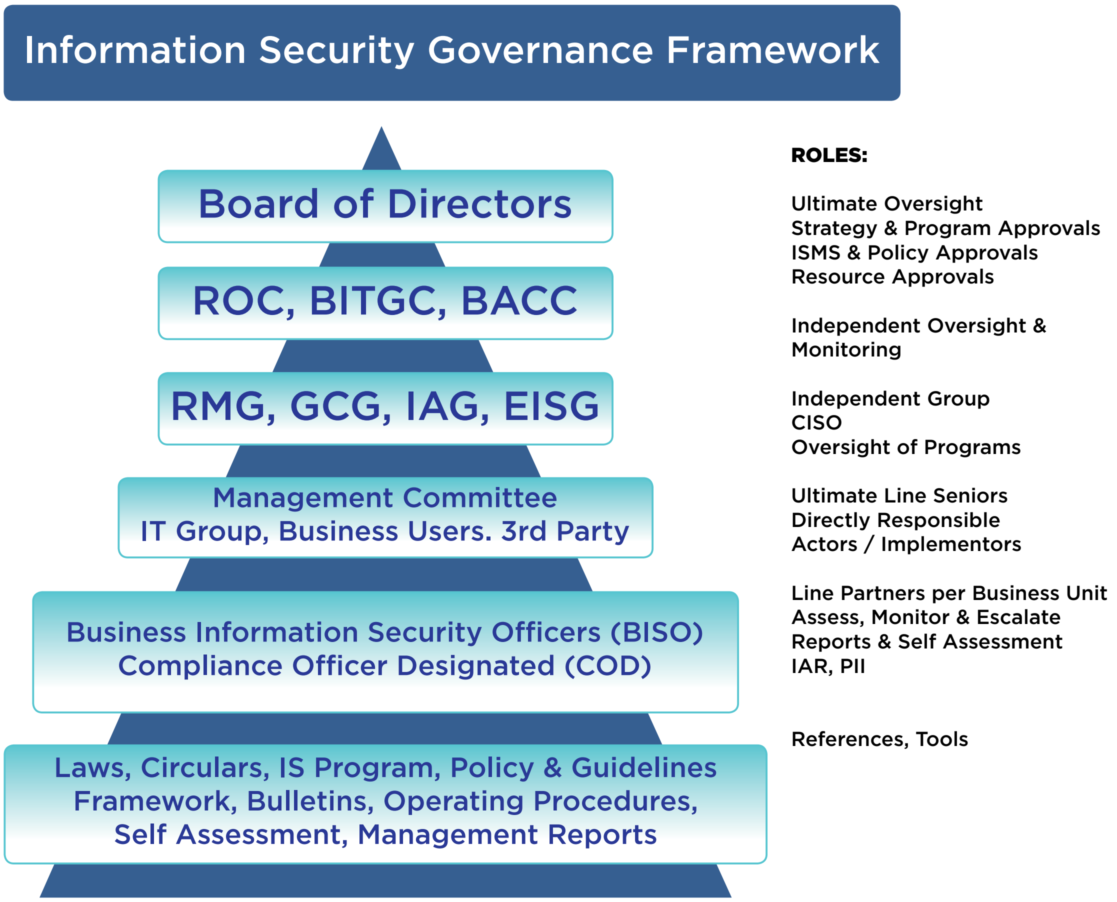
Each Division is tasked to monitor the implementation of the processes and procedures that support the policies for risk management applicable to PNB. These policies clearly establish the types of risks to be managed, define the risk organizational structure, and provide appropriate training necessary to manage and control risks. The policies also provide for the validation, audits and compliance testing to measure the effectiveness and suitability of the risk management structure. In addition, the ERM recognizes model validation as integral component of model governance which ensures that risks relative to use of models are identified, cascaded to concerned parties, escalated to oversight committees and deliberated for appropriate management actions. The model validation is the Management's resource to better understand the models, its purpose and limitations and ultimately manage expectations, actions and decisions made based on the output of the model.

RMG performs as the Secretariat of the ROC which meets monthly to discuss the most recent risk profile of the Bank according to the material risks defined in the Bank's ICAAP document. Further, each Division of RMG engages with all levels of the the Bank's business and support groups, including domestic and overseas branches and offices and domestic and foreign subsidiaries. This ensures that risk management and monitoring is embedded at origination.

IS/CYBER SECURITY GOVERNANCE FRAMEWORK

The IS/Cyber Security Governance Framework (see Figure 3) below ensures effectiveness and sustainability of the Information Security Management System. Proper governance aids PNB Group in meeting optimal business value from information security and maintaining a balance between benefits and security risks.

Figure 3: Information Security Governance Framework



Enterprise Information Security Group (EISG)

Information Security / Cyber Security Risk is assessed, monitored, and managed through the Enterprise Information Security Group. Enterprise Information Security Group (EISG), headed by the Bank's appointed Chief Information Security Officer (CISO) reports to the ROC on matters concerning information security and cyber security concerns. The CISO also functions as lead Senior Officer for effective execution of the Information Security Incident Response Plan (ISIRP).

EISG also manages the Security Operations Center dedicated to and organized to prevent, detect, assess, and respond to cyber security threats and incidents, and to fulfill and assess regulatory compliance. EISG is organized into two (2) divisions: Information Security Governance and Program Management and Cyber Security Operations Center. With risk management activities closely linked with Information Technology Group's (ITG) Infrastructure Management Division for incident reporting and remediation, EISG manages both the prevention and response to untoward cyber threats as it occurs.

EISG fulfills the following mandates:

- Development and effective implementation of the PNB Group Information Security Strategic Plan (ISSP) and IS/Cyber Security Program (ISP/CSP);
- Management of the implementation of the Bank's security programs, IS Management System (ISMS) and Manual of IS Guidelines through a preventive information security framework to protect PNB Group versus cyber threats via intensive monitoring and management of information security incident reporting enterprise wide;
- Ensures compliance and security controls with the IS/CSP and the corresponding policies, standards, procedures across the Bank and conducts security awareness and training programs catered to different set of stakeholders;
- Responsible for the implementation of Information Security Risk Management (ISRM) system;
- Performs governance and management functions on the PNB Group domestic and overseas branches, offices, subsidiaries, and affiliates through the designated Business Information Security Officers (BISOs) ascertaining regulatory adherence to information security-related host country laws and regulations;
- Responsible for enterprise development and collaboration with the technology and business users on IS / IT security policy and guidelines;
- Periodically reviews, assesses, and updates, as often as necessary, the policies, procedures, guidelines, and standards of the IS/CSP; and
- Monitors and reports IS Maturity Level Performance and Key Risk Indicators (KRI).

REGULATORY ISSUANCES FOR 2019

- BSP Circular 1034 Amendments to the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (March 2019);
- BSP Circular 1035 Amendments to the Basel III Liquidity Coverage Ratio Framework and Minimum Liquidity Ratio Framework (March 2019);
- BSP Cir 1042 Guidelines on Investment Activities of BSP-Supervised Financial Institutions (BSFIs) (July 2019);
- BSP Cir 1044 Guidelines on the Management of Interest Rate Risk in the Banking Book and amendment of the Guidelines on Market Risk Management (August 2019);
- BSP Cir 1048 BSP Regulations on Financial Consumer Protection; Guidelines and Procedures Governing the Consumer Assistance and Management System of BSP-Supervised Financial Institutions; and Amendments to the Manual of Regulations for Banks and Non-Bank Financial Institution (September 2019); and
- BSP Cir 1051 Amendments to the Framework for Dealing with Domestic Systemically Important Banks (D-SIBs), (September 2019).

THE BANK'S RISK APPETITE, THRESHOLD & TOLERANCE

Risk Appetite is the amount and type of risk that the Bank is willing to pursue, retain, or tolerate in pursuit of the organization's value and goals. Our principle on risk appetite is expressed as Risk Tolerance and is embedded on the business units. Risk Threshold emphasizes that "the risk appetite should not go beyond the Bank's capacity to manage risk, thus risk management is everyone's responsibility".

PNB's High Level Risk Appetite Statement

We pursue our business objectives by accepting risks up to the level where it remains aligned with the following High-Level Risk Appetite Statements:

On Strategic / Business Risks:

- We will avoid situations and actions that will result in negative impact on our reputation and if, and when an unfavorable situation arises, address these proactively to preserve our reputation and brand image.
- We aim for stability of earnings and maximize shareholder's value to ensure the PNB's continued growth trajectory in the long-term.

On Operational/Technology/Cyber Security Risks:

- We maintain LOW appetite for operational risk issues. We will maintain effective processes and systems through strong internal controls, quality assurance, and quality control programs to manage operational risk. This includes implementing control measures to ensure continuity of business processes, managing proper vendor oversight, and employing appropriate governance processes in implementation of innovative and creative solutions.

Risk Management Disclosure

- We have ZERO tolerance for damage to Bank assets borne by threats arising from malicious attacks. To address this risk, the we aim for strong internal processes and the development and continuous improvement of robust technology controls.
- We have a LOW appetite for risks to the availability of systems which support critical business functions, including those which relate to core banking operations and financial markets operations. Service availability requirements have been identified and agreed upon with each business area.
- We have a LOW appetite for IT system-related incidents which are generated by poor project implementation or poor change management practices.

On Personnel / Clientele Behavior:

- We do not tolerate any dishonest or fraudulent behavior and we are committed to deterring and preventing any incidence. We take serious approach to cases or suspected cases of fraud or corruption perpetrated by our personnel. We respond fully and fairly in accordance with provisions of the Bank's Code of Conduct.

On Regulatory / Statutory Compliance:

- We aim to remain compliant with Philippine laws and regulatory bodies and its public mandate.
- We aim to remain compliant with the laws, regulations, and guidelines as prescribed by the host countries where we are present.
- We aim to remain in compliance with generally accepted accounting principles and standards.

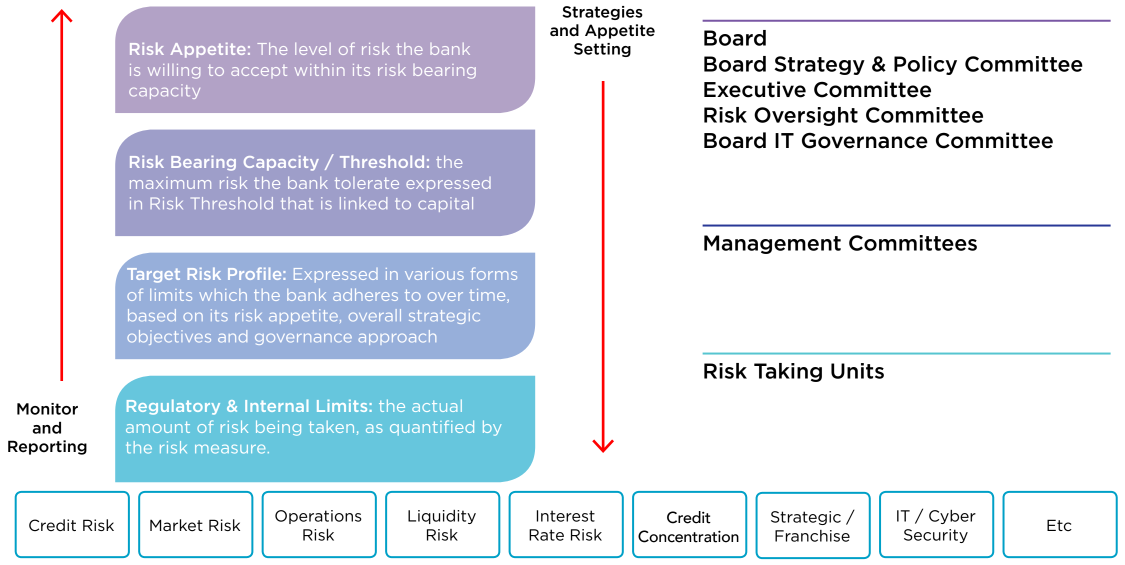
The High- Level Risk Appetite Statements are translated into measurable metrics and set limits that cover all relevant risk categories arising from the Bank's business objectives which aims at keeping the overall risk profile within acceptable risk thresholds.

Risk tolerance is the outer constraint defined by the Bank via metrics and limits. This is expressed in quantitative terms that can be monitored and aggregated, relating to a specific business unit or according to a specific risk category. Risk Threshold / Limits are regularly defined, reviewed, and approved by the Board of Directors.

For the Bank's Risk Threshold, the Capital Adequacy Ratio (CAR), which is the measure of the Bank's solvency, is the parameter being used for the risk materiality. The CAR and CET1 ratios are key quantitative measures used by regulators to gauge the strength of a Bank. As such, it is imperative to monitor any adverse movement in these ratios.

The Board of Directors and Senior Management are responsible for ensuring that the Group maintains, at all times, the desired level and quality of capital commensurate with the inherent risks (credit, market, and operational risks) and with other Pillar II material risks such as *Strategic/Business, Credit Concentration, Liquidity, Interest Rate in Banking Books*, and emerging *Cyber Security Risks* that the Group is exposed to (see Figure 4).

Figure 4: Risk Appetite, Risk Threshold, Risk Tolerance



ROC, as delegated by the Board of Directors and supported by Risk Management Group, oversees the risk profile and approves the risk management framework of PNB and its related allied subsidiaries.

The Board Strategy & Policy Committee (BSPC) is tasked to review, evaluate, approve and/or endorse for Board approval the various policies, manuals of products, and services offered to clients, both domestic and overseas. Together with the ROC, BSPC also reviews, evaluates, and approves/endorses to the Board for approval various Annual Strategic Forecasts, Plans, and Budget by the revenue sectors of the Bank. BSPC is responsible for the risk-taking activities and the periodic review of the Bank's ICAAP program.

The Executive Committee (ExCom) reviews, discusses, notes, endorses, and/or approves management proposals on credit facilities; investment in financial assets; and borrowings and capital raising, updates and reports on credit, transactional, administrative and other matters.

The Capital Management Sub-Committee of the Asset/Liability Committee (ALCO) is tasked to specifically handle policies and procedures pertaining to the capital planning and assessment as well as possible equity investments of the Bank.

The Senior Management Team and the Business Units agree on the target risk profiles defined by the Bank's strategic plan, and allocate capital based on the risk/return profile. Corporate Planning and Analysis Division (CorPlan) and RMG monitor this jointly.

RISK CATEGORIES AND DEFINITIONS

Under our ERM framework, all risk-taking business units, including domestic and foreign subsidiaries and affiliates, shall perform comprehensive assessment of all material risks. This is accomplished on a semi-annual basis. The process includes:

- Identification of all inherent risks by each business unit;
- Prioritizing the most significant risks based on the business impact and the probability of occurrence;
- Quantifying the potential losses of each of these significant risks;
- Providing various risk mitigation and control measures to manage these identified risks; and
- Consolidation of risk assessment results and potential losses for capital computation.

The identification of risks revolves around the monitoring of risk categories as defined by BSP for supervision purposes. These key risks, namely: credit, market, interest rate, liquidity, operational, compliance, strategic, and reputational risks, are not only monitored under their separate and distinct components, but also monitored across all interrelated business risks. Through the Risk & Control Self-Assessment (RCSA) Process, the various business units identify, measure, monitor, and control additional risk categories that may be relevant to their specific areas.

The RCSA is designed as a forward-looking tool to assess and measure the Bank's risk exposures. This exercise allows each risk-taking unit and support unit, to consider the extent to which potential events have an impact on the achievement of the unit's and ultimately, the Bank's objectives.
The risk owners provide a quantitative assessment of the identified risks by means of computing for estimated loss, which can be based on foregone income, opportunity loss, portfolio size, transaction amount, historical loss, additional cost, among others. Further, stress tests are also employed to capture potential losses under extreme scenarios.

Material Risks

Material risks (at Group level) are defined as those risks from any business activity large enough to threaten the Bank's capital position to drop below its desired level thereby resulting in reduction in earnings and/or qualifying capital. The risk threshold is set/computed, on any risk-taking activity that would result in the **reduction in CAR by 20 bps.**

On the other hand, risks not significant enough to impact the CAR by 20 bps will also be considered "material" by the Group if these fall under the following:

- Pillar 1 risks, i.e., Credit, Market, and Operational Risks;
- Other risks under BSP Circular No. 510, i.e., Interest Rate Risk in the Banking Book (IRRBB), Liquidity Risk, Reputational Risk and Strategic Risk;
- Information Technology Risk (BSP Cir. No. 808);
- Further risks identified as "material" by the Board of Directors and Senior Management-are included in the list being monitored. Most recent additions are Cyber Security and Data Privacy Risk

Risk Management Disclosure

Resulting from the assessments based on the premise identified above, the Bank agrees and reviews on a regular basis the material risks that need focus from all three (3) lines of defense. For the assessment period from 2019 to year2021, these are based on the following ten (10) material risks, which are grouped under Pillar 1 and Pillar 2 risks, shall be covered in the Bank's ICAAP Document submission to the BSP, and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

Pillar 1 Risks:

1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:

4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Information Security / Data Privacy / Cybersecurity Risk
10. Information Technology Risk (covering Core banking Implementation)

2019 Risk Management Highlights

Market & Liquidity Management

The Market and ALM Division of (RMG) supports the Asset and Liability Committee (ALCO) and the ROC with the independent assessment and reporting of the market risk profile as well as the liquidity profile of the Bank. The market risk as well as the liquidity risk framework comprise of governance structure, risk policies and generally accepted practices and control structure with the appropriate delegation of authority through the risk limits.

Highlights of the risk management activities for 2019 under Market & ALM Division are as follows:

Trading Market Risk/Price Risk

- Active involvement in the Treasury Management System Project (from drafting the business requirements document to proof of concept to user acceptance testing);
- Daily preparation of the Value at Risk Report (VAR) and Monitoring of Stop Loss Report of different instruments for distribution to Global Markets Group (GMG), overseas branches and subsidiaries and monitoring of compliance to respective VAR limit and Stop Loss limit;
- Preparation of the monthly market risk dashboards for reporting to the ALCO and ROC;
- Preparation and performance of the quarterly stress testing of the trading portfolio for reporting to the ALCO and ROC;
- Revision and updating of the Board-approved Market Risk Management Manual to incorporate new policies, new procedures, and updated limits;
- Monthly validation of the Market Risk Weighted Exposures of the Capital Adequacy Report which is an input to the Capital Adequacy Ratio (CAR) report;
- Implementation of the annual limits setting and performed assessment of the reasonability and relevance of trading risk limits;
- Ensured the implementation of the enhanced back testing framework for all trading instruments;
- Reviewed and performed risk analysis of new and existing treasury investments on its impact to CAR;
- Provided guidance and consult to GMG, overseas branches, and subsidiaries in the review of their policy and/or procedures manuals; and
- Further enhanced the existing automated risk reports and expanded automation of various risk reports by contributing inputs to the Data Modeler during the development and conducted various user acceptance testing sessions for these reports.

Structural Market Risk – Interest Rate Risk in the Banking Books

- Preparation of the monthly Interest Rate Risk in Banking Book Dashboard for reporting to the ALCO and ROC;
- Preparation and performance of quarterly stress testing of the banking book portfolio for reporting to the ALCO and ROC;
- Revision and updating of the Board-approved Interest Rate Risk in the Banking Book Manual to incorporate new policies, new procedures, and updated limits and model assumptions;
- Submission of the Market Risk Template (Trading Book and Banking Book) under the BSP Uniform Stress Testing requirement;
- Submitted the revised EAR calculation and framework on the adoption of the Six (6) Interest Rate Shocks Scenario (as suggested by Basel) for Model Validation of Internal Audit Group; and

- Conducted extensive technical training and support to the overseas branches and subsidiaries with respect to preparation and monitoring of interest rate risk in the banking book reports.

Liquidity Risk

- Active involvement on the Asset Liability Management system project (from drafting the business requirements document to proof of concept to data mapping);
- Preparation of the monthly liquidity risk dashboard for reporting to the ALCO and ROC;
- Preparation of the weekly liquidity gap reports for presentation to the ALCO;
- Preparation and performance of the quarterly stress testing for liquidity for reporting to the ALCO and ROC;
- Revision and updating the Board-approved Liquidity Risk Management Manual to incorporate new policies, new procedures, and new limits as well as the enhanced technical documentation of Maximum Cumulative Outflow (MCO) model;
- Aligned the Stress Testing Framework for Liquidity Risk with the Bank's Updated Contingency Funding Plan;
- Refined the back-testing framework and methodology for MCO Models (Core & Volatile deposits Model and Volatility Distribution Model) and accordingly submitted the back-testing framework to Internal Audit Group for model validation;
- Conducted risk awareness lectures on liquidity risk management to various training programs of the Bank; and
- Review and performance of risk analysis of new and existing treasury investments on its impact to the Bank's liquidity.

Other risk areas assigned to the Division

- Presentation of the risk dashboard to various Board meetings of domestic subsidiaries on a regular basis;
- Provided guidance to domestic subsidiaries in formulating/review of their risk management framework (set up of limits and processes as well as review of risk manuals);
- Involvement on the annual review of the Bank's ICAAP document and Recovery Plan;
- Monitoring of the compliance of the FVOCI portfolio with the approved Cumulative Loss Limits and Management Action Triggers (MATs);
- Spearheaded the implementation of SEC Memorandum Circular 6 (Guidelines on the submission of the Annual Report on Segregation of Functions {Chinese Wall});
- Submission of the monthly SEC report on complaints (per SEC Memorandum Circular 9);
- Submission of the monthly sworn certification on compliance of trades to fulfill the requirement of PDEX, a Self-Regulatory Organization for Fixed Income Trading from the Bank's Associated Person; and
- Preparation of the Transfer Pool Rate (TPR) twice a month for reporting to ALCO.

Credit Risk Management

The Bank is exposed to credit risk arising from the probability that the counterparties might default on their contractual obligations under loans and advances when due. Credit Risk Weighted Assets (CRWA) accounts for 85% (as of December 31, 2019) of the Group's consolidated RWA of Php883 billion. We manage concentration risks by defining credit policy and institutionalizing limits per industry as a percentage of qualifying capital.

The Group is also exposed to credit risk as a result of its trading and investment activities, as well as a result of its activities as an investment intermediary for its customers or for third parties. The credit risk arising from trading and investment activities is managed through the management of market risk.

The Credit Risk Management Division (CRMD) of RMG supports the implementation of the risk management framework for Asset Quality Exposures. Our asset quality rating reflects the quantity of existing and potential credit risk associated with loan and investment portfolios, other real estate owned, and other assets, as well as off-balance sheet transactions.

The Bank's Credit Risk Management Processes are performed coherently and collaboratively at three (3) levels, namely:

1. Strategic Level, where the Board of Directors sets the annual revenue goals, target market, risk acceptance criteria; and define strategic plans and credit risk philosophy and credit risk culture.
2. Transactional Level, where the Risk-Taking Personnel (RTP) (e.g., Account Officers, approving committees, etc.) determine opportunities and take risks. The risk-taking activities at this level is congruent with the goals, target market, risk asset acceptance criteria (RAAC), strategies, and risk philosophy set by the policy-making body.
3. Portfolio Level, where the portfolio/total exposure is captured and evaluated by independent third party, other than risk-taking personnel (e.g., RMG, Internal Audit Group, and Global Compliance Group). The credit risk management of the entire loan portfolio is under the direct oversight of the ROC.

Risk Management Disclosure

Highlights of the risk management activities for 2019 under Credit Risk are as follows:

1. Continued monitoring of the trend of the loan portfolio, non-performing loans, and adequacy of loan loss reserves, concentration risk, credit risk ratings migration and status of non-performing accounts via the Credit Dashboard Reports;
2. Oversight of the credit initiation and approval of selected accounts through pre-approval review. The Chief Risk Officer and the Head of Credit Risk sit as resource persons in the Senior Management and Institutional Banking Credit Committees, respectively. Post-approval credit reviews to ensure compliance with the policies and procedures were also conducted; and
3. Performed scenario analysis and stress testing through Rapid Loan Portfolio Review of the possible impact of current market risk disruptions, i.e. calamities, new government regulations, new economic conditions.

Operational Risk Management

Operational risk management (ORM) is at the core of our operations, integrating risk management practices into processes, systems, and culture. ORM's value lies in supporting and challenging them to align the business control environment with our strategy by measuring and mitigating risk exposure and contributing to optimal return for stakeholders.

Highlights of the risk management activities for 2019 under ORM are as follows:

1. Selection and approval of the Governance, Risk and Compliance (GRC) Solution which aims to automate and enhance the Operational Risk Tools such as Risk & Control Self-Assessment (RCSA), Loss Event Report (LER) and, Metrics Monitoring (KRI). This will also serve as an integrated platform to provide a holistic view of the Bank's risk profile with interrelated inputs from risk management, compliance, audit, as well as information security;
2. Initiated the business process mapping for the Bank's critical processes in preparation for the process-based approach on risk assessment;
3. Provided consultations to and review of new product proposals, as well as process and procedures manual review of the Bank's processes, including subsidiaries;
4. Improved the risk analytics and models that are associated with the risks and defined the data requirements to improve the capabilities of the risk assessments;
5. Continuous build-up of risk taxonomy to include BSP and internal audit recommendations and new guidelines from the regulatory agencies;
6. Identification of High-Risk Areas for efficient monitoring of critical risks across the organization;
7. Completed the Risk Education and Awareness Program (REAP) Roadshow to all domestic branches, regional centers, and subsidiaries;
8. Continuous enhancements in the ORM Manual and Operations Risk Tools; and
9. Institutionalized regular reporting and updates on legal risks and customer complaints.

Information Technology (to include Business Continuity Program, Project Monitoring, Business Outsourcing)

While banks have greatly benefited from the software and systems that allow for more efficient delivery of products and services, they have also become more susceptible to the associated risks. Many banks now find that these technologies are involved in more than half of their critical operational risks, which typically include the disruption of critical processes both from internal applications and those outsourced to vendors, risk of breaches of sensitive customer or employee data, and risks of coordinated denial-of-service attacks.

Because of the underlying information technology and security risks, the use of IT/S Risk Management Framework becomes essential to ensure that both Information Technology and Security Risks are properly identified, measured, managed/ controlled, monitored and reported. Further, the BSP guidelines in managing these risks have also evolved to include not only the technology components but also indicated the need for analytics and response / recovery measure in case breaches and threats turn into realities.

1. **Information Technology Risk** is any potential adverse outcome, damage, loss, violation, failure or disruption associated with the use of or reliance on computer hardware, software, devices, systems, applications and networks. *(The ISACA Risk IT Framework and BSP Circular 808)* It consists of IT-related events (obsolescence, patch management, service availability, among others) that could potentially impact the business. IT Risk results to Information Security Risk since the risk could result to non-preservation of any or all of, the domains of information security; that is, confidentiality, integrity and availability of information asset.
2. **Business Continuity Risk** is the risk to the bank's operations due to the disruption and failure of critical functions of the organization impacting the continued operation of the business. The bank's Business Continuity Plan defines the procedures to be followed to recover critical functions on a limited basis in the event of abnormal or emergency conditions and other crisis.

3. **Business Outsourcing Risk** is the risk to the bank's operations relating to services that are outsourced to 3rd party providers. This includes the potential risk of breaches / leaks of confidential information about customers and/or employees, risks to managing the service providers, risks to continuity of the bank's delivery of products and services should the provider fail to deliver contracted services in the delivery loop, and other myriad of "new" risks - data / security protection, process discipline, loss of business knowledge, among others.
4. **Project Risk** is the risk of failure on the implementation of technology projects, which impacts banks operations and service delivery. Project Health checks are conducted to ensure that proper project management activities are implemented to reduce the risk of project failures.

Highlights of risk management activities for IS/IT (including BCP) for 2019:

- Completion of Business Continuity Awareness Training for Head Office, domestic, and overseas Branches;
- Adoption of ISO 22301 Framework for Business Continuity Framework;
- Completion of Bankwide Business Impact Analysis using the new methodology;
- Completion of BCP Simulation Drills and Exercises;
- Project Risk Monitoring – Completion of Project Assessment and Health Checks for major technology projects;
- Outsourcing and Vendor Risk Management Monitoring;
- Establishment of IT Key Risk Indicators; and
- GRC System Project Kick-Off.

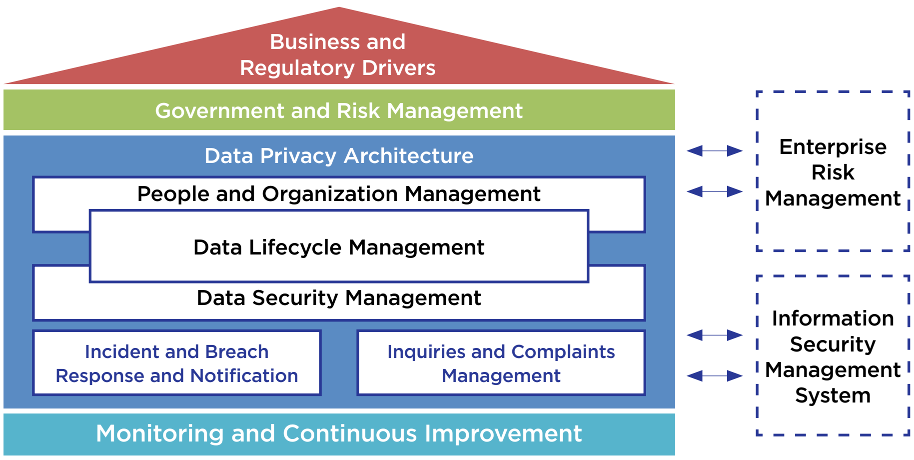
Data Privacy

We respect and value data privacy rights and we ensure that all personal data collected from data subjects are processed in adherence to the general principles of transparency, legitimate purpose, and proportionality. While reasons are founded in ethical and corporate responsibility, our privacy practices facilitate the following:

- *Good Corporate Citizenship*: A sound privacy practice is emblematic of reliable corporate citizens that respect data subjects' privacy.
- *Business Enablement*: Since the Bank uses significant volumes of personal data, privacy becomes a prerequisite to building enduring business relationships.
- *Legal Protection*: Appropriate privacy policies offer an opportunity to eliminate allegations of unlawful usage of personal information.

Recognizing the importance and criticality of personal information in achieving the Bank's vision and objectives, the Bank's Data Privacy Management System (see Figure 5) has been developed and put in place. The system includes security policies, organizational structures, and processes including technical, physical and environmental components among others.

Figure 5: PNB Data Privacy Management System



Our Data Privacy Management System is managed through the continuous review, evaluation, and agreement between the Board of Directors and Senior Management. The authority to oversee the implementation of the system is vested upon the ROC as delegated by the Board of Directors. We review the performance and ensures that safe and sound management practices are always adhered to in all of the Bank's engagement and transactions.

Risk Management Disclosure

Consumer protection is also thoroughly embedded within our data privacy management. We recognize and respect the consumer's right to safeguard their financial transactions with the Bank and be heard through appropriate channels concerning their feedback, inquiries, and/or complaints.

Highlights of the risk management activities for 2019 under the Data Privacy are as follows:

- Implementation of PNB's Data Privacy Management System that includes implementation of the Enterprise Data Privacy Policy and Sub-Policies;
- Privacy Impact Assessment process implementation;
- Data Sharing Agreement and Data Protection Agreement implementation;
- Data Access Request process implementation;
- Monitoring and tracking of compliance and implementation activities under the National Privacy Commission (NPC) issued 32-point Checklist;
- Provided continuous Data Privacy Awareness and Education to the Bank including integration of basic data privacy awareness to Human Resources Group training namely: New Employees Orientation, Management Training Program, Junior Executive Development Institute, and Branch Operations Training Program;
- Revision of forms and contracts to incorporate Data Privacy requirements;
- Tracking and monitoring of the submissions for consent; and
- Provided counsel to business units including branches, offices, and subsidiaries both local and overseas regarding Data Privacy concerns.

Information Security / Cyber Security Risk

Cyber-threat defense involves the entire organization from top to bottom and governance plays a critical role. Our Information Security / Cyber Security risk management framework rests on a pro-active stance to anticipate evolving and lingering global threats. This requires continuous threat intelligence feeds, targeted threat hunting mechanisms, the corresponding improvement and adjustment on technology, process and people skills, and the proper mechanisms for incident response and recovery.

Highlights of risk management activities (under our **Enterprise Information Security Group**) for 2019:

1. **Security & Safety by Design**: Our information assets are secured using principles recommended by global best practices – minimize attack surface area, establish security defaults, separation of duties, defense in depth among others. We embark on a multi-year program with the following program objectives –

   Towards achievement of acceptable level of security and protection:
   - release of information security guidelines on Secured Configuration;
   - minimum security baseline & standards issuances; and
   - promoting continuous collaboration between business units and IT Group where security policies are concerned.

   Initial preparedness for ISO27001 Certification:
   - engagement with 3rd party subject matter experts for initial business requirements and gap analysis; and
   - updates of the Information Security Management System (ISMS) and corresponding guidelines for compliance.

2. **Proactive Security:** Practicing the principles of preventive security (assessment, monitoring, and control) benefits the Bank more than resolving breaches and incidences. We implement these via the following tools:
   - 24/7 Security Operations Center (SOC) - engaged 3rd Party experts to implement a viable SOC solutions including creation of the Bank's SOC Framework;
   - implementing anti-DDOS, dark trace, digital forensic management, cyber response playbooks;
   - creation of the Security InciWd Dashboards Regular Reporting to the ROC covering emerging threats, continuous monitoring of results, vulnerability assessment & penetration testing, compromise assessment, security patches, obsolescence, resolutions to IS / Cyber Incidents, among others.

3. **Promotion of a Security Centric Culture** - This promotion of continuous collaboration and engagement of open communication, employee engagement, and ensuring adequate resource skills and capabilities

Business Intelligence Analytics and Enterprise Data Warehouse Initiatives

The Business Intelligence and Data Warehouse Division (BIDWD) under the Risk Management Group is tasked to manage the design and implementation of the Enterprise Data Warehouse (EDW) Program (stream of concurrent projects) as defined in the EDW roadmap.

The EDW System is the single source of information for all regulatory and management reports and analytics including some operational reports for the Bank. In production for almost eight (8) years now, continuous enhancements are being done to provide more relevant reports and analytics to the various business units. To date, there are over 1,500 reports/analytics available in the EDW-BI system covering the following major subject areas:

- Customer Insight/View
- Customer Information Data Quality Monitoring System
- Deposit Information and Analytics
- Compliance to Regulatory Reporting Requirements
- On Credit Quality Assessment / Monitoring:
    - Credit Risk Rating and Migration Reports and Analytics, Decision support analytics
    - Loan Portfolio Reports and Analytics
    - Credit Facility/Loan Collateral Reports and Analysis
- Loss Events Reporting (LER) for Operational Risk Management
- Executive Dashboards, Analytics and Reports serviced for business & support groups
- Asset Liability Management Dashboard
- Regulatory Reports on Credit Risk Management: reports relating to the Expanded Real Estate Exposure (EREE), Capital Adequacy Ratio (CAR), BSP Circular 855 Guidelines on Sound Credit Risk Management Practices, BSP Circular 941 Regulations on Past Due and Non-Performing Loans, and the PFRS9 compliance project.
- Actionable Items Reports: The EDW System automatically generates on a daily or weekly basis (or as needed) these actionable reports to prompt the concerned business units to act proactively on a particular event (e.g., loan accounts due for repricing) or make corrective action on certain data in the source systems (e.g., no BSP Risks Asset Classification) or files for more accurate data and reporting.

We have embarked on implementing the following Decision Support Systems (DSS):

- Asset and Liability Management System
- Expected Credit Loss (ECL) Calculator for the Philippine Financial Reporting Standard 9 (PFRS9)
- Governance, Risk and Compliance System

Internal Capital Adequacy – Risk & Control Self-Assessment Process

With the Bank's earnest endeavor to continually improve on its ICAAP Framework and expand its implementation on an enterprise-wide basis, the ICAAP Risk Assessment process was further enhanced to reach this objective. The implementation covers all business and support units, as well as the subsidiaries. The ICAAP RCSA was cascaded down to the individual branch level and regional centers, with each unit being represented to carry out required ICAAP activities. Moreover, to appreciate the ICAAP at the grassroots level. Related activities moved into high gear leading into the completion of the 2020 ICAAP Document.

As we continuously seek improvement in its process, hawse have embarked on a new system – the Governance, Risk and Compliance (GRC) Solution which aims to integrate risk, audit and compliance management and monitoring, including information security and data privacy. In terms of risk management, there will be changes in the RCSA process to attain a more focused identification and quantification of risks. Further, the system will be able to store all relevant data and information which can be used prospectively for internal modelling necessary for capital computations.

Risk Management Disclosure

Figure 4: ICAAP 2019-2020 Milestones and List of Activities

KEY DATES	MILESTONES & ACTIVITIES
January – June 2019	• Completion and BSP submission of the 2019 ICAAP Document and Recovery Plan • Conduct of ICAAP awareness via REAP (Risk Education and Awareness Program) which covered all HO units, domestic and overseas branches, including subsidiaries and via HR Training Programs (MTP, BOTP and JEDI) • Presentation and monitoring of capital (Capital Adequacy Ratio and Leverage Ratio) and liquidity ratios (Liquidity Coverage Ratio and Net Stable Funding Ratio), providing alerts and escalation to respective management and Board committees • Assist the Domestic Subsidiaries by preparing the 2019-2021 ICAAP Quantification and Stress Testing dashboard for respective Board notation/presentation • Kick-off Meeting with the ICAAP Working Team relative to the ICAAP RCSA enhancements and requirements and roll-out of Part 1 ICAAP RCSA to the following: ✓ Parent Bank including regional centers and units; ✓ Domestic and Overseas Branches and Offices ✓ Domestic and Foreign Subsidiaries • Assist PNB IBJL in the preparation of their annual Risk Management Plan
July - December 2019	• BSP on-site examination of the 2019 ICAAP Document and Recovery Plan • Internal Audit Group's review and validation of the 2019 ICAAP Document and Recovery Plan • On-going review of the submitted ICAAP RCSAs and KRIs from all the business and support units of the Parent Bank (Head Office Units, Domestic Branches and Overseas Branches), Domestic and Foreign Subsidiaries • Selection and approval of the GRC Solution • Business Planning Session of the individual groups • Discussion of BSP recommendations/observations to be incorporated in the 2020 ICAAP Document and Recovery Plan
January - March 2020	• Review and approval of the Bank's Material Risks • Review and approval of ICAAP Stress Scenarios and Assumptions • Review and approval of the ICAAP Policy, including the revised ICAAP RCSA Procedures Manual to align with the new approach • Presentation of the ICAAP Document and Recovery Plan to ManCom, ROC (for the material risks), BSPC, and Board for approval • ICAAP Document and Recovery Plan ready for BSP submission

REGULAR CAPITAL REQUIREMENTS UNDER BASEL III – PILLAR 1 CAPITAL ADEQUACY RATIO

Our Capital Adequacy Ratio as of December 31, 2019 stood at **14.80%** on a consolidated basis while our Risk Weighted Assets (RWA) as of end 2019 amounted to **P883,055** million composed of P747,874 million (Credit Risk Weighted Assets-CRWA), P80,683 million (Market Risk Weighted Assets-MRWA) and, P54,498 million (Operational Risk Weighted Assets-ORWA).

Capital Adequacy Ratio

The Bank's total regulatory requirements for the four (4) quarters for 2019 are as follows:

Consolidated	Weighted Exposures (Quarters 2019)			
(Amounts in P0.000 million)	As of Dec 31	As of Sept 30	As of June 30	As of Mar 31
CRWA	747,874	735,604	690,032	673,258
MRWA	80,683	78,652	57,433	44,258
ORWA	54,498	54,498	54,498	63,581
Total Risk-Weighted Asset	**883,055**	**868,755**	**801,963**	**781,097**
Common Equity Tier 1 Ratio	14.10%	13.78%	13.23%	13.23%
Capital Conservation Buffer	8.10%	7.78%	7.23%	7.23%
Ratio	**14.80%**	**14.58%**	**14.00%**	**13.98%**

Message from the Corporate Governance and Sustainability Committee Chairperson

FLORENCIA G. TARRIELA
CHAIRPERSON OF THE BOARD OF DIRECTORS

Throughout the year, PNB scored significant milestones in various areas of its business, continued to make solid progress on its sustainability agenda, and remained committed in deepening the core competencies of its employees and building a more competent, well-prepared workforce. Across these accomplishments, the Bank is devoted to the highest principles of good corporate governance. This governance framework is anchored on accountability, prudence, and responsible business practices cutting across all levels of the organization.

The mission of our corporate governance framework is twofold: first, to define the powers, duties, and responsibilities of the Board of Directors, Senior Management, and employees in upholding the Bank's culture and values; and second, to raise corporate governance to a level at par with global standards which ultimately advances the long-term interests of our stakeholders.

The Corporate Governance Manual (the "Manual") serves as the highest policy of PNB. To manifest our commitment in aligning internal policies with the ever-changing regulatory framework and responding to international best practices, the Corporate Governance Division regularly conducts review and evaluation of the Manual. In 2019, the Manual was revised to expand the diversity requirement in the composition of the Board of Directors. Moreover, the responsibility of the Board in overseeing and ensuring the disclosure of the Bank's non-financial information pertaining to economic, environmental, social, and governance (EESG) issues has also been specified.

Our efforts on this front have not gone unnoticed as we continue to be recognized by regulators, external organizations and the public. The Institute of Corporate Directors (ICD) conferred one-arrow recognition to PNB at The ASEAN Corporate Governance Scorecard (ACGS) 2019 Recognition Night. The ACGS is a set of questions developed in accordance with corporate governance principles of the Organization for Economic Co-operation and Development (OECD) as well as best corporate governance practices of major publicly listed companies in the ASEAN. Jointly developed by the Asian Development Bank (ADB) and the ASEAN Capital Markets Forum, the program aims to enhance the image of publicly listed ASEAN companies and their ability to attract investments as well as improve the image of capital markets towards integration into the ASEAN.

As the sustainability conversation continues to evolve and improve, we are carefully moving the needle towards a more inclusive, sustainable future. In July 2019, the Corporate Sustainability Unit of Public Affairs Group launched its flagship project dubbed as "PROJECT PLANET", which stands for Protect, Love, and Nurture the Environment Together. This project is a six-month campaign on our journey in making PNB a planet-friendly workplace.

On a final note, we are delighted to welcome Domingo H. Yap and Sheila T. Pascual as members of the Board. Their respective backgrounds in manufacturing, real estate, and banking is a welcome addition to the diversity of the Board and allow them to capably perform their duties. My sincerest gratitude and appreciation also go to Cecilio K. Pedro, who retired from the Board in August 2019. His wisdom, leadership, and contributions have been invaluable.

Accomplishments in 2019

A. The ASEAN Corporate Governance Scorecard (ACGS)

In June 2019, the Institute of Corporate Directors (ICD) presented its report on the performance of PNB in the 2018 run of the scorecard for publicly listed Philippine companies. Subsequently, the Corporate Governance Division issued the Bank's first ACGS Report where all necessary information pertaining to PNB's compliance on the standards of the scorecard were supplied. With the Board of Directors and the Management Committee voicing strong support and interest to aim for a higher score, the ACGS results have inspired employees to raise the Bank's governance norms and practices.

B. Code of Ethics for Directors

As a reliable and responsible financial institution, PNB is steadfast and dedicated to upholding and promoting accountability, ethics, and integrity in the conduct of its business. We have adopted the Code of Ethics for Directors, which enables the Board to exercise its powers, duties and responsibilities in accordance with fit and proper standards. The provisions of the Code apply to all members of the Board, whether executive, non-executive or independent of PNB Group.

C. Directors' Competency Development and Training

All members of the Board of Directors are committed to improve and hone their existing competencies and skillsets by undertaking continuous training and education on relevant developments in the business and regulatory environments, including emerging risks relevant to the Bank. The groupwide Corporate Governance Seminar was held in July 2019 where the following key discussion points were taken up: overview of corporate governance, highlights of Revised Corporation Code, linkage between code of corporate governance and sustainability reporting, and roadmap to non-financial reporting.

D. Gender Equality in the Workplace

PNB became the first domestic bank to join the Philippine Business Coalition for Women Empowerment (PBCWE), an organization comprised of large and influential companies committed to promote gender equality in the workplace. The Bank will undergo the Economic Dividends for Gender Equality (EDGE) Certification, a leading global assessment methodology and business standard for gender equality, that evaluates the workplace gender equality performance of an organization against global and industry benchmarks.

E. Integrated Annual Corporate Governance Report (I-ACGR)

To develop a more cohesive corporate governance framework, the Securities and Exchange Commission (SEC) mandated the submission of the I-ACGR as a tool to harmonize the corporate governance reportorial requirements of the SEC and the Philippine Stock Exchange (PSE). In the process of accomplishing the I-ACGR, PNB was able to benchmark its current practices with established corporate governance standards and regulations: SEC's Code of Corporate Governance for Publicly Listed Companies (PLCs), PSE's Corporate Governance Guidelines for Listed Companies, and recommendations from the ACGS.

I would like to extend my gratitude to the Management Committee and our employees whose sustained passion and commitment enabled PNB to achieve greater levels of growth, to the Board members for their guidance, and to our shareholders for their confidence. We look forward to the new decade with enthusiasm and readiness.

(Original Signed)
FLORENCIA G. TARRIELA
Corporate Governance and Sustainability Committee
Chairperson

Corporate Governance

Belonging to a heavily regulated industry, financial institutions are always called upon not just to solidify its economic performance and register strong financial returns, but also to make sound business decisions and create a lasting positive impact on stakeholders. As such, PNB places a special premium on corporate governance as a relevant area of focus in the Bank's operations.

What sets us apart is that good governance is not just a commitment of a single unit but embraced by the entire organization. The pages ahead provide a narrative of our corporate governance framework and its implementation. This report has been prepared in accordance with the Bangko Sentral Ng Pilipinas (BSP) Manual of Regulations for Banks (MORB), the Securities and Exchange Commission (SEC) Code of Corporate Governance, and the ASEAN Corporate Governance Scorecard (ACGS).

Board of Directors
GRI 102-26

The Board of Directors serves as the governing body elected by our shareholders to exercise the corporate powers of the Bank and conduct all its business. Our Board is vested with the focal responsibility of promoting a culture of strong governance in the organization, through adopted policies and displayed practices. It approves and oversees the implementation of our governance framework.

Board Committees
The Board of Directors has created eight (8) committees to increase its efficiency and allow deeper focus in specific areas of our operations. The scope of authority, duties, and responsibilities of each board committee are adequately defined, documented, and clearly communicated in their respective charters. The extent to which authorities are delegated and the corresponding accountabilities are regularly reviewed and approved by the Board.

The Chairperson, Vice Chairman, and President & CEO
GRI 102-23

The positions of Chairperson of the Board and President & Chief Executive Officer are held by separate individuals to achieve an appropriate balance of power, increase accountability and improve the capacity of the Board for decision-making independent of management. The separation of the roles ensures the fair division of powers, increased accountability, and enhanced governance.

Corporate Governance

Our Governance Structure

CHAIRPERSON

FLORENCIA G. TARRIELA

Key Role

Responsible for providing leadership in the Board of Directors and ensuring effective functioning of the Board, its committees, and individual directors

BOARD OF DIRECTORS

15 Directors

9 non-executive
5 independent
1 executive

Key Role

Responsible for approving objectives and strategies of the Bank, overseeing management's implementation thereof, and maximizing the Bank's long-term success and creating sustainable value for its stakeholders

CORPORATE GOVERNANCE AND SUSTAINABILITY COMMITTEE

Chairperson	Members
Florencia G. Tarriela	Felix Enrico R. Alfiler Federico C. Pascual Domingo H. Yap

BOARD AUDIT AND COMPLIANCE COMMITTEE

Chairperson	Members
Edgar A. Cua	Felix Enrico R. Alfiler Florencia G. Tarriela

RISK OVERSIGHT COMMITTEE

Chairperson	Members	
Federico C. Pascual	Felix Enrico R. Alfiler Florido P. Casuela Leonilo G. Coronel	Edgar A. Cua Vivienne K. Tan

BOARD OVERSIGHT RPT COMMITTEE

Chairperson	Members
Domingo H. Yap	Edgar A. Cua Federico C. Pascual

EXECUTIVE COMMITTEE

Chairperson	Members	
Florido P. Casuela	Leonilo G. Coronel Christopher J. Nelson Lucio K. Tan, Jr.†	Michael G. Tan Vivienne K. Tan Wick A. Veloso

TRUST COMMITTEE

Chairperson	Members
Christopher J. Nelson	Federico C. Pascual Vivienne K. Tan Joy Jasmin R. Santos – Ex-Officio Wick A. Veloso – Ex-Officio

BOARD IT GOVERNANCE COMMITTEE

Chairperson	Members	
Vivienne K. Tan	Florido P. Casuela Leonilo G. Coronel Christopher J. Nelson	Lucio K. Tan, Jr.† Florencia G. Tarriela Wick A. Veloso

BOARD STRATEGY AND POLICY COMMITTEE

Chairperson	Members	
Felix Enrico R. Alfiler	Florido P. Casuela Leonilo G. Coronel Edgar A. Cua Christopher J. Nelson Federico C. Pascual	Michael G. Tan Vivienne K. Tan Florencia G. Tarriela Wick A. Veloso

MANAGEMENT COMMITTEE

Chairperson	Members	
Wick A. Veloso	Cenon C. Audencial, Jr. Manuel C. Bahena, Jr. Roberto D. Baltazar Christine Grace A. Bandol Socorro D. Corpuz (OIC) Isagani A. Cortes Perfecto A. Domingo Claro P. Fernandez Alexander Grenz Marie Fe Liza S. Jayme Ma. Adelia A. Joson (OIC) Jose German M. Licup Maria Paz D. Lim Manuel Antonio G. Lisbona Chester Y. Luy	Noel C. Malabag Michael M. Morallos Rommell B. Narvaez Roland V. Oscuro Aida M. Padilla Nelson C. Reyes Norman Martin C. Reyes Joy Jasmin R. Santos Mary Ann A. Santos (OIC) Martin G. Tengco, Jr. Gerry B. Valenciano Nanette O. Vergara Simeon T. Yap

The Chairperson of the Board is Florencia G. Tarriela, who has held the position since 2005. She ensures the effective functioning of the Board, including maintaining a relationship of trust with individual directors. She makes certain that the meeting agenda focuses on strategic matters, including discussions on risk appetite and key governance concerns.

The Vice Chairman is Felix Enrico R. Alfiler. He has served as a director since 2012. He acts as the Chairman of the Board, either in the absence of the Chairperson or as required by the Chairperson and carries out additional leadership duties.

The President & CEO is Wick A. Veloso. He assumed the position in 2018. As President & CEO, he is the overall-in-charge for the management of the business and affairs of the Bank as governed by the strategic direction and risk appetite approved by the Board. He communicates and implements our vision, mission, values, and overall strategy.

The complete background and qualifications of the Chairperson, Vice Chairman, and President & CEO can be found on the Profiles of the Board of Directors.

Board Advisors

As provided for under the Revised Corporate Governance Manual, the Bank may appoint Board Advisors with qualities that complement the existing competencies and skillsets of the Board which enables them to provide advisory support. PNB has four (4) Board Advisors: Mark M. Chen, Manuel T. Gonzales, William T. Lim, and Harry C. Tan.

Board Advisors are expected to provide advice on strategic direction, governance matters, risk management, and other relevant issues that the Board is confronted with. As such, they may attend meetings of the Board and the eight (8) board committees.

Unlike the Board members, Board Advisors do not have the authority to vote on corporate matters.

Corporate Secretary

The Corporate Secretary assists the Board of Directors and the board committees in the conduct of their meetings. Functions include safekeeping of and the preservation of the integrity of the minutes of the meetings and ensuring that the Board members have accurate information that will enable them to form sound decisions on matters that require their approval.

Board members are given separate and independent access to the Corporate Secretary at all times.

The Corporate Secretary of the Bank is Atty. Maila Katrina Y. Ilarde, a Filipino and a resident of the Philippines. She assumed the position in 2015. She is legally trained, with experience in legal matters and company secretarial practices.

Chief Compliance Officer

The Chief Compliance Officer (CCO) implements and manages the enterprise-wide compliance program covering domestic and foreign branches, offices, subsidiaries, and affiliates. Our CCO is Atty. Isagani A. Cortes who assumed the position in 2019. He is also the Head of the Global Compliance Group and the designated Corporate Governance Executive, tasked to assist the Board of Directors in performing its corporate governance oversight functions.

Chief Risk Officer

The Chief Risk Officer (CRO) supervises the enterprise risk management (ERM) process and communicates the top risks and the status of implementation of risk management strategies and action plans to the Board. The CRO is Simeon T. Yap who assumed the position in 2019. He is concurrently the Bank's Data Protection Officer (DPO) and Head of Risk Management Group.

Chief Audit Executive

The Chief Audit Executive (CAE) is responsible for developing and managing a broad, comprehensive program of internal auditing covering the Bank, its subsidiaries, and overseas businesses to provide the Board with independent assessment that key organizational and procedural controls and risk management systems are adequate, effective, and complied with. Our CAE and Head of the Internal Audit Group is Martin G. Tengco, Jr. who has held the position since 2017.

The complete background and qualifications of the CCO, CRO, and CAE can be found on the Profiles of the Management Committee.

Corporate Governance

Management Committee

PNB's Management Committee is composed of top-tier professionals who are well-accomplished in their respective fields. The Management Committee executes the Bank's strategy and drives business performance. It is headed by the President & CEO, supported by the Chief of Staff.

Legal Vehicles, Business and Support Groups

As a large, diversified banking group, PNB has two (2) classifications of business vehicles: domestic subsidiaries, and foreign branches, subsidiaries, & offices.

Within the parent bank, PNB has different business and support groups that work in unison to achieve the shared mission of becoming a leading provider of financial solutions. Each of the major groups is led by a sector or group head who reports directly to the President & CEO.

BOARD MATTERS

Board Composition

GRI 102-10, 102-22, 102-27

The Bank has 15 Board members with a broad range of experience and deep industry expertise. They are elected by the shareholders during the Annual Stockholders' Meeting (ASM) and hold office for the ensuing year until their successors are elected and qualified. Our directors possess all the qualifications and none of the disqualifications under existing laws and BSP regulations.

The President & CEO, who has executive responsibility of day-to-day operations, is elected as the sole executive director while the other members are non-executive directors (NEDs) who do not perform any work related to the operations of the Bank.

Among the Board members are five (5) independent directors: Felix Enrico R. Alfiler, Edgar A. Cua, Federico C. Pascual, Florencia G. Tarriela, and Domingo H. Yap. They are independent of management and free from any business or other relationship which could materially interfere with the exercise of independent judgment in fulfilling their responsibilities as directors.

The Corporate Governance and Sustainability Committee reviewed the composition and membership of the Board and board committees and identified the quality, existing competencies, and skillsets of directors aligned with the Bank's strategic direction.

During the year, Cecilio K. Pedro stepped down after having served on the Board for over five (5) years. He is the former Chairman of the Risk Oversight Committee and a member of the Corporate Governance and Sustainability Committee and Board Oversight RPT Committee.

Subsequently, Domingo H. Yap joined the Board as his replacement. He has over 56 years of experience in leading companies engaged in manufacturing and real estate, among others, and has been an active member of various socio-economic organizations.

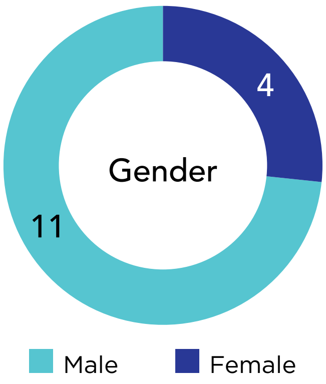
Following the appointment of Domingo H. Yap, the Corporate Governance and Sustainability Committee conducted a board committee membership review. The review resulted to the following changes in the chairmanship and membership of selected board committees:

- Federico C. Pascual stepped down as the Chairman of the Board Oversight RPT Committee but remained as member of the said committee.
- Domingo H. Yap joined the Board Oversight RPT Committee as Chairman. He also became a member of the Corporate Governance and Sustainability Committee.
- Federico C. Pascual became the Chairman of the Risk Oversight Committee.

The composition of the eight (8) board committees remained compliant with the applicable BSP and SEC regulations, as well as the standards of the ACGS.

With deep sadness, we mourned the passing of one (1) of our directors, Lucio "Bong" K. Tan, Jr., on November 11, 2019. His passing is a great loss to the Bank and the country's business community albeit his legacy continues to live on. He will always be remembered for his unfaltering generosity, competent leadership, and his passion for sports.

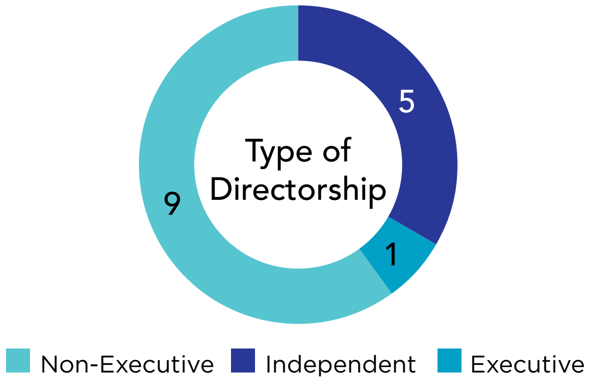
Meanwhile, the Board confirmed the election of Sheila T. Pascual as a Director of the Bank effective November 22, 2019. She has been with Allied Banking Corporation (HK) Ltd. since April 1996 under its Marketing and Business Development Department and has assisted the Bank in growing the business.



Skills, Competency, and Diversity

Board diversity is not an end of itself. Instead, it is a means to develop an enabling environment which allows the Bank to leverage on the diverse background and expertise of its individual directors, foster innovation, and achieve a balanced approach in making sound and objective decisions.

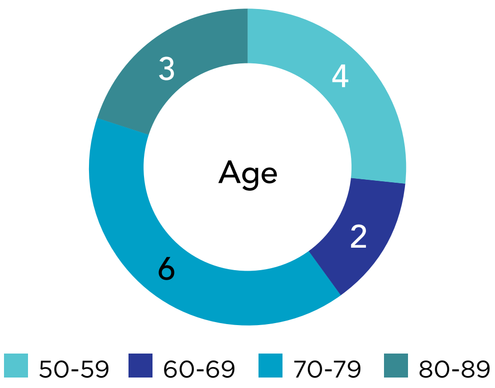
The composition of our Board reflects diversity in gender, nationality, age, knowledge, and skills. Both social (e.g., gender, race/ethnicity, and age diversity) and professional diversity are considered in identifying, assessing, and selecting the members of the Board and their appointment in various board committees.



Consistent with our implementation of the ACGS, the Bank continuously strives to meet the following diversity targets:

- At least one (1) female independent director;
- At least 50% of the members of the Board have educational background in banking and finance, accounting, economics, or law;
- At least 50% of the members of the Board have relevant skills and experience in the areas of banking and finance, accounting, economics, or law; and
- At least one (1) member of the Board is a foreign citizen.

By December 31, 2019, the Bank met the above-mentioned diversity targets. We have four (4) female directors in the Board, one of whom is independent. The Board members also have diverse educational background, expertise, corporate qualifications, and professional experience including accounting, auditing, aviation and travel, banking and finance, consumer goods, economics, general management expertise, legal expertise, manufacturing, real estate, and tobacco. Apart from Filipinos, PNB has one (1) director who is a British citizen.



In relation to age diversity, an optimal mix of young and well-seasoned Board members is in place. 40% of the Board are below 60 years old, who bring fresh ideas and perspectives into the table. Meanwhile, the age range of the remaining Board members is in a fairly productive and mature ages, with 20% and 13% of the Board belonging to the 70-79 and 80-89 age range, respectively.

Corporate Governance

Lastly, periodic review of the composition, representation, and diversity in the Board and board committees is being performed with the goal of having a balanced and diversified membership. The Board likewise assesses the adequacy, appropriateness, and effectiveness of the Board Diversity Policy as part of the annual self-assessment on the performance of individual directors, board committees, and the Board.

Nomination and Election of Directors
GRI 102-24

The criteria for the nomination and election of Board members comprise of knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Bank's business and risk profile; a record of integrity and good reputation; and the ability to promote smooth interaction between Board members.

External sources were consulted in sourcing potential and qualified directors, including the Institute of Corporate Directors (ICD) and annual reports of other listed companies. As a matter of practice, all shareholders, including minority shareholders, are also invited to recommend nominees for election as a director of the Bank.

The Corporate Secretary presents all nominations to the Corporate Governance and Sustainability Committee together with profiles of each nominee that include, among others, their qualifications and experiences, academic and professional backgrounds, and expertise relevant and beneficial to the business of the Bank.

Prior to the Annual Stockholders' Meeting, the Committee pre-screens the qualifications of the nominees, conducts the nomination procedure, and prepares the final list of all candidates.

Meetings and Attendance

Board meetings are held monthly and the schedule is set before the start of the financial year. The Corporate Secretary issues the annual Board calendar every December for the forthcoming year.

The Corporate Secretary informs the Board members of the agenda of their meetings and distributes materials at least five (5) business days prior to the scheduled meeting. She likewise ensures that the members possess accurate information that enables them to make sound decisions on matters that require their approval.

A majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business, and the affirmative vote of two-thirds (2/3) of the directors in attendance shall be required for any Board decision, unless otherwise provided by law. A minority of the Board in attendance at any regular or special meeting shall, in the absence of a quorum, adjourn at a later date, and shall not transact any business until a quorum is secured.

In 2019, the Board held a total of 15 meetings: 12 regular meetings, 2 special meetings, and 1 organizational meeting. Each Board member complied with the SEC's minimum attendance requirement of 50%.

15 meetings held for the year ended December 31, 2019		
Name of Director	No. of Meetings Attended	% Present
Florencia G. Tarriela	15	100.00
Felix Enrico R. Alfiler	15	100.00
Florido P. Casuela	15	100.00
Leonilo G. Coronel	15	100.00
Edgar A. Cua	15	100.00
Estelito P. Mendoza	10	66.67
Christopher J. Nelson	15	100.00
Federico C. Pascual	15	100.00
Cecilo K. Pedro (1)	11	100.00
Carmen K. Tan	14	93.33
Lucio C. Tan	15	100.00
Lucio K. Tan, Jr.† (2)	13	100.00
Michael G. Tan	15	100.00
Sheila T. Pascual (3)	1	100.00
Vivienne K. Tan	14	93.33
Wick A. Veloso	15	100.00
Domingo H. Yap (4)	3	75.00

(1) Cecilo K. Pedro stepped down from the Board effective August 31, 2019

(2) Lucio K. Tan, Jr. passed away on November 11, 2019

(3) Sheila T. Pascual was elected as member of the Board effective November 22, 2019

(4) Domingo H. Yap was elected as member of the Board effective September 1, 2019

Remuneration

The Corporate Governance and Sustainability Committee, acting as the Remuneration Committee, oversees the design and implementation of the remuneration and other incentives policy of the directors and officers. It designates the amount of remuneration and fringe benefits, which shall be sufficient to attract and retain directors and officers who are needed to run the Bank successfully.

The remuneration and fringe benefits of Board members consist of per diem for every Board and board committee meeting and noncash benefits like healthcare plan, group life insurance, and group accident insurance.

In accordance with the Revised Corporation Code, directors are not allowed to participate in the determination of their own per diems or compensation. The Committee ensures that no director shall participate in discussions or deliberations involving his own remuneration.

The total per diem given to the Board, as well as the total compensation of the President & CEO and the four (4) most highly compensated executive officers, is disclosed in the definitive information statement sent to all shareholders.

There has been no proposal on remuneration for directors presented to the shareholders for approval in the 2019 Annual Stockholders' Meeting.

Board Performance and Evaluation

GRI 102-28

Improved Board performance translates into better corporate governance. As such, the Board continuously seeks ways to assess its performance as individual directors and as a collegial body, identifying strengths and areas for improvement, and establishing mechanisms for addressing these.

The Board participates in an annual self-assessment exercise to assess their individual and collective performance. This exercise is also designed to determine and measure the adherence of the Bank's management to corporate governance practices.

The questionnaire covers comprehensive evaluation criteria focused on matters such as director's time commitment and independence, governance landscape, ethical culture in the organization, risk governance, fitness and propriety of Board and management, and internal controls.

The Board performance evaluation is facilitated by the CCO. He consolidates and reviews the responses and presents the summary of results and significant findings to the Corporate Governance and Sustainability Committee.

Orientation and Continuing Education

The Board of Directors values ongoing professional development and actively participates in training programs annually to keep abreast of key issues and developments in the industry. Corporate governance best practices, changes in the regulatory and business environment, and the duties and responsibilities of the Board and board committees–including risk oversight, audit, related party transaction (RPT) and corporate governance–are discussed during the annual training session.

Upon appointment of a new director to the Board, the CCO, together with the Corporate Secretary, ensures proper onboarding and provides orientation on the Bank's business, charter, articles of incorporation and by-laws, among others.

Corporate Governance

NAME OF DIRECTOR	PROGRAM	DATE OF TRAINING	HOST
Florencia G. Tarriela	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Felix Enrico R. Alfiler	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Florido P. Casuela	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Leonilo G. Coronel	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Edgar A. Cua	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Estelito P. Mendoza	Seminar on Corporate Governance	November 6, 2019	SGV & Co.
Christopher J. Nelson	Corporate Governance Orientation Program	November 19, 2019	Institute of Corporate Directors
Federico C. Pascual	Corporate Governance Orientation Program	November 19, 2019	Institute of Corporate Directors
Cecilo K. Pedro	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Carmen K. Tan	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Lucio C. Tan	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Lucio K. Tan, Jr.†	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Michael G. Tan	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Vivienne K. Tan	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Wick A. Veloso	Corporate Governance Seminar	July 29, 2019	SGV & Co.
Domingo H. Yap	Basics of Corporate Governance	October 11, 2019	Ateneo Graduate School of Business Center for Continuing Education

Shareholdings

A director is required to advise the Corporate Secretary of his shareholdings in the Bank within three (3) business days after his appointment and any subsequent acquisition, disposal, or change in shareholdings during his term.

Directors, management, and employees considered as "insiders" are prohibited from selling or buying a security of PNB or another company while in possession of material information with respect to the issuer or the security that is not generally available to the public.

Name of Director	Shareholdings as of January 1, 2019	% of Shares Held to Total Outstanding Shares of Bank	Shareholdings as of December 31, 2019	% of Shares Held to Total Outstanding Shares of Bank
Florencia G. Tarriela	2	0.0000001601	2	0.0000001311
Felix Enrico R. Alfiler	10,215	0.0008177628	8,324	0.0005455624
Florido P. Casuela	133	0.0000106473	162	0.0000106176
Leonilo G. Coronel	1	0.0000000801	1	0.0000000655
Edgar A. Cua	100	0.0000080055	100	0.0000065541
Estelito P. Mendoza	1,150	0.0000920634	1,150	0.0000753720
Christopher J. Nelson	100	0.0000080055	100	0.0000065541
Federico C. Pascual	39	0.0000031221	39	0.0000025561
Carmen K. Tan	5,000	0.0004002755	5,000	0.0003277045
Lucio C. Tan	14,843,119	1.1882673540	14,843,119	0.9728313639
Michael G. Tan	250	0.0000200138	250	0.0000163852
Sheila T. Pascual	0	0	110	0.0000072095
Vivienne K. Tan	10	0.0000008006	10	0.0000006554
Wick A. Veloso	131,001	0.0104872980	418,395	0.0274219845
Domingo H. Yap	0	0	1	0.0000000655

Concurrent Directorships

In order to safeguard against the excessive concentration of economic power, unfair competitive advantage, or conflict of interest to the detriment of others through the exercise by the same person or group of persons of undue influence over the policymaking and/or management functions of similar financial institutions while, at the same time, allowing to benefit from organizational synergy or economies of scale and effective sharing of managerial and technical expertise, the Corporate Governance Manual provides a policy on concurrent and interlocking directorships.

A non-executive director may concurrently serve as director of a maximum of five (5) publicly listed companies. In applying this provision to concurrent directorship in entities within the conglomerate, each entity where the non-executive director is concurrently serving as a director shall be separately considered in assessing compliance to this requirement.

A director of the Bank must notify the Board of Directors before accepting a directorship in another company.

Corporate Governance

BOARD COMMITTEES

The Board of Directors has delegated certain functions to eight (8) committees to enable more focused and specialized attention on specific areas. These are the Board Audit and Compliance Committee, Board IT Governance Committee, Board Oversight RPT Committee, Board Strategy and Policy Committee Corporate Governance and Sustainability Committee, Executive Committee, Risk Oversight Committee, and Trust Committee.

Name of Director	Board Audit & Compliance	Corporate Governance	Risk Oversight	Board Oversight RPT	Board IT Governance	Board Strategy & Policy	Trust	Executive
Florencia G. Tarriela	M	C			M	M		
Felix Enrico R. Alfiler	M	M	M			C		
Florido P. Casuela			M		M	M		C
Leonilo G. Coronel			M		M	M		M
Edgar A. Cua	C		M	M		M		
Estelito P. Mendoza								
Christopher J. Nelson					M	M	C	M
Federico C. Pascual		M	C	M		M	M	
Carmen K. Tan								
Lucio C. Tan								
Michael G. Tan						M		M
Vivienne K. Tan			M		C	M	M	M
Wick A. Veloso					M	M	M	M
Domingo H. Yap		M		C				

Legend: C is Chairperson. M is Member.

Board Audit & Compliance Committee

The Board Audit and Compliance Committee (BACC) is formed to assist the Board in the performance of its oversight responsibility relating to financial reporting process, systems of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations. It provides oversight over the internal audit and compliance functions and oversees the implementation of the audit and compliance program.

Structure and Membership

The membership, composition, and independence of the BACC meets the requirements under existing laws, BSP and SEC regulations, and the ACGS.

BACC consists of three (3) members: Edgar A. Cua, chairman and independent director; Florencia G. Tarriela, member and independent director; and Felix Enrico R. Alfiler, member and independent director.

Both the chairman and the two members possess relevant background, knowledge, skills, and experience in the areas of accounting, auditing and finance. Edgar A. Cua has held other previous positions in multinational banks and an auditing firm. Florencia G. Tarriela has been a country financial controller of a multinational bank for ten years. Felix Enrico R. Alfiler holds a broad range of expertise and related banking experience, having been affiliated with regulatory bodies and international organizations throughout his entire career.

Meetings and Attendance

In 2019, BACC held a total of 18 meetings. The Committee charter stipulates that meetings shall be held at least four times a year. Special meetings may be convened, as necessary. Meetings can only be held if attended by majority of the members less one (1) member; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

18 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Edgar A. Cua	Chairman	18	100.00
Florencia G. Tarriela	Member	17	94.44
Felix Enrico R. Alfiler	Member	17	94.44

A separate meeting was also held by the Committee with the external auditors, without anyone from the Management present, as mandated by applicable BSP regulations.

Board IT Governance Committee

The Board IT Governance Committee (BITGC) assists the Board in reviewing, approving, and monitoring the IT risk management framework and IT strategic plan of the Bank. BITGC reviews and endorses for approval of the Board the enterprise IT strategic plans of the parent bank, its subsidiaries, and affiliates. The Committee also reviews and monitors significant IT concerns including disruption, cyber security, and disaster recovery to ensure that all key risks are identified, managed and reported to the Board.

Structure and Membership

BITGC consists of six (6) members: Vivienne K. Tan, chairman and non-executive director; Florido P. Casuela, member and non-executive director; Leonilo G. Coronel, member and non-executive director; Christopher J. Nelson, member and non-executive director; Florencia G. Tarriela, member and independent director; and Wick A. Veloso, member and executive director.

Meetings and Attendance

In 2019, BITGC held a total of 11 meetings. The Committee charter stipulates that meetings shall be held at least every month. Meetings can only be held if attended by majority of the members less one (1) member; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

11 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Vivienne K. Tan	Chairman	11	100.00
Florido P. Casuela	Member	11	100.00
Leonilo G. Coronel	Member	11	100.00
Christopher J. Nelson	Member	11	100.00
Florencia G. Tarriela	Member	11	100.00
Wick A. Veloso (1)	Member	5	71.43

(1) Wick A. Veloso was elected as member of the Committee effective April 30, 2019

Corporate Governance

Board Oversight RPT Committee

The Board Oversight RPT Committee (BORC) is created to assist the Board of Directors in performing its oversight functions with respect to monitoring and managing potential conflicts of interest of shareholders, Board members, Management, and other stakeholders. BORC oversees the evaluation of related party transactions (RPTs) that present the risk of potential abuse and evaluates all material RPTs to ensure that these are conducted in the normal course of business; not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances, and that no corporate or business resources of the Bank are misappropriated or misapplied.

Structure and Membership

The membership and composition of the BORC fulfills the requirements under existing laws, BSP and SEC regulations, and the ACGS.

BORC consists of three (3) members: Domingo H. Yap, chairman and independent director; Edgar A. Cua, member and independent director; and Federico C. Pascual, member and independent director.

Atty. Isagani A. Cortes and Martin G. Tengco, Jr. also sit as non-voting members of the Committee. Further, the Global Compliance Group acts as the secretariat to handle the administrative requirements of the Committee.

Domingo H. Yap is not the chairman of the Board or of any other board committee. Members of the BORC have a sound understanding of the Bank's business and operations, which allows them to fulfil their responsibilities as stipulated on the Committee charter.

Meetings and Attendance

In 2019, BORC held a total of 13 meetings. The Committee charter stipulates that BORC shall conduct monthly meeting or as necessary. Meetings can only be held if attended by majority of the members less one (1) member; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

13 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Domingo H. Yap (1)	Chairman	3	100.00
Edgar A. Cua	Member	13	100.00
Federico C. Pascual (2)	Member	13	100.00
Isagani A. Cortes (3)	Nonvoting member	9	81.81
Martin G. Tengco, Jr.	Nonvoting member	12	92.31

(1) Domingo H. Yap was elected as chairman of the Committee effective September 27, 2019

(2 Federico C. Pascual stepped down as chairman but remained as member of the Committee effective September 27, 2019

(3) Isagani A. Cortes became a non-voting member of the Committee effective April 8, 2019

Board Strategy & Policy Committee

The Board Strategy and Policy Committee (BSPC) serves as the governing board committee in exercising authority and delegating to Management the implementation of the Board-approved strategic plans and policies. BSPC reviews, evaluates, approves and/or endorses for Board approval the following: new products, amendments to product, marketing programs and policies, and procedures and manuals. The Committee also performs oversight function on business plans and initiatives.

Structure and Membership

BSPC consists of 10 members: Felix Enrico R. Alfiler, chairman and independent director; Florido P. Casuela, member and nonexecutive director; Leonilo G. Coronel, member and nonexecutive director; Edgar A. Cua, member and independent director; Christopher J. Nelson, member and nonexecutive director; Federico C. Pascual, member and independent director; Michael G. Tan, member and non-executive director; Vivienne K. Tan, member and non-executive director; Florencia G. Tarriela, member and independent director; and Wick A. Veloso, member and executive director.

Meetings and Attendance

In 2019, BSPC held a total of 41 meetings. The Committee charter stipulates that regular meetings shall be held at least every month. Meetings can only be held if attended by majority of the members.

41 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Felix Enrico R. Alfiler	Chairman	40	97.56
Florido P. Casuela	Member	41	100.00
Leonilo G. Coronel	Member	41	100.00
Edgar A. Cua	Member	41	100.00
Christopher J. Nelson	Member	41	100.00
Federico C. Pascual	Member	41	100.00
Michael G. Tan	Member	37	90.24
Vivienne K. Tan	Member	32	78.05
Florencia G. Tarriela	Member	41	100.00
Wick A. Veloso [(1)]	Member	20	100.00

[(1)] Wick A. Veloso was elected as member of the Committee effective April 30, 2019

Corporate Governance and Sustainability Committee

The Corporate Governance and Sustainability Committee is tasked to assist the Board of Directors in the performance of its governance responsibilities, including the functions of the Nomination and Remuneration Committee, ensuring compliance with and proper observance of good corporate governance. It also oversees the consistent implementation of the Bank's corporate social responsibility and sustainability framework, with the following strategic thrusts: financial literacy and education, environmental protection, and philanthropic initiatives.

Corporate Governance

Structure and Membership

The membership and composition of the Committee complies with the requirements under existing laws, BSP and SEC regulations, and the ACGS.

The Committee consists of four (4) members: Florencia G. Tarriela, chairman and independent director; Felix Enrico R. Alfiler, member and independent director; Federico C. Pascual, member and independent director; and Domingo H. Yap, member and independent director.

Meetings and Attendance

In 2019, the Committee held a total of 15 meetings. The Committee charter stipulates that meetings shall be held at least every month. Meetings can only be held if attended by majority of the members; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

15 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Florencia G. Tarriela	Chairman	15	100.00
Felix Enrico R. Alfiler	Member	15	100.00
Federico C. Pascual	Member	15	100.00
Domingo H. Yap (1)	Member	5	100.00

(1) Domingo H. Yap was elected as member of the Committee effective September 27, 2019

Executive Committee

The Executive Committee (EXCOM) is formed to review, discuss, note, approve and/or endorse to the Board of Directors for approval the proposals regarding credit facilities, investments in financial assets, borrowings, and other credit or transactional matters in line with the Bank's strategic goals.

Structure and Membership

The membership and composition of the EXCOM complies with the requirements of the Revised Corporation Code and other applicable laws.

EXCOM consists of six (6) members: Florido P. Casuela, chairman and nonexecutive director; Leonilo G. Coronel, member and nonexecutive director; Christopher J. Nelson, member and nonexecutive director; Michael G. Tan, member and nonexecutive director; Vivienne K. Tan, member and nonexecutive director; and Wick A. Veloso, member and executive director.

Meetings and Attendance

In 2019, EXCOM held a total of 44 meetings. As stipulated in its charter, the Committee may regularly meet every week. The presence of majority of the members of the Committee shall constitute a quorum. The unanimous vote of all the members present at the meeting shall be required to approve any act in all the meetings of the Committee, otherwise the proposal under consideration shall be elevated to the Board for approval.

44 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Florido P. Casuela	Chairman	44	100.00
Leonilo G. Coronel	Member	44	100.00
Christopher J. Nelson	Member	44	100.00
Michael G. Tan	Member	41	93.18
Vivienne K. Tan	Member	29	65.91
Wick A. Veloso	Member	35	79.55

Risk Oversight Committee

The Risk Oversight Committee (ROC) is established to assist the Board of Directors in overseeing the risk profile and approving the risk management framework of the Bank, its subsidiaries, and affiliates. ROC is mandated to set the risk appetite, approve frameworks, policies, plans, programs, and processes for managing risk, and accept risks beyond the approval discretion provided to the Management.

Structure and Membership

The membership and composition of the ROC remains compliant with the requirements under existing laws, BSP and SEC regulations, and the ACGS.

ROC consists of six (6) members: Federico C. Pascual, chairman and independent director; Felix Enrico R. Alfiler, member and independent director; Florido P. Casuela, member and non-executive director; Edgar A. Cua, member and independent director; Leonilo G. Coronel, member and non-executive director; and Vivienne K. Tan, member and non-executive director.

Federico C. Pascual is not the chairman of the Board or of any other board committee.

Meetings and Attendance

In 2019, ROC held a total of 18 meetings. The Committee charter stipulates that regular meetings shall be held at least every month. Meetings can only be held if attended by majority of the members; but the vote of the majority of the quorum is required to approve any act in all the meetings of the Committee.

18 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Federico C. Pascual [1]	Chairman	5	100.00
Felix Enrico R. Alfiler	Member	18	100.00
Florido P. Casuela	Member	18	100.00
Edgar A. Cua	Member	18	100.00
Leonilo G. Coronel	Member	18	100.00
Vivienne K. Tan	Member	15	83.33

[1] Federico C. Pascual was elected as chairman of the Committee effective September 27, 2019

Corporate Governance

Trust Committee

The Trust Committee is primarily responsible for overseeing the fiduciary activities of the Bank. It ensures that these are conducted in accordance with applicable laws, rules and regulations, and prudent practices. The Committee is also responsible for the initial review of assets placed under the custody of the Trust Banking Group in its capacity as trustee or fiduciary; investment, re-investment and disposition of funds or property; and review and approval of transactions between trust and/or fiduciary accounts.

Structure and Membership

The membership and composition of the Committee meets the requirements under existing laws, BSP, and other regulations.

The Committee consists of five (5) members: Christopher J. Nelson, chairman and nonexecutive director; Federico C. Pascual, member and independent director; Vivienne K. Tan, member and nonexecutive director; Wick A. Veloso, ex-officio; and Joy Jasmin R. Santos, ex-officio.

The President and the Chief Trust Officer are members of the Committee. No member of the BACC is concurrently designated as member of the Trust Committee.

Meetings and Attendance

In 2019, the Committee held a total of 13 meetings. As stipulated in its charter, the Committee shall meet at least once every quarter. The presence of the majority of the members of the Committee less one (1) member shall constitute a quorum; but the vote of the majority of the quorum which in no case is less than two (2) members is required to approve any act in all the meetings of the Committee.

13 meetings held for the year ended December 31, 2019			
NAME OF DIRECTOR	ROLE	NO. OF MEETINGS ATTENDED	% PRESENT
Christopher J. Nelson	Chairman	13	100.00
Federico C. Pascual	Member	13	100.00
Vivienne K. Tan	Member	8	61.54
Wick A. Veloso	Ex-officio	11	84.62
Joy Jasmin R. Santos	Ex-officio	13	100.00

MANAGEMENT COMMITTEE

As the highest ranking officer in the organization, the President & CEO is primarily accountable to the Board of Directors in championing the desired conduct and behavior and promoting the long-term interests of the Bank. He is supported by the Chief of Staff.

The Management Committee (MANCOM) assists the President & CEO in the implementation of the overall strategy and oversees the management and affairs of the Bank. MANCOM ensures that the activities and operations are consistent with the defined strategic objectives, risk strategy, and policies as approved by the Board. Finally, the Committee sets the tone of good governance in the organization.

The Chief Legal Counsel handles all legal matters and cases filed for or against the Bank and renders opinions and advice on questions of law. He plays a significant and indispensable role in the management of legal risk. The CCO, on the other hand, oversees the design of an appropriate compliance system, promotes its effective implementation, and addresses breaches that may arise. He liaises with government regulatory bodies regarding relevant compliance matters.

Meanwhile, the CRO oversees the risk management function and proposes enhancements to internal processes to ensure that the Bank's infrastructure, systems, and processes are robust and effective to fully support strategic objectives and risk-taking activities. He is also the Bank's Data Protection Officer tasked to monitor compliance with the Data Privacy Act or Republic Act No. 10173, its implementing rules and regulations, issuances by the National Privacy Commission, and other applicable laws and policies.

In addition, the Chief Audit Executive (CAE) develops and manages a broad and comprehensive program of internal auditing covering the Bank, its subsidiaries, and overseas businesses to provide the Board with independent assessment on key organizational and procedural controls. The CAE also ensures that risk management systems are adequate, effective, and complied with.

The Chief Information Security Officer (CISO), who reports directly to the ROC, plays a key role in providing leadership and support for information security as well as balancing business and security requirements. The CISO is also responsible for ensuring that information security risks are within acceptable levels.

The complete background and qualifications of the MANCOM can be found on the Profiles of the Management Committee.

COMPLIANCE

In recent years, the Philippine banking ecosystem has received greater regulatory scrutiny as a result of detected weaknesses in the banking system and the prudential framework, vulnerabilities to fraud and financial crime, and a whole gamut of industry-wide issues that hound the entire sector. In response to the evolving regulatory and reporting landscape, the Bank has invested in building a competent and well-quipped workforce. The Global Compliance Group had its reorganization in 2019, which reflects our commitment in conducting our business and affairs within the boundaries of laws, rules, and regulations.

Financial Crime Risk

In an age when money laundering, bribery, and corruption have become rampant, mitigation of financial crime risks is crucial in preserving the integrity of the financial system.

The Financial Crime Risk Division encompasses five key (5) areas: anti-money laundering, counter terrorist financing, sanctions, anti-bribery and corruption, and tax transparency. Previously named “Global AML Compliance”, the Division's mandate was expanded to cover not only money laundering, but also other forms of financial crime. The Division ensures that all operating units of the Bank comply with the requirements and obligations set out in legislation, rules, regulations, banking guidance, global best practices; and that adequate systems and controls are in place to mitigate the risk of the Bank being used as a conduit to facilitate financial crime.

In addition, PNB pioneers as the first bank in the Philippines to sign the Information Sharing Protocol (ISP) with the Anti-Money Laundering Council (AMLC). The ISP is a financial intelligence framework designed to enable communication and cooperation between the AMLC and various covered persons, to mitigate and control money laundering, financing of terrorism, and its related unlawful activities in the country. PNB is committed to implement measures to support the Philippine government in managing and preventing financial crime. A signing ceremony was held on August 9, 2019 at the BSP complex attended by PNB representatives, Executive Vice President & Institutional Banking Sector Head, Cenon C. Audencial, Jr. and Executive Vice President & Chief Compliance Officer, Atty. Isagani A. Cortes.

Corporate Governance

Regulatory Compliance Risk

The Regulatory Compliance Risk Division ensures adherence to banking laws, rules, regulations, and guidelines issued and mandated by the Bank's various regulators. The Division observes ongoing dissemination of regulatory issuances to various units through the appointed Compliance Officer Designates. Moreover, the Division builds a constructive dialogue between the Global Compliance Group and the various offices to properly identify any compliance deficiencies and, subsequently, take corrective action in a timely and consistent manner.

Compliance Assurance

The Compliance Assurance Division reviews and assesses the level of compliance on applicable rules and regulations of the business and examines the appropriateness and reliability of existing processes and adequacy of controls to mitigate risks that may erode the franchise value of PNB. Compliance assurance is necessary to validate that key assumptions, data sources, and procedures utilized in measuring and monitoring compliance issues are consistently reliable. In 2019, the Division has conducted proactive thematic reviews of major high-risk units and operational processes of the Bank.

Compliance Operations

The Compliance Operations Division is responsible for data governance to ensure accuracy and authenticity of data handled by the Global Compliance Group and data analytics to develop compliance risk insights and intelligence on our customers and their transactions. Furthermore, the Division handles compliance risk management, compliance systems, and covered transactions reporting.

Compliance International

PNB boasts of having the most extensive international footprint among Philippine banks with 71 overseas branches and offices across Asia, Europe, Middle East, and North America. The Compliance International Division performs oversight and management of overseas branches and subsidiaries to ensure consistent compliance to local and host country relevant laws, rules, and regulations and alignment with the corporate standards established by the Bank. The Division, in providing advisory and support to overseas branches, subsidiaries and offices, reviews their respective compliance policies and procedures and monitors ongoing audits and examinations to ensure timely submission of audit requirements and escalation of critical and significant issues to Management for appropriate action.

INTERNAL AND EXTERNAL AUDIT

The Internal Audit Group (IAG), headed by the CAE, performs the internal audit activity for the Bank. IAG's functions include assessment of internal controls and the recommendations to implement measures to ensure adequate control. In addition, the Group is expected to assist in the Bank's risk management activities and corporate governance initiatives.

The BACC is responsible for the appointment, reappointment, and replacement of the CAE and Deputy CAE. The responsibility of BACC includes the annual performance review of the CAE, accepting the resignation and/or dismissal subject to due process.

The External Auditor, on the other hand, ensures the establishment and maintenance of an environment of good corporate governance as reflected in the financial records and reports of the Bank. The External Auditor undertakes an independent audit of the Bank and provides an objective assurance regarding the manner under which the financial statements are prepared and presented to the stockholders.

Likewise, the BACC has the sole authority to select, evaluate, appoint, and replace the External Auditor (subject to stockholder ratification) and shall approve in advance all audit engagement fees and terms and all audit-related, and tax compliance engagements with the External Auditor.

The External Auditor is expected to charge only reasonable audit fees. In determining reasonable fees, the following factors may be considered: (a) expected hours needed to complete the scope of work envisioned in the audit plan; (b) complexity of the activities and structure of the Bank; (c) level of internal audit assistance; (d) level of fees being charged by other audit firms; and (e) quality of audit services.

The table below shows the breakdown of audit and non-audit fees paid in 2019.

Fees	2019	%
Audit	33.109	87.93
Non-audit	4.544	12.07
Total	**37.653**	**100**

RIGHTS OF SHAREHOLDERS

Shareholders' Rights, Authority, and Privileges

PNB's shareholders have the following rights and privileges: (a) right to inspect corporate books and records; (b) right to information; (c) right to dividends, opportunity to place agenda items prior to and raise questions during the stockholders' meeting; and (d) right to vote on all matters that require their consent or approval.

All shareholders, including minority shareholders, have the right to nominate and elect candidates for the Board of Directors. They also have the right to remove and replace directors and vote on certain corporate acts in accordance with the Revised Corporation Code, including, but not limited to: amendment in the Bank's articles of incorporation and by-laws, authorization of additional shares, and transfer of all or substantially all assets.

The Board is a staunch advocate of shareholders' rights. They are instrumental in removing excessive costs and other administrative or practical impediments to the Bank's shareholders.

The rights and responsibilities of shareholders are discussed in detail in the Corporate Governance Manual and by-laws, accessible through PNB's website.

Stockholders' Meeting

PNB's shareholders are the highest authority in the Bank's governance structure. The stockholders' meeting serves as an avenue to make decisions based on the interests of the Bank in a fair and transparent manner.

The stockholders' meeting consists of the annual stockholders' meeting held once a year and special meetings may be held as needed.

Pursuant to the Bank's by-laws, the annual meeting of the shareholders shall be held at the principal office of the Bank or any other place within Metro Manila as may be determined by the majority of the Board, on the last Tuesday of April of each year unless such day is a legal holiday, in which case, the meeting shall be held on the following business day.

Special meetings may be called by the Chairman of the Board, by the President & CEO, by the majority of the Board, or on the demand in writing of the shareholders who own a majority of the voting stock.

In 2019, the Annual Stockholders' Meeting was held in April 30, at the Century Park Hotel, Malate, City of Manila.

Before the Annual Stockholders' Meeting

In accordance with the requirements of the Securities Regulation Code, the New Disclosure Rules of the SEC, and SEC Memorandum Circular No. 19, series of 2016, written notice of the meeting was sent to all shareholders as of record date, on April 2, 2019, at least 28 days prior to the date of the meeting.

The notice states the date, time, and place of meeting, the rationale and explanation for each item on the agenda that requires shareholders' approval, voting procedures, the profile of the directors seeking election, and the external auditor seeking reappointment. Proxy documents were made easily available on the written notice.

During the Annual Stockholders' Meeting

The Chairman of the Board formally opened the 2019 Annual Stockholders' Meeting. The Corporate Secretary certified the existence of a quorum for a valid transaction of business at the meeting. Every shareholder entitled to vote shall be entitled to one (1) vote for each share of stock standing in his name on the books of the Bank.

Shareholders voted on the following agenda: (a) approval of the minutes of shareholders' meetings held in the previous year; (b) approval of the annual report and the audited financial statements; (c) election of directors; and (d) appointment of the external auditor. All legal acts, resolutions and proceedings of the Board, including approvals on related party transactions endorsed by the BORC, are also included on the agenda of the Annual Stockholders' Meeting for ratification of disinterested shareholders.

Corporate Governance

Shareholders are allowed to elect directors individually. Each resolution deals with only one (1) item; there is no bundling of several items into the same resolution.

At the meeting, shareholders are encouraged to express their opinions and raise any questions, either on the agenda or any other questions related to the business and operations of the Bank. All questions have been answered by the Board and the Bank's corporate officers and are recorded in the minutes of meeting.

The Bank has likewise engaged Roxas delos Reyes Laurel Rosario & Leagogo Law Offices, our external counsel, for the validation of proxies and votes cast during the meeting.

After the Annual Stockholders' Meeting

The minutes of the meeting was disclosed on the Bank's website by the next calendar day. The minutes contain the voting results for all resolutions and agenda items, questions raised by shareholders, responses from the Board and officers, and attendance of the Board members and key officers.

As a matter of practice, the members of the Board, the Chairman, the President & CEO, the Chairman of the BACC, the CCO, the Investor Relations Officer, representatives of the external auditors, and other key officers are present during the Annual Stockholders' Meeting.

Electronic Voting in Absentia

To protect shareholders' right to vote and preserve the integrity of the voting procedure, the Bank ensures that all security measures and verification procedures are in place prior to the implementation of electronic voting in absentia during the stockholders' meeting. Moreover, PNB is awaiting the issuance by the SEC of the Implementing Rules and Regulations governing stockholder participation/voting in absentia, as mandated under the Revised Corporation Code, to ensure that Bank procedures are aligned with the provisions of pertinent rules and regulations.

Voting at the stockholders' meetings may be done by ballot or show of hands. Stockholders may also vote either in person or by proxy.

DISCLOSURE AND TRANSPARENCY

PNB Website

The official website of PNB serves as an avenue to reach out to customers, investors, shareholders, and various stakeholder groups. As such, the Bank aspires to promote transparent and open communication to the public by ensuring timely and accurate disclosure of relevant and material information including financial statements and reports, materials provided in briefings to analysts and media (e.g., investor presentation materials and briefing notes), downloadable annual report, notice and minutes of the Annual Stockholders' Meeting, articles of incorporation, and by-laws.

Annual and Quarterly Reports

The annual and quarterly reports are the primary disclosure mechanisms used by the Bank to convey its financial performance in a comprehensive, accurate, reliable, and timely manner. The reports provide a fair and complete picture of PNB's financial condition and results of business operations.

The reports are also being disclosed in accordance with the reportorial requirements of the SEC and PSE.

Press Releases

PNB embraces media briefings and press conferences as a relevant communication channel due to its extensive reach and accessibility. The Bank has engaged the media to cover significant events such as the Annual Stockholders' Meeting.

Date	Press Release
June 21, 2019	PNB to issue USD750 million Notes
August 9, 2019	PNB core income up 45% for the first half of 2019, Assets grow by 24% to 1.09 trillion pesos
September 27, 2019	PNB to offer Php2.0 Billion LTNCDs
October 11, 2019	PNB lists Php4.6 billion LTNCDs
November 12, 2019	PNB net profit hikes 17% for the 3rd quarter of 2019

Investor Relations

Investor relations enables us to maintain our foothold in the financial market, while we stand to obtain capital for the effective conduct of our business. The Bank has made a conscious effort in deepening its engagement with shareholders, investors, analysts, and the media.

PNB has implemented its Investor Relations Program with the objective of promoting investors' and stockholders' awareness and name recognition through participation in domestic and international conferences sponsored by fund managers. This program is also designed to effectively address concerns/ issues of stockholders and investors that could materially affect the Bank's reputation, operations, and viability.

The Investor Relations Program is anchored on three (3) main principles:

- *Accuracy and Timeliness* – The Bank is committed to provide analysts, credit rating agencies, investors, and stockholders with correct and up-to-date information on developments in the Bank;
- *Transparency* – Relevant information is being disclosed to investors and stockholders in accordance with the prescribed standard of disclosure by regulatory agencies; and
- *Consistency and Impartiality* – The same, unbiased information is prepared and made accessible to all interested analysts, credit rating agencies, investors, and existing stockholders through various modes of communication.

The contact information of the Investor Relations Officer is available at the PNB website.

Date of Analysts' and Investors' Briefing	Key Discussion Points / Subject
May 10, 2019	Financial Results for the First Quarter of 2019
June 13, 2019	Presentation to Investors and Trading Participants - Philippine National Bank Stock Rights Offering
August 13, 2019	Financial Results for the First Half of 2019
November 13, 2019	Financial Results for the First Nine Months of 2019

GOVERNANCE POLICIES AND PRACTICES

Corporate Governance Manual

The Corporate Governance Manual institutionalizes the principles of good corporate governance in PNB. The Corporate Governance Division regularly conducts review and evaluation of the Manual to ensure its continuing suitability, adequacy, and effectiveness.

The Manual clearly defines the roles, responsibilities, and accountabilities of the Board of Directors, together with the types of decisions requiring its approval. This Manual is publicly disclosed and accessible through the Bank's website.

Corporate Governance Confirmation Statement

The Bank adopts a policy of full compliance with the Code of Corporate Governance. As of December 31, 2019, the Bank has substantially complied with the recommendations of the Code of Corporate Governance for Publicly-listed Companies, except for the following:

1) 30% public float requirement to increase liquidity in the market;
2) Secure electronic voting in absentia at the Annual Stockholders' Meeting; and
3) Disclosure of director remuneration and executive compensation on an individual basis.

The details of the Bank's compliance with the Code of Corporate Governance and the explanation for the above-mentioned items can be found in its Integrated Annual Corporate Governance Report, published on the PNB website.

Moreover, the Bank has substantially complied with the provisions and requirements set forth in the Corporate Governance Manual and there were no reported significant deviations from what is expected from its Directors, Board Advisors, officers, and employees.

Corporate Objective

PNB's rich history is a celebration of an important milestone for a financial institution that started out as an agricultural bank that became the country's de facto central bank and later on a national bank. Despite its privatization–or perhaps because of it–PNB invariably goes back to its roots in supporting efforts in nation building with its thrust to provide necessary funds for energy, infrastructure development, and tourism.

Corporate Governance

Through sound governance, organizational effectiveness, and responsible corporate citizenship, the Bank continues to act in pursuit of its mission, vision, and corporate objectives. The Board is vested with the responsibility for defining the Bank's vision and mission. Annually, the Board also plays a pivotal role in the review, monitoring, and overseeing the implementation of corporate objectives and strategy.

Once integration of PNB and PNB Savings Bank (PNBSB) is completed, PNB will be able to deliver a more efficient banking experience and will be able to serve a wider customer base while the customers of PNBSB will have access to PNB's diverse portfolio of financial solutions. The Bank is confident that this strategic move puts PNB in a better position to compete in the consumer and the small and medium enterprise (SME) business segments.

As the Bank continues to raise its governance practices and initiatives towards regional and international space, PNB puts its best foot forward. By 2021, the Bank foresees to receive regional recognition on the realm of corporate governance by leveraging the parameters defined by the ACGS as a yardstick.

As a purpose-driven bank, there is much emphasis on social responsibility and good citizenship in the conduct of our operations. PNB has ramped up its efforts on creating long-term value for stakeholders. The Bank's employees are key contributors to the attainment of such goals. Thus, PNB goes through great lengths to provide employees with working conditions that promote safety, teamwork, productivity, and work-life fit. In the same vein, we set our sights on a recognition for being an employer of choice, affirming our commitment to the continued development and success of our people.

Code of Ethics for Directors

The Code of Ethics for Directors serves as a guide of principles designed to enable the Board in exercising its powers, duties, and responsibilities in accordance with fit and proper standards. This establishes the minimum standards of conduct expected of all directors. As such, the Code shall be read in conjunction with the Bank's Corporate Governance Manual, articles of incorporation, by-laws, and internal policies and procedures.

The provisions of the Code shall apply to all members of the Board, whether executive, non-executive or independent, of PNB. All members of the Board are expected to observe and uphold the principles set out in the Code.

Code of Conduct for Employees

The Code of Conduct for Employees is designed to prescribe a moral code for employees which would not only instill discipline but also yield higher productivity at the workplace and enhance and safeguard the corporate image of the Bank. The provisions of the Code apply to all employees including its overseas branches/offices and PNB's domestic and foreign subsidiaries.

Each employee, senior officer, or director is furnished with a copy of the Bank's Code of Conduct and/or Code of Ethics. Moreover, they can access the Code through the Bank's intranet.

Each individual accomplishes an Acknowledgement Receipt certifying therein that he has been furnished with a copy of the Code; that he has fully read and understood the provisions embodied in the Code; and that he promises to abide with the rules and regulations of the Code.

Any failure to abide with the provisions of the Code is reported by the immediate supervisor and/or Head of Office concerned to the Human Resource Group and/or Corporate Governance and Sustainability Committee. A designated committee may subsequently evaluate the report to determine if any sanction or disciplinary action should be taken against the erring employee or director.

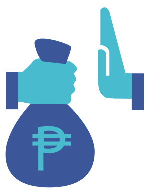
Whistleblowing Mechanism

It is the responsibility of all directors, senior officers, and employees to report suspected or actual occurrence of fraud and/or violation of any law, rule, policy, and misconduct, in accordance with the Bank's Whistleblower Policy.

Under the policy, a whistleblower may be an employee of the Bank or a third party who discloses, in good faith, any illegal, unethical, or improper behaviors or practices, and misconduct in the Bank. He can report any suspected or actual commission of theft, fraud, corruption, among others.

Whistleblowers are protected from retaliation by ensuring that his identity is kept in strict confidence. The whistleblower may report to the Head of Security Group or any of the designated Sector or Group Heads any retaliation or adverse personnel action taken against him by any individual or office in the Bank.

Hence, anyone who retaliates against the whistleblower is subject to disciplinary action, including the possibility of termination or dismissal from the Bank service.



Anti-Bribery and Anti-Corruption

In line with the Bank's commitment to ensure that business dealings are conducted with the highest level of integrity and professionalism, employees are prohibited from engaging in any form of bribery such as the following:

- Giving/offering pecuniary benefits to external parties with the intention to influence the other party to commit a violation for personal and/or business advantage.
- Acceptance/receiving of pecuniary benefits from clients, suppliers, service providers in order to facilitate the processing or approval of transactions or service agreements with the Bank despite deficiency and/or non-compliance with the standard requirements and procedures.

Employees who have knowledge of any form of irregular transactions or corrupt practices being entered into by an office or an employee under the name of the Bank must report the same through the offices identified in our Whistleblower Policy.

Consumer Welfare

Embedding consumer protection practices across the organization is at the forefront of the Bank's corporate responsibility–from the Board of Directors who approves the policies and conducts oversight in the implementation of Bank's Consumer Protection Risk Management System (CPRMS) to the Management Committee who ensures that all consumer protection practices are aligned with the approved policies and risk management system and is consistently adhered to by relevant units.

Consumers have the right to be informed of the benefits as well as the risks involved regarding the products and services they availed from the Bank. Throughout the banking relationship, the following standards of conduct are observed: (a) disclosure and transparency, (b) protection of client information, (c) fair treatment, (d) effective recourse, and (e) financial awareness and education.

Consumer assistance mechanisms are made available in various forms: face-to-face support from PNB Branch personnel; account officers and relationship managers; 24 x 7 customer care hotlines; and electronic or digital channels. Each inquiry, request and/or complaint is acknowledged and processed within the standard turnaround time. Complaint management process is also available, a cross-functional activity involving multiple offices, which provide priority assistance in resolving customer concerns.

In 2019, the Bank strengthened the implementation of consumer protection policies and Enhanced Customer Relationship Management System (ECRM) (i.e., workflow manager and logging tool for customer concerns).

PNB aims to be the financial partner of consumers in their journey to financial health and wealth. The Bank is committed to equip consumers with the information and tools they need to make wise financial decisions towards achieving their goals.

Creditors' Rights

PNB takes pride in taking an active role in safeguarding the rights of its creditors. The Bank is committed to honoring its contractual financial obligations as evidenced by good credit standing. Since deposit-taking is one of the Bank's principal banking activities, special premium is placed on the protection of depositors who serve as our main creditors. The Bank recognizes that creditors have the right to safeguard their transactions with the Bank and be heard though appropriate channels when they escalate feedback and concerns.

The Bank provides its depositors with ready access to information that accurately represents the fundamental benefits and risks, as well as the terms and conditions of a financial product or service. Moreover, PNB is one with the Philippine Deposit Insurance Corporation (PDIC) in promoting

Corporate Governance

public confidence and stability in the economy. As such, the Bank advertises PDIC's deposit insurance protection in appropriate and accurate manner by including the official PDIC Insurance Statement (Deposits are insured by PDIC up to Php500,000 per depositor) in general advertisements of the Bank and advertisements relating to deposit products and services appearing in print ads, TV, official website, and other forms of marketing communications.

As a matter of policy, PNB respects and upholds the rights of its creditors by observing fair and truthful disclosure of financial and operating results which enable them to evaluate and assess the Bank's performance and credit standing. The annual and quarterly reports are the primary disclosure mechanisms used by the Bank to convey its financial performance in a comprehensive, accurate, reliable, and timely manner. The reports provide a fair and complete picture of the Bank's financial condition and results of business operations.

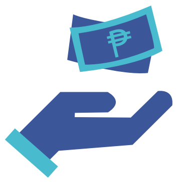
Vendor and Supplier Selection

PNB works for the steadfast development and enrichment of its partnership with a broad spectrum of stakeholders. The Bank's reputation as a leading financial institution cannot be sustained without the unwavering support of its partners: suppliers, vendors, and third-party service providers.

The Bank has developed its Outsourcing and Vendor Management Policy consistent with existing statutory, regulatory, and supervisory requirements. This policy sets out the framework for engaging with suppliers, along with the responsibilities of the Board of Directors and Management Committee in the review and evaluation of all new and existing outsourcing arrangement and vendor relationships.

A dedicated vendor relationship manager, who actively builds and maintains commercial relationship with vendors and service providers, has been appointed in each business unit. PNB employs a comprehensive onboarding process which encompasses risk assessment, elaborate due diligence procedures, contract structuring and review, and continuous monitoring and oversight. Moreover, appropriate committees have been organized for the effective management of relationships with third parties.

As with any aspect of the Bank's business, PNB believes that continuous monitoring and appraisal of performance is of paramount importance to evaluate the overall effectiveness of the vendor relationship and the consistency of the relationship with the Bank's strategic goals. Mechanisms are in place for the development of relevant performance metrics, vendor performance management, and competency evaluation.



Remuneration Policy

PNB aims to sustain a strong, performance-conducive environment that would attract, motivate, and retain the best talents. For this purpose, the Bank maintains a Remuneration Policy that commensurately compensates its directors and officers for high levels of performance. Such policy complements the Bank's efforts to hire and develop the best talents through its competitive recruitment program and continuing learning programs.

The PNB Remuneration Policy provides a sustainable compensation structure and fringe benefits program for directors and officers. The policy allows the Bank to be competitive with industry counterparts. It identifies basic compensation, incentives, recognition, and rewards for those who meet their performance targets and goals.

Officers' Compensation and Benefits

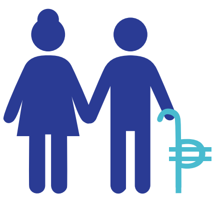
The compensation package for officers consists of monetary and non-monetary benefits, fringe benefits, and long-term schemes such as the following:

(a) Monetary emoluments consist of monthly compensation, guaranteed bonuses equivalent to four (4) monthly basic salary, allowances for business-related expenses, official travel, other monetary allowances, and cash award upon reaching service milestones of at least 10 years and every five (5) years thereafter; and

(b) Non-monetary benefits consist of healthcare plan for the officer and two (2) of his qualified primary dependents, group life insurance, group accident insurance, leave privileges, car plan, and loan facilities such as general purpose loan, motor vehicle loan, and housing loan.

Performance-based Remuneration

PNB designed its compensation and benefits package as a competitive tool to attract and retain highly qualified individuals who will support the Bank's implementation of its business directions and to achieve business goals. Hence, provisions of the compensation and benefits policies show the clear linkage with employee contributions which are measured through a balanced scorecard approach in its performance management system. Officers who are unable to meet their targets become ineligible to certain benefits and/or incentive programs such as the Car Plan benefit, Employee Loans, and performance bonus to name a few. The same is true for employees who get involved in administrative cases where certain benefits are temporarily withheld in case an administrative sanction is imposed. In case of dismissal, benefits are forfeited and taken back including but not limited to the Car Plan benefit, the guaranteed bonuses equivalent to a three–month salary and the Centennial PNB shares for the remaining years.



Retirement

GRI 201-3

PNB has a Retirement Plan for its employees that provides funds for the payment of separation benefits to employees who are eligible under the Bank's Retirement Plan, including cases of disability or death while on service.

There are three (3) modes of retirement:

(a) Normal Retirement: an employee shall be compulsorily retired from service and shall be entitled to receive the benefits under the Plan upon reaching 60 years of age or upon completing 35 years of service, whichever comes first;

(b) Early Retirement: with the consent of the Bank, an employee who has not yet reached the normal retirement requirement may opt to avail of the early or optional retirement benefits under the Plan upon reaching (i) 55 years of age and rendering at least 10 years of continuous service; or (ii) completing at least eleven 11 years of service; and

(c) Late Retirement: Any employee may offer his service to the Bank beyond the normal retirement date, but not beyond 65 years of age. Such retirement, however, shall be subject to the approval of the Bank on a case-to-case basis. Employees who intend to resign from service but do not meet the prescribed eligibility requirements are not entitled to any separation pay.

Succession Management

The Succession Management Program is an evolving process of strategically and systematically identifying, assessing, and developing talents for future critical roles to ensure consistent and effective organizational performance. This program ensures the availability of talents who have the potential and required competencies and are ready to assume vacant positions as the need arises, due to organizational exigencies, particularly for key management positions.

A Talent Board consisting of senior officers has been created to monitor and review the success and progress of the program. It renders decisions on nominations and acceptance of talents in the Talent Pool. The process involves the following steps:

(a) Identification of Key Management positions.

(b) Nomination of Candidates – the respective Sector or Group head nominates possible candidates based on results and past performance, competencies, and potential, subject to the initial evaluation of the Talent Board.

(c) Conduct of Talent Audit – the process of evaluating and assessing the shortlisted nominees' competencies through online assessment, 360-degree feedback survey, and interviews with the members of the Talent Board, if necessary. Those who qualify based on the evaluation of the Talent Board shall be recommended for inclusion in the Talent Pool, subject to the approval of the President & CEO.

(d) Learning and Development – to address the development needs of each talent, an Individual Development Plan (IDP) consisting of on-the-job training, interactional development programs, and classroom training shall be created by the Sector or Group head and/or designated mentor. For a more objective and in-depth assessment of the talent's competencies, he may be required to train in the Assessment and Development Center. The training result is made an integral part of the IDP.

(e) Talent Review – the progress of the talent is monitored and evaluated.

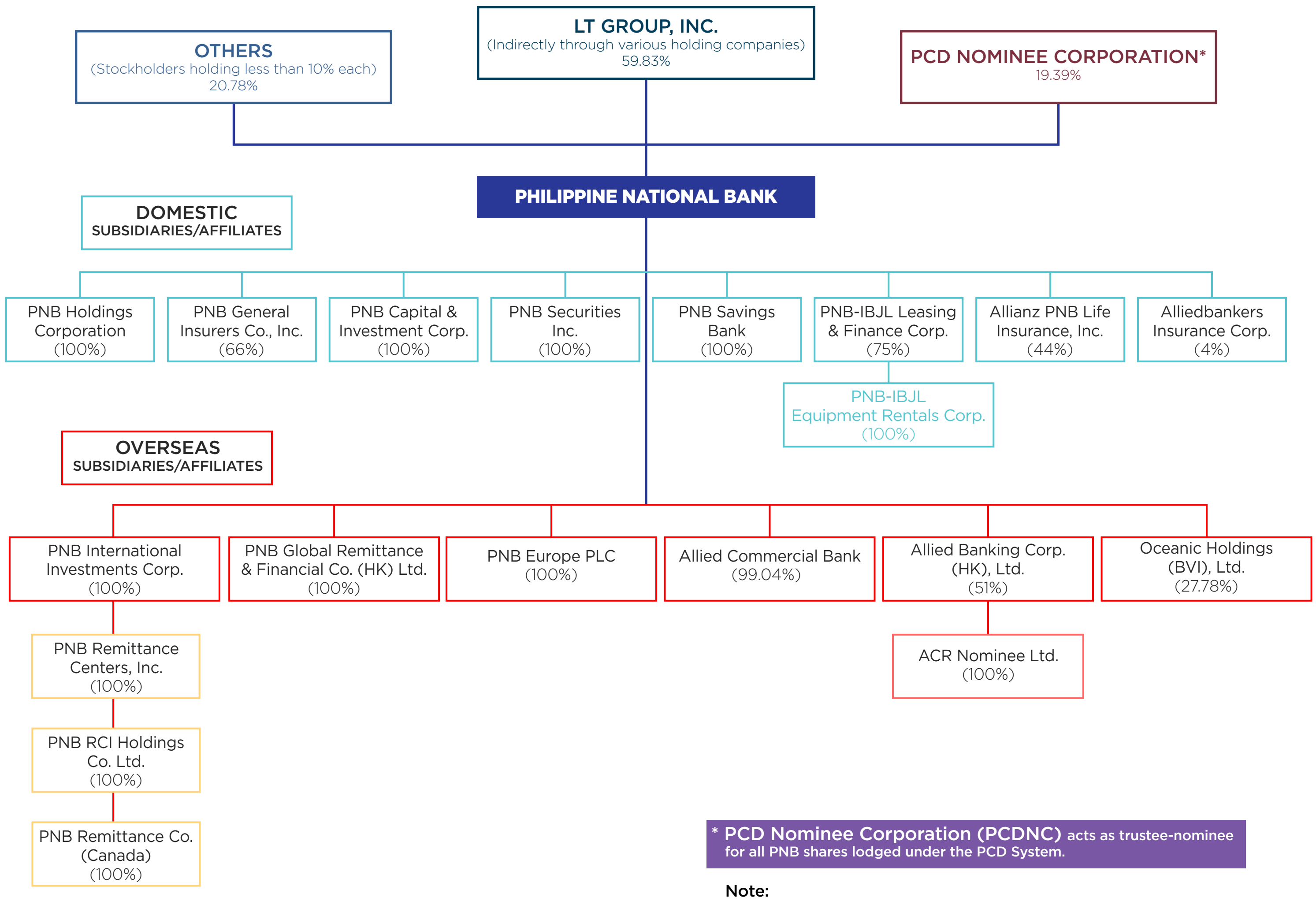
(f) Engagement – strategies are employed to sustain the desired level of performance as well as the employee's commitment to the program.

(g) Placement – the review process and development interventions continue until the need or opportunity arises for the talent to assume the key position he trained for.

Conglomerate Map

As of December 31, 2019

GRI 102-5



* **PCD Nominee Corporation (PCDNC)** acts as trustee-nominee for all PNB shares lodged under the PCD System.

Note:

Non-Operating Domestic Subsidiaries

1. PNB Management and Development Corporation

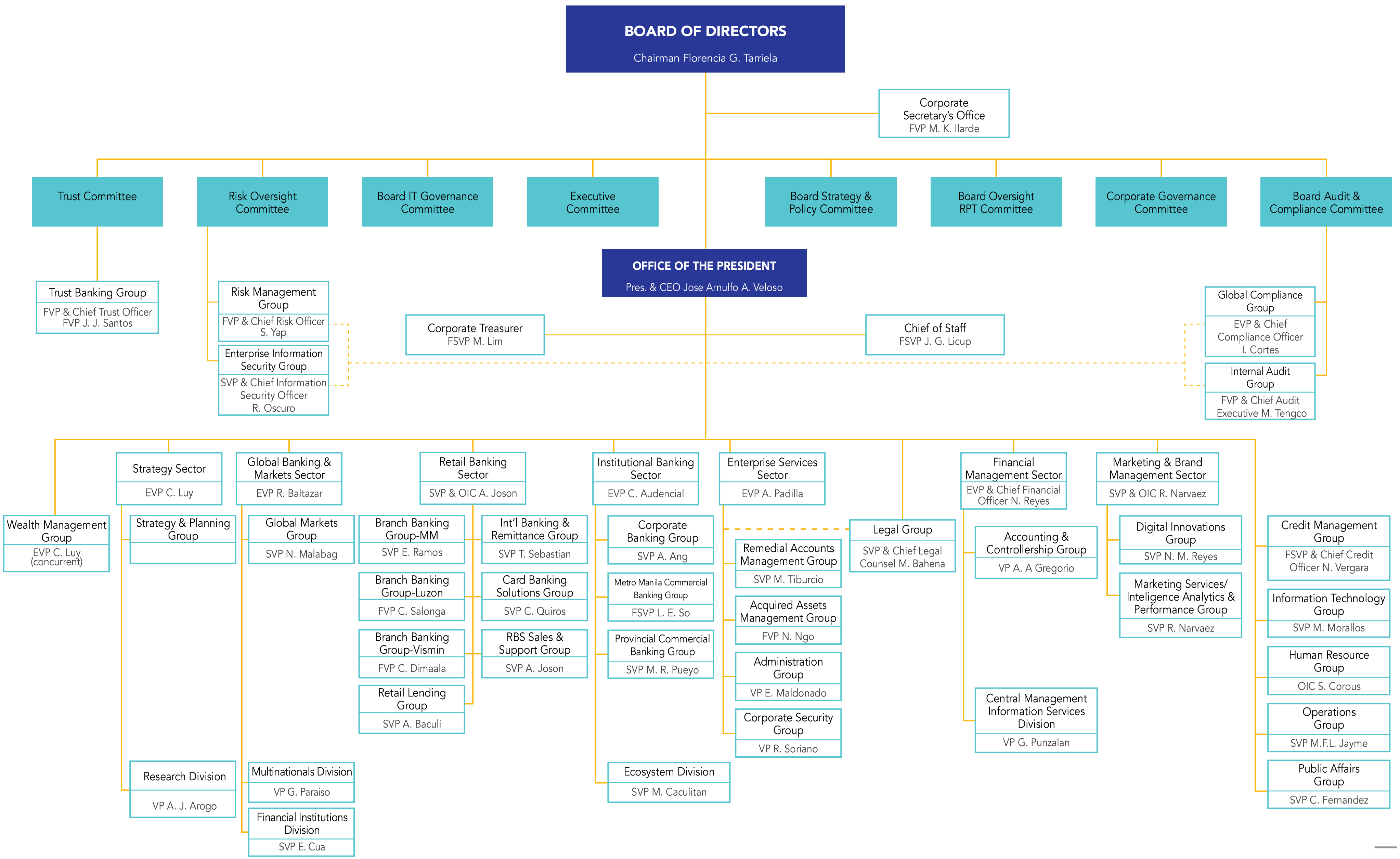
Dormant Overseas Subsidiaries

1. PNB Corp. Guam
2. PNB Investment Ltd.

Table of Organization

As of March 17, 2020

GRI 102-5



Sustainability Report

Introduction

We strongly believe that the success of our Bank is defined by the health of its business, the well-being of its employees, customers, and stakeholders, and the good future of generations to come. It is our aim to contribute positively to the country's economy, our society, and the environment by focusing on initiatives which promote ethical business practices, strong corporate governance, and sound risk management.

PNB's Sustainability Policy, illustrating our mission, was developed to guide us in conducting our business responsibly. This Policy is aligned with the United Nations' Sustainable Development Goals (SDGs). The Corporate Sustainability Unit of Public Affairs Group, formally established in August 2019, proactively engages employees in living out this mission.

Moreover, we are committed to embodying the values of diversity and inclusion as part of our culture. In August 2019, we joined the Philippine Business Coalition for Women Empowerment (PBCWE) which makes us the first local universal bank to undergo the Economic Dividends for Gender Equality (EDGE) assessment in preparation for our EDGE Certification.

Our Sustainability Policy

PNB is a Filipino, private, universal bank with a global presence committed to provide relevant financial solutions to customers anywhere in the world. We generate value through our strategy focused on Safe, Aggressive, and Profitable Growth.

Our capacity to grow and sustain our business are contingent on the quality of our human capital, the condition of our physical resources, the viability of our initiatives, and our relationship with customers, employees, and stakeholders.

We believe that Sustainability starts from within, that is, by cultivating an inclusive and collaborative work culture, helping all employees, regardless of gender and background, have equal access to relevant training and opportunities to develop skills and capabilities needed to succeed and improve their well-being. Through this policy, the Bank commits to educate and engage its employees, leading them to align with PNB's thrust on sustainability.

Hence, for PNB, Sustainability means:

- Ensuring the longevity of our business by maintaining profitability, attracting and retaining the right talents, providing relevant financial solutions, caring for our tangible and intangible resources, and upholding a culture of continuous improvement;

- Providing our employees with the right competencies and learning opportunities as well as equal access to programs that can enhance productivity leading to self-sufficiency and a better quality of life; and

- Promoting the well-being of our stakeholders by keeping a healthy ecosystem of customers and partners.

Our Sustainability Pillars

Our economic, social, and environmental responsibility includes complying with the relevant laws, rules, and regulations. Hence, our focus on the following Pillars:

1. Economic
- Revenue growth, profitability, and business continuity.
- Financial wellness and long-term value for customers, employees, and stakeholders.
- Financial inclusion through available products and services.

2. Social
- Succession planning through capability building, leadership development, and strategic talent acquisition.
- Improvement in our employees' quality of life.
- An empowering and non-discriminatory culture where our employees, customers, and stakeholders are treated fairly and given equal opportunities.
- Positive contributions to communities through employee volunteerism and other initiatives imbibing responsible corporate citizenship.

3. Environmental
- Efficient use of natural and man-made resources.
- Reduced environmental footprint of the Bank and our employees.

4. Governance
- Compliance with all applicable laws, rules, and regulations that govern our business.
- Transparency and accountability in all areas of our operations.

Our Commitment

1. For our people, we will:
- Provide a safe, respectful, and collaborative work environment that cultivates personal and professional growth.
- Educate, encourage, and inspire employees in contributing positively to their respective communities.
- Provide access to various skills development and learning programs relevant to our employees' existing functions and target roles.
- Provide equal opportunities for candidates to be hired without biases on their skills and competencies.
- Provide equal opportunities for employees to be promoted based on performance, potentials, and aspirations, regardless of gender and background.
- Eliminate biases, whether conscious or unconscious, towards certain groups or individuals and ensure that decisions are rendered objectively and fairly.
- Promote gender equality in employment and in the workplace.

2. For our customers and stakeholders, we will:
- Ensure the continuity of our business through strategic succession planning.
- Support businesses and projects that foster economic and inclusive growth, social development, environmental protection, and nation-building.
- Promote financial wellness and create value through tailor-fit products and services.

3. For our shareholders and regulators, we will:
- Adhere to all applicable laws, rules, and regulations governing our scope of business and areas of operations.
- Report the progress and milestones of our Sustainability Programs to the Board of Directors at least semi-annually.
- Review and update our Sustainability Policy at least annually.

4. For our environment, we will:
- Reduce the environmental impact of our operations through the efficient use of natural or man-made resources.
- Adapt eco-friendly technologies.

Our Contribution to the United Nations' Sustainable Development Goals (SDGs)

Realizing our capacity for contributing to sustainable development, we will align our initiatives with the United Nations' SDGs to ensure the success of our business, the well-being of our employees, customers, and stakeholders, and the good future of generations to come.

Setting the Tone from the Top

GRI 102-29, 102-32

Driving our Sustainability thrusts are the Chairperson of the Board of Directors and the President & CEO. As our Sustainability Champions, both play vital roles by influencing the Bank's Management Team on integrating aspects of Sustainability in our scope of business and areas of operations.

To centralize all our efforts, the Corporate Sustainability Unit was established in August 2019. Reporting under the Public Affairs Group, the unit is tasked to develop and implement the Bank's Sustainability initiatives with guidance from the Office of the President and the Corporate Governance & Sustainability Committee, a Board-level committee tasked to promote environmental, social, and governance advocacies and exercise corporate governance oversight functions.

Report Coverage and Parameters

GRI 102-50, 102-54

This report is prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core Option, reflecting our Bank's significant financial, social, and environmental contributions from January 1 to December 31, 2019.

Sustainability Report

Stakeholder Engagement
GRI 102-40, 102-42, 102-43, 102-44

At PNB, we do not only aim to meet the fast-paced and ever-changing needs of the market but we also endeavor for our company to grow and stay relevant in the banking industry while contributing positively to the country's economy, our society, and the environment.

We recognize that the health of our business and the Sustainability of our company are connected with the long-term interests of our stakeholders; hence, we are cognizant of their concerns and expectations which influence our strategy, business operations, and work culture.

OUR STAKEHOLDERS	MODE OF ENGAGEMENT	KEY CONCERNS AND EXPECTATIONS	OUR RESPONSE
Employees	• Regular meetings • Letters / correspondences • Emails • Townhall meetings / events • Surveys	• Work-life balance • Competitive compensation and benefits • Training and development • Career progression • Improvement of infrastructure and facilities • Opportunities for volunteerism and community engagement	• Year-round initiatives and programs to promote employee well-being: training and development, employee welfare and wellness, employee recognition, and enhanced performance appraisal by our Human Resource Group • Volunteerism or community outreach opportunities for our employees in partnership with Corporate Sustainability Unit, Human Resource Group, and other units of the Bank
Customers	• Face-to-face contact with Relationship Managers and Branch personnel • Telephone calls • Letters/correspondences • Website • Emails • Social Media • Special events	• Products and services that are responsive to their needs • Efficient customer service • Protection of client information • Accessibility and convenience of customer touchpoints • Competence of Bank personnel to answer inquiries, complaints, and concerns	• Branch presence across the globe, offering relevant financial solutions • A reliable 24/7 customer service hotline • Enhanced strategic recruitment efforts to attract a highly professionalized, competent workforce
Investors / Shareholders	• Letters/correspondences • Emails • Special events • Annual Stockholders' Meeting • Investor Briefings • Investor Relations Program	• Strong financial performance • Shareholder returns • Corporate governance • Transparency and disclosure • Continued business growth • Compliance with globally accepted financial reporting standards	• Established a corporate governance framework in accordance with global standards and best practices • Strong Board and Management oversight • Transparency and accountability
Regulators	• Periodic examinations • Letters /correspondences • Meetings	• Conduct of sound business practices • Compliance to laws, rules, and regulations • Transparency and accountability • Liquidity and capital adequacy to operate as a universal / commercial bank • Timely and accurate submission of financial and regulatory reports	• Timely and accurate regulatory reports • Transparency and accountability • Proactive dialogue • Full compliance / adherence to banking laws, rules and regulations in the country and overseas
Communities	• Financial Literacy / Financial Wellness Seminars or Caravans • Charitable / Philanthropic Contributions • Environmental and sustainability projects or initiatives • Partnerships with credible NGOs, Foundations, LGUs, or Civil Society Organizations	• Knowledge of basic money management • Projects that support economic, social, and environmental landscape of the community • Support / assistance during times of man-made or natural disasters	• Financial inclusion through financial literacy programs • Partnerships with credible social development organizations, LGUs, academic institutions, and civil society organizations within the CSR and sustainability focus of the Bank • Support of charitable and philanthropic causes on education, environment, and social welfare development • Support of affected communities where the Bank has presence during times of natural and man-made calamities (i.e., relief operations) with assistance from our employees, our subsidiaries, and affiliates

Reporting Process

GRI 102-21,102-29,102-31, 102-32, 102-46, 102-47

Our Sustainability Report was prepared in coordination with the Lucio Tan Group of Companies (LTG) and SGV & Co.

In mid-2019, LTG and its subsidiaries, including PNB, enlisted the services of SGV & Co. to assist in the prioritization of each member company's material sustainability issues to drive the framework and content of their respective reports.

In preparation for our Sustainability Report, the Corporate Sustainability Unit worked closely with LTG and SGV & Co., from the task of engaging our internal stakeholders, identifying and prioritizing issues that are important to the Bank and our stakeholders to gathering relevant data and information from our concerned units.

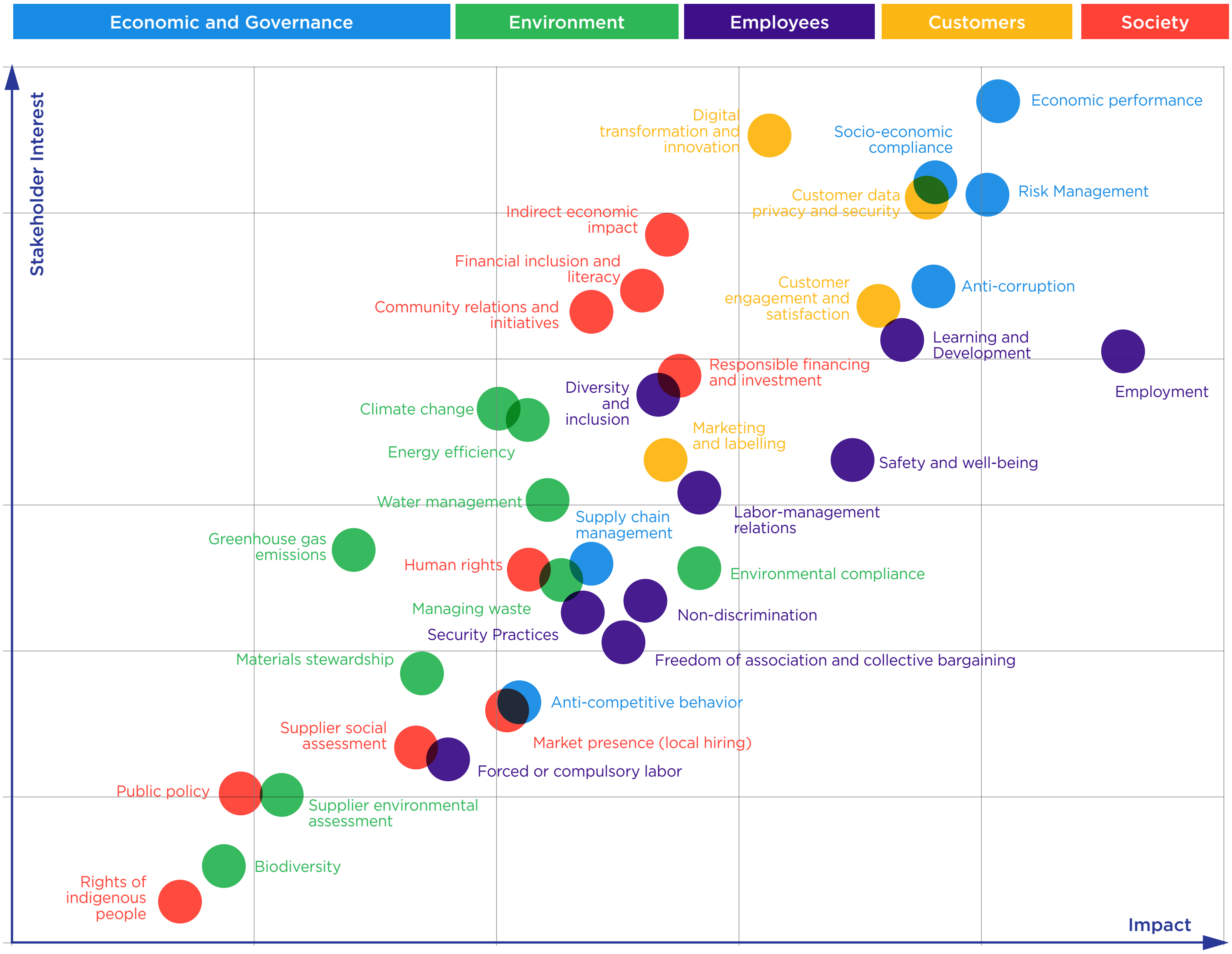
By going through our preparations, we developed an appreciation for our existing best practices as well as an understanding of the gaps and challenges that we are facing. Our company's and stakeholders' focus and interests change overtime. In order to stay relevant in the banking industry, we recognize our capacity to improve on how we do our business and how we operate. Likewise, we recognize the importance of addressing the needs of our stakeholders, caring for our environment, and contributing significantly to social welfare development and nation-building.

Below is the process our Bank went through in preparing this Sustainability Report:

ENGAGING THE STAKEHOLDERS	ASSESSMENT AND VALIDATION OF MATERIAL TOPICS	DATA GATHERING AND REPORT WRITING	MANAGEMENT REVIEW
• Conducted the sustainability report kick-off meeting among concerned business units of the Bank to orient them on the relevance of the Sustainability Report to the Bank and its business, and to discuss the GRI report template	• Conducted a desktop assessment of internal documents and external sources to understand the relative importance of the preliminary material issues • Developed a preliminary materiality matrix from the review of internal and external documents of the Bank • Conducted a materiality assessment workshop with key internal stakeholders in which attendees voted on the importance of the preliminary listing of material issues • Developed the final matrix of material topics from the desktop assessment and workshop conducted • Conducted a meeting with the management to validate the top material sustainability issues of the Bank	• SGV & Co developed and provided a report template for PNB and other LTG member companies to use in gathering data • Using the GRI reporting standards, relevant data and information pertaining to the Bank's existing and future economic, environmental and social initiatives were collected and collated	• Upon completion, the report went through a three (3)-level review and affirmation of disclosures: • (1) concerned participating business units; • (2) Global Compliance Group; and • (3) Corporate Governance / Nomination / Remuneration and Sustainability Committee.

Sustainability Report

Our final materiality assessment matrix outlines all topics crucial to our company and our stakeholders. Based on the results, a total of 37 issues were originally identified covering economic, social, environmental, and governance categories. The table adjacent to the matrix lists down the top 10 key material issues for prioritization. Economic performance, employment, and risk management are considered as the highest-ranking issues of the Bank.



Rank	Key Material Issues
1	Economic Performance
2	Employment
3	Risk Management
4	Socio-economic Compliance
5	Customer Data Privacy and Security

Rank	Key Material Issues
6	Anti-Corruption
7	Digital Transformation and Innovation
8	Customer Engagement and Satisfaction
9	Learning and Development
10	Indirect Economic Impact

It is important to note that the list of topics most relevant to our stakeholders this year is the same with the previous year's, except for the inclusion of topics such as Digital Transformation and Innovation and Customer Engagement and Satisfaction. This is consistent with the Bank's vision to use digital platforms to connect and help support the economy, keeping in mind our customers and their needs in this fast-paced and ever-changing times.

Topics related to environment such as energy efficiency, water and waste management, greenhouse gas emissions and climate change, on the other hand, were also considered important this year but ranked lower compared to other topics that concern the business, our customers, our employees, and society in general.

Our final materiality assessment this year reflects the Bank's focus on improving our business performance while working on equipping our employees with the necessary skills and tools useful for contributing to the growth and longevity of our business and operations.

Contact Information

GRI 102-53

We value your feedback. For any inquiries or comments, you may contact us through the following:

PNB Office of the Corporate Secretary
9/F PNB Financial Center,
Pres. Diosdado Macapagal Boulevard, Pasay City
Tel. No.: (+632) 8 526-3131 local 4106
Stockholder Relations Officer: Atty. Maila Katrina Y. Ilarde
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9/F PNB Financial Centre, Pres. Diosdado Macapagal Boulevard, Pasay City
Tel. No.: (+632) 8 526-3131 local 2120
Investor Relations Officer: Ms. Emeline C. Centeno
Email: centenoec@pnb.com.ph

PNB Customer Hotline:
(+632) 8 573-8888
Email: customercare@pnb.com.ph

ECONOMIC PERFORMANCE

GRI 103-1, 103-2, 103-3, 201-1
UN SDG 1, 8, 10

Economic Performance ranked as the top material issue for the Bank and our stakeholders since 2017, when we first began our Sustainability reporting.

As a financial institution, the Bank generates and distributes economic values to various stakeholders, namely: salaries and benefits of employees, taxes paid to the government, payments to suppliers and service providers for products and services rendered, dividends for shareholders, and donations or charitable contributions for disadvantaged and marginalized sectors in the society.

The table below shows that the Bank's economic value for the society significantly increased in 2019 from 2018 as we became more active in our Sustainability efforts and as we began to position ourselves as a Partner of the government in social welfare development and nation-building.

Economic Value Distribution Table

Economic Impact (In Philippine Peso)	2018 In Millions	% of Total	2019 In Millions	% of Total
Amount paid to suppliers / vendors	3,753	22.21%	**4,358**	23.20%
Consolidated membership fees and dues	17	0.10%	**18**	0.10%
Consolidated charitable contributions and sustainability-related activities and initiatives	15	0.09%	**46**	0.24%
Wages and benefits paid to employees	9,380	55.52%	**9,547**	50.82%
Dividends paid to stockholders	0	0.00%	**0**	0.00%
Taxes paid to government	3,729	22.07%	**4,818**	25.64%
TOTAL	16,894	100.00%	**18,787**	100.00%

Sustainability Report

Dividend Policy

We adopt a dividend policy where "dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral Ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank".

Supply Chain Management

GRI 102-9
UN SDG 10, 12

We adhere to the Vendor Management Policy which requires business owners to periodically evaluate the capacity and technical capability of their external vendors and suppliers. The Bank's Procurement Committee, which is composed of senior management officers from different sectors, convene regularly to review and deliberate on each submitted bids of accredited suppliers and vendors.

The Bank, through Corporate Services Division, follows a simple procurement process of (1) sourcing from accredited suppliers and vendors, (2) canvassing and bidding, (3) review / assessment of bids, (4) and awarding of contracts. However, there are cases that non-accredited suppliers and vendors are engaged by the Corporate Services Division and this is only allowed if the purchase / sourcing is seasonal / occasional, one-time, or considered an emergency.

To ensure consistency of standard and specification of all our offices and branches, the Bank sources its purchases and services from Metro Manila-based suppliers and vendors. Some purchases and services, however, are sourced from local suppliers and vendors (province-based) to minimize the logistical costs.

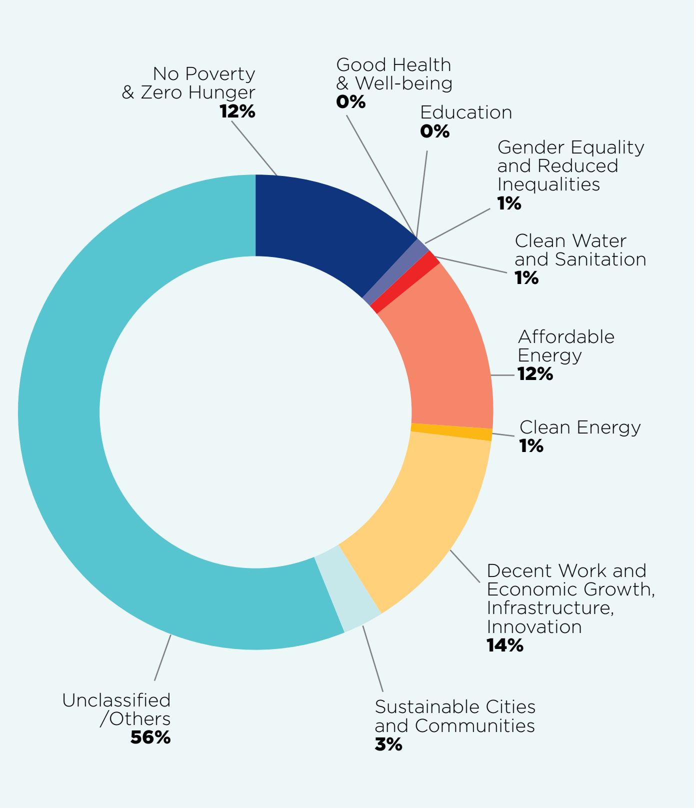
Supporting Businesses Contributing to Sustainable Development & Nation-Building

GRI 103-1, 103-2, 103-3, 203-1, 203-2
UN SDG 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 17

The Bank's Institutional Banking Sector (IBS) adheres to the principle of Cognizant ESG Lending supporting businesses and industries that promote and contribute to countryside development and nation-building, environmental protection and conservation, and sustainable development. As with the other loan accounts, these type of businesses and projects for the Bank's financing are evaluated in compliance with regulatory and internal requirements and requires the necessary committee approvals.

The chart below shows the Bank's portfolio geared to support the achievement of the United Nations' SDGs. Over 40% of the total loans of the Bank in 2019 was used to finance business and projects that support and contribute to sustainable development.

Identified UN SDG to Total Bank Portfolio



The Bank has supported more business and industries that are into (1) food manufacturing and production; (2) energy transmission, generation, distribution; and (3) infrastructure development.

In compliance with the BSP's 2019 Circular requiring all banks to integrate environmental, social, and governance financing guidelines in their business operations, we drafted our own Sustainable Financing Policy and Framework for lending and investing. Once approved, the said policy and framework will allow the Bank to effectively assess and manage our environmental and social risks and impacts associated with supporting particular businesses, projects, and industry sectors.

ENVIRONMENTAL IMPACT

Although environmental concerns ranked lower in the Bank's materiality assessment, we consider these as an integral part of our business and operations. To show our commitment to mitigating climate change, we began to take concrete actions by raising environmental awareness among our employees through campaigns and initiatives for reducing the Bank's environmental footprint such as improving energy and water consumption, implementing proper waste management, and ensuring that the businesses, projects, and industries we support are also environmentally compliant.

The report below covers the environmental footprint of the Bank's headquarters in Metro Manila, namely, the PNB Financial Center in Pasay City and PNB Makati Center in Makati City. The Bank aims to report on its countrywide environmental footprint in 2021, covering our branches and offices all over the Philippines.

Assessing the Environmental Impact of Our Supported Businesses

GRI 103-1, 103-2, 103-3, 308-1
UN SDG 9,11

The Bank ensures that the businesses and industries we support are compliant with environmental regulations and laws through covenants provided for in financial agreements or contracts and submission of permits such as Environmental Compliance Certificates (ECC) issued by the Department of Environment and Natural Resources (DENR) and other pertinent government agencies.

Businesses such as power, water, infrastructure, industrial, and mining projects situated in environmentally critical areas such as national parks, sanctuaries, and potential tourist spots are considered Environmentally Critical Projects (ECPs). Thus, these ECPs are required to submit Environmental Assessment Reports as part of their loan requirements, and their business proposals are reviewed and carefully deliberated on by relevant Bank committees. Upon granting approval on the loan, the Bank continuously monitors the environmental compliance, including the climate change related risks and impacts of these ECPs to the overall business during the period of engagement and partnership.

For 2019, the Bank provided financing for environmentally compliant ECPs as follows:

- Operation of Toll Roads and Bridges;
- Generation and Distribution of Power and Water;
- Construction of Green or LEED buildings and infrastructure; and
- Real Estate Development.

Participating on the Earth Hour and World Water Day

UN SDG 6, 7, 13

During the water and power crisis on the first and second quarters of 2019, the Bank encouraged all employees to contribute in reducing the use of electricity and conserving water at work and in their own homes by actively participating in the World Water Day last March 22, 2019 and the Earth Hour last March 30, 2019.

The World Water Day is a yearly international day of observance declared by the United Nations to help spread awareness on the importance of water conservation and inspire people to take steps in making safe water available for everyone.

The Earth Hour, on the other hand, is the annual 60-minute "lights-off" global movement led by the World Wildlife Fund for Nature (WWF) that aims to empower individuals, organizations, and governments to take tangible actions to help protect the planet. In solidarity with the rest of the country and the world, the Bank turned off all non-essential lights in its branches and offices from 8:30PM to 9:30PM, including the lights on all its billboards nationwide. The Bank also initiated a call tree advisory among its employees on March 29, 2019 and March 30, 2019 encouraging them to join the 60-minute symbolic switch off of non-essential lights and appliances in their own homes.

Sustainability Report

Project P.L.A.N.E.T. and the Campaign to Reduce Single-Use Plastics at Work
UN SDG 12, 13

In July 2019, we launched Project P.L.A.N.E.T. (Protect, Love, And Nurture the Environment Together), an internal campaign which aims to raise environmental and sustainability awareness among employees and inspire them to reduce their environmental footprint at work and in their own homes.

A component of Project P.L.A.N.E.T. is a 6-month long campaign piloted at the PNB Financial Center and PNB Makati Center that aims to reduce the Bank's consumption of single-use plastics as our commitment to mitigate the effects of climate change, protect the seas and oceans, and preserve underwater wildlife.

The Bank's Corporate Sustainability Unit, together with the Human Resource Group and the Food Committee, oriented the food concessionaires on the campaign. They were also consulted and requested to provide alternatives to single-use plastic packaging and utensils such as food-grade containers and paper boxes, paper cups, and bamboo-made or starch-made eating utensils. In addition, the employees were also encouraged to reduce their usage of single-use plastics by discontinuing the use of plastic straws and using their own food containers when buying meals or snacks from canteen concessionaires. Since the start of the campaign in July 2019, the Bank was successful in reducing the monthly consumption of the following single-use plastics:

Type of Single-Use Plastics	Monthly Inventory before the Campaign	Average Monthly Inventory by End of 2019
Sando Bags	26,100 pcs	0
Plastic Bags for Viands	42,760 pcs	220 pcs
Plastic Straws	8,800 pcs	0
Plastic Stirrers	10,200 pcs	0
Plastic Spoons, Forks	21,225 pcs spoons 21,959 pcs forks	50 pcs spoons 50 pcs forks
Plastic Lids (on coffee / drinks)	4,678 pcs	1,300 pcs
Plastic Cups	5,274 pcs	25 pcs
Styrofoam / polystyrene containers	0	0

Power and Fuel Consumption
GRI 103-1, 103-2, 103-3, 302-1, 302-4
UN SDG 7, 8, 12, 13

The Bank's Administration Group monitors our overall power and fuel consumption, and comes up with initiatives to help reduce our greenhouse gas emissions.

The tables below illustrate the energy and fuel consumption which are the main greenhouse emissions at our headquarters in Metro Manila for 2019. The Bank's Pollution Control Officers monitor our emissions and ensure effective compliance.

Energy Consumption Table

2018		
HEADQUARTERS	POWER CONSUMPTION (in KWh)	COST (in millions)
PNB Financial Center (Pasay)	10,362,210.55	74,236,524.32
PNB Makati Center (Ayala Avenue)	8,241,400.55	62,300,000

2019		
HEADQUARTERS	POWER CONSUMPTION (in KWh)	COST (in millions)
PNB Financial Center (Pasay)	8,917,026.39	62,482,268.25
PNB Makati Center (Ayala Avenue)	9,224,938	66,400,000

The decrease in the energy consumption of PNB Financial Center was due to the continuous use of LED lighting fixtures, conversion of remaining conventional bulb and fluorescent lighting fixtures into LED, and proper scheduling of chiller operation.

PNB Makati Center, on the other hand, increased its power consumption in 2019 despite converting conventional bulb and fluorescent lighting fixtures to LED. The increase in energy consumption is mainly due to the series of construction work in different operating floors of the said building. The Administration Group plans to reduce the energy consumption of PNB Makati Center beginning next year by employing energy saving measures such as replacement of conventional air conditioning units with energy efficient or inverter-type air conditioning units, replacement of all electronic ballast fluorescent light to LED tube lights, and retrofitting of energy efficient elevators among others.

Fuel Consumption Table

2019		
HEADQUARTERS	FUEL CONSUMPTION (in liters)	COST (in millions)
PNB Financial Center (Pasay)	55,718.95	2,764,426.07
PNB Makati Center (Ayala Avenue)	2,897	115,880.00

The fuel consumption table above includes fuel consumed by the Bank's motor pool and the generator sets of our headquarters in Metro Manila. Regular maintenance of the generator sets and Bank vehicles are conducted for fuel efficiency and for reduction of carbon emissions.

Our Water Consumption

GRI 103-1, 103-2, 103-3, 303-1, 303-2, 303-4, 303-5
UN SDG 3, 6, 12

The water supply of our headquarters is sourced from third party service providers. Water supply for PNB Makati Center is sourced from Manila Water, while PNB Financial Center's water source is Maynilad. Water supplied by Manila Water and Maynilad are stored in cistern tanks located at the basement of PNB Makati Center and the ground level parking area of PNB Financial Center, respectively, and are then pumped and distributed to different water lines for use in toilets, urinals, water closets and washbasins.

The table below illustrates the water consumption of the Bank, reflecting a significant increase in the consumption at PNB Makati Center due to the increase in the water rate during the year, as well as the construction work in said building.

Water Consumption Table

2018		
HEADQUARTERS	WATER CONSUMPTION (in megaliters)	COST (in millions)
PNB Financial Center (Pasay)	147.277	15,005,203.89
PNB Makati Center (Ayala Avene)	58.36	4,900,000
2019		
HEADQUARTERS	WATER CONSUMPTION (in megaliters)	COST (in millions)
PNB Financial Center (Pasay)	148.436	16,519,148.95
PNB Makati Center (Ayala Avene)	64.17	5,900,000

Water is one of the main resources that the Bank uses for operating its business. As a natural resource that is easily depleted, we take concrete steps for conserving water in all our branches and offices. Among the measures taken by the Bank for reducing consumption and conserving water is decreasing the water volume required to flush urinals and toilet bowls and replacing defective faucets, pipes, flushometers, urinals and water closet fittings, and submersible transfer pumps among others.

Resource and Waste Management

GRI 103-1, 103-2, 103-3, 306-2
UN SDG 3, 6, 12

The Bank, through our Administration Group, observes proper waste disposal for reducing our environmental footprint by engaging the services of environmentally compliant and DENR-accredited service providers.

Effluent water or wastewater discharged by our headquarters are mainly from toilets and cafeterias. For PNB Makati Center, wastewater is directly discharged to the sewer line of Manila Water which then goes to the Manila Water's centralized treatment plants also located in Makati. Wastewater from PNB Financial Center, on the other hand, is treated in its own Sewage Treatment Plant located inside the complex and is then released to Manila Bay after the treatment.

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Manila Water, Maynilad, and DENR's Laguna Lake Development Authority regularly tests the wastewater of the Bank's headquarters to see if this is still within the acceptable parameters or range of effluent water characteristics for conventional pollutants.

Domestic and hazardous waste from the PNB Makati Center are collected by the Makati Commercial Estate Association, Inc. (MACEA) while an outsourced service provider accredited by DENR collects the domestic and hazardous wastes from PNB Financial Center and are disposed in DENR-accredited landfills. The table below illustrates the list of common wastes from the Bank's headquarters.

	QUANTITY / VOLUME COLLECTED IN	
WASTE CATEGORY	2018 (metric tons)	2019 (metric tons)
NON-HAZARDOUS		
• Solid Waste	20.8	144
HAZARDOUS		
• Used Oil	0.6	1.3
• Lead Acid Batteries	0.12*	0.24
• Busted Fluorescent /LED Lights	0.064*	0.86
• Contaminated Rugs	0.02	0.024
• Expired Paints	0.0189	0.0235
• Ozone depleting substances	0.1	0.1
• Electronic Wastes	0.1	0.08

**Weight in metric ton based on estimates only.*

Paper wastes, on the other hand, are sold to recycling centers for a fee. Proceeds from the sale of paper wastes are then used by the Administration Group to support or fund the waste management activities of the Bank. To help reduce copy paper wastage, the Bank encourages employees to use the blank side of copy papers for draft documents instead of using fresh, clean ones.

The Cards Banking Solutions Group has also shifted to issuance of electronic statement of accounts (e-SOA) to its card clients which helps reduce the Bank's paper consumption and environmental footprint. The table below illustrates a significant decrease in the consumption of copy paper and Bank forms in 2019.

Paper Consumption Table

	2018	
Description	Qty.	Total Amount (PhP)
Copy Paper Short	51,977 reams	6,632,784.97
Copy Paper Long	22,619 reams	3,432,433.25
Deposit Slip	486,700 pads	13,140,900.00
Withdrawal Slip	116,600 pads	2,477,750.00
Signature Card	1,090,800 pcs	370,872.00
Customer Information Form - Individual	754,900pcs	513,332.00
Customer Information Form - Business	45,300 pcs	45,300.00
Cash Transfer Slip	63,200 pads	638,320.00
TOTAL:		**27,251,692.20**

	2019	
Description	Qty.	Total Amount (PhP)
Copy Paper Short	43,879 reams	5,599,399.19
Copy Paper Long	19,317 reams	2,465,042.37
Deposit Slip	381,428 pads	10,298,556.00
Withdrawal Slip	41,800 pads	888,250.00
Signature Card	1,521,800 pcs	517,412.00
Customer Information Form - Individual	464,970 pcs	316,179.60
Customer Information Form - Business	60,000 pcs	60,000.00
Cash Transfer Slip	45,100 pads	455,510.00
TOTAL:		**20,600,349.20**

SOCIAL PERFORMANCE

Caring for Our People

Our people are our valued resource. It is to our people that we owe our success in the banking industry for over a century. Hence, the Bank continues its efforts to ensure that it has a steady pool of qualified and competent talents, and commits to their overall improvement and well-being by adhering to strict labor laws and regulations, implementing fair employment practices, promoting work-life balance, and cultivating a culture of community engagement, gender equality, and diversity and inclusion in employment and in the workplace.

The Philnabankers at a Glance

GRI 102-7, 102-8, 102-41, 103-1, 103-2, 103-3, 401-1, 405-1
UN SDG 5, 8

The Human Resource Group has the role and is responsible for recruiting, developing, and maintaining the pool of talents for the Bank's overseas and domestic operations. Hiring of new employees, particularly for officers, go through a strict review process and are subject to committee and Board approvals.

As of December 31, 2019, the Bank has a total of 8,550 full-time and permanent employees. The female population in 2019 took up 66.16% (5,657) of the total employee population, with the number of female employees slightly higher in 2019 than in 2018. The Bank continues to maintain a gender disparity of 2:1 ratio as the male population is only 33.84% of the total workforce compared to the female population of 66.16% of the total workforce. 49% or 4,232 of the total manpower complement of the Bank is covered by the Collective Bargaining Agreement (CBA).

GENDER	NO. OF EMPLOYEES	
	2018	2019
Female	5,512	**5,657**
Male	2,754	**2,893**
Total	**8,266**	**8,550**

RANK	NO. OF EMPLOYEES	
	2018	2019
Officers	4,011	4,318
Rank and File	4,255	4,232
Total	**8,266**	**8,550**

Employee Breakdown Per Gender, Age, Rank, Business Group

Gender & Age	2018	2019
Male		
Under 30	876	855
31 to 50	1,482	1,529
51 and over	396	509
Female		
Under 30	1,937	1,809
31 to 50	2,712	2,736
51 and over	863	1,112
Total	**8,266**	**8,550**

Sustainability Report

	2018			2019		
RANK	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
President & CEO	0	1	1	0	1	1
Executive Vice President	0	3	3	1	6	7
First Senior Vice President	3	1	4	3	2	5
Senior Vice President	18	12	30	15	14	29
First Vice President	21	18	39	26	21	47
Vice President	32	21	53	32	28	60
Senior Assistant Vice President	54	44	98	75	50	125
Assistant Vice President	116	74	190	122	72	194
Senior Manager	161	102	263	179	114	293
Manager 2	215	129	344	238	145	383
Manager 1	423	205	628	502	248	750
Assistant Manager 2	814	343	1,157	854	326	1,180
Assistant Manager 1	849	352	1,201	849	395	1,244
Senior Specialist	224	139	363	207	154	361
Specialist	247	144	391	216	140	356
Senior Assistant	376	205	581	395	213	608
Assistant	856	429	1,285	839	403	1,242
Senior Clerk	1,103	530	1,633	1,104	559	1,663
Junior Clerk	0	2	2	0	2	2
TOTAL	**5,512**	**2,754**	**8,266**	**5,657**	**2,893**	**8,550**

BUSINESS GROUP / UNIT	Permanent Employees		
	Male	Female	Total
CORPORATE SECRETARY'S OFFICE	4	13	17
CREDIT MANAGEMENT GROUP	153	113	266
ENTERPRISE INFORMATION SECURITY GROUP	12	7	19
ENTERPRISE SERVICES SECTOR	157	163	320
FINANCIAL MANAGEMENT SECTOR	53	109	162
GLOBAL BANKING AND MARKETS SECTOR	23	36	59
GLOBAL COMPLIANCE GROUP	24	30	54
HUMAN RESOURCE GROUP	126	239	365
INFORMATION TECHNOLOGY GROUP	228	142	370
INSTITUTIONAL BANKING SECTOR	105	239	344
INTERNAL AUDIT GROUP	54	91	145
MARKETING AND BRAND MANAGEMENT SECTOR	17	25	42
OFFICE OF THE CORPORATE TREASURER	3	18	21
OFFICE OF THE PRESIDENT	4	2	6
OPERATIONS GROUP	292	496	788
PUBLIC AFFAIRS GROUP	2	6	8
RETAIL BANKING SECTOR	1,580	3,798	5,378
RISK MANAGEMENT GROUP	16	32	48
STRATEGY SECTOR	6	16	22
TRUST BANKING GROUP	24	60	84
WEALTH MANAGEMENT GROUP	10	22	32
Total	**2,893**	**5,657**	**8,550**

Majority of employees of the Bank are still within the 31-50 years age range, comprising 49.88% or 4,265 of the total employee population in 2019. The number of employees with officer level ranking is slightly higher in 2019, with 33.89% or 2,892 of the key management positions from Assistant Manager 1 (AM1) to Executive Vice President (EVP) rank held by the women.

Among the different business groups and units of the Bank, the Retail Banking Sector, where the Branch Banking Group belongs, continues to have the most number of employees (5,378) followed by the Operations Group (788) and Information Technology Group (370).

Breakdown of New Hires per Age, Gender and Rank

	2018			2019		
AGE RANGE OF NEW HIRES	FEMALE	MALE	TOTAL	FEMALE	MALE	TOTAL
Under 30	338	188	526	369	246	615
31 to 50	57	44	101	66	75	141
51 and over	4	5	9	9	11	20
Total	**399**	**237**	**636**	**444**	**332**	**776**

For 2019, the Human Resource Group recruited 776 new hires, comprising 9.08% of the total employee population and increasing the hiring rate of the Bank by 22% from 636 in 2018 to 776 in 2019. There were more women new hires in 2019 at 57.2% or 444 compared to male new hires at 42.8% or 332 of the total new hires. Moreover, majority of the new hires (79.25%) belong to the below 30 age bracket or the so-called millennials, with most of them within the rank and file category.

The Bank's turnover rate also significantly improved from 7.81% in 2018 to 5.98% in 2019, with the women (61.64%) and employees below 30 years of age (37.57%) leaving the Bank more than the men and those beyond 30 years of age.

As part of its strategic recruitment efforts, the Bank joins job fairs of credible and reputable partner universities and colleges, as well as made use of referrals from the employees and social media channels such as LinkedIn and JobStreet in reaching out to fresh graduates and new talents to meet the diverse manpower complement requirement of the Bank.

Remuneration and Benefits Package

GRI 103-1, 103-2, 103-3, 401-2, 401-3
UN SDG 8

PNB considers its employees not only as its most valued resource but also as significant partners in its success and journey towards sustainability. As a way of taking good care of our people, the Bank commits to providing its employees with a more competitive and holistic benefits and rewards program through the Human Resource Group's "COMPLETE", which stands for Compensation and Benefits, Monetary Allowance, Perks and Privileges, Life-Work Effectiveness, Employee Rewards and Recognition, Training and Development, and Engagement.

The Bank's benefits and rewards package continues to be the most competitive in the industry. Our full-time employees are entitled to and provided all government-mandated benefits. In addition to a competitive salary and law-mandated benefits, our employees are also provided a comprehensive health care plan, group life insurance coverage, retirement plan, guaranteed bonuses, free uniforms or uniform allowance, holiday pay, monthly rice subsidy, and loyalty awards. Eligible employees can also avail of car plans, housing loans, and even personal loans. They can also extend their health care plan to their dependents and even apply for scholarship for their children dependents through Tan Yan Kee Foundation, the corporate social responsibility arm of the Lucio Tan Group of Companies.

The Bank provides more than what the law requires in terms of leaves in order to promote work-life balance among our employees. We encourage our employees to avail their sick, vacation, and mandatory leaves to help them recover, re-energize, and spend quality time with their families. Other leaves available for eligible employees include birthday leave, emergency leave, solo parent leave, paternity and maternity leaves, bereavement leave, special leave for female employees, and special leave for victims under the Anti-Violence Against Women and Children Act of 2004.

The Bank is also supportive of its employees who have become new parents and encourages them to avail of their parental leaves to help them recover physically and adjust to their new role as parents. For 2019, there were a total of 164 employees who took parental leaves, 95.12% of which are female. Out of this number, only 160 or 97.56% of the employees returned to work after their parental leave during the reporting period.

Sustainability Report

2018	FEMALE	MALE	TOTAL
No. of qualified employees who took parental leave	150	7	157
No. of qualified employees who took parental leave and returned after the leave expired	150	7	157
No. of qualified employees who took parental leave and returned and were still employed as of March 2020	142	5	147

2019	FEMALE	MALE	TOTAL
No. of qualified employees who took parental leave	156	8	164
No. of qualified employees who took parental leave and returned after the leave expired	152	8	160
No. of qualified employees who took parental leave and returned and were still employed as of March 2020	152	8	160

In line with the Bank's commitment to gender equality, diversity and inclusion, the Bank ensures that it exercises fairness and non-discrimination in designing its remuneration and rewards package by using the following criteria such as the employees' role in the organization, competency level, work performance, previous work experience, certifications, and employment tenure among others. Our employees' gender orientation and background are not factors to their salary and benefits package.

In order to stay competitive and relevant in the banking industry, the Bank regularly reviews and improves its remuneration and benefits package for employees by aligning it with the existing labor laws, current banking industry practices, and with the ongoing CBA. Any changes or improvements in the remuneration and rewards package of the employees are presented to and discussed with the Corporate Governance/ Nomination/Remuneration and Sustainability Committee of the Bank and then endorsed for approval to the Board of Directors.

As part of the Bank's Total Performance Management System, the Bank utilizes a competency-based annual Performance Appraisal and Development Report (PADR) for its officers and staff. It is used to drive organizational performance by identifying and documenting individual performance goals that are aligned with the organization's business objectives.

To ensure that annual targets are achieved, the Bank implements a Quarterly Performance Progress Review (QPPR) to assess the employee's progress against the performance targets that have been agreed upon at the beginning of the year. This enables the employee to understand performance expectations and enhance his or her competencies as the review focuses on performance coaching. Likewise, it provides a vehicle to strengthen the feedback mechanism during the year-long performance cycle. The QPPRs for the first three quarters are used as supporting documents or reference for the annual evaluation of the employee's performance.

Employee Learning and Development

GRI 103-1, 103-2, 103-3, 404-1, 404-2
UN SDG 4, 5, 8, 10

As a valuable resource and significant partner to our growth, success, and sustainability, we are committed to equip our employees with the necessary knowledge, skills, and tools for them to effectively perform their roles and functions and, at the same time, to fulfill their professional and personal growth.

The Bank's Human Resource Group, through its Institute for Banking Excellence (IBE), has developed different capacity building programs for employees based on their learning and development needs to help them perform their roles effectively. Among the in-house training programs provided by IBE for the employees include the 3-day New Employees Orientation; leadership management and supervisory skills development for those who are positioned to become officers; functional and soft skills trainings; job-specific and technical trainings; mentoring, and career development. External specialized trainings are also offered.

In addition, the Bank's Retail Banking Sector provides trainings for its own employees such as Anti-Money Laundering, Sales Training, Capacity Enhancement Program, Internal Control Consciousness, and Infotech Awareness. In compliance with the requirements of regulatory agencies such as the BSP, the Bank also conducts instructor-led trainings and provides e-learning platforms to update employees on existing and new banking-related laws and regulations.

The Bank also runs three (3) leadership and career development programs: The Junior Executive Development Institute (JEDI) for new hires who graduated with honors; the Management Training Program (MTP) for homegrown talents in the head office and business units; and the Branch Operations Training Program (BOTP) for branch-assigned employees. These programs aim to develop high-potential rank-and-file employees to be highly competent officers of the Bank.

Moreover, the Human Resource Group runs a Mentoring Café twice to thrice a year. This is a project under the PNB Mentoring Program aimed at providing an appropriate venue for high potential employees to gain insights and learn from their mentors. This is to prepare them for the possibility of assuming key / critical roles in the organization. As of reporting period, the Bank has a total of 157 mentors and 157 mentees.

A total of 8,136 or 95% of the total employee population underwent 593,821 training hours, averaging 69.45 training hours per employee for 2019. Out of the total trained employees, 66.99% are female while 33.01% are male. Employees in rank and file numbered the most training hours.

GENDER			
	FEMALE	MALE	TOTAL
No. of employees	5,657	2,893	8,550
No. of total training hours	384,740	209,081	593,821
Average training hours	68.01	72.27	69.45

RANK			
	OFFICERS	RANK AND FILE	TOTAL
No. of employees	4,318	4,232	8,550
No. of total training hours	243,977	349,844	593,821
Average training hours	56.50	82.67	69.45

Recognizing Excellence in our Employees

PNB recognizes remarkable and exemplary performance of its employees. The Bank, through the Human Resource Group, holds a nationwide Service Excellence Award ceremony every quarter to recognize employees individually or in teams who delivered exceptional results while helping the business and upholding the core values of the Bank. In addition to this, the Bank's Retail Banking Sector also has an annual recognition night called "Gabi Ng Parangal" to award employees with remarkable performance in growing the business, as well as to encourage high-level performance.

The Human Resource Group continues to implement its internal values campaign for employees called "L.O.V.E. (Living Our Values Everyday) @ PNB" which features inspiring stories via email blasts of employees who demonstrate and live the core values of the Bank. The campaign also aims to inspire others to practice PNB's values in their day to day experiences to achieve personal success and the Bank's business goals.

In the third Quarter of 2019, the Human Resource Group launched its new recognition program called "What Outstanding Work! (W.O.W!)" which aims to inspire employees through a timely recognition for values-centered and business-driven behaviors. Employees recognized on the spot are also given tokens of appreciation that they can keep as mementos. These employees and their inspiring stories are also featured in the L.O.V.E. @ PNB campaign internal email blast.

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The Human Resource Group celebrated, for the second year, its "Celebrate Love at Work" in February 2019. This is an engagement project during Valentine's week where all employees are encouraged to express their appreciation to PNB, their fellow employees, and our clients through simple acts such as writing appreciation notes and offering tokens and gifts.

Prioritizing Employee Safety and Security

GRI 103-1, 103-2, 103-3, 403-1, 403-2, 403-4, 403-5, 403-6
UN SDG 3, 8,

PNB is taking all the necessary measures to provide a safe and secure work environment for all its employees. Employment practices and workplace safety and security is part of the Bank's Risk Management framework.

The Bank's Occupational Safety, Health and Family Welfare (OSHF) Committee, composed of representatives from both the management and employees, with the latter represented by labor union employees, meet regularly to discuss and manage reported work-related hazards, and monitor and evaluate the committee's existing programs by ensuring that they are aligned with the current general labor requirement. Among the efforts of the committee on ensuring the safety and security of the employees include the conduct of OSH / safety awareness program, dissemination of safety advisories through different channels, disaster / emergency response training for all floor marshals-assigned employees, first aid training, deployment of emergency responders, and safety inspections / analysis of branches among others.

Employees appointed by the Bank as Safety Officers are also regularly updated on their training such as Basic Occupational Safety and Health Program, Safety Program Audit, and Loss Control Management. The Bank also has existing guidelines for notification and keeping of records of accidents or illnesses in the workplace. Any work-related incidents are reported to the OSHF Committee.

Emergency, fire, and earthquake drills at our headquarters in PNB Financial Center and PNB Makati Center are also conducted annually by the Bank's Corporate Security Group with the Makati and Pasay Fire Departments to prepare the employees during man-made and natural calamities.

Employees, particularly those assigned in the branches are also provided trainings on Standard First Aid and Basic Life Support, and Disaster Preparedness. For 2019, there are 458 employees trained on Standard First Aid and Basic Life Support, and 50 employees trained on Disaster Preparedness. The Bank plans to increase the number of employees trained on these topics in partnership with Philippine Red Cross in 2020.

With the ongoing renovations at the PNB Financial Center and PNB Makati Center, the Bank also takes extra precautionary measures to ensure the safety and security of the employees by cordoning off the construction areas, posting safety reminders for employees, and assigning emergency medical response team members and security guards to include inspections or visits of these areas.

All employees are covered by the Bank's occupational health and safety management system. There were no reported incidents of work-related injuries in 2019.

Promoting Work-Life Balance Among Employees

UN SDG 2, 3, 8, 12

At PNB, we commit and endeavor to promote the holistic growth and development of our employees. We do not only encourage our employees to take their leaves to relax and spend more quality time with their families, but we also conduct activities where our employees can show and share their talents, hobbies, and time with their colleagues and even with our communities. In doing so, we do not only help improve the health of our employees, but we also promote camaraderie among employees, strengthen organization commitment, and boost work-life balance.

- **Health and Wellness**

The health of our employees is important to us. We encourage and help our employees live a healthy lifestyle to improve their health condition and overall well-being. We do this by encouraging our employees to use the three (3) well-equipped gyms at our Pasay and Makati headquarters. We also partner with a fitness gym provider for discounted rates so our employees can access fitness centers outside of Pasay and Makati areas. We also encourage our employees to join sports activities organized by different employee groups or associations such as basketball, badminton, and running. The Bank also organized fun runs and power classes such as Zumba, Yoga, Dance, Pilates, and Mixed Martial Arts.

The Human Resource Group, in partnership with the Bank's health care provider, ValuCare, continues to conduct health and wellness lectures. Wellness bulletins are released to increase health awareness and by sharing practical tips among all employees. Lastly, all employees are required to undergo the annual physical examination every year as part of the Bank's health care program.

On October 23, 2019, the Human Resource Group partnered with Philippine Airlines to organize and conduct a Wellness Day. Dubbed "Well @Work", the said activity was designed to celebrate workplace wellness, connect employees to the different wellness partners, and provide tips on how to live a healthier lifestyle. Wellness advocates were invited to share their expertise through talks and demonstrations on topics ranging from chair yoga, preparing healthy eats at work, ergonomics in the workplace, and relieving stress through hypnotherapy. Wellness merchant partners were also invited to provide free services to our employees such as massage, haircut, and scalp analysis, as well as showcase their products from food, sportswear, gym membership, dental care, insurance, and motivational and self-help books.

Sustainability Report

- **Sustainable Lifestyle Fair**

In November, our Corporate Sustainability Unit under the Public Affairs Group piloted a three-day Sustainable Lifestyle Fair for our employees assigned at the PNB Financial Center in Pasay City. The fair was organized to help raise climate change and environmental awareness among our employees, and encourage them to do their part in helping the planet by reducing their carbon footprint. The event featured an eco-bazaar where invited merchants showcased eco-friendly and sustainably-sourced products, and organic food items as alternative products or food items for our employees. Resource persons for the brown bag learning sessions during lunch breaks for the fair were also invited to give talks on climate change awareness and environmental sustainability, sustainability and resilient communities, and Zero Waste 101 and environment-conscious living.

In partnership with Tan Yan Kee Foundation, the CSR arm of the Lucio Tan Group of Companies, the Bank also helps the employees access affordable but premium quality organic fresh produce for their own personal consumption. Straight from the farm of Tan Yan Kee Foundation in Nueva Vizcaya, the harvested organic produce reaches our employees at least twice a month. By inviting Tan Yan Kee Foundation to sell their organic produce at PNB Financial and Makati Centers, we are helping our employees eat healthy and, at the same time, support the Foundation and its farmers.

- **Nurturing the Spirituality of Our Employees**

We acknowledge the importance and role of spirituality in the lives of our employees. In support of this, we hold daily worship services during lunch break at our in-house chapel at the PNB Financial Center. Our own choir group from among our talented employees sing during the daily mass and we invite renowned priests to officiate during special mass for healing and other important events. Moreover, we continue to do the three o'clock prayer habit at our PNB Financial Center which encourages our employees to pause for a few minutes to pray and reflect, and to take a short breather from their work or meeting.

We also continue to host the annual Fiesta del Sto. Niño celebration at our PNB Financial Centre in Pasay City every January, where the different images of the Sto. Niño are shown to the public.

- **Employee Sale Events**

We continue to make shopping convenient for our employees by holding seasonal employee sale events or bazaars, especially during the Bank's anniversary and Christmas season, through our Cards Banking Solutions Group. Concessionaires and entrepreneurs are invited to put up booths and sell their products and services ranging from food, bags, clothes, shoes, and accessories. Merchants selling appliances and digital items like cameras, mobile phones, laptops, and printers are also invited during special employee sale events or bazaars. By doing this, we also promote our cards products among our employees while generating sales for the merchants and concessionaires.

- **Townhall Meetings, Bank-Wide Events, and Work Chats**

We continue to provide avenues and opportunities that promote camaraderie and help develop a sense of belongingness and being one with other employees and the organization such as the Bank anniversary, Chinese New Year celebration, Christmas parties and the like.

The Bank's quarterly Pulong Ng Bayan townhall meetings and regular townhall gatherings of the various business units, on the other hand, do not only allow the employees to get together with their colleagues but also provide opportunity for them to hear updates on the Bank's business and operations straight from the top management.

Our Senior Management Team meetings, which gathers the heads of all business groups and their one-down, are conducted on a weekly basis to keep Bank officers with key functions updated on our business and operations. The Office of the President's roadshows locally and abroad, on the other hand, provide opportunities for the employees to share their experiences, express their opinions, and make suggestions on how to improve the Bank's business and operations to the President and CEO in person.

In 2019, the Bank implemented the use of Workplace by Facebook as a tool for ease of communication and collaboration among the members of the senior management team and the regional and area heads of the Branch Banking Group. To date, the Bank's Workplace Chat group has 260 employee members and users.

Labor Relations and Human Rights in the Workplace

GRI 103-1, 103-2, 103-3, 102-41, 407-1
UN SDG 8, 16

Industrial peace continues to be of paramount importance to us, allowing us to operate our business smoothly together with our employees. We are able to maintain this industrial peace in our workplace by respecting and supporting the right of our employees to form a labor union to uphold and safeguard their own rights as workers and as humans.

We listen to our employees' voices through the representatives of the employees' union who are regularly invited to Labor Management Council Meetings by the Bank's labor relations unit. These meetings become venues for both the employee union and the Bank to discuss employee concerns, clarify revisions in HR policies, and collaborate on initiatives. The Bank also has a Grievance Machinery to address or resolve misunderstanding, dispute, or controversy arising from the interpretation, and meaning application and implementation of any provision of the Collective Bargaining Agreement between the employee union and the Bank; and / or between the Bank and any covered employee.

For 2019, there were no reported labor and human rights violations among employees.

Lawful and Ethical Behavior

GRI 103-1, 103-2, 103-3, 102-17, 205-2, 205-3
UN SDG 16

As a financial institution, we are committed to uphold the public's trust. We do this by ensuring that our employees, top management, and directors conduct themselves in a lawful and ethical manner. The Bank's Human Resource Group has developed and established the following policies and guidelines to ensure that all employees conduct themselves ethically: Code of Conduct, Corporate Governance Manual, Policy on Selling PNB Securities, Policy on Soliciting and / or Receiving Gifts, Personal Investment Policy, Whistleblower Policy , and Office Decorum which includes the Anti-Bribery and Anti-Corruption provisions. These policies and guidelines are regularly reviewed and revised as necessary with the approval of the Board of Directors to ensure its applicability to current work situations.

The Bank's Code of Conduct, Office Decorum, Whistleblowing Policy and Anti-Bribery / Anti-Corruption Policy are part of the onboarding process for new hires. New employees are made to read and understand the said policies and guidelines during their onboarding. They are also oriented on these policies during the New Hires Orientation. All employees can easily access these policies and guidelines through the Bank's intranet facility. In addition, the Bank's Performance Appraisal and Development Report (PADR) for employees cover employee behavior such as promoting work ethics and culture of integrity. Supervising officers are expected to ensure that their subordinates comply with the Bank's rules and policies.

To date, there were no reported incidents of bribery and corruption among employees or with the Bank's suppliers / vendors during the covered report period.

Continuous education of Bank personnel is an important element in the compliance function to maintain a sound compliance program. Trainings are provided to make all personnel aware of the existing banking laws, regulations, policies and procedures relevant to their areas of responsibilities.

Global Compliance Group, in coordination with the Human Resource Group, conducts basic compliance awareness training for all existing employees and new hires. All new hires must undergo compliance and Anti-Money Laundering (AML) awareness training prior to assumption of duties while existing employees are required to participate in refresher courses within a period of 18 to 24 months.

Training Module	Attendees	No. of Sessions	Total no. of Hours
Compliance Partnership and Continuing AML Education - MTP	110	3	24
Compliance Partnership and AML Education – BOTP	224	6	48
Compliance Partnership and AML Education – JEDI	67	2	16
AML Continuing Education Workshop plus Digitization and RCL processes/ requirements	100	2	16
AML Compliance Training on Customer Acceptance and Digitization of Customer Records	538	5	40
AML Continuing Education Seminar/Workshop	234	4	32
Continuing Education on AML Compliance Under Home Study Program	2,148	---	---
TOTAL	**3,421**	**22**	**176**

Sustainability Report

Promoting Diversity and Inclusion, and Gender Equality in the Workplace
GRI 103-1, 103-2, 103-3, 406-1
UN SDG 5, 8, 10, 16, 17

In support of the commitment to uphold and instill a culture of fairness and non-discrimination among employees, the Bank approved and implemented the Policy on Diversity and Inclusion in November 2018. The Bank believes that a diverse and inclusive workforce fosters innovation, increases its market share, and improves employee acquisition and retention.

Specifically, on gender equality, PNB has manifested its commitment by becoming the first domestic universal bank to join the Philippine Business Coalition for Women Empowerment (PBCWE) in May 2019. PBCWE is a coalition composed of influential business employers who endeavor to take appropriate steps to improve gender equality in their workplaces and business operations. It was launched in 2017 through a partnership between the Philippine Women's Economic Network, Inc. (PhilWEN) and Investing in Women (IW), an initiative of the Australian Government aimed at women's economic empowerment in select Southeast Asian countries. In the Philippines, there are only nine (9) members of the coalition: Accenture, Ayala Land, Concentrix, Insular Life, Magsaysay Company, Natasha, SGV, SSI Group, Inc. and PNB.

Members of the coalition undergo the Economic Dividends for Gender Equality (EDGE) Certification Assessment which has which has three (3) levels: (1) EDGE Assess - recognizing the commitment; (2) EDGE Move - showcasing progress in meeting the commitment or targets; and (3) EDGE Lead - celebrating success for meeting the commitment or targets. The tiered certification provides the opportunity for the organizations in different stages of their journey towards gender-equal workplace to obtain recognition for their efforts.

As part of the membership, the Bank underwent the EDGE Assessment in the third quarter of 2019. The assessment will help the Bank understand, identify, and develop solutions to address gaps and challenges on gender equality in its employment practices and in the workplace.

Sources of information such as employee experience through conduct of employee survey, demographics / statistics within the reference period from July 1, 2018 to June 30, 2019, and existing Bank policies and procedures were used by EDGE Certified Foundation during the Bank's assessment. For the survey conducted by the Bank's Human Resource Group in August 2019, 42% of the total population participated as survey respondents. Out of the female population, 43% participated while 38% participated among male employees.

Below is the summary of findings from the Bank's EDGE Assessment that the Bank underwent:

- PNB's career transition chart illustrates that women are overrepresented at the following levels (i) rank-and-file (66% women-34% men), (ii) officers below department head level (68% women - 32% men), (iii) department / branch head level (66% women -34% men), and (iv) division head level (59% women - 41% men); while there is an over representation of men at the sector/group head level (39% women - 61% men).

  While generally overrepresented by women, career transitions (i.e. recruitment, functional promotion, and separation) of men were more dynamic than the women's.

- When it comes to the effectiveness of policies and practices, the analysis suggests important improvement opportunities for the Bank such as gender diverse candidate pools, gender composition at the management level, gender composition at any management level, gender dimension in its succession planning, flexible working options for its employees, and allocation of resources for gender equality initiatives.

Overall, the inclusive culture based on the employee perception is above the EDGE standard of 50%. Ninety-six percent (96%) of female and male respondents believe that men and women are given equal opportunities to be hired. Seventy-four percent (74%) of female and male respondents believe that they are given fair opportunities to be promoted. Sixty-two percent (62%) of female respondents and sixty-eight (68%) of male respondents consider themselves to be paid fairly for the work that they do. It is also generally perceived by both men and women that the Bank gives equal access to career-critical assignments.

The Bank intends to revisit a number of its policies and continuously study the possibility of including specific provisions on gender such as gender mix of top talents, promotion rates of mentees classified according to gender, gender mix of identified successors, employment interviews to be conducted by male and female interviewers, gender diverse candidate pool, and the like. The Bank shall also explore possible alternative work arrangements for employees.

The results of the EDGE Certification Assessment shall be subject to audit to be conducted by a third-party auditor which is scheduled in February 2020. The result of the audit will determine the possible certification level that will be awarded to PNB which will be valid for two (2) years.

Moreover, in order to provide a safe work place for all our employees, the Bank adopted a policy on Anti-Sexual Harassment pursuant to Republic Act (R.A.) No. 7877, otherwise known as the Anti-Sexual Harassment Act of 1995, and Republic Act No. 11313, otherwise known as the "Safe Spaces Act" of 2019. Approved in October 2019, the Bank's Anti-Sexual Harassment Policy covers all employees with permanent or probationary employment status and provides the definition of gender-based harassment at the workplace, list of all forms of sexual harassment at work, duties and responsibilities of the employees and the employer, and the role of the Committee on Conduct and Investigation that leads the investigation of reported cases.

Responsible Corporate Citizenship and Caring for Our Communities

GRI 103-1, 103-2, 103-3, 203-2, 413-1
UN SDG 1, 3, 4, 8, 10, 12, 17

Our commitment to incorporate and implement corporate social responsibility (CSR) and sustainability-related initiatives and activities in our operations is primarily driven by our aspirations to make a positive contribution to the society as a partner in social development and nation-building.

With the creation of our Corporate Sustainability Unit, we are currently developing our sustainability policy, framework, and roadmap. This unit is also responsible for developing and implementing our CSR programs and activities, as well as leading employee volunteerism or community engagement for the Bank.

- **Financial Literacy and Financial Wellness Seminars**

  Financial Literacy Seminars were conducted among students, teachers, parents, and OFWs by the International Banking and Remittance Group (IBRG) in partnership with other business units such as the Corporate Sustainability Unit and the Bank's branches such as Marikina-Shoedrive, España and Morayta, Cebu-Banilad-Maria Luisa Park, Cebu-Banawa, Q.C.-Cubao Main, Q.C.-Project 3-Aurora Blvd, Q.C.-New Manila, Manila-Tondo-Juan Luna, Manila-Jose Abad Santos, Cainta-Ortigas Ave. Ext, and Las Pinas City Hall. The target participants were taught the basics of money management: identifying needs and wants, budgeting, spending, and saving. Applicable PNB products and services were also presented to the seminar participants by the partner branches.

Sustainability Report

In partnership with Tan Yan Kee Foundation, the Bank's Corporate Sustainability Unit and IBRG also organized a financial literacy seminar among the members of the Barangay Association of Treasurers of the Municipality of Aritao in Nueva Vizcaya last October 24, 2019. The LGU of Aritao, Nueva Vizcaya is a partner of Tan Yan Kee Foundation.

The Bank's Trust Banking Group also organized financial wellness talks among corporate clients of the Bank and OFWs in Iloilo, Japan, and Singapore on investing and different investment products of the Bank such as UITFs.

- **Supporting Communities and Small Entrepreneurs**

A total of 113 decommissioned desktop computers from ITG were turned over to ACTION, Inc. in Olongapo City in April 2019 to benefit a total of 19 NGOs, 1 LGU, 4 public high schools, 2 public elementary schools, 3 barangay councils, and 1 DSWD facility. In December 2019, PNB also turned over 55 decommissioned desktop computers to the H.O.U.S.E. Foundation, and another 2 decommissioned units were turned over to Pentecostal Missionary Church of Christ in Cainta, Rizal. Through donation of these computers, PNB is able to help social development organizations do their work effectively.

In addition, the Bank continues its partnership with Caritas Manila by donating its old billboard and activity tarpaulins that can be recycled into functional items such as bags and wallets by the women of Caritas Manila's partner communities. In 2019, a total of 365 kilos of old billboard and activity tarpaulins were donated. Proceeds from the sale of these bags were used to support the Caritas Manila's programs and services for the urban poor. The partnership enables the Bank to improve its waste management while helping communities become self-sustaining through livelihood opportunities.

In support of the Bank's commitment to help small businesses, the Corporate Sustainability Unit invited small and medium-sized social entrepreneurs to join the three-day Sustainable Lifestyle Fair at PNB Financial Center in Pasay City last November 25-27, 2019. Twenty (20) invited social entrepreneurs showcased and sold organic and sustainably-sourced products during the eco-bazaar to help provide eco-friendly and healthy alternatives for the Bank employees. Among the products sold during the fair were eco-friendly shampoo and conditioner bars, reusable straws and eating utensils, women's accessories such as earrings made of recyclable materials, bags made of old interior tires and foils packs, organic vegetables, and healthy vegan snacks and condiments. With the success of the activity, the Bank plans to organize another Sustainable Lifestyle Fair next year where more women entrepreneurs will be invited.

- **Relief Operations for Disaster-Affected Communities**

A Boxful of LOVE is a donation and fund-raising campaign of the Bank's Human Resource Group for the marginalized and Mindanao earthquake victims. The campaign calls for in-kind donations among Bank employees via e-mail blast. Employee donors drop their donations in boxes located at the 2/F ATM Lobby of the PNB Financial Center. Donations received by the Human Resource Group were turned over to Caritas Manila.

In cooperation with Tan Yan Kee Foundation, the Bank's Corporate Sustainability Unit together with the Mindanao Regional Office, Area Offices, and Branches conducted a simultaneous relief operation for the earthquake-affected communities in Digos City, Davao del Sur and Kidapawan, North Cotabato last December 21. A total of 1,000 identified beneficiary families received relief packs containing non-food essentials such as toiletries, oral hygiene kits, and sleeping materials that were personally distributed by the employee volunteers.

- **Volunteerism at Heart**

  A total of 630 PNB employees from different areas and branches nationwide conducted employee volunteerism activities in 41 cities and municipalities out of the 48 areas where the Bank has business presence.

  These employee volunteers pooled their resources and rendered a total of 2,520 manhours of community volunteer service such as conducting relief operations for disaster-affected areas, giving gifts and distributing school supplies to students, participating in Department of Education's Brigada Eskwela campaigns, performing cleanup drives, running art and crafts classes, and conducting story-telling activities for children. The employees also spent time with the parents of the children they interact with to know more about the situation of families in the communities. Among the groups and communities they visited and interacted with are the Aetas in Zambales, poor families in urban areas, and families in a remote fishing island in Iloilo to name a few.

  The "Pagtutulungan Ng Bayan" is a continuous employee-giving program organized and sustained by employees for fellow employees in need. The said employee-giving program aims to provide financial assistance to employees who are victims of natural calamities and alleviate medical expenses of employees and their immediate relatives.

- **Partnerships for A Cause**

  The Bank partnered with Ateneo Scholarship Foundation, Inc. to aid the education of in-need but promising college students of Ateneo de Manila University through a Php5.0 million donation to support the Gov. Amando M. Tetangco, Jr. Scholarship Fund. The entire PNB community hopes that this donation is able to assist Ateneo de Manila University in molding the next generation of Filipino bankers who will change the landscape of banking and finance in the country.

  Moreover, the Bank also signed two partnership agreements with the Philippine Red Cross for the conduct of Standard First Aid & Basic Life Support training for PNB employees and the donation of two ambulance units worth Php5.0 million for Visayas and Mindanao. The partnership with the Philippine Red Cross is in line with the Bank's Corporate Sustainability goals which is to equip all PNB employees with the necessary skills to provide emergency response and enable the Bank to help other people in emergency situations and times of natural or man-made calamities.

SOCIO-ECONOMIC AND ENVIRONMENTAL COMPLIANCE

GRI 103-1, 103-2, 103-3, 307-1, 419- 1
UN SDG 16

Beyond regulatory compliance, our Bank upholds social and economic areas of its business as part of its continuing journey towards sustainability. We are committed in preserving the social and economic areas of our business, examples of which include the following:

- The Bank's declaration of dividends is subject to compliance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), and other financial regulatory requirements as may be applicable to the Bank.
- PNB complies with established consumer protection practices in order to safeguard their transactions with the Bank and be heard though appropriate channels when they escalate feedback and concerns.
- PNB has fulfilled the requirements on general labor and occupational safety and health standards, as required by the Department of Labor and Employment (DOLE).

Sustainability Report

Our Bank has existing mechanisms in place to monitor its compliance with laws and regulations in the social and economic areas. The Corporate Governance and Sustainability Committee, as stipulated in its amended charter, is responsible for assessing the Bank's sustainability performance across various benchmarks, including economic, social and environmental performance indicators. At the management level, the Corporate Sustainability Unit (CSU) of the Public Affairs Group has spearheaded various advocacies to support social, environmental, and economic initiatives. In terms of coordinating relationships, CSU liaises and establishes a constructive working relationship with the Marketing and Brand Management Sector, Human Resource Group, Administration Group, and other relevant parties possessing important roles in the effective implementation of the unit's mandate.

We also adhere to the laws and policies, particularly on environmental regulations, of the locality where we have business operations by ensuring that all our offices and branches have the necessary business and environmental permits and approvals.

In 2019, there were five (5) reported incidents of minor breaches of environmental laws and regulations resulting in the imposition of nominal monetary fines concerning air pollution and hazardous waste management measures, such as failure to replace environmental law officers at branches and failure to secure additional permits for electrical generators, which were required by subsequent legislation and regulations. Out of these five (5) reported incidents, two (2) were already resolved and closed, while the remaining three (3) cases are still awaiting action or resolution from the DENR.

CUSTOMER EXPERIENCE

GRI 103-1, 103-2, 103-3, 102-43, 102-44

We aim to provide the best customer service experience to our clients. We provide them various channels for their inquiries, requests and complaints on how they can connect with the Bank: 24x7 Customer Service Hotline, Email, Facetime / Skype and Private Messaging.

Our Consumer Protection Policy ensures that any reported complaints are recorded, monitored and addressed in a timely manner. In accordance with the BSP requirement in reporting complaints, a consolidated complaints report is submitted monthly to the Management and Risk Oversight Committee and quarterly to the BSP.

As part of ensuring the quality of service provided to the client, Customer Experience Division (CED) developed a project called “After Call Survey for 8573-8888” that aims to secure a qualitative feedback from customers at point of call.

MARKETING AND LABELING

GRI 103-1, 103-2, 103-3, 417-1, 417-2, 417-3
UN SDG 12

We continue to look for better ways to improve and provide the best financial solutions for our customers anywhere in the world.

Our new Marketing and Brand Management Sector studied our customers’ experience in order for our Bank to develop new products and services or improve on our existing products and services to help address their financial needs. This exercise was supplemented by the 2-day PNB Sprint 2019: Mindful Customer Transformation Seminar organized by the Human Resource Group’s Institute of Banking Excellence in late 2019, where select employees from different business groups were taught how to design and develop bank products and services for identified customers by studying and understanding their experience and needs. As a result, the Marketing and Brand Management Sector was able to map out and identify the Bank’s target markets, identify gaps and challenges in the Bank’s products and services, and develop a marketing and product development plan for the Bank.

In addition, the Marketing and Brand Management Sector ensures that all advertising and promotional collaterals of the different business units strictly adhere to the Bank’s branding guidelines and are compliant with all regulatory requirements, such as those required by the BSP, SEC, PDIC, BancNet, Department of Trade and Industry, ASC, and Insurance Commission among others. The Bank’s Social Media Framework is also in place to help us manage our reputational risk across our social media platforms.

For 2019, there were no reported incidents of non-compliance in marketing and labeling efforts of the Bank.

DIGITAL TRANSFORMATION AND INNOVATION

UN SDG 9

We recognize the importance of digital transformation and innovation in creating a convenient banking experience for our customers.

Currently, the Bank has 1,553 automatic teller machines (ATMs), and 81 cash accept machines (CAM) for the 24-hour banking convenience of our customers.

In addition, the Bank’s mobile banking application allows our customers to do inter-bank fund transfers, online bank payments, and viewing of transaction history. Customers can also use our mobile banking application to keep track of their credit card transactions.

The Bank enhanced its mobile banking services by supporting the government's National Retail Payment System's (NRPS) Philippine Electronic Fund Transfer System and Operations Network or PESONet and InstaPay. Customers can do electronic fund transfers through PESONet and InstaPay by logging on to their PNB Mobile App. Customers can do real-time electronic fund transfers of up to Php100,000 to any participating banks within the Philippines for PESONet and up to Php50,000 per transaction for InstaPay.

Moreover, our Bank continues to look for better ways to improve our website and other information channels for ease-of-access to our clients.

CUSTOMER DATA PRIVACY AND SECURITY

GRI 103-1, 103-2, 103-3, 418-1
UN SDG 16

At PNB, we respect and value the right to data privacy and protection of our data subjects (e.g., customer, employee). We take all necessary actions to safeguard our data subjects' information, making sure that personal data collected from them are processed in adherence to the general principles of transparency, legitimate purpose, and proportionality.

Our Enterprise Data Privacy Policy reinforces our commitment to data privacy and security by implementing appropriate organizational, physical, and technical security measures in relation to the processing of personal data. We ensure strict compliance with both local and international laws and regulations as well as international standards, including the compliance checklist of the National Privacy Commission (NPC) among others.

Our Data Protection Officer (DPO), with the assistance of Data Privacy Management Division (DPMD), works with our Customer Experience Division (CED) for a quick and easy way to resolve any data privacy-related concerns directly coming from our data subjects. The said DPMD is consistently coordinating with the Enterprise Information Security Group (EISG) to ensure that Bank's information security is maintained.

Our Bank employees are also bound by a confidentiality agreement. DPMD regularly sends out data privacy advisories and conduct data privacy awareness training to all employees, including third party service providers, to ensure that all personnel who process personal data understand their responsibilities in the proper handling and protection of personal data. Our DPO and DPMD continuously monitor updates and trends on data privacy and security through NPC issuances and participation to various seminars and conferences conducted by professional associations such as Bankers Association of the Philippines to ensure the continuing suitability, adequacy, and effectiveness of the Bank's data privacy practices.

For 2019, the Bank's existing process handled and ensured that all concerns regarding the processing of client personal data were addressed and resolved immediately.

Our Bank's mobile and online banking facilities have security features that protect personal data and other information such as use of log in credentials, One-Time-Pin (OTP), Touch ID, SMS and email alerts, among others. In addition, the Bank's Cards Banking and Solutions Group also sends out SMS and email alerts to our customers whenever significant amounts are used on their credit cards or debit cards.

As part of the Bank's efforts in maintaining transparent processing of personal data, the Bank ensures that all data subjects are informed about how PNB processes and protects personal data. Hence, PNB Data Privacy Statement is accessible to the public through the PNB website.

MEMBERSHIPS AND ASSOCIATIONS

GRI 102-13

- ACI Philippines
- Association of Certified Fraud Examiners
- Association of Certified Public Accountants in Commerce
- Association of AML Officers (AMLO)
- Association of Bank Compliance Officers (ABCOMP)
- Agusan Chamber
- Asian Bankers Institute
- Asian Bankers Association
- Bankers Institute of the Philippines
- Bankers Association of the Philippines
- Bank Marketing Association of the Philippines
- Bank Security Management Association
- British Chamber
- Credit Management Association of the Philippines
- Credit Card Association of the Philippines
- Executives Finance Management Association
- Federation of the Philippine Industries, Inc.
- Financial Executive Institute of the Philippines
- Financial Technology of the Philippines
- Information Systems, Audit and Control Association
- Institute of Corporate Directors, Inc.
- Institute of Internal Auditors of the Philippines
- Integrated Bar of the Philippines
- Japanese Chamber
- Korean Chamber
- Mabuhay Miles
- Makati Commercial Estate Association, Inc.
- Management Association of the Philippines
- Money Market Association of the Philippines, Inc.
- People Management Association of the Philippines
- Philippine Association of National Advertisers, Inc.
- Philippine Chamber of Commerce and Industries, Inc.
- Philippine Business Coalition for Women Empowerment
- Philippine Payments Management, Inc.
- Public Relations Society of the Philippines
- Rotary Club
- Tax Management Association of the Philippines
- The Financial Markets Association, Inc.
- Trust Officers Association of the Philippines
- Women's Business World

Global Reporting Initiative (GRI) Content Index

FOR "IN ACCORDANCE"
-Core Option
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BOARD OF DIRECTORS

Board of Directors

MAILA KATRINA Y. ILARDE
Corporate Secretary

HARRY C. TAN
Board Advisor

MARK M. CHEN
Board Advisor

MANUEL T. GONZALES +
Board Advisor

WILLIAM T. LIM
Board Advisor

ESTELITO P. MENDOZA
Director

LUCIO K. TAN, JR. +
Director

VIVIENNE K. TAN
Director

FELIX ENRICO R. ALFILER
Vice Chairman

CARMEN K. TAN
Director

SHEILA T. PASCUAL
Director

JOSE ARNULFO A. VELOSO
President and
Chief Executive Officer

LUCIO C. TAN
Director

FLORENCIA G. TARRIELA
Chairperson of the Board

MICHAEL G. TAN
Director

DOMINGO H. YAP
Director

FEDERICO C. PASCUAL
Director

CHRISTOPHER J. NELSON
Director

LEONILO G. CORONEL
Director

FLORIDO P. CASUELA
Director

EDGAR A. CUA
Director

Board of Directors

FLORENCIA G. TARRIELA

AGE
- 72

NATIONALITY
- Filipino

EDUCATION
- Bachelor of Science in Business Administration, Major in Economics, University of the Philippines
- Masters in Economics, University of California, Los Angeles, where she topped the Masters Comprehensive Examination

CURRENT POSITION IN THE BANK
- Chairman of the Board/Independent Director

DATE OF FIRST APPOINTMENT
- May 29, 2001 (Director)
- May 24, 2005 (Chairman of the Board)
- May 30, 2006 (Independent Director)

DIRECTORSHIP IN OTHER LISTED COMPANIES
- Independent Director of LT Group, Inc.

OTHER CURRENT POSITIONS
- Chairman/Independent Director of PNB Capital and Investment Corporation, PNB-Mizuho Leasing and Finance Corporation, and PNB-Mizuho Equipment Rentals Corporation
- Independent Director of PNB International Investments Corp.
- Director of Bankers Association of the Philippines
- Columnist for "Business Options" of the Manila Bulletin and "FINEX Folio" of Business World
- Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation
- Life Sustaining Member of the Bankers Institute of the Philippines
- Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc.
- Trustee and Life Member of Financial Executive Institute of the Philippines (FINEX) Foundation

OTHER PREVIOUS POSITIONS
- Independent Director of PNB Life Insurance, Inc.
- Undersecretary of Finance
- Alternate Monetary Board Member of the BSP, Land Bank of the Philippines, and the Philippine Deposit Insurance Corporation
- Deputy Country Head, Managing Partner, and first Filipina Vice President of Citibank N. A.
- Country Financial Controller of Citibank N.A. Philippines for 10 years
- President, Bank Administration Institute of the Philippines

AWARDS/CITATIONS
- 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement
- 2018 Go Negosyo Woman Intrapreneur Awardee

FELIX ENRICO R. ALFILER

AGE
70

NATIONALITY
Filipino

EDUCATION
- Bachelor of Science and Masters in Statistics, University of the Philippines

CURRENT POSITION IN THE BANK
- Vice Chairman/Independent Director

DATE OF FIRST APPOINTMENT
- January 1, 2012

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Chairman/Independent Director of PNB General Insurers Co., Inc., PNB RCI Holdings Co., Ltd., and PNB International Investments Corp.
- Independent Director of PNB Savings Bank

OTHER PREVIOUS POSITIONS
- Independent Director of PNB-Mizuho Leasing and Finance Corporation
- Senior Advisor to the World Bank Group Executive Board in Washington, D.C.
- Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization
- Director of the BSP
- Assistant to the Governor of the Central Bank of the Philippines
- Senior Advisor to the Executive Director at the International Monetary Fund
- Associate Director at the Central Bank
- Head of the Technical Group of the CB Open Market Committee
- Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippines' medium- and long-term foreign debts
- Advisor at Lazaro Bernardo Tiu and Associates, Inc.
- President of Pilgrims (Asia Pacific) Advisors, Ltd.
- President of the Cement Manufacturers Association of the Philippines (CeMAP)
- Board Member of the Federation of Philippine Industries (FPI)
- Vice President of the Philippine Product Safety and Quality Foundation, Inc.
- Convenor for Fair Trade Alliance

JOSE ARNULFO "WICK" A. VELOSO

AGE 54

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Commerce – Marketing Management, De La Salle University

CURRENT POSITION IN THE BANK
- President and Chief Executive Officer

DATE OF FIRST APPOINTMENT
- November 16, 2018

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Director of Allianz PNB Life Insurance, Inc.
- Director of the Asian Banker's Association
- Director of BancNet, Inc.
- Director of European Chamber of Commerce of the Philippines
- Director of Phil. Payments Management, Inc.
- Member of the Management Association of the Philippines

OTHER PREVIOUS POSITIONS
- Chairman and Director of HSBC Insurance Brokers (Philippines), Inc. and HSBC Savings Bank (Philippines), Inc.
- Director of PNB Global Remittance & Financial Co. (HK) Ltd.
- Director and Chairperson of the Open Market Committee of Banker's Association of the Philippines
- Director of the Philippine Dealing and Exchange Corporation
- Director of the Philippine Securities Settlement Corporation
- Director of the British Chamber of Commerce Philippines
- President and Chief Executive Officer of HSBC Philippines
- President of the Money Market Association of the Philippines
- Managing Director, Treasurer, and Head of Global Banking and Markets of HSBC Global Markets
- Treasurer and Head of Global Markets of HSBC Treasury
- Head of Domestic Treasury of PCI Bank/ PCI-Capital
- Fixed Income Portfolio Head of Citibank
- Fixed Income Trader of Asia Trust
- Supervisor of Urban Bank
- Chairman of the Council of Trustees of the British School Manila
- Member of Assocacion Cambiste Internationale

FLORIDO P. CASUELA

AGE 78

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Business Administration, Major in Accounting, University of the Philippines
- Masters in Business Administration, University of the Philippines
- Advanced Management Program for Overseas Bankers, Philadelphia National Bank in conjunction with Wharton School of the University of Pennsylvania
- Study Tour (Micro Finance Program and Cooperatives), under the Auspices of the United States Agency for International Development

GOVERNMENT CIVIL SERVICE ELIGIBILITIES
- Certified Public Accountant, Economist, Commercial Attaché

CURRENT POSITION IN THE BANK
- Director

DATE OF FIRST APPOINTMENT
- May 30, 2006

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Chairman of PNB Securities, Inc.
- Vice Chairman of PNB Savings Bank, Director of PNB International Investments Corporation, PNB RCI Holdings Co., Ltd., and Surigao Micro Credit Corporation
- Senior Adviser of the Bank of Makati (a Savings Bank), Inc.

OTHER PREVIOUS POSITIONS
- President of Land Bank of the Philippines, Maybank Philippines, Inc., and Surigao Micro Credit Corporation
- Vice-Chairman of Land Bank of the Philippines and Maybank Philippines, Inc.
- Director of PNB Life Insurance, Inc.
- Director of Meralco
- Trustee of Land Bank of the Philippines Countryside Development Foundation, Inc.
- Director of Sagittarius Mines, Inc.
- Senior Adviser in the Bangko Sentral ng Pilipinas
- Senior Executive Vice President of United Overseas Bank (Westmont Bank)
- Executive Vice President of PDCP (Producers Bank)
- Senior Vice President of Philippine National Bank
- Special Assistant to the Chairman of the National Power Corporation
- First Vice President of Bank of Commerce
- Vice President of Metropolitan Bank & Trust Co.
- Staff Officer of BSP
- Audit Staff of Joaquin Cunanan, CPAs (Isla Lipana & Co.)

AWARDS/CITATIONS
- One of the 10 awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration
- Most Outstanding Surigaonon in the field of Banking and Finance, awarded by the Rotary Club – Surigao Chapter

Board of Directors

LEONILO G. CORONEL

AGE
- 73

NATIONALITY
- Filipino

EDUCATION
- Bachelor of Arts, Major in Economics, Ateneo de Manila University
- Advance Management Program, University of Hawaii

CURRENT POSITION IN THE BANK
- Director

DATE OF FIRST APPOINTMENT
- May 28, 2013

DIRECTORSHIP IN OTHER LISTED COMPANIES
- Independent Director of Megawide Construction Corporation

OTHER CURRENT POSITIONS
- Independent Director of DBP-Daiwa Capital Markets Phil.
- Director of Software Ventures International

OTHER PREVIOUS POSITIONS
- Chairman of PNB-Mizuho Leasing and Finance Corporation and PNB-Mizuho Equipment Rentals Corporation
- Executive Director of the Bankers Association of the Philippines and RBB Micro Finance Foundation
- Director/Treasurer of Philippine Depository and Trust Corporation
- Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Capital Markets Development Council
- Managing Director of BAP-Credit Bureau
- President of Cebu Bankers Association
- Consultant of Land Bank of the Philippines, Arthur Young, U.S. Aid, Bankers Association of the Philippines and Economic Development Corporation
- Worked with Citibank, Manila for 20 years, occupying various positions

AWARDS/CITATIONS
- Fellow of the Australian Institute of Company Directors in 2002
- Fellow of the Institute of Corporate Directors

EDGAR A. CUA

AGE
- 64

NATIONALITY
- Filipino

EDUCATION
- Bachelor of Arts in Economics (Honors Program), Ateneo de Manila University
- Masters of Arts in Economics, University of Southern California
- Masters of Planning Urban and Regional Environment, University of Southern California
- Advanced Chinese, Beijing Language and Culture University
- Sustainable Development Training Program, Cambridge University

CURRENT POSITION IN THE BANK
- Independent Director

DATE OF FIRST APPOINTMENT
- May 31, 2016

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Independent Director of PNB Capital and Investment Corporation and Allied Commercial Bank, Xiamen
- Director of Davao Unicar Corporation

PREVIOUS POSITIONS
- Held various managerial and staff positions at the Asian Development Bank (ADB) during a 30-year professional career
- Retired in 2015 as Senior Advisor, East Asia Department of the ADB, based in ADB's Resident Mission in Beijing, People's Republic of China (PRC). Other managerial positions in ADB included Deputy Director General, East Asia Department, Country Director, ADB Resident Mission in Indonesia and Deputy Country Director, ADB Resident Mission in PRC.
- Staff Consultant of SGV & Co.

ESTELITO P. MENDOZA

AGE	89
NATIONALITY	Filipino
EDUCATION	• Bachelor of Laws (cum laude), University of the Philippines • Master of Laws, Harvard University
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• January 1, 2009
DIRECTORSHIP IN OTHER LISTED COMPANIES	• Director of San Miguel Corporation and Petron Corporation
OTHER CURRENT POSITIONS	• Chairman of Prestige Travel, Inc. • Practicing lawyer for more than 60 years
OTHER PREVIOUS POSITIONS	• Professorial Lecturer of law at the University of the Philippines • Undersecretary of Justice, Solicitor General and Minister of Justice • Member of the Batasang Pambansa and Provincial Governor of Pampanga • Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization
AWARDS/CITATIONS	• Doctor of Laws degree (honoris causa) by Central Colleges of the Philippines, Hanyang University (Seoul, Korea), University of Manila, Angeles University Foundation, and the University of the East • Doctor of Humane Letters degree by the Misamis University • Recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns • University of the Philippines Alumni Association's 1975 "Professional Award in Law" and 2013 "Lifetime Distinguished Achievement Award"

CHRISTOPHER J. NELSON

AGE	60
NATIONALITY	British
EDUCATION	• Bachelor of Arts and Masters of Arts in History, Emmanuel College, Cambridge University, U.K. • Diploma in Marketing, Institute of Marketing, Cranfield, U.K.
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• March 21, 2013 (Director) • May 27, 2014 (Board Advisor) • May 26, 2015 (Director)
DIRECTORSHIP IN OTHER LISTED COMPANIES	• None
OTHER CURRENT POSITIONS	• Director of the Philippine Band of Mercy, the Federation of Philippine Industries, and Greenlands Community • Vice President/Member of the Board of Trustees of the American Chamber Foundation Philippines, Inc. • Executive Director of the British Chamber of Commerce of the Philippines, Inc. • Member of the Society of Fellows of the Institute of Corporate Directors • Trustee of Dualtech Training Foundation as of March 2017
OTHER PREVIOUS POSITIONS	• Director of PNB Holdings Corporation • Trustee of Tan Yan Kee Foundation • Director of the American Chamber of Commerce of the Philippines, Inc. • President of Philip Morris Philippines Manufacturing, Inc., a position he held for 10 years • Various management positions with Philip Morris International for 25 years including Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and Horn of Africa • Trustee of Bellagio 3 Condominium Association, Inc.

Board of Directors

FEDERICO C. PASCUAL

AGE 77

NATIONALITY Filipino

EDUCATION
- Bachelor of Arts, Ateneo de Manila University
- Bachelor of Laws (Member, Law Honors Society), University of the Philippines
- Master of Laws, Columbia University

CURRENT POSITION IN THE BANK
- Independent Director

DATE OF FIRST APPOINTMENT
- May 27, 2014

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Independent Director of Allianz PNB Life Insurance, Inc.; PNB-Mizuho Leasing and Finance Corporation; PNB International Investments Corporation; and PNB Holdings Corporation
- Chairman of Bataan Peninsula Educational Institution, Inc.
- President/Director of Tala Properties, Inc. and Woldingham Realty, Inc.
- Director of Apo Reef World Resort and Sarco Land Resources Ventures Corporation
- Proprietor of Green Grower Farm
- Partner of the University of Nueva Caceres-Bataan
- Member of Multi Sectoral Governing Council of Bureau of Customs

OTHER PREVIOUS POSITIONS
- Chairman/Independent Director of PNB General Insurers Co., Inc.
- President and General Manager of Government Service Insurance System
- President and CEO of Allied Banking Corporation and PNOC Alternative Fuels Corporation
- Various positions with PNB for 20 years in different capacities, including Acting President, CEO, and Vice Chairman
- President and Director of Philippine Chamber of Commerce and Industry
- Chairman of National Reinsurance Corporation
- Co-Chairman of the Industry Development Council of the Department of Trade and Industry
- Treasurer of BAP-Credit Guarantee
- Chairman of Alabang Country Club
- President of Alabang Country Club
- Director of Global Energy Growth System, San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard, Philippine International Trading Corporation, and Philippine National Oil Corporation

SHEILA T. PASCUAL

AGE 57

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Business Management, Ateneo de Manila University

CURRENT POSITION IN THE BANK
- Director

DATE OF FIRST APPOINTMENT
- November 22, 2019

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- Marketing and Development Officer of Allied Banking Corporation, Hong Kong

OTHER PREVIOUS POSITIONS
- Marketing Development Officer of Asia Brewery Incorporated

CARMEN K. TAN

AGE	78
NATIONALITY	Filipino
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• May 31, 2016
DIRECTORSHIP IN OTHER LISTED COMPANIES	• Director of MacroAsia Corporation, LT Group, Inc., and PAL Holdings, Inc.
OTHER CURRENT POSITIONS	• Vice Chairman of Philippine Airlines, Inc. • Director of Air Philippines Corporation; Asia Brewery, Inc.; Buona Sorte Holdings, Inc.; Cosmic Holdings Corporation; The Charter House, Inc.; Dominium Realty and Construction Corporation; Eton City, Inc.; Foremost Farms, Inc.; Fortune Tobacco Corporation; Himmel Industries, Inc.; Lucky Travel Corporation; Manufacturing Services & Trade Corp.; Progressive Farms, Inc.; PMFTC, Inc.; Shareholdings Inc.; Sipalay Trading Corp.; Tanduay Distillers, Inc.; Tangent Holdings Corporation; Trustmark Holdings Corp.; Zuma Holdings and Management Corp.; Grandspan Development Corp.; Basic Holdings Corp.; Saturn Holdings, Inc.; Paramount Land Equities, Inc.; Interbev Philippines, Inc.; Waterich Resources Corp.; and REM Development Corp.
MAJOR AFFILIATIONS	• Director of Tan Yan Kee Foundation • Member of Tzu Chi Foundation

LUCIO C. TAN

AGE	85
NATIONALITY	Filipino
EDUCATION	• Bachelor of Science in Chemical Engineering, Far Eastern University • Doctor of Philosophy, Major in Commerce, University of Sto. Tomas
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• December 8, 1999
DIRECTORSHIP IN OTHER LISTED COMPANIES	• Chairman and CEO of LT Group, Inc.; PAL Holdings, Inc.; and MacroAsia Corporation
OTHER CURRENT POSITIONS	• Chairman and CEO of Philippine Airlines, Inc. and University of the East • Chairman and President of Buona Sorte Holdings, Inc.; Lucky Travel Corporation; Tangent Holdings Corporation; Trustmark Holdings Corporation; and Zuma Holdings and Management Corporation • Chairman of Absolut Distillers, Inc.; AlliedBankers Insurance Corporation; Allied Commercial Bank; Allied Banking Corporation (HK) Ltd.; Allianz PNB Life Insurance, Inc.; Air Philippines Corporation; Asian Alcohol Corporation; Belton Communities, Inc.; Cosmic Holdings Corporation; Eton Properties Philippines, Inc.; Eton City, Inc.; Fortune Tobacco Corporation; PMFTC, Inc.; PNB Holdings Corporation; PNB Savings Bank; Tanduay Distillers, Inc.; Tanduay Brands International, Inc.; The Charter House, Inc.; Manufacturing Services & Trade Corp.; Foremost Farms, Inc.; Dominium Realty & Construction Corp.; Shareholdings, Inc.; REM Development Corporation; Sipalay Trading Corp.; and Progressive Farms, Inc. • President of Basic Holdings Corporation; Himmel Industries, Inc.; and Grandspan Development Corporation • Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. • Founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. • Founded the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President
OTHER PREVIOUS POSITIONS	• Chairman of Allied Banking Corporation and Allied Leasing and Finance Corporation
AWARDS/CITATIONS	• Honorary degrees from various universities • Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence • Adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam • Diploma of Merit by the Socialist Republic of Vietnam • Outstanding Manilan for the year 2000 • UST Medal of Excellence in 1999 • Most Distinguished Bicolano Business Icon in 2005 • 2003 Most Outstanding Member Award by the Philippine Chamber of Commerce and Industry (PCCI) • Award of Distinction by the Cebu Chamber of Commerce and Industry • Award for Exemplary Civilian Service of the Philippine Medical Association • Honorary Mayor and Adopted Son of Bacolod City; Adopted Son of Cauayan City, Isabela; and Entrepreneurial Son of Zamboanga • Distinguished Fellow during the 25th Conference of the ASEAN Federation of Engineering Association • 2008 Achievement Award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences

Board of Directors

LUCIO K. TAN, JR. +

AGE	53
NATIONALITY	Filipino
EDUCATION	• Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics), University of California Davis, U.S.A. • Master of Business Administration, J.L. Kellogg School of Management, Northwestern University and The School of Business and Management, The Hong Kong University of Science and Technology, Hong Kong • Courses in Basic and Intermediate Japanese Language, Languages International, Makati and Asia Center for Foreign Languages, Ortigas
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• September 28, 2007
DIRECTORSHIP IN OTHER LISTED COMPANIES	• Director of MacroAsia Corporation; LT Group, Inc.; PAL Holdings, Inc.; and Victorias Milling Company, Inc.
OTHER CURRENT POSITIONS	• Vice Chairman of Philippine Airlines, Inc. • President/COO of Tanduay Distillers, Inc. • President of Eton Properties Philippines, Inc. • Director of PNB Management and Development Corporation; PNB Savings Bank; Allied Commercial Bank; PNB Global Remittance and Financial Company (HK) Ltd.; and Allied Banking Corporation (HK) Limited • Director of PMFTC, Inc.; Air Philippines Corporation; AlliedBankers Insurance Corporation; Foremost Farms, Inc.; Manufacturing Services & Trade Corp.; Grandspan Development Corporation; Absolut Distillers, Inc.; Asia Brewery, Inc.; Eton City, Inc.; Asian Alcohol Corporation; Lucky Travel Corporation; Progressive Farms, Inc.; Tanduay Brands International, Inc.; The Charter House, Inc.; and Himmel Industries, Inc. • Executive Vice President and Director of Fortune Tobacco Corporation
OTHER PREVIOUS POSITIONS	• President and Chief Executive Officer of MacroAsia Corporation • Director of Tanduay Distillers, Inc.; Allied Leasing and Finance Corporation; PNB (Europe) Plc; Bulawan Mining Corporation; and PNB Forex, Inc. • Executive Vice President of Fortune Tobacco Corporation

MICHAEL G. TAN

AGE	53
NATIONALITY	Filipino
EDUCATION	• Bachelor of Applied Science in Civil Engineering, Major in Structural Engineering, University of British Columbia, Canada
CURRENT POSITION IN THE BANK	• Director
DATE OF FIRST APPOINTMENT	• February 9, 2013
DIRECTORSHIP IN OTHER LISTED COMPANIES	• Director and President of LT Group, Inc. • Director of Victorias Milling Company, Inc.
OTHER CURRENT POSITIONS	• Director of PNB Savings Bank; PNB Management and Development Corporation; Allied Commercial Bank – Xiamen; PNB Global Remittance and Financial Company (HK) Ltd.; and Allied Banking Corp. (Hong Kong) Limited • President and Chief Operating Officer of Asia Brewery, Inc. • Director of Philippine Airlines Foundation, Inc.; Air Philippines Corp.; Philippine Airlines, Inc.; Absolut Distillers, Inc.; Eton Properties Phils. Inc.; Grandway Konstruct, Inc.; Shareholdings, Inc.; Lucky Travel Corporation; Eton City, Inc.; Abacus Distribution Systems Philippines, Inc.; PMFTC, Inc.; Tangent Holdings Corporation; and Alliedbankers Insurance Corporation
OTHER PREVIOUS POSITIONS	• Chairman of PNB Holdings Corporation • Director of Bulawan Mining Corporation and PNB Forex, Inc. • Director of Allied Banking Corporation from January 30, 2008 until its merger with PNB on February 9, 2013

VIVIENNE K. TAN

AGE
51

NATIONALITY
Filipino

EDUCATION
- Bachelor of Science - Double Degree in Mathematics and Computer Science, University of San Francisco, U.S.A.
- Diploma in Fashion Design and Manufacturing Management, Fashion Institute of Design and Merchandising, Los Angeles, U.S.A.

CURRENT POSITION IN THE BANK
- Director

DATE OF FIRST APPOINTMENT
- December 15, 2017

DIRECTORSHIP IN OTHER LISTED COMPANIES
- Director of LT Group, Inc.; PAL Holdings, Inc.; and MacroAsia Corporation

OTHER CURRENT POSITIONS
- Director/Executive Vice President/Treasurer/Chief Administrative Officer of Philippine Airlines
- Director of MMC Management and Development Corp. (formerly PNB Management and Development Corporation) and Eton Properties Philippines, Inc.
- Executive Director of Dynamic Holdings Limited
- Member of the Board of Trustees of the University of the East and the University of the East Ramon Magsaysay Memorial Medical Center
- Founding Chairperson of the Entrepreneurs School of Asia (ESA)
- Founding Trustee of the Philippine Center for Entrepreneurship (Go Negosyo)

OTHER PREVIOUS POSITIONS
- Board Advisor of LT Group, Inc.
- Director of Bulawan Mining Coporation
- Executive Vice President, Commercial Group and Manager, Corporate Development of Philippine Airlines
- Founder and President of Thames International Business School
- Owner of Vaju, Inc. (Los Angeles, U.S.A.)
- Systems Analyst/Programmer of Fallon Bixby & Cheng Law Office (San Francisco, U.S.A.)
- Member of the Board of Trustees of Bantay Bata (Children's Foundation)
- Proponent/Partner of various NGO/social work projects like Gawad Kalinga's GK-Batya sa Bagong Simula, livelihood programs thru Teenpreneur Challenge spearheaded by ESA, Conserve and Protect Foundation's artificial reef project in Calatagan, Batangas, Quezon City Sikap-Buhay Project's training and mentorship program for micro-entrepreneurs, and as Chairman of Ten Inspirational Entrepreneur Students Award

AWARDS/CITATIONS
- Recipient of the Ten Outstanding Young Men (TOYM) Award for Business Education and Entrepreneurship (2006), UNESCO Excellence in Education and Social Entrepreneurship Award (2007), Leading Women of the World Award (2007), and "People of the Year", People Asia Award (2008)

DOMINGO H. YAP

AGE
86

NATIONALITY
Filipino

EDUCATION
- Bachelor of Science in Business Administration Major in Business Management, San Sebastian College Recoletos

CURRENT POSITION IN THE B BANK
- Independent Director

DATE OF FIRST APPOINTMENT
- August 23, 2019

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

OTHER CURRENT POSITIONS
- President of H-Chem Industries, Inc.; DHY Realty and Development Inc.; Colorado Chemical Sales Corporation; Universal Paint & Coating Philippines, Inc.; and AllianceLand Development Corporation

OTHER PREVIOUS POSITIONS
- President of the Federation of Filipino-Chinese Chamber of Commerce and Industries, Inc.
- Governor of Y's Men Club Philippines
- President of Y's Men Club Downtown of Manila
- President of Rotary Club of Pasay City

CORPORATE SECRETARY

MAILA KATRINA Y. ILARDE

AGE	36
NATIONALITY	Filipino
EDUCATION	• Bachelor of Science in Legal Management, De La Salle University • Juris Doctor, Ateneo de Manila University School of Law
CURRENT POSITION IN THE B BANK	• Corporate Secretary
DATE OF FIRST APPOINTMENT	• June 29, 2015
DIRECTORSHIP IN OTHER LISTED COMPANIES	• None
OTHER CURRENT POSITIONS	• Corporate Secretary of PNB Capital and Investment Corporation and PNB Securities, Inc.
OTHER PREVIOUS POSITIONS	• Senior Associate of Roxas De Los Reyes Laurel Rosario & Leagogo • Assistant Corporate Secretary of Ionics, Inc. • Assistant Corporate Secretary of Ionics EMS, Inc.

Board Advisors

MARK M. CHEN

AGE 45

NATIONALITY American

EDUCATION
- Bachelor of Arts in Economics (with Honors), Harvard University – Dean's List and Harvard College Scholar
- Executive Masters in Business Administration, Northwestern Kellogg – Hong Kong University of Science & Technology (HKUST) - Graduated top of the class

CURRENT POSITION IN THE BANK
- Board Advisor

DATE OF FIRST APPOINTMENT
- January 24, 2020

OTHER CURRENT POSITIONS
- Director of Philippine Airlines, Inc.
- Chief Executive Officer of Cobalt Equity Partners
- Adjunct Professor of finance/investment at Kellogg Hong Kong University of Science & Technology (HKUST) Business School

OTHER PREVIOUS POSITIONS
- Chief Executive Officer of General Electric (GE) Equity Asia Pacific from 2006 to 2015
- Senior Vice President of General Electric (GE) Equity Asia Pacific from 2000 to 2005
- Associate of Bankers Trust from 1996 to 1999

AWARDS/CITATIONS
- United States Presidential Scholar
- United States Byrd Congressional Award

WILLIAM T. LIM

AGE 79

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Chemistry, Adamson University

CURRENT POSITION IN THE BANK
- Board Advisor

DATE OF FIRST APPOINTMENT
- January 25, 2013

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

CURRENT POSITIONS
- President of Jas Lordan, Inc.
- Director of PNB Holdings Corporation; Allied Commercial Bank – Xiamen; General BH Fashion Retailers, Inc.; and Concept Clothing, Co., Inc.
- Board Advisor of PNB Savings Bank
- Advisor to the Chairman of the Board of Directors of Allianz PNB Life Insurance, Inc.

PREVIOUS POSITIONS
- Director of PNB Life Insurance, Inc.
- Consultant of Allied Banking Corporation
- Director of Corporate Apparel, Inc.
- Director of Concept Clothing
- Director of Freeman Management and Development Corporation
- Worked with Equitable Banking Corporation for 30 years, occupying various positions, including as VP & Head of the Foreign Department

MANUEL T. GONZALES +

AGE 82

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Commerce, De La Salle University
- Masters of Arts in Economics, Ateneo De Manila University

CURRENT POSITION IN THE BANK
- Board Advisor

DATE OF FIRST APPOINTMENT
- October 1, 2013

DIRECTORSHIP IN OTHER LISTED COMPANIES
- None

CURRENT POSITIONS
- Director of PNB Securities, Inc. and Allied Bankers Insurance Corporation
- Board Advisor of PNB-Mizuho Leasing and Finance Corporation and PNB-Mizuho Equipment Rentals Corporation

OTHER PREVIOUS POSITIONS
- Director of Allied Banking Corporation and Allied Leasing and Finance Corporation
- Member of the Management Association of the Philippines (MAP)
- Member of the Financial Executives of the Philippines (FINEX)
- Member of the European Chamber of Commerce of the Philippines (ECCP)
- Member of the Bankers Institute of the Philippines

HARRY C. TAN

AGE 73

NATIONALITY Filipino

EDUCATION
- Bachelor of Science in Chemical Engineering, Mapua Institute of Technology

CURRENT POSITION IN THE BANK
- Board Advisor

DATE OF FIRST APPOINTMENT
- May 31, 2016

DIRECTORSHIP IN OTHER LISTED COMPANIES
- Director of LT Group, Inc.

OTHER CURRENT POSITIONS
- Chairman of PNB Management Development Corporation, and PNB Global Remittance and Financial Company (HK) Limited
- Director of PNB Savings Bank
- Chairman of the Tobacco Board of Fortune Tobacco Corporation
- President of Landcom Realty Corporation and Century Park Hotel
- Vice Chairman of Lucky Travel Corporation; Eton Properties Philippines, Inc.; Belton Communities, Inc.; and Eton City, Inc.
- Managing Director/Vice Chairman of The Charter House, Inc.
- Director of Asia Brewery, Inc.; Dominium Realty and Construction Corporation; Progressive Farms, Inc.; Shareholdings Inc.; Himmel Industries, Inc.; Basic Holdings Corporation; Asian Alcohol Corporation; Pan Asia Securities Inc.; Tanduay Distillers, Inc.; Manufacturing Services and Trade Corporation; Foremost Farms, Inc.; Grandspan Development Corporation; Absolut Distillers, Inc.; Tanduay Brands International Inc.; Allied Bankers Insurance Corp.; Allied Banking Corporation (Hong Kong) Limited; PMFTC, Inc.; and Allied Commercial Bank

OTHER PREVIOUS POSITIONS
- Chairman of Bulawan Mining Corporation
- Director of Philippine National Bank
- Director of Allied Banking Corporation
- Director of Philippine Airlines
- Director of MacroAsia Corporation

MANAGEMENT COMMITTEE

Management Committee

FSVP JOSE GERMAN M. LICUP

SVP MANUEL C. BAHENA, JR

SVP NOEL C. MALABAG

SVP CLARO P. FERNANDEZ

FSVP NANETTE O. VERGARA

SOCORRO D. CORPUS

SVP MARIE FE LIZA S. JAYME

FSVP MARIA PAZ D. LIM

EVP ROBERTO
D. BALTAZAR

EVP CHESTER
Y. LUY

EVP ISAGANI
A. CORTES

EVP CENON
C. AUDENCIAL, JR.

EVP NELSON
C. REYES

PRESIDENT & CEO
JOSE ARNULFO A. VELOSO

EVP AIDA
M. PADILLA

FVP SIMEON T. YAP

SVP NORMAN MARTIN C. REYES

SVP MICHAEL M. MORALLOS

FVP MARTIN G. TENGCO, JR.

SVP ROMMELL B. NARVAEZ

FVP JOY JASMIN R. SANTOS

SVP MARIA ADELIA A. JOSON

SVP ROLAND V. OSCURO

Management Committee

JOSE ARNULFO A. VELOSO, 54, Filipino. "Wick" is the President & CEO and Director of Philippine National Bank. He is also a Director of Allianz PNB Life Insurance, Inc., Asian Bankers Association, Bancnet, Inc. (Treasurer), European Chamber of Commerce of the Philippines, and the Philippine Payments and Management, Inc. Wick has 33 years of banking and capital markets experience, garnering various industry recognitions throughout his career. Prior to his employment in PNB, he was President & CEO of HSBC Philippines, the first Filipino CEO in its 144 years of operations in the country. Wick obtained his Bachelor of Science degree in Commerce, Major in Marketing Management from the De La Salle University.

CENON C. AUDENCIAL, JR., 61, Filipino. "Jun" is Executive Vice President and Head of Institutional Banking Sector. Before joining the Bank in 2009, he headed the Institutional and Corporate Bank of ANZ, prior to which he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as a Vice President and Unit Head of Standard Chartered Bank's Relationship Management Group and was a Relationship Manager in Citytrust Banking Corporation. Before his 25-year stint as a Relationship Manager, he was a Credit Analyst for Saudi French Bank and AEA Development Corporation. Jun obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University.

ROBERTO D. BALTAZAR, 56, Filipino. "Dondi" is Executive Vice President and Head of Global Banking and Markets Sector. He has over 30 years of banking experience in the financial markets and corporate banking sector and previously headed the Global Markets, Debt Capital Markets, and Securities Services of HSBC Philippines where the said bank was recognized consistently as one of the Top Debt Capital Market houses, Securities Services Operations and leading Foreign Exchange and Bond Trading houses during his tenure. He was also the President of the ACI The Financial Markets Association in 2013. He was an active member of the Bankers Association of the Philippines' Open Market Committee, specifically the foreign exchange sub-committee. Dondi obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University. He holds a Master's degree in Business Administration from the University of North Carolina at Chapel Hill, USA.

ISAGANI A. CORTES, 52, Filipino. "Gani" is Executive Vice President and Chief Compliance Officer of PNB effective April 8, 2019. Before joining the Bank, he was the Senior Vice President and Deputy Head of the Regulatory Affairs Group of RCBC, responsible for Compliance, AML, Corporate Governance, Data Privacy, and Tax Transparency. Prior to RCBC, he spent a total of 14 years in HSBC Philippines where his last position was as Senior Vice President and Country Head of Financial Crime Compliance. He was also the Chief Compliance Officer of EastWest Bank from 2012 to 2014. Gani obtained his Bachelor of Arts degree in English from the University of the East and his Bachelor of Laws degree from the University of the Philippines.

CHESTER Y. LUY, 51, Filipino, Executive Vice President, is the Head of the Strategy Sector and concurrently serves as the Head of the Wealth Management Group. The Strategy Group is responsible for crafting the bank's overall business strategy as well as its competitive positioning within the industry. It is comprised of the Corporate Planning and Analysis Division, the Strategic Initiatives Unit and the Research Division (Macroeconomic, Equity and Fixed Income Research). Mr. Luy serves as a member of the Board of Directors of PNB-Mizuho Leasing Corporation, PNB Europe and PNB Global Remittance and Financial Corporation (Hong Kong). Mr. Luy has 27 years of experience in banking and finance. He served in leadership roles as Managing Director across a variety of businesses with several international banks and was based in New York, Singapore and Manila. His leadership experience includes Treasury, Wealth Management and Private Banking, Trust, Investment Management, Research, Corporate Finance and Investment Banking and Credit Risk Analysis. Mr. Luy has worked with a number of banks including JPMorgan, Bank of America Merrill Lynch, Barclays Capital, HSBC, Julius Baer, Bank of Singapore and RCBC. He graduated from the University of the Philippines with a Bachelor of Science degree in Business Administration (Magna Cum Laude) and was awarded as the "Most Outstanding Business Administration Student for the Class of 1990". He earned his Masters in Management (MBA) degree from the J.L. Kellogg Graduate School of Management at Northwestern University. He is a CFA (Chartered Financial Analyst). During his stint with various global banks in the U.S., for several years, he was consistently awarded as Top Senior Analyst in his field by Institutional Investor Magazine. He served as a member of the Singapore Institute of Directors, an association of independent directors in Singapore and served on the board of a Singapore-based hospitality and real estate entity.

Management Committee

AIDA M. PADILLA, 70, Filipino. "Aida" is Executive Vice President and Head of the Enterprise Services Sector. She is the chief strategist for modification of distressed and problem loans, administrator of all Bank-owned real estate properties and building facilities, and Head of the Security Services of PNB. A seasoned professional, she honed her branch banking experience at the Philippine Banking Corporation to become Vice President of Marketing for its Corporate Banking Group. Aida obtained her Bachelor of Science degree in Commerce, Major in Accounting from St. Theresa's College.

NELSON C. REYES, 56, Filipino. "Sonny" joined PNB as Executive Vice President and Chief Financial Officer on January 1, 2015. Prior to his employment in the Bank, he was the Chief Financial Officer of HSBC Philippines for over 10 years. He also served as Director for HSBC Savings Bank Philippines and HSBC Insurance Brokers Philippines. His banking career covers the areas of corporate banking, credit operations, finance, and treasury operations. In 2018, he became a member of the Board of PNB (Europe) PLC and was appointed Chairman in 2019. Sonny graduated from the De La Salle University with a Bachelor of Science degree in Commerce, Major in Accounting. He is a Certified Public Accountant.

JOSE GERMAN M. LICUP, 54, Filipino. "Gerry" is First Senior Vice President and Chief of Staff to the President & CEO. He has been in the banking industry for more than 25 years. Prior to joining PNB, he was the Country General Counsel of HSBC Philippines. He is currently an Advisor to the Board of the Association of Bank Compliance Officers (ABCOMP). Gerry obtained his Bachelor of Arts and Bachelor of Laws degrees from the University of the Philippines.

MARIA PAZ D. LIM, 58, Filipino. "Girlie" is First Senior Vice President and Corporate Treasurer. She is also concurrently the Treasurer of PNB Capital and Investment Corporation. She joined the Bank on June 23, 1981, rose from the ranks occupying various positions covering areas such as Branch Banking, Economics and Research, Budget, and Corporate Disbursing. Girlie obtained her Bachelor of Science degree in Business Administration, Major in Finance and Marketing from the University of the Philippines. She holds a Master's degree in Business Administration from the Ateneo de Manila University.

NANETTE O. VERGARA, 59, Filipino. "Nanette" is First Senior Vice President and Chief Credit Officer. Prior to joining PNB, she was Vice President and Head of Credit Risk Management at United Overseas Bank Philippines. She also held various credit-related positions in Solidbank Corporation, Union Bank of the Philippines, Bank of Commerce, and at the Credit Information Bureau, Inc. Nanette graduated cum laude with a Bachelor of Science degree in Statistics from the University of the Philippines.

MANUEL C. BAHENA, JR., 58, Filipino. "Manny" is Senior Vice President and Chief Legal Counsel. He joined PNB in 2003 and was appointed as Head of Documentation and Research Division of Legal Group in 2009. Prior to his employment in the Bank, he was the Corporate Secretary and Vice President of the Legal Department of Multinational Investment Bancorporation. He has also served as corporate secretary and legal counsel to various corporations such as Corporate Partnership for Management in Business, Inc., Orioxy Investment Corporation, Philippine Islands Corporation for Tourism and Development, Cencorp, Inc., and Central Bancorporation Merchants, Inc. Manny obtained his Bachelor of Science degree in Business Administration from the Lyceum of the Philippines and his Bachelor of Laws degree from Arellano University.

Management Committee

CLARO P. FERNANDEZ, 57, Filipino. “Claro” is Senior Vice President and Head of Public Affairs Group. He is a communications professional with over 30 years of experience in media, banking, and the government sectors. He was previously connected with PNB from 1997 to 2001 as Vice President of the Corporate Affairs Office and then, Information Technology Group where he was part of the Bank’s integrated banking solutions project and the Y2K. In government, he was Press Undersecretary and Deputy Communications Director for the Office of the President from 2002 to 2005; and Executive Director of the Investor Relations Office at the Bangko Sentral Ng Pilipinas from 2009 to 2013. Prior to returning to PNB in 2019, he was Head of Communications in HSBC Philippines. Claro holds a Bachelor of Arts degree in Mass Communications, Major in Journalism from the University of the Philippines.

MARIE FE LIZA S. JAYME, 57, Filipino. “Mafe” is Senior Vice President and Head of Operations Group. She joined PNB in 2007 as Head of Cash Product Management Division, establishing the Bank’s cash management services. She began her career in banking in 1990 occupying various responsibilities in key areas such as account management, cash and trade sales, marketing and product management, and transaction banking. Prior to banking, she held senior staff positions at the Office of the Secretary of Finance, the Department of Trade and Industry, and the former Office of the Prime Minister. Mafe graduated with a Bachelor of Arts degree, Major in Communication Arts and Business Administration from the Assumption College. She completed academic units for the Master’s degree in Business Administration from the Ateneo de Manila University.

MARIA ADELIA A. JOSON, 66, Filipino, is Senior Vice President and Head of the Retail Banking Sector's (RBS) Sales and Support Group in concurrent capacity as Officer-in-Charge of the Retail Banking Sector. "Daday", as fondly called by her peers, is a seasoned banker for over 40 years. She started her stint as a research analyst in the Economic Research Department of Commercial Bank and Trust Company in 1974, joined the Officers Training Program in 1978, and was promoted to Branch Cashier of Comtrust, Taft Ave. Branch thereafter. She joined Allied Banking Corporation as Cashier of Roosevelt Branch in 1980. She has developed a high proficiency in all facets of branch banking. She has held various positions in PNB as Branch Head, Area Head, and Region Head before her biggest break: she was designated as the Head of Branch Banking Group in 2014. In 2017, she was assigned to head the Sector's Sales and Support Group. Daday obtained her degree in A.B. Economics at La Salle College.

NOEL C. MALABAG, 48, Filipino. "Noel" is Senior Vice President and Head of Global Markets Group. Before joining the Bank, he was the Treasurer of Philippine Veterans Bank, responsible for spearheading innovations not only in trading and balance sheet management, but also in and across risk management, compliance, controls, and governance. He likewise spent 19 years in HSBC Philippines, where he honed his expertise on interest rates, foreign exchange, derivatives, and liquidity management. As a respected member of the banking industry with over 25 years of experience, he has been a key resource for reforms and policy-making in the country's financial markets through various industry associations such as Bankers Association of the Philippines' Open Market Committee, Money Market Association of the Philippines, and ACI Philippines. Noel obtained his Bachelor of Science degree, Major in Marketing Management from the De La Salle University.

MICHAEL M. MORALLOS, 51, Filipino. "Mike" is Senior Vice President and Head of Information Technology Group. Prior to his employment with PNB, he was First Senior Vice President and Head of Technology Platform at the Siam Commercial Bank, the largest bank in Thailand Mike obtained his Bachelor of Arts degree, Major in Philosophy and Political Science from the University of the Philippines. He completed the Senior Executive Program with Wharton, advanced computer studies at the National Computer Institute of the Philippines, Fidelity Information Services and IBM.

ROMMELL B. NARVAEZ, 45, Filipino. "Rommell" is Senior Vice President and Officer-in-Charge of the Bank's Marketing & Brand Management Sector. He also serves as the concurrent Head of Marketing Services and Intelligence and Analytics Performance Group. He brings with him more than 20 years of combined commercial and marketing experience in consumer, medical device, and banking industries. Rommell obtained his Bachelor of Science degree in Commerce, Major in Marketing Management from the De La Salle University.

Management Committee

ROLAND V. OSCURO, 56, Filipino. "Roland" is Senior Vice President and Chief Information Security Officer. He is the Head of the Enterprise Information Security Group. Before joining PNB, he held positions in various corporations such as Multi Media Telephony, Inc., Ediserve Corporation, Sterling Tobacco Corporation, Zero Datasoft, Metal Industry Research and Development Center, and Pacific Office Machines, Inc. Roland obtained his Bachelor of Science degree in Electronics and Communications Engineering (ECE) from the Mapua Institute of Technology. He is an ECE Board passer and an ISACA Certified Information Security Manager (CISM).

NORMAN MARTIN C. REYES, 54, Filipino. "Martin" is Senior Vice President and Head of Digital Innovations Group. He started his banking career in 1993 holding various positions in Citibank, Union Bank of the Philippines, and the Royal Bank of Scotland. Prior to his employment in PNB, he was Senior Vice President in UCPB. He has over 20 years of experience in key areas such as product development, sales, marketing, and process management for an extensive list of corporate and consumer services. Martin obtained his Bachelor of Arts degree, Major in Economics from the University of the Philippines. He holds a Master's degree in Business Management from the Asian Institute of Management.

JOY JASMIN R. SANTOS, 46, Filipino. "Jiah" is First Vice President and Chief Trust Officer. She was previously Division Head of Corporate Trust from 2013 to 2018 and Division Head of Business Development in Trust Banking Group from 2010 to 2012. Before joining PNB, she was the International Business Development Head for Asia in Globe Telecom. She also held various positions in Citibank Savings, Inc., Keppel Bank, American Express Bank, and BPI. Jiah graduated cum laude with a Bachelor of Arts degree, Major in Economics from the Ateneo de Manila University. She earned her Master's degree in Business Administration from the Australian National University in Canberra, Australia. In 2015, she completed, with distinction, a one-year course on Trust Operations and Investment Management given by the Trust Institute Foundation of the Philippines.

MARTIN G. TENGCO, JR., 54, Filipino. "Martin" is First Vice President and Chief Audit Executive (CAE). He joined Allied Banking Corporation on June 1, 1992 as Junior Auditor. He became an officer in 1996 and in 2009, was designated as the Deputy CAE prior to his appointment as CAE of PNB in 2017. He served as a member of BancNet's Audit Committee from 2009 to 2014. He is currently a member of the Philippine Institute of Certified Public Accountants, Institute of Internal Auditors, and the Association of Certified Fraud Examiners-Philippines. Martin obtained his Bachelor of Science degree in Business Administration from the Philippine School of Business Administration. He holds a Master's degree in Business Administration from the Ateneo de Manila University. He is a Certified Public Accountant.

SIMEON T. YAP, 58, Filipino. "Sim" is First Vice President, Chief Risk Officer, and Data Protection Officer. Prior to his employment in PNB, he was the Market Risk Officer of Security Bank from 2009 to 2018. He was also connected with Citibank where he held various positions such as Trader, Market Risk Officer, and Money Market Head (Citibank Shanghai). He was the Associate Director for Product Development of Philippine Dealing and Exchange (PDEx) in 2008. Sim earned his degree in Economics from the University of the Philippines' School of Economics.

SOCORRO D. CORPUS, 68, Filipino, is the Officer in Charge of Human Resources Group of Philippine National Bank. "Cora" retired from the Bank three years ago as First Senior Vice President (FSVP) after serving the institution for 40 years. She is a graduate of Assumption College with Bachelor of Arts degree, Major in Psychology and an Associate in Commercial Science Degree. She started her career with China Banking Corporation in 1973 prior to joining the Allied Banking Corporation in 1977. Her professional affiliations include the following: Founding member and a Board Member of the Organization Development Professional Network, past President and member of the Bankers' Council for People Management, member of the Personnel Management Association of the Philippines and the regular Bank representative to the Banking Industry Tripartite Council.

The Bank's Subsidiaries and Affiliate

ALLIANZ PNB LIFE INSURANCE, INC.

In December 2015, global insurance firm Allianz SE entered into an agreement with PNB to acquire 51% as well as management control of PNB Life in a 15-year exclusive distribution partnership. The joint venture company operates under the name *Allianz PNB Life Insurance, Inc. (Allianz PNB Life).*

A worldwide financial services provider predominant in the insurance and asset management business, the Allianz Group ranked first as insurance which began its operations in 2001, is considered one of the major life insurers in the Philippines. It is the leading provider of Variable Life products, complemented by a full line of Life protection offerings for individuals and institutions.

With over 400 financial advisors and 1,200 active life changer agents nationwide, PNB Branches is the main distribution channel of Allianz PNB Life. Allianz PNB Life also has a distributorship arrangement with HSBC Insurance Brokers Philippines, making its insurance products available to clients of HSBC.

ALLIED BANKING CORPORATION (HONG KONG) LIMITED

Allied Banking Corporation (Hong Kong) Limited (ABCHKL) is a majority owned (51%) subsidiary of PNB as a result of the merger of PNB and Allied Banking Corporation (ABC). A private limited company incorporated in Hong Kong in 1978, ABCHKL is a restricted-licensed bank under the Hong Kong Banking Ordinance providing a full range of commercial banking services such as deposit-taking, lending and trade financing, documentary credits, participation in loan syndications and other risks, and money market and foreign exchange operations. ABCHKL has a wholly owned subsidiary, ACR Nominees Limited, a private limited company incorporated in Hong Kong that provides non-banking general services to its customers.

ALLIED COMMERCIAL BANK

Formerly known as Xiamen Commercial Bank, Allied Commercial Bank (ACB) is a majority-owned (99.04%) subsidiary of PNB. It obtained its commercial banking license in July 1993 and opened for business in October 1993. ACB maintains its head office in Xiamen, Fujian, China. A branch in Chongqing was established in 2003.

In December 2015, the China Banking Regulatory Commission (CBRC) Xiamen Office, China's banking regulator, approved ACB's application to engage in CNY-denominated business for all clients except for citizens within the territory of China. In April 2016, ACB completed the preparatory work for its CNY business and the CBRC Xiamen Office issued opinions on passing the inspection of ACB's application for such business.

In January 2017, the Fujian Administration for Industry and Commerce (FAIC) issued a business license to ACB for engaging in (a) foreign currency-denominated business servicing all types of clients and; (b) in CNY-denominated business servicing all clients except Chinese resident citizens. In April 2017, ACB's CNY business was formally launched.

PNB CAPITAL AND INVESTMENT CORPORATION

PNB Capital and Investment Corporation (PNB Capital) is a wholly owned subsidiary of PNB with a non-quasi banking license. A leading player in the country, PNB Capital provides a full range of investment banking services such as loan syndications, retail bond offerings, private placement of shares, public offering of shares, securitization, and financial advisory including liability management, corporate restructuring, pre-IPO preparation, and mergers and acquisitions advisory.

PNB Capital has arranged some of the largest loan syndications in the Philippines. It is active in the local capital markets, having raised large amounts of capital from retail bonds and public offering of shares for its clients.

PNB GENERAL INSURERS CO., INC.

PNB General Insurers Co., Inc. was incorporated in the Philippines on December 29, 1965. PNB has 66% direct ownership in the company while PNB Holdings Corporation owns the remaining 34%. The company is engaged in fire, marine, motor car, personal accident, fidelity and surety, aviation and all other kinds of non-life insurance business.

PNB GLOBAL REMITTANCE AND FINANCIAL COMPANY (HK) LIMITED

PNB Global Remittance and Financial Company (HK) Limited is a wholly owned subsidiary of PNB which provides remittance services and grants consumer loans not only to Overseas Filipino Workers (OFWs) and professionals in Hong Kong but also to foreigners who are interested in purchasing properties in the Philippines. Its main office is located at the Wan Chai District while six of its branches are situated in Shatin, Yuen Long, Tsuen Wan, North Point and two at the Worldwide House in Central Island.

PNB HOLDINGS CORPORATION

Established on May 20, 1920, PNB Holdings Corporation is a wholly owned holding subsidiary of PNB.

PNB-MIZUHO LEASING AND FINANCE CORPORATION

PNB-Mizuho Leasing and Finance Corporation (PNB-Mizuho) is a joint venture between PNB and Mizuho Leasing Co., Ltd., one of the leading leasing companies in Japan. It operates as a financing company under Republic Act No. 8556 (The Finance Company Act, As Amended) with commercial operations starting in February 1998.

PNB-Mizuho provides the following services: (a) financial lease; (b) operating lease; (c) term loans; (d) receivable discounting; and (e) floor stock financing.

PNB-Mizuho Equipment Rentals Corporation is a wholly owned subsidiary of PNB-Mizuho Leasing and Finance Corporation, incorporated as a rental company and started commercial operations in July 2008. It was established to cater to the equipment acquisition requirements of clients who wish to enjoy added advantages of an operating lease.

From left to right: Gerry B. Valenciano, PNB Capital and Investment Corporation; Mary Ann A. Santos, PNB Savings Bank; Perfecto M. Domingo, PNB General Insurers Co., Inc.; Christine Grace A. Bandol, PNB-Mizuho Leasing and Finance Corporation; Manuel Antonio G. Lisbona, PNB Securities, Inc; Alexander Grenz, Allianz PNB Life Insurance, Inc.

PNB INTERNATIONAL INVESTMENTS CORPORATION

PNB International Investments Corporation (PNB IIC) is a non-bank holding subsidiary and is the parent company of PNB Remittance Centers, Inc. (PNB RCI). PNB RCI has a network of 16 money transfer offices in six states of the United States of America.

PNB RCI owns PNB RCI Holding Company, Ltd., the holding company for PNB Remittance Company Canada (PNB RCC). PNB RCC has six branches and one sub-branch servicing the remittance requirements of Filipinos in Canada.

PHILIPPINE NATIONAL BANK (EUROPE) PLC

Philippine National Bank (Europe) PLC is a wholly owned subsidiary incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross border services to member states of the European Economic Area. In April 2014, Allied Bank Philippines (UK) PLC was merged with Philippine National Bank (Europe) PLC.

PNB SAVINGS BANK

PNB Savings Bank is a wholly owned subsidiary of PNB as a result of the merger of PNB and Allied Banking Corporation (ABC). PNB Savings Bank traces its roots from First Malayan Development Bank which ABC bought in 1986 and renamed as First Allied Savings Bank in 1996 following the grant of license to operate as a savings bank. The latter was subsequently renamed as Allied Savings Bank in 1998. In November 2014, Allied Savings Bank formally changed its name to PNB Savings Bank to give credence to PNB's expansion and status as a major player in the consumer finance industry as well as to align the image of the savings bank with its mother bank and to capitalize on the brand equity of PNB in the banking industry.

PNB Savings Bank offers a wide array of deposit products, demand deposits, short/long-term time deposits, and basic cash management products such as bills payment, payroll, and safety deposit box. Likewise, PNB Savings Bank offers consumer loan products consisting of housing loans, motor vehicle loans, multi-purpose loans such as salary loans and personal loans, and small- and medium- enterprise loans.

On August 29, 2019, PNB has secured the Monetary Board approval for the full integration of its wholly owned thrift bank subsidiary, PNB Savings Bank, into the parent bank through acquisition of its assets and assumption of its liabilities in exchange for cash. Once the integration is rolled out, PNB will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNB Savings Bank will have access to PNB's diverse portfolio of financial solutions. The consumer lending business, currently operated through PNB Savings, will also benefit from PNB's ability to efficiently raise low cost of funds.

PNB SECURITIES, INC.

PNB Securities, Inc. is a wholly owned stock brokerage subsidiary which engages in the brokerage and dealership of shares of common and preferred shares of stock listed on the Philippine Stock Exchange (PSE). PNB Securities, Inc. also offers various stock market research products to inform and assist clients in making decisions for their investments in the equities market.

Market Price of and Dividends on PNB Common Equity

Market Price of and Dividends on Registrant's Common Equity and Related Stockholders Matters:

1. **Market Information**

All issued PNB common shares are listed and traded on the Philippine Stock Exchange, Inc. The high and low sales prices of PNB shares for each quarter for the last two (2) fiscal years are:

	2017		2018		**2019**	
	High	Low	High	Low	**High**	**Low**
Jan – Mar	61.00	53.00	59.15	53.80	**60.42**	**40.98**
Apr – Jun	71.00	54.90	56.00	47.95	**58.82**	**47.54**
Jul – Sep	68.40	59.15	49.90	43.00	**57.35**	**43.60**
Oct – Dec	60.20	55.05	44.60	38.95	**45.90**	**34.00**

2. **Holders**

There are 36,471 shareholders as of December 31, 2019. The top twenty (20) holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

	NAME OF STOCKHOLDER	NATIONALITY	NO. OF SHARES	PERCENTAGE OF OWNERSHIP	VOTING STATUS
1.	PCD Nominee Corporation (Filipino)	Filipino	162,534,694	10.6526699707	*
2.	Key Landmark Investments, Ltd.	Filipino	133,277,924	8.7351549618	*
3.	PCD Nominee Corporation (Non-Filipino)	Non-Filipino	109,993,293	7.2090593121	*
4.	Caravan Holdings Corporation	Filipino	82,017,184	5.3754799765	*
5.	Solar Holdings Corporation	Filipino	82,017,184	5.3754799765	*
6.	True Success Profits Ltd.	Filipino	82,017,184	5.3754799765	*
7.	Prima Equities & Investments Corporation	Filipino	71,765,036	4.7035449794	*
8.	Leadway Holdings, Inc.	Filipino	65,310,444	4.2805052168	*
9.	Infinity Equities, Inc.	Filipino	61,512,888	4.0316099824	*
10.	Pioneer Holdings Equities, Inc.	Filipino	34,254,212	2.2450518506	*

NAME OF STOCKHOLDER	NATIONALITY	NO. OF SHARES	PERCENTAGE OF OWNERSHIP	VOTING STATUS
11. Pan Asia Securities Corporation	Filipino	33,126,782	2.1711590747	*
12. Multiple Star Holdings Corporation	Filipino	30,798,151	2.0185385055	*
13. Donfar Management Ltd.	Filipino	30,747,898	2.0152448787	*
14. Uttermost Success, Ltd.	Filipino	30,233,288	1.9815168766	*
15. Mavelstone Int'l Ltd.	Filipino	29,575,168	1.9383831001	*
16. Kenrock Holdings Corporation	Filipino	26,018,279	1.7052613973	*
17. Fil-Care Holdings, Inc.	Filipino	25,450,962	1.6680789310	*
18. Fairlink Holdings Corporation	Filipino	25,207,795	1.6521415472	*
19. Purple Crystal Holdings, Inc.	Filipino	24,404,724	1.5995075519	*
20. Kentron Holdings & Equities Corporation	Filipino	24,361,225	1.5966565883	*

* *Pursuant to Article IV, Section 4.9 of the Bank's By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock in his name in the books of the Bank. The right to vote or direct the voting of the Bank's shares held by the foregoing stockholders is lodged in their respective Boards of Directors.*

3. Dividends

The Bank's ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bank's declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the Bangko Sentral ng Pilipinas as provided under the Manual of Regulations for Banks and subject to compliance with such financial regulatory requirements as may be applicable to the Bank at the time of such declaration.

PNB has adopted the following general policy on the declaration of dividends:

> *"Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission, subject to compliance with such financial regulatory requirements as may be applicable to the Bank."*

Financial Statements

The Notes to Financial Statements and Management's Discussion and Analysis are presented on a separate booklet and can be downloaded on our official website www.pnb.com.ph.

Statement of Management's Responsibility for Financial Statements

The management of Philippine National Bank is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years 2019, 2018 and 2017 ended December 31, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Philippine National Bank's financial reporting process.

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

Sycip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Philippine National Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

FLORENCIA G. TARRIELA
Chairman of the Board

JOSE ARNULFO A. VELOSO
President and Chief Executive Officer

NELSON C. REYES
Executive Vice President and Chief Financial Officer

MAR 0 2 2020

SUBSCRIBED AND SWORN to before me this ___ day of February 2020 affiants exhibiting to me their Passport Identification No.

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Book No. X
Series of 2020

ATTY. SHERRYL A. BLANQUISCO-SANTIAGO, CPA
Notary Public for Pasay City
Commission No. 20-02 until December 31, 2021
9F PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
Roll No. 55787 / IBP Lifetime Member No. 07522
PTR No. 7036075 / 01-07-2020 / Pasay City
MCLE Compliance No. VI-0019678 / 03-01-19

Independent Auditor's Report

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2019 and 2018 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and parent company financial statements

Adoption of PFRS 16, Leases
Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, Leases, under the modified retrospective approach which resulted in significant changes in the Group's and the Parent Company's accounting policy for leases. The Group's and the Parent Company's adoption of PFRS 16 is significant to our audit because the Group and the Parent Company have high volume of lease agreements; the recorded amounts are material to the consolidated and parent company financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Parent Company are reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets amounting to ₱1.8 billion and ₱1.6 billion for the Group and the Parent Company, respectively, and lease liability amounting to ₱1.9 billion and ₱1.6 billion for the Group and the Parent Company, respectively, as of January 1, 2019, recognition of depreciation expense of ₱568.1 million and ₱488.2 million for the Group and the Parent Company, respectively, and interest expense of ₱131.7 million and ₱118.4 million for the Group and Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 11 and 29 to the financial statements.

Audit response

We obtained an understanding of the Group's and the Parent Company's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term lease and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the lease contract database. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the contract database, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

Independent Auditor's Report

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group and the Parent Company will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

Recognition of Allowance for Credit Losses on Loans and Receivables
The Group's and the Parent Company's application of the expected credit losses (ECL) model in determining the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

The allowance for credit losses as of December 31, 2019 amounted to ₱18.4 billion and ₱14.3 billion for the Group and the Parent Company, respectively. Provision for credit losses in 2019 amounted to ₱2.5 billion and ₱1.6 billion for the Group and the Parent Company, respectively.

Refer to Note 16 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit Response
We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used through corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Recoverability of Deferred Tax Assets
As of December 31, 2019, the deferred tax assets of the Group and the Parent Company amounted to ₱2.6 billion and ₱2.0 billion, respectively. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.

The disclosures in relation to deferred income taxes are included in Note 30 to the financial statements.

Audit response
We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Impairment Testing of Goodwill
As at December 31, 2019, the Group and the Parent Company has goodwill amounting to ₱13.4 billion as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group is required annually to test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and global banking and market. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because it involves significant judgment and is based on assumptions such as estimates of future cash flows from business, interest margin, discount rate, current local gross domestic product and long-term growth rate used to project cash flows.

The disclosures related to goodwill impairment are included in Note 14 to the financial statements.

Independent Auditor's Report

Audit Response
We involved our internal specialist in evaluating the methodology and assumptions used by the Group. These assumptions include estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows. We compared the interest margin and long-term growth rate to the historical performance of the CGUs and to economic and industry forecasts. We tested the current local gross domestic product and parameters used in the derivation of the discount rate against market data.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

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

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

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

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

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

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Bangko Sentral ng Pilipinas Circular No. 1074

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 39 and the Bangko Sentral ng Pilipinas Circular No. 1074 in Note 40 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and Bangko Sentral ng Pilipinas, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-2 (Group A),
July 9, 2019, valid until July 8, 2022
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125274, January 7, 2020, Makati City

February 28, 2020

Philippine National Bank and Subsidiaries

Statements of Financial Position

(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2019	2018 (As restated – Note 36)	**2019**	2018
ASSETS				
Cash and Other Cash Items	**₱30,500,927**	₱16,825,487	**₱29,642,159**	₱15,904,663
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**105,981,801**	102,723,312	**101,801,597**	98,665,375
Due from Other Banks (Note 33)	**17,758,143**	21,003,079	**10,835,106**	10,459,496
Interbank Loans Receivable (Notes 8 and 33)	**24,831,816**	11,248,455	**23,803,019**	11,689,414
Securities Held Under Agreements to Resell (Notes 8 and 35)	**2,517,764**	20,700,000	**1,149,984**	20,700,000
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	**13,468,985**	10,000,776	**11,169,656**	9,983,636
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	**123,140,840**	52,129,821	**118,896,564**	50,656,893
Investment Securities at Amortized Cost (Note 9)	**100,464,757**	100,805,861	**99,203,909**	99,586,329
Loans and Receivables (Notes 10 and 33)	**657,923,757**	586,666,475	**587,245,896**	510,999,274
Property and Equipment (Note 11)	**21,168,794**	19,724,639	**18,797,308**	17,606,143
Investments in Subsidiaries and an Associate (Note 12)	**2,605,473**	2,418,842	**28,430,358**	28,645,807
Investment Properties (Note 13)	**15,043,826**	13,488,866	**14,676,387**	13,149,358
Deferred Tax Assets (Note 30)	**2,580,809**	2,112,689	**1,985,597**	1,452,153
Intangible Assets (Note 14)	**2,841,989**	3,033,363	**2,699,154**	2,879,853
Goodwill (Note 14)	**13,375,407**	13,375,407	**13,515,765**	13,515,765
Other Assets (Note 15)	**8,085,523**	7,391,114	**5,352,763**	5,906,427
TOTAL ASSETS	**₱1,142,290,611**	₱983,648,186	**₱1,069,205,222**	₱911,800,586
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	**₱172,228,956**	₱153,065,163	**₱168,628,123**	₱149,539,540
Savings	**391,769,777**	401,622,361	**384,773,630**	394,004,547
Time	**226,894,643**	147,210,729	**187,288,142**	108,450,094
Long Term Negotiable Certificates	**35,152,104**	31,403,225	**35,152,104**	31,403,225
	826,045,480	733,301,478	**775,841,999**	683,397,406
Financial Liabilities at FVTPL (Notes 18, 23 and 35)	**245,619**	470,648	**231,992**	468,279
Bills and Acceptances Payable (Notes 19, 33 and 35)	**55,963,290**	70,082,835	**48,424,017**	62,706,795
Lease Liabilities (Notes 2 and 29)	**1,806,409**	–	**1,633,083**	–
Accrued Taxes, Interest and Other Expenses (Note 20)	**6,939,726**	6,397,124	**6,058,094**	5,559,960
Bonds Payable (Note 21)	**66,615,078**	15,661,372	**66,615,078**	15,661,372
Income Tax Payable	**576,156**	900,693	**472,378**	823,739
Other Liabilities (Note 22)	**29,123,453**	28,275,024	**17,858,935**	17,532,588
	987,315,211	855,089,174	**917,135,576**	786,150,139
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	**61,030,594**	49,965,587	**61,030,594**	49,965,587
Capital Paid in Excess of Par Value (Note 25)	**32,116,560**	31,331,251	**32,106,560**	31,331,251
Surplus Reserves (Notes 25 and 32)	**642,018**	620,573	**642,018**	620,573
Surplus (Note 25)	**56,273,492**	46,613,457	**56,273,735**	46,613,704
Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	**3,250,651**	(3,196,936)	**3,250,651**	(3,196,936)
Remeasurement Losses on Retirement Plan (Note 28)	**(2,229,220)**	(1,526,830)	**(2,229,220)**	(1,526,830)
Accumulated Translation Adjustment (Note 25)	**947,562**	1,776,923	**947,562**	1,776,923
Other Equity Reserves (Note 25)	**35,466**	53,895	**35,466**	53,895
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	**12,280**	12,280	**12,280**	12,280
Other Equity Adjustment	**13,959**	13,959	–	–
	152,093,362	125,664,159	**152,069,646**	125,650,447
NON-CONTROLLING INTERESTS (Note 12)	**2,882,038**	2,894,853	–	–
	154,975,400	128,559,012	**152,069,646**	125,650,447
TOTAL LIABILITIES AND EQUITY	**₱1,142,290,611**	₱983,648,186	**₱1,069,205,222**	₱911,800,586

Please refer to Notes to Financial Statements presented in a separate document and can be downloaded on our official website www.pnb.com.ph.

Philippine National Bank and Subsidiaries

Statements of Income

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As Restated – Note 36)	2017 (As Restated – Note 36)	**2019**	2018	2017
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	**₱39,853,001**	₱30,202,835	₱22,669,476	**₱35,164,556**	₱25,504,159	₱19,245,810
Investment securities at amortized cost and FVOCI, available-for-sale (AFS) and held-to-maturity (HTM) investments (Note 9)	**8,805,285**	4,594,775	3,099,911	**8,549,063**	4,502,331	3,033,843
Deposits with banks and others (Notes 7 and 33)	**652,539**	777,813	1,330,144	**432,874**	524,723	1,053,354
Interbank loans receivable and securities held under agreements to resell (Note 8)	**668,211**	379,378	480,021	**568,061**	350,808	446,134
Financial assets at FVTPL (Note 9)	**619,979**	120,667	38,808	**619,979**	120,667	38,809
	50,599,015	36,075,468	27,618,360	**45,334,533**	31,002,688	23,817,950
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	**14,024,899**	7,871,173	4,794,227	**12,201,776**	6,591,288	4,104,798
Bonds payable (Note 21)	**1,945,497**	477,405	–	**1,945,497**	477,405	–
Bills payable and other borrowings (Notes 19, 29 and 33)	**2,185,046**	662,340	747,481	**1,740,622**	472,111	650,724
	18,155,442	9,010,918	5,541,708	**15,887,895**	7,540,804	4,755,522
NET INTEREST INCOME	**32,443,573**	27,064,550	22,076,652	**29,446,638**	23,461,884	19,062,428
Service fees and commission income (Notes 26 and 33)	**5,176,500**	4,259,284	4,180,861	**3,677,689**	3,524,263	3,130,783
Service fees and commission expense (Note 33)	**988,164**	773,082	1,087,498	**800,376**	616,207	592,427
NET SERVICE FEES AND COMMISSION INCOME	**4,188,336**	3,486,202	3,093,363	**2,877,313**	2,908,056	2,538,356
Net insurance premium (Note 26)	**1,151,705**	1,228,794	656,329	–	–	–
Net insurance benefits and claims (Note 26)	**909,975**	1,292,949	322,244	–	–	–
NET INSURANCE PREMIUM (BENEFITS AND CLAIMS) (Note 26)	**241,730**	(64,155)	334,085	–	–	–
OTHER INCOME						
Foreign exchange gains - net (Note 23)	**1,105,918**	954,064	1,674,370	**861,143**	578,180	1,675,985
Trading and investment securities gains - net (Notes 9 and 33)	**1,074,478**	150,743	559,758	**1,017,155**	157,678	556,429
Net gains on sale or exchange of assets (Note 26)	**690,625**	5,861,143	3,921,136	**686,441**	5,841,136	3,862,341
Equity in net earnings/(losses) of subsidiaries and an associate (Note 12)	**(97,608)**	43,847	59,215	**(345,599)**	530,885	498,254
Miscellaneous (Note 27)	**1,464,482**	1,425,439	893,517	**976,822**	1,101,875	592,041
TOTAL OPERATING INCOME	**41,111,534**	38,921,833	32,612,096	**35,519,913**	34,579,694	28,785,834
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	**9,575,917**	9,510,440	9,108,837	**8,024,694**	7,943,135	7,754,566
Taxes and licenses (Note 30)	**4,817,674**	3,729,947	2,492,392	**4,217,996**	3,343,899	2,222,755
Provision for impairment, credit and other losses (Note 16)	**2,909,858**	1,752,812	884,133	**1,593,219**	1,401,528	161,877
Depreciation and amortization (Note 11)	**2,804,123**	1,950,977	1,684,391	**2,207,071**	1,542,712	1,385,357
Occupancy and equipment-related costs (Note 29)	**1,039,241**	1,735,010	1,596,066	**854,334**	1,453,341	1,343,021
Miscellaneous (Note 27)	**7,732,529**	6,999,472	6,367,519	**6,854,659**	6,125,334	5,634,019
TOTAL OPERATING EXPENSES	**28,879,342**	25,678,658	22,133,338	**23,751,973**	21,809,949	18,501,595
INCOME BEFORE INCOME TAX	**12,232,192**	13,243,175	10,478,758	**11,767,940**	12,769,745	10,284,239
PROVISION FOR INCOME TAX (Note 30)	**2,470,986**	3,687,105	2,322,213	**2,086,464**	3,304,670	2,123,676
NET INCOME	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,075	₱8,160,563
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	**₱9,681,480**	₱9,465,022	₱8,160,570			
Non-controlling Interests	**79,726**	91,048	(4,025)			
	₱9,761,206	₱9,556,070	₱8,156,545			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱7.05**	₱7.58	₱6.53			

Please refer to Notes to Financial Statements presented in a separate document and can be downloaded on our official website www.pnb.com.ph.

Philippine National Bank and Subsidiaries

Statements of Comprehensive Income

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
NET INCOME	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,075	₱8,160,563
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on debt securities at FVOCI, net of tax (Note 9)	**5,417,132**	(2,226,145)	–	**5,507,470**	(2,317,417)	–
Net change in unrealized gain on AFS investments, net of tax	**–**	–	454,188	**–**	–	468,861
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Note 9)	**447,169**	(375,389)	–	**590,236**	(284,117)	–
Share in changes in net unrealized gains (losses) on AFS investments of subsidiaries and an associate	**–**	–	(24,756)	**–**	–	(39,429)
	5,864,301	(2,601,534)	429,432	**6,097,706**	(2,601,534)	429,432
Accumulated translation adjustment	**(924,441)**	484,289	504,736	**(264,289)**	154,076	(5,932)
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**(565,072)**	204,963	508,594
	4,939,860	(2,117,245)	934,168	**5,268,345**	(2,242,495)	932,094
Items that do not recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on equity securities at FVOCI (Note 9)	**583,286**	93,112	–	**349,881**	93,112	–
Remeasurement gains (losses) on retirement plan (Note 28)	**(466,926)**	192,965	952,697	**(596,589)**	109,596	973,728
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**(234,815)**	386,628	(236,632)	**(105,801)**	470,160	(258,461)
Share in aggregate reserves on life insurance policies	**–**	–	9,193	**–**	–	9,193
	(118,455)	672,705	725,258	**(352,509)**	672,868	724,460
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**4,821,405**	(1,444,540)	1,659,426	**4,915,836**	(1,569,627)	1,656,554
TOTAL COMPREHENSIVE INCOME	**₱14,582,611**	₱8,111,530	₱9,815,971	**₱14,597,312**	₱7,895,448	₱9,817,117
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱14,597,316**	₱7,895,395	₱9,817,124			
Non-controlling interests	**(14,705)**	216,135	(1,153)			
	₱14,582,611	₱8,111,530	₱9,815,971			

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Philippine National Bank and Subsidiaries

Statements of Changes in Equity

(In Thousands)

	Consolidated													
	Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Note 25)	**Surplus** (Note 25)	**Net Unrealized Gain (Loss) on Financial Assets at FVOCI** (Note 9)	**Net Unrealized Loss on AFS Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 28)	**Accumulated Translation Adjustment** (Note 25)	**Other Equity Reserves** (Note 25)	**Share in Aggregate Reserves on Life Insurance Policies** (Note 12)	**Other Equity Adjustment**	**Total**	**Non-controlling Interests** (Note 12)	**Total Equity**
Balance at January 1, 2019	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,457**	**(₱3,196,936)**	**₱–**	**(₱1,526,830)**	**₱1,776,923**	**₱53,895**	**₱12,280**	**₱13,959**	**₱125,664,159**	**₱2,894,853**	**₱128,559,012**
Total comprehensive income (loss) for the year	–	–	–	**9,681,480**	**6,447,587**	–	**(702,390)**	**(829,361)**	–	–	–	**14,597,316**	**(14,705)**	**14,582,611**
Issuance of stock (Note 25)	**11,065,007**	**785,309**	–	–	–	–	–	–	–	–	–	**11,850,316**	–	**11,850,316**
Other equity reserve (Note 32)	–	–	–	–	–	–	–	–	**(18,429)**	–	–	**(18,429)**	**5,262**	**(13,167)**
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	**(3,372)**	**(3,372)**
Transfer to surplus reserves (Note 32)	–	–	**21,445**	**(21,445)**	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2019	**₱61,030,594**	**₱32,116,560**	**₱642,018**	**₱56,273,492**	**₱3,250,651**	**₱–**	**(₱2,229,220)**	**₱947,562**	**₱35,466**	**₱12,280**	**₱13,959**	**₱152,093,362**	**₱2,882,038**	**₱154,975,400**
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949
Effect of adoption of Philippine Financial Reporting Standard (PFRS) 9, *Financial Instruments*	–	–	–	(1,660,119)	(688,514)	3,040,507	–	–	–	–	–	691,874	–	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,403	(688,514)	–	(2,106,586)	1,417,884	70,215	12,280	13,959	117,785,084	2,644,739	120,429,823
Total comprehensive income (loss) for the year	–	–	–	9,465,022	(2,508,422)	–	579,756	359,039	–	–	–	7,895,395	216,135	8,111,530
Sale of investment in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	–	–	100,000	100,000
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(62,655)	(62,655)
Other equity reserve (Note 32)	–	–	–	–	–	–	–	–	(16,320)	–	–	(16,320)	–	(16,320)
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(3,366)	(3,366)
Transfer to surplus reserves (Note 32)	–	–	22,968	(22,968)	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,457	(₱3,196,936)	₱–	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,664,159	₱2,894,853	₱128,559,012
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱13,959	₱107,311,541	₱2,649,162	₱109,960,703
Total comprehensive income (loss) for the year	–	–	–	8,160,570	–	429,432	715,267	502,662	–	9,193	–	9,817,124	(1,153)	9,815,971
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(3,270)	(3,270)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)	–	–	(35,455)	–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949

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Philippine National Bank and Subsidiaries

Statements of Changes in Equity

(In Thousands)

Parent Company

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on AFS Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Total Equity
Balance at January 1, 2019	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,704**	**(₱3,196,936)**	**₱–**	**(₱1,526,830)**	**₱1,776,923**	**₱53,895**	**₱12,280**	**₱125,650,447**
Total comprehensive income (loss) for the year	–	–	–	**9,681,476**	**6,447,587**	–	**(702,390)**	**(829,361)**	–	–	**14,597,312**
Issuance of stock (Note 25)	**11,065,007**	**775,309**	–	–	–	–	–	–	–		**11,840,316**
Transfer to surplus reserves (Note 32)	–	–	**21,445**	**(21,445)**	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	**(18,429)**	–	**(18,429)**
Balance at December 31, 2019	**₱61,030,594**	**₱32,106,560**	**₱642,018**	**₱56,273,735**	**₱3,250,651**	**₱–**	**(₱2,229,220)**	**₱947,562**	**₱35,466**	**₱12,280**	**₱152,069,646**
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445
Effect of adoption of PFRS 9	–	–	–	(1,660,119)	(688,514)	3,040,507	–	–	–	–	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,597	(688,514)	–	(2,106,586)	1,417,884	70,215	12,280	117,771,319
Total comprehensive income (loss) for the year	–	–	–	9,465,075	(2,508,422)	–	579,756	359,039	–	–	7,895,448
Transfer to surplus reserves (Note 32)	–	–	22,968	(22,968)	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(16,320)	–	(16,320)
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,704	(₱3,196,936)	₱–	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱125,650,447
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱107,297,783
Total comprehensive income for the year	–	–	–	8,160,563		429,432	715,267	502,662		9,193	9,817,117
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)	–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–		–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445

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Philippine National Bank and Subsidiaries

Statements of Cash Flows

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱12,232,192**	₱13,243,175	₱10,478,758	**₱11,767,940**	₱12,769,745	₱10,284,239
Adjustments for:						
Provision for impairment, credit and other losses (Note 16)	**2,909,858**	1,752,812	884,133	**1,593,219**	1,401,528	161,877
Depreciation and amortization (Note 11)	**2,804,123**	1,950,977	1,684,391	**2,207,071**	1,542,712	1,385,357
Unrealized foreign exchange loss (gain) on bills and acceptances payable	**(2,771,182)**	1,298,559	–	**(2,771,182)**	1,292,591	–
Losses (gains) on financial assets at FVTPL (Note 9)	**(1,355,606)**	21,548	(61,485)	**(1,334,550)**	10,386	58,156
Unrealized foreign exchange gain on bonds payable	**(1,029,880)**	–	–	**(1,029,880)**	–	–
Net gain on sale or exchange of assets (Note 13)	**(690,625)**	(5,861,143)	(3,921,136)	**(686,441)**	(5,841,136)	(3,862,341)
Realized trading gain on financial assets at FVOCI (Note 9)	**(317,609)**	(167,902)	–	**(317,609)**	(160,403)	
Amortization of transaction costs on borrowings (Notes 17 and 21)	**125,596**	51,502	60,239	**125,596**	51,502	60,239
Equity in net (earnings)loss of subsidiaries and an associate (Note 12)	**97,608**	(43,847)	(59,215)	**345,600**	(530,885)	(498,254)
Amortization of premium on investment securities	**95,849**	789,981	1,383,338	**78,880**	1,034,142	1,375,100
Loss (gain) on mark-to-market of derivatives (Note 23)	**(44,060)**	899,614	(128,417)	**(44,060)**	899,614	(124,679)
Realized trading gain on AFS investments (Note 9)	**–**	–	(506,238)	**–**	–	(506,238)
Amortization of fair value loss of HTM investments reclassified to AFS investments (Note 9)	**–**	–	141,802	**–**	4,945	141,802
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(1,220,264)**	678,014	(798,815)	**(421,675)**	274,268	(828,073)
Financial assets at FVTPL	**(2,068,543)**	(8,039,543)	(778,629)	**192,590**	(8,063,759)	(808,168)
Loans and receivables	**(75,034,482)**	(88,550,600)	(75,945,020)	**(78,630,395)**	(73,115,194)	(63,393,954)
Other assets	**(1,679,271)**	2,269,350	(777,538)	**300,790**	2,071,977	(2,103,444)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	**(225,029)**	127,126	–	**(236,287)**	124,863	–
Deposit liabilities	**92,702,273**	95,341,952	67,387,302	**92,402,864**	86,953,099	54,189,539
Accrued taxes, interest and other expenses	**561,268**	1,073,637	379,861	**516,800**	886,415	441,930
Other liabilities	**356,335**	548,819	(187,798)	**(301,401)**	804,897	(1,129,101)
Net cash generated from (used in) operations	**25,448,551**	17,384,031	(764,467)	**23,757,870**	22,411,307	(5,156,013)
Income taxes paid	**(3,369,421)**	(3,779,657)	(1,524,208)	**(3,043,713)**	(3,314,639)	(1,350,866)
Net cash provided by (used in) operating activities	**22,079,130**	13,604,374	(2,288,675)	**20,714,157**	19,096,668	(6,506,879)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of investment securities at amortized cost (Note 9)	**81,709,960**	19,356,795	–	**81,530,081**	37,694,571	–
Disposal/maturities of financial assets at FVOCI/AFS investments	**36,239,398**	41,459,104	199,856,642	**34,213,584**	41,652,990	199,690,619
Disposal of property and equipment (Note 11)	**162,143**	123,767	29,719	**3,531**	583,701	172,226
Disposal of investment properties	**712,650**	8,456,263	5,570,269	**717,677**	8,493,918	5,119,922
Share in dividends from subsidiaries (Note 12)	**–**	–	–	**–**	–	1,333,350
Acquisitions of:						
Financial assets at FVOCI/AFS investments	**(100,926,015)**	(23,729,263)	(202,587,314)	**(96,281,851)**	(25,122,624)	(201,794,860)
Investment securities at amortized cost	**(81,365,299)**	(93,782,890)	–	**(81,150,541)**	(111,057,852)	–
Property and equipment (Note 11)	**(2,299,285)**	(3,026,508)	(1,964,768)	**(1,634,668)**	(2,263,064)	(1,658,985)
Software cost (Note 14)	**(334,548)**	(169,231)	(1,162,121)	**(331,543)**	(160,857)	(1,045,743)
HTM investments	**–**	–	(2,801,983)	**–**	–	(2,726,786)
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(180,000)**	(266,000)	(700,000)
Closure of subsidiaries (Note 12)	**–**	–	–	**–**	–	50,000
Net cash used in investing activities	**(66,100,996)**	(51,311,963)	(3,059,556)	**(63,113,730)**	(50,445,217)	(1,560,257)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of bills and acceptances payable	**₱1,465,130,227**	₱187,599,609	₱164,866,720	**₱1,445,941,174**	₱178,534,210	₱159,025,830
Proceeds from issuance of bonds payable (Note 21)	**51,899,720**	15,398,696	–	**51,899,720**	15,398,696	–
Settlements of:						
Bills and acceptances payable	**(1,476,478,591)**	(162,732,019)	(157,020,131)	**(1,457,452,771)**	(158,520,810)	(151,794,765)
Subordinated debt	**–**	–	(3,500,000)	**–**	–	(3,500,000)
Proceeds from issuance of stocks (Note 25)	**11,850,316**	–	–	**11,840,316**	–	–
Payment of principal portion of lease liabilities (Note 29)	**(509,952)**	–	–	**(436,331)**	–	–
Dividends paid to non-controlling interest	**–**	–	(3,270)	–	–	–
Net cash provided by financing activities	**51,891,720**	40,266,286	4,343,319	**51,792,108**	35,412,096	3,731,065
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,869,854**	2,558,697	(1,004,912)	**9,392,535**	4,063,547	(4,336,071)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**16,825,487**	12,391,139	11,014,663	**15,904,663**	11,671,952	10,626,525
Due from Bangko Sentral ng Pilipinas	**102,723,312**	108,743,985	127,337,861	**98,665,375**	105,497,459	123,799,952
Due from other banks	**21,003,079**	22,025,322	22,709,805	**10,459,496**	10,755,260	12,831,514
Interbank loans receivable	**10,580,432**	11,491,684	7,243,886	**10,581,083**	9,700,916	7,352,840
Securities held under agreements to resell	**20,700,000**	14,621,483	1,972,310	**20,700,000**	14,621,483	1,972,310
	171,832,310	169,273,613	170,278,525	**156,310,617**	152,247,070	156,583,141
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**30,500,927**	16,825,487	12,391,139	**29,642,159**	15,904,663	11,671,952
Due from Bangko Sentral ng Pilipinas	**105,981,801**	102,723,312	108,743,985	**101,801,597**	98,665,375	105,497,459
Due from other banks	**17,758,143**	21,003,079	22,025,322	**10,835,106**	10,459,496	10,755,260
Interbank loans receivable (Note 8)	**22,943,529**	10,580,432	11,491,684	**22,274,306**	10,581,083	9,700,916
Securities held under agreements to resell	**2,517,764**	20,700,000	14,621,483	**1,149,984**	20,700,000	14,621,483
	₱179,702,164	₱171,832,310	₱169,273,613	**₱165,703,152**	₱156,310,617	₱152,247,070
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱17,522,121**	₱8,151,979	₱5,317,161	**₱15,188,304**	₱6,768,648	₱4,617,444
Interest received	**49,063,648**	32,969,308	28,559,267	**43,948,726**	28,399,766	25,320,173
Dividends received	–	3,366	3,270	–	3,366	32,417

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Products and Services

A. DEPOSITS AND RELATED SERVICES

The Bank offers a wide range of deposit products and services that make banking easy, convenient, and trouble-free.

Peso Accounts

1. Non-interest- and interest-bearing Current Accounts
2. Interest-bearing Savings Accounts
3. Time Deposit Accounts
4. Debit Cards
5. Prepaid Cards

US Dollar Accounts

1. Non-interest-bearing Current Accounts
2. Interest-bearing Savings Accounts
3. Time Deposit Accounts

Other Foreign Currency Accounts (Savings and Time)

1. Chinese Yuan (Renminbi)
2. Euro Savings Account
3. Japanese Yen Savings Account
4. Canadian Dollar Savings Account
5. Singaporean Dollar Savings Account
6. Hong Kong Dollar Savings Account
7. Great Britain Pound Savings Account
8. Swiss Franc Savings Account
9. Australian Dollar Savings Account

Cash Management Solutions

PNB offers powerful and efficient cash management solutions that maximize control over business finances. These solutions are supported by an access to the PNB C@shNet facility, a web-based account and liquidity management platform that provides corporate clients with real time access to their PNB accounts anytime, anywhere.

Electronic Banking Services

These are digital banking channels offered to customers that allow them to access their accounts and perform banking transactions anytime and anywhere. It allows doing routine banking transactions like paying bills, transferring funds, and inquiring about account balance securely using desktop/laptop/tablet computer through PNB Internet Banking or with any mobile device through the PNB Mobile Banking App, Automated Teller Machines (ATMs), and Cash Accept Machines (CAMs).

Safety Deposit Boxes

Valued clients may rent a Safety Deposit Box where valuables, legal documents, and other prized possessions may be kept. It is located in a secured vault within the Bank's premises.

B. BANCASSURANCE

PNB Bancassurance provides solid financial services to help ensure and protect the future of clients.

Non-Life Insurance

Products being offered through PNB General Insurers Co., Inc. include Property and Natural Perils Insurance, Motor Car Insurance, Personal Accident Insurance, Engineering Insurance, Marine Insurance, among others.

Life Insurance

There is a wide range of life insurance products offered by Allianz PNB Life that cater to specific needs such as Savings and Investments, Protection, Health, Education, Retirement, and Estate Planning.

C. REMITTANCE PRODUCTS AND SERVICES

The Bank has various products and services which Overseas Filipino Workers (OFWs) and their beneficiaries can rely on for sending and receiving remittances, and other services such as Overseas Bills Payment and Own a Philippine Home Loan (OPHL).

D. FUND TRANSFER AND RELATED SERVICES

The Bank provides services that allow international foreign currency funds transfers via its overseas branches and Society for Worldwide Interbank Financial Telecommunication (SWIFT), and domestic interbank funds transfers via the Philippine Domestic Dollar Transfer System (PDDTS), Instapay, PesoNet, among others. The Bank also offers Demand Drafts/Cashier's/Manager's Checks, travel funds in the form of Travellers' checks and/or foreign currency notes, as well as facilities for clearing checks drawn in the Philippines or abroad.

E. TREASURY PRODUCTS AND SERVICES

The Bank offers expertise in Fixed Income Securities and Money Market Instruments, Spots, Forwards, Swaps, and Foreign Exchange.

F. TRADE FINANCE SERVICES

The Bank offers various modes/arrangements of settling international trade transactions to make it easier for importers and exporters to transact business. Services such as Letters of Credit, Standby Letters of Credit, Bills Purchase and Trust Receipt Facility are available.

G. LENDING SERVICES

The Bank offers a wide array of attractive and easy loan options consisting of Credit Lines, Bills Purchased Lines, Term Loans, Time Loans, among others, for large corporates, small and medium enterprises (SMEs), and government clients. The Bank also extends consumer loans such as Housing, Auto and Personal loans. Credit Cards are also available for everyday payment convenience in dining, travelling, and shopping.

H. TRUST PRODUCTS AND SERVICES

The Bank provides a full range of Trust products and services designed to meet the needs of a broad spectrum of market segments.

Unit Investment Trust Funds (UITF)

UITFs are open-ended trust funds denominated in Philippine Peso, or any acceptable currency, which pools together the funds of various investors, for investment in different instruments such as government securities, bonds, commercial papers, deposit products, and other similar instruments.

Personal Trust Products

These are trust funds for a client's beneficiary that can be availed through fund management services such as Personal Management Trust, Investment Management Account (IMA), Estate Planning, and Testamentary Trust.

Corporate Trust Products

PNB offers Corporate Fund Management, Employee Benefit Trust/Retirement Fund (PNB EES), and Pre-Need Account for companies.

Other Fiduciary Trust Products and Services

These include roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

For a complete description of the Bank's Products and Services, please visit our website at www.pnb.com.ph.

Management Directory

OFFICE OF THE PRESIDENT

President
Jose Arnulfo "Wick" Veloso

First Senior Vice President
Jose German Licup
Zacarias Gallardo, Jr.

First Vice President
Constantino Yap

Assistant Vice President
Gemma Lim
Lita Victoria Fernandez

CORPORATE SECRETARY'S OFFICE

First Vice President
Maila Katrina Ilarde

Senior Assistant Vice President
Ma. Cristina Advincula

CREDIT MANAGEMENT GROUP

First Senior Vice President
Nanette Vergara

Senior Vice President
Ana Rose Kwan

First Vice President
Mario Luis Cruel
Roberto Medalla

Vice President
Neil Campos
Lorna Gamboa
Joy Lalicon
Erwin Rommel Pobeda
Carmencita Karla Sucaldito

Senior Assistant Vice President
Cynthia Dorothy Acorda
Rosario De Leon
Arles Benson Gonzales
Shaun Mar Limcumpao
Alberto Oliveros
Christina Osias
Alexander Sevilla
Ma. Gemma Subiate
Jan John Dennis Villacorte
Charlotte Yu
Dyan Ann Yuson

Assistant Vice President
Michael Jerome Bernardo
Ma. Soledad Cosuco
Ricardo Ledesma
Cedric Lu
Rafael Montejo
Michael Taasan

ENTERPRISE INFORMATION SECURITY GROUP

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Roland Oscuro

Vice President
Ma. Cecilia Regalario

Assistant Vice President
Pat Pio Fondevilla

ENTERPRISE SERVICES SECTOR

Executive Vice President
Aida Padilla

Acquired Assets Management Group

First Vice President
Nixon Ngo

Vice President
Jose Marie Erwin Duran

Senior Assistant Vice President
Cesar Sotoza

Administration Group

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Edgardo Maldonado
Art Chuaunsu

Senior Assistant Vice President
Roberto Bartolome

Assistant Vice President
Jose Acap, Jr.

Legal Group

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Erwin Go

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Marila Balaquiot

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Stephanie Canedo
Jocelyn Sarte

Remedial Accounts Management Group

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Mariza Tiburcio

First Vice President
Rowena Magpayo

Assistant Vice President
Mario Alejandro Afurong
Selena Magdalena Madarang
Ma. Leticia Tayag

Corporate Security Group

Vice President
Roderick Soriano

FINANCIAL MANAGEMENT SECTOR

Executive Vice President
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Accounting and Controllership Group

Vice President
Limwel Caparros
Araceli Franco
Aidell Amor Gregorio

Senior Assistant Vice President
Generoso Frias
Christine Marzan

Assistant Vice President
Rusela Maranan

Central Management Information Services Division

Vice President
Geraldine Punzalan

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Senior Vice President
Mary Ann Santos

First Vice President
Jeslyn Bonifacio

Vice President
Ralph Benedict Centeno
Rhodora Del Mundo
Arlene Gueverra

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Melvar Benedicto
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Leila Amante
Michael Antonio Garcia
Gilbert Guevara

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GLOBAL BANKING AND MARKETS SECTOR

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Noel Malabag

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Mark Angelo Espiritu
John Christopher Lu
Robina Sy
Mary Lourdes Teng

Vice President
Ernee Regala
Inulli Ty

Senior Assistant Vice President
Lester De Alday
Eric Jayson Castro
Neil Enciso
Jose Benjamin Nunez III

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Cezar Bayonito

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Assistant Vice President
Julie Anne Dimayuga

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Godfrey Paraiso

GLOBAL COMPLIANCE GROUP

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Lolita Chu

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Catherine Rose Ramos
Marie Grace Salado

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Dereina Lissa Abiog
Marianne Fernandez
Elmer Molit
Joel Jerome Ong
Rona Ronquillo
Alda Aylwyn Sy-Balayan
Harold Taguba

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Officer in Charge

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Liberty Matias
Juliette Quinsaat

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Marlin Subala
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Rowena Cacdac
Angeline Dee
Armando Dizon
Loreta Eguia
Leonardo Ferrer, Jr.
Freda Gonzales
Editha Jose
Manuelito Judilla, Jr.
Roxanna Lim
Ferdinand Medina
Reginald Mendoza
Ma. Isabel Pil
Alfred Reales
Jan Henry Roque
Hardy Teng
Miraquel Torio
Aurene Valencia
Alexander Zaide

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Senior Vice President
Mariana Caculitan
Christian Jerome Dobles

First Vice President
Carmen Jazmin Lao

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Sheila Marie Fiel

Assistant Vice President
Luzviminda Magsino
Rainier Raymond Rejano
Ria Rivera

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Commercial Banking Group

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Lee Eng So

Senior Vice President
Maria Rita Pueyo

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Aaron Astor
Linda Lao

Vice President
Kelvin Aquilino
Albert Guangco
Zorina Jingco
Darius Kenny
Roberto Noceda
Irene Tan
Sharon Marie Ventura

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Josephine Caluag
Clifford Ilagan
Ma. Eloisa Opena
Ramon Siyluy, Jr.

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Ivo Te
Janette Ardinez
Jayson Siocson
Joselito Napili
Leny Sy
Marjorie Ballesteros
Mildred Alcantara
Patricia Santos
Rhizzy Ann Roque
Sidney Gerard Zosa
Sotero Paner, Jr.
Susan Principe

Corporate Banking Group

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Allan Ang
Maria Lourdes Donata Gonzales
Humildad Santelices

First Vice President
Jean Marie Baruelo

Vice President
Kurt Ellyson Fang
Jam Abu Dharr Usman

Senior Assistant Vice President
Nasor Abdullatif
Patricia Marie De Las Penas
Nikki Angela Orsolino
Janeen Pua
Ma. Lucia Roderos

Assistant Vice President
Roselle Ann Aliscad
Ma. Kathelyn Jenica Dela Cruz

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Meylord Capanzana
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Nilda Dones
Miguel Gutierrez
Donnabel Leal
Elizabeth Sanchez
Analisa San Pedro

MARKETING AND BRAND MANAGEMENT SECTOR

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Damasen Paul Cid

Vice President
Jocelyn Broniola
Ella May Navallo

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Gerald Michael Calaguian
John Robert Gamit
Conrad Paul Pascual, Jr.

OFFICE OF THE CORPORATE TREASURER

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First Vice President
Ginina Trazo

Assistant Vice President
Marrissa Lorenzo

OPERATIONS GROUP

Senior Vice President
Marie Fe Liza Jayme
Maria Luisa Toribio

First Vice President
Marilyn Prescilla Aguas
Ma. Agnes Almosara
David Stephen Cu
Reynaldo Intal
Ma. Cirila Panganiban
Melita Tan

Vice President
Josephine Marie Donato
Cynthia Molina
Lorna Santos

Senior Assistant Vice President
Vic Cobarrubias
Malou Francisco
Carlos Alberto Ortiz
Marilou Ramos
Mary Rose Rodillas
Maria Fe Tolentino
Rhodora Villanueva

Assistant Vice President
Perlita Calangi
Udy Co
Emjay Socorro De Chavez
Noel Go
Maria Mercedes Malaluan
Mimosa Nicdao
Evangeline Roxas
Elizabeth Salas
Flordeliza Santillan
Salvy Samuel
Rosalinda Sumaya

PUBLIC AFFAIRS GROUP

Senior Vice President
Claro Fernandez

Senior Assistant Vice President
Leia Michelle Regala-Teodoro

RETAIL BANKING SECTOR

Senior Vice President and OIC
Maria Adelia Joson

Branch Banking Group

Senior Vice President
Edilberto Ramos

First Vice President
Carlo Dimaala
Bernabe Punsalan
Carina Salonga

Vice president
Shirley Ching
Josephine Aurelia Diaz
Mary Rose Gonzales
Carlos Oliver Leytte
Maria Therese Montecer
Jay Pesigan
John Hilarion Salas
Ma. Lelis Singson
Lourdes Valencia

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Doris Bargayo
Yvonne Beltran
Carlo Lucas Buan
Aron Bugalon
Ruth Carrasco
Carlo Salvador Chua
Mary Jane Dacanay
Jocelyn Diawan
Rosemary Fernandez
Abigail Gironella
Gino Gonzalez
Jo An Isaac
Frederick Manuel Javate
Blaine Kow
Maria Russel Lau
Walter Lasaca
Irma Madonna Leonardo
Sharon Marie Magpayo
Editha Manago
Arturo Martinez
Merly Mercado
Carolina Conrada Palaroan
Jeffrey Querubin
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Ma. Jessica Reyes
Christine Marie Rillera
Ariel Roca
Jerry Rosete
Vito Antonio Rubio
Sheila Sy
Felisabel Taganas
Alona Tambunting
Elaine Tan
Loreta Trasadas
Shella Marie Villacorta
Delia Villanueva

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Anastasia Angeles
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Ma. Annaliza Bartolome
Irenio Cain, Jr.
Rosemarie Carmona
Arlene Castro
Felicitas Castillo
Meriam Claridad
George Clemena
Ma. Irene Corrales
Alan John Ching
Manuelito Chua
Mari Joy Chua
Catherine De Ocampo
Alain Dimaunahan
Bonnie Duran
Virle Mae Encisa
Amor Enriquez
Enrique Eugenio
Marilyn Fijer
Ramir Garbo
Marinela Hebron
Nicolas Isip
Elaine Janiola
Michael Kalalo
Lilibeth Landicho
Brigida Lee
Dennis Libor
Carolyn Lim
Edson Lim
Conrad Limbaga
Albert Lopez
Elinor Macrohon
Cristina Magpantay
Ma. Isabel Makayan
Maria Lizza Mauricio
Frances Mendoza
Maria Osilla Molina
Arlene Morales
Melissa Anne Ng
Janeth Nuque
Khristine Patena
Arlene Perez
Dolly Pineda
Alvin Pornasdoro
Rommel Remotigue
Maria Luisa Rivera
Pearcy Joy Salvador
Gregorio Santiago, Jr.
Jovilhyn Singcuenco
Cristina So
Rosario Tan
Maricel Tobias
Olga Tongco
Julie Sy
Ernest Uy
Hyna Uy
Maria Uy
Jose Villamar
Ma. Rolina Villanueva
Rosita Yap

Cards Banking Solutions Group

Senior Vice President
Christian Eugene Quiros

Senior Assistant Vice President
Minna Ambas
Sheila Caeg-Bilog
Jayson Evangelista
Johann Gan
Lennie Hong
Jocelyn Opaco
Jocelyn Rosal
Joel Escolastico Tirona

Assistant Vice President
Francis Adofina
Ivy Aquino
Charles Santiago

International Banking and Remittance Group

Senior Vice President
Teresita Sebastian

First Vice President
Roderick Enriquez
Cristy Vicentina
Ernesto Villacorta

Vice President
Julius Rifareal

Senior Assistant Vice President
Arnel Mariano
Elise Rue Ramos
Angelito Maria Rivera

Assistant Vice President
Maria Corazon Yay Jeremillo
Maricel Prudente
Elmer Querol
Raquel Rabang
Joel Eric Talosig

Management Directory

RBS Sales and Support Group

Senior Vice President
Maria Adelia Joson

First Vice President
Katherine Cabrera
Ma. Theresa Del Rosario
Maria Isabel Gonzalez
Jennifer Ng

Vice President
Maria Karen Meñez-Rodil
Emmanuel Victa

Senior Assistant Vice President
Ma. Windy Batan
Ma. Luisa Cruz
Cesar Engcoy, Jr.
Reyel Lacson
Ma. Luisa Tapang

Assistant Vice President
Sophia Monica Ang
Victoria Aquino
Anthony Asuncion
Winifred Bernardo
Margarette Grace Garces
Reylyn Im
Anne Kristine Ingente
Melanie Mancenido
Analyn Pecate
Melissa Ponce
Rey Posecion
Ma. Ursula Sobreviñas

Retail Lending Group

Senior Vice President
Antonio Baculi

First Vice President
Modette Ines Cariño
Mary Rose Mendez

Senior Assistant Vice President
Dennis Arias
Jaybert Jose Ong

RISK MANAGEMENT GROUP

First Vice President
Simeon Yap

Vice President
Juliet Dytoc

Senior Assistant Vice President
Coleen Mejia
Fryda Porciuncula

Assistant Vice President
Marrita Lim
Cecilia Magbanua
Jo Aaron Reyes
Pamela Torres

STRATEGY SECTOR

Executive Vice President
Chester Luy

Pinnacle Priority Banking

Senior Assistant Vice President
Maria Carmina Poblete

Assistant Vice President
Jennilyn Ann Tio

Strategy and Planning Group

Senior Vice President
Emeline Centeno

Vice President
Alvin Joseph Arogo
Jonathan Uy

Assistant Vice President
Janet Antonio
Marcena Puno

TRUST BANKING GROUP

First Vice President
Joy Jasmin Santos
Dennis Anthony Elayda
Josephine Jolejole

Vice President
Anna Liza Calayan
Immaculada Villanos
Ma. Teresa Tolentino

Senior Assistant Vice President
Jaycee Rivera
Katherine Pagal
Rodney Reyes
Roy Sapanghila

Assistant Vice President
Johanna Michelle Go
Maria Victoria Mendoza
Ma. Socorro Unas
Pierangelo Vengco
Joanna Florencia Villar

WEALTH MANAGEMENT GROUP

Senior Vice President
Maria Teresa Velasco

First Vice President
Candice Lim
Don Tamayo

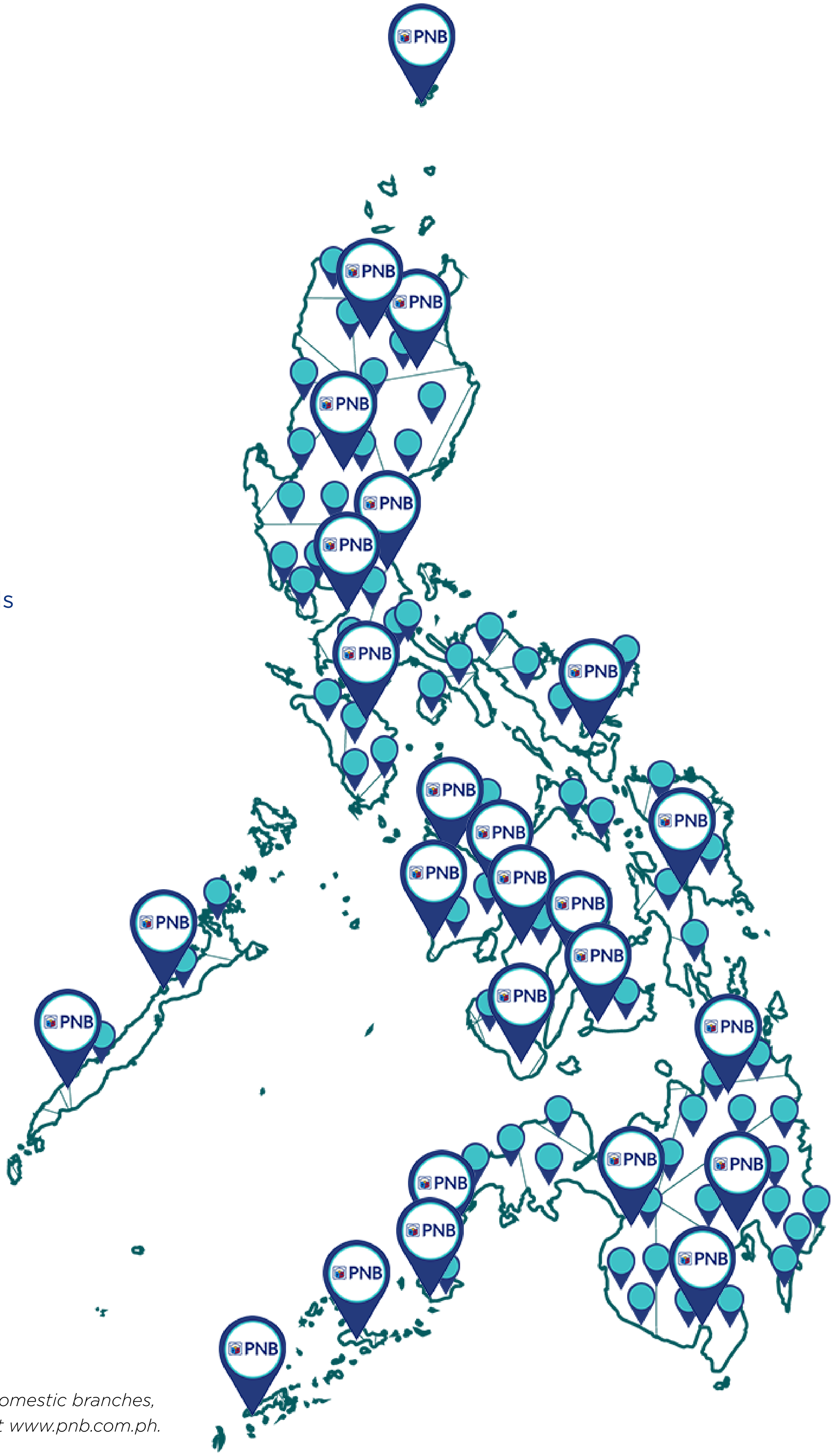
Vice President
Maria Elizabeth Dela Paz

Senior Assistant Vice President
John Marvin Blanco
Ma. Sheryll Castro
Kristine Jan Donayre
Ma. Nelsa Trajano

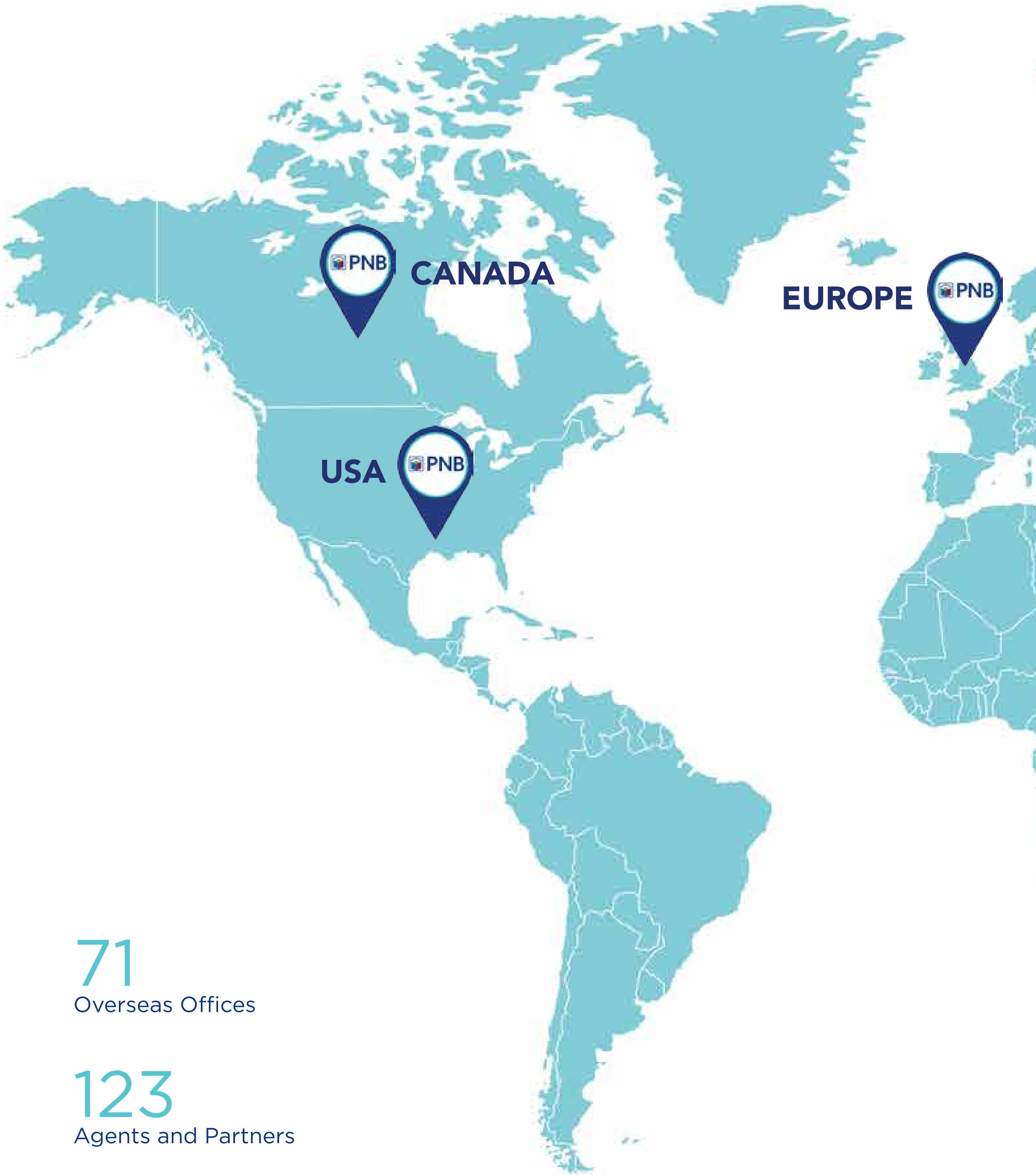
Assistant Vice President
Vanessa Frias
Criselda Camille Pescante
Maxine Anne Villanueva

715
Total Branches

1,553
ATMs and CAMs



For the complete list of domestic branches, please visit our website at www.pnb.com.ph.



71
Overseas Offices

123
Agents and Partners

For the complete list of overseas branches, please visit our website at www.pnb.com.ph.


MIDDLE EAST
PNB
JAPAN
PNB
CHINA
PNB
GUAM
PNB
SINGAPORE
PNB

Overseas Offices

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Katherine E. De Guzman
General Manager

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Carlito J. Gaspar
Officer-In-Charge

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Abdullah N. Macapanton
Officer for Business Development

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Philippine National Bank

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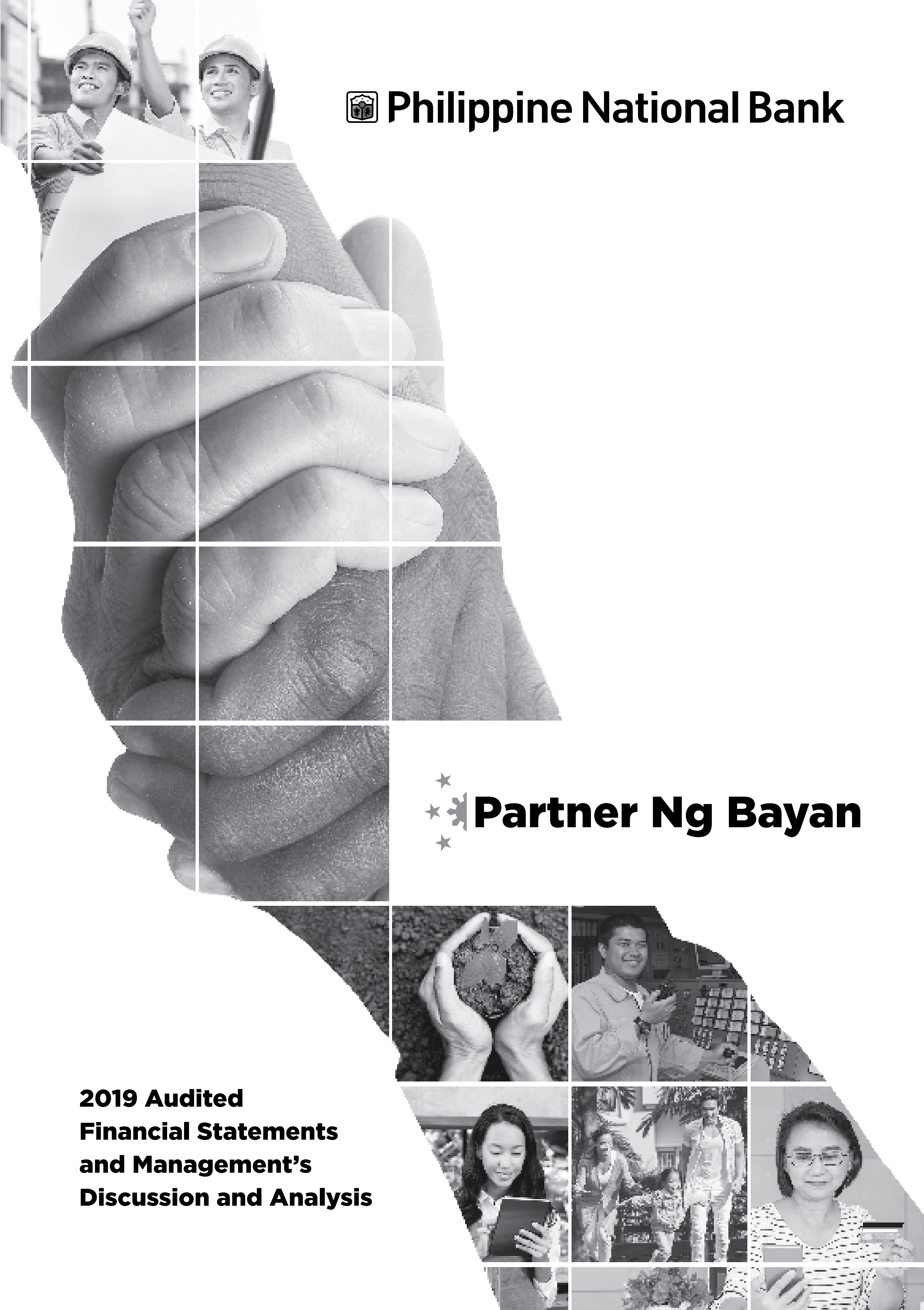

Philippine National Bank

Partner Ng Bayan

2019 Audited Financial Statements and Management's Discussion and Analysis

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Statement of Management's Responsibility for Financial Statements

The management of Philippine National Bank is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years 2019, 2018 and 2017 ended December 31, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Philippine National Bank's financial reporting process.

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

Sycip, Gorres, Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Philippine National Bank in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

FLORENCIA G. TARRIELA
Chairman of the Board

JOSE ARNULFO A. VELOSO
President and Chief Executive Officer

NELSON C. REYES
Executive Vice President and Chief Financial Officer

MAR 0 2 2020

SUBSCRIBED AND SWORN to before me this ___ day of February 2020 affiants exhibiting to me their Passport Identification No.

Doc. No. 325
Page No. 66
Book No. X
Series of 2020

ATTY. SHERRYL [illegible] BLANQUISCO-SANTIAGO, CPA
Notary Public for Pasay City
Commission No. 20-02 until December 31, 2021
9F PNB Financial Center
Pres. D.P. Macapagal Blvd., Pasay City
Roll No. 55787 / IBP Lifetime Member No. 07522
PTR No. 7039075 / 01-07-2020 / Pasay City
MCLE Compliance No. VI-0019678 / 03-01-19

Independent Auditor's Report

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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Fax: (632) 819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2019 and 2018 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2019 and 2018, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2019 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and parent company financial statements

Adoption of PFRS 16, Leases

Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, Leases, under the modified retrospective approach which resulted in significant changes in the Group's and the Parent Company's accounting policy for leases. The Group's and the Parent Company's adoption of PFRS 16 is significant to our audit because the Group and the Parent Company have high volume of lease agreements; the recorded amounts are material to the consolidated and parent company financial statements; and adoption involves application of significant judgment and estimation in determining the lease term, including evaluating whether the Group and the Parent Company are reasonably certain to exercise options to extend or terminate the lease, and in determining the incremental borrowing rate. This resulted in the recognition of right-of-use assets amounting to ₱1.8 billion and ₱1.6 billion for the Group and the Parent Company, respectively, and lease liability amounting to ₱1.9 billion and ₱1.6 billion for the Group and the Parent Company, respectively, as of January 1, 2019, recognition of depreciation expense of ₱568.1 million and ₱488.2 million for the Group and the Parent Company, respectively, and interest expense of ₱131.7 million and ₱118.4 million for the Group and Parent Company, respectively, for the year ended December 31, 2019.

The disclosures related to the adoption of PFRS 16 are included in Notes 2, 11 and 29 to the financial statements.

Audit response

We obtained an understanding of the Group's and the Parent Company's process in implementing the new standard, including the determination of the population of the lease contracts covered by PFRS 16, the application of the short-term lease and low value assets exemptions, the selection of the transition approach and any election of available practical expedients. We tested the completeness of the population of lease agreements by comparing the number of leases per operational report against the lease contract database. On a test basis, we inspected lease agreements (i.e., lease agreements existing prior to the adoption of PFRS 16 and new lease agreements) from the contract database, identified their contractual terms and conditions, and traced these contractual terms and conditions to the lease calculation prepared by management, which covers the calculation of the financial impact of PFRS 16, including the transition adjustments.

For selected lease contracts with renewal and/or termination option, we reviewed the management's assessment of whether it is reasonably certain that the Group and the Parent Company will exercise the option to renew or not exercise the option to terminate. We tested the parameters used in the determination of the incremental borrowing rate by reference to market data. We test computed the lease calculation prepared by management on a sample basis, including the transition adjustments.

We reviewed the disclosures related to the transition adjustments based on the requirements of PFRS 16 and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

Recognition of Allowance for Credit Losses on Loans and Receivables
The Group's and the Parent Company's application of the expected credit losses (ECL) model in determining the allowance for credit losses on loans and receivables is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information in calculating ECL.

The allowance for credit losses as of December 31, 2019 amounted to ₱18.4 billion and ₱14.3 billion for the Group and the Parent Company, respectively. Provision for credit losses in 2019 amounted to ₱2.5 billion and ₱1.6 billion for the Group and the Parent Company, respectively.

Refer to Note 16 of the financial statements for the disclosure on the details of the allowance for credit losses using the ECL model.

Audit Response
We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used through corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

Recoverability of Deferred Tax Assets

As of December 31, 2019, the deferred tax assets of the Group and the Parent Company amounted to ₱2.6 billion and ₱2.0 billion, respectively. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.

The disclosures in relation to deferred income taxes are included in Note 30 to the financial statements.

Audit response

We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

Impairment Testing of Goodwill

As at December 31, 2019, the Group and the Parent Company has goodwill amounting to ₱13.4 billion as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group is required annually to test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and global banking and market. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because it involves significant judgment and is based on assumptions such as estimates of future cash flows from business, interest margin, discount rate, current local gross domestic product and long-term growth rate used to project cash flows.

The disclosures related to goodwill impairment are included in Note 14 to the financial statements.

Audit Response
We involved our internal specialist in evaluating the methodology and assumptions used by the Group. These assumptions include estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows. We compared the interest margin and long-term growth rate to the historical performance of the CGUs and to economic and industry forecasts. We tested the current local gross domestic product and parameters used in the derivation of the discount rate against market data.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

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

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

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

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

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

Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on the Supplementary Information Required Under Revenue Regulations 15-2010 and Bangko Sentral ng Pilipinas Circular No. 1074

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 39 and the Bangko Sentral ng Pilipinas Circular No. 1074 in Note 40 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and Bangko Sentral ng Pilipinas, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-2 (Group A),
July 9, 2019, valid until July 8, 2022
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 8125274, January 7, 2020, Makati City

February 28, 2020

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Financial Position

(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2019	2018 (As restated – Note 36)	**2019**	2018
ASSETS				
Cash and Other Cash Items	**₱30,500,927**	₱16,825,487	**₱29,642,159**	₱15,904,663
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**105,981,801**	102,723,312	**101,801,597**	98,665,375
Due from Other Banks (Note 33)	**17,758,143**	21,003,079	**10,835,106**	10,459,496
Interbank Loans Receivable (Notes 8 and 33)	**24,831,816**	11,248,455	**23,803,019**	11,689,414
Securities Held Under Agreements to Resell (Notes 8 and 35)	**2,517,764**	20,700,000	**1,149,984**	20,700,000
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	**13,468,985**	10,000,776	**11,169,656**	9,983,636
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	**123,140,840**	52,129,821	**118,896,564**	50,656,893
Investment Securities at Amortized Cost (Note 9)	**100,464,757**	100,805,861	**99,203,909**	99,586,329
Loans and Receivables (Notes 10 and 33)	**657,923,757**	586,666,475	**587,245,896**	510,999,274
Property and Equipment (Note 11)	**21,168,794**	19,724,639	**18,797,308**	17,606,143
Investments in Subsidiaries and an Associate (Note 12)	**2,605,473**	2,418,842	**28,430,358**	28,645,807
Investment Properties (Note 13)	**15,043,826**	13,488,866	**14,676,387**	13,149,358
Deferred Tax Assets (Note 30)	**2,580,809**	2,112,689	**1,985,597**	1,452,153
Intangible Assets (Note 14)	**2,841,989**	3,033,363	**2,699,154**	2,879,853
Goodwill (Note 14)	**13,375,407**	13,375,407	**13,515,765**	13,515,765
Other Assets (Note 15)	**8,085,523**	7,391,114	**5,352,763**	5,906,427
TOTAL ASSETS	**₱1,142,290,611**	₱983,648,186	**₱1,069,205,222**	₱911,800,586
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	**₱172,228,956**	₱153,065,163	**₱168,628,123**	₱149,539,540
Savings	**391,769,777**	401,622,361	**384,773,630**	394,004,547
Time	**226,894,643**	147,210,729	**187,288,142**	108,450,094
Long Term Negotiable Certificates	**35,152,104**	31,403,225	**35,152,104**	31,403,225
	826,045,480	733,301,478	**775,841,999**	683,397,406
Financial Liabilities at FVTPL (Notes 18, 23 and 35)	**245,619**	470,648	**231,992**	468,279
Bills and Acceptances Payable (Notes 19, 33 and 35)	**55,963,290**	70,082,835	**48,424,017**	62,706,795
Lease Liabilities (Notes 2 and 29)	**1,806,409**	–	**1,633,083**	–
Accrued Taxes, Interest and Other Expenses (Note 20)	**6,939,726**	6,397,124	**6,058,094**	5,559,960
Bonds Payable (Note 21)	**66,615,078**	15,661,372	**66,615,078**	15,661,372
Income Tax Payable	**576,156**	900,693	**472,378**	823,739
Other Liabilities (Note 22)	**29,123,453**	28,275,024	**17,858,935**	17,532,588
	987,315,211	855,089,174	**917,135,576**	786,150,139
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	**61,030,594**	49,965,587	**61,030,594**	49,965,587
Capital Paid in Excess of Par Value (Note 25)	**32,116,560**	31,331,251	**32,106,560**	31,331,251
Surplus Reserves (Notes 25 and 32)	**642,018**	620,573	**642,018**	620,573
Surplus (Note 25)	**56,273,492**	46,613,457	**56,273,735**	46,613,704
Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	**3,250,651**	(3,196,936)	**3,250,651**	(3,196,936)
Remeasurement Losses on Retirement Plan (Note 28)	**(2,229,220)**	(1,526,830)	**(2,229,220)**	(1,526,830)
Accumulated Translation Adjustment (Note 25)	**947,562**	1,776,923	**947,562**	1,776,923
Other Equity Reserves (Note 25)	**35,466**	53,895	**35,466**	53,895
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	**12,280**	12,280	**12,280**	12,280
Other Equity Adjustment	**13,959**	13,959	–	–
	152,093,362	125,664,159	**152,069,646**	125,650,447
NON-CONTROLLING INTERESTS (Note 12)	**2,882,038**	2,894,853	–	–
	154,975,400	128,559,012	**152,069,646**	125,650,447
TOTAL LIABILITIES AND EQUITY	**₱1,142,290,611**	₱983,648,186	**₱1,069,205,222**	₱911,800,586

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
Statements of Income
(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As Restated – Note 36)	2017 (As Restated – Note 36)	**2019**	2018	2017
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	**₱39,853,001**	₱30,202,835	₱22,669,476	**₱35,164,556**	₱25,504,159	₱19,245,810
Investment securities at amortized cost and FVOCI, available-for-sale (AFS) and held-to-maturity (HTM) investments (Note 9)	**8,805,285**	4,594,775	3,099,911	**8,549,063**	4,502,331	3,033,843
Deposits with banks and others (Notes 7 and 33)	**652,539**	777,813	1,330,144	**432,874**	524,723	1,053,354
Interbank loans receivable and securities held under agreements to resell (Note 8)	**668,211**	379,378	480,021	**568,061**	350,808	446,134
Financial assets at FVTPL (Note 9)	**619,979**	120,667	38,808	**619,979**	120,667	38,809
	50,599,015	36,075,468	27,618,360	**45,334,533**	31,002,688	23,817,950
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	**14,024,899**	7,871,173	4,794,227	**12,201,776**	6,591,288	4,104,798
Bonds payable (Note 21)	**1,945,497**	477,405	–	**1,945,497**	477,405	–
Bills payable and other borrowings (Notes 19, 29 and 33)	**2,185,046**	662,340	747,481	**1,740,622**	472,111	650,724
	18,155,442	9,010,918	5,541,708	**15,887,895**	7,540,804	4,755,522
NET INTEREST INCOME	**32,443,573**	27,064,550	22,076,652	**29,446,638**	23,461,884	19,062,428
Service fees and commission income (Notes 26 and 33)	**5,176,500**	4,259,284	4,180,861	**3,677,689**	3,524,263	3,130,783
Service fees and commission expense (Note 33)	**988,164**	773,082	1,087,498	**800,376**	616,207	592,427
NET SERVICE FEES AND COMMISSION INCOME	**4,188,336**	3,486,202	3,093,363	**2,877,313**	2,908,056	2,538,356
Net insurance premium (Note 26)	**1,151,705**	1,228,794	656,329	–	–	–
Net insurance benefits and claims (Note 26)	**909,975**	1,292,949	322,244	–	–	–
NET INSURANCE PREMIUM (BENEFITS AND CLAIMS) (Note 26)	**241,730**	(64,155)	334,085	–	–	–
OTHER INCOME						
Foreign exchange gains - net (Note 23)	**1,105,918**	954,064	1,674,370	**861,143**	578,180	1,675,985
Trading and investment securities gains - net (Notes 9 and 33)	**1,074,478**	150,743	559,758	**1,017,155**	157,678	556,429
Net gains on sale or exchange of assets (Note 26)	**690,625**	5,861,143	3,921,136	**686,441**	5,841,136	3,862,341
Equity in net earnings/(losses) of subsidiaries and an associate (Note 12)	**(97,608)**	43,847	59,215	**(345,599)**	530,885	498,254
Miscellaneous (Note 27)	**1,464,482**	1,425,439	893,517	**976,822**	1,101,875	592,041
TOTAL OPERATING INCOME	**41,111,534**	38,921,833	32,612,096	**35,519,913**	34,579,694	28,785,834
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	**9,575,917**	9,510,440	9,108,837	**8,024,694**	7,943,135	7,754,566
Taxes and licenses (Note 30)	**4,817,674**	3,729,947	2,492,392	**4,217,996**	3,343,899	2,222,755
Provision for impairment, credit and other losses (Note 16)	**2,909,858**	1,752,812	884,133	**1,593,219**	1,401,528	161,877
Depreciation and amortization (Note 11)	**2,804,123**	1,950,977	1,684,391	**2,207,071**	1,542,712	1,385,357
Occupancy and equipment-related costs (Note 29)	**1,039,241**	1,735,010	1,596,066	**854,334**	1,453,341	1,343,021
Miscellaneous (Note 27)	**7,732,529**	6,999,472	6,367,519	**6,854,659**	6,125,334	5,634,019
TOTAL OPERATING EXPENSES	**28,879,342**	25,678,658	22,133,338	**23,751,973**	21,809,949	18,501,595
INCOME BEFORE INCOME TAX	**12,232,192**	13,243,175	10,478,758	**11,767,940**	12,769,745	10,284,239
PROVISION FOR INCOME TAX (Note 30)	**2,470,986**	3,687,105	2,322,213	**2,086,464**	3,304,670	2,123,676
NET INCOME	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,075	₱8,160,563
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	**₱9,681,480**	₱9,465,022	₱8,160,570			
Non-controlling Interests	**79,726**	91,048	(4,025)			
	₱9,761,206	₱9,556,070	₱8,156,545			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱7.05**	₱7.58	₱6.53			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Statements of Comprehensive Income

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
NET INCOME	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,075	₱8,160,563
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on debt securities at FVOCI, net of tax (Note 9)	**5,417,132**	(2,226,145)	–	**5,507,470**	(2,317,417)	–
Net change in unrealized gain on AFS investments, net of tax	**–**	–	454,188	**–**	–	468,861
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Note 9)	**447,169**	(375,389)	–	**590,236**	(284,117)	–
Share in changes in net unrealized gains (losses) on AFS investments of subsidiaries and an associate	**–**	–	(24,756)	**–**	–	(39,429)
	5,864,301	(2,601,534)	429,432	**6,097,706**	(2,601,534)	429,432
Accumulated translation adjustment	**(924,441)**	484,289	504,736	**(264,289)**	154,076	(5,932)
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**(565,072)**	204,963	508,594
	4,939,860	(2,117,245)	934,168	**5,268,345**	(2,242,495)	932,094
Items that do not recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on equity securities at FVOCI (Note 9)	**583,286**	93,112	–	**349,881**	93,112	–
Remeasurement gains (losses) on retirement plan (Note 28)	**(466,926)**	192,965	952,697	**(596,589)**	109,596	973,728
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**(234,815)**	386,628	(236,632)	**(105,801)**	470,160	(258,461)
Share in aggregate reserves on life insurance policies	**–**	–	9,193	**–**	–	9,193
	(118,455)	672,705	725,258	**(352,509)**	672,868	724,460
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**4,821,405**	(1,444,540)	1,659,426	**4,915,836**	(1,569,627)	1,656,554
TOTAL COMPREHENSIVE INCOME	**₱14,582,611**	₱8,111,530	₱9,815,971	**₱14,597,312**	₱7,895,448	₱9,817,117
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱14,597,316**	₱7,895,395	₱9,817,124			
Non-controlling interests	**(14,705)**	216,135	(1,153)			
	₱14,582,611	₱8,111,530	₱9,815,971			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
Statements of Changes in Equity
(In Thousands)

	Consolidated													
	Equity Attributable to Equity Holders of the Parent Company													
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on AFS Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Other Equity Adjustment	Total	Non-controlling Interests (Note 12)	Total Equity
Balance at January 1, 2019	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,457**	**(₱3,196,936)**	**₱–**	**(₱1,526,830)**	**₱1,776,923**	**₱53,895**	**₱12,280**	**₱13,959**	**₱125,664,159**	**₱2,894,853**	**₱128,559,012**
Total comprehensive income (loss) for the year	–	–	–	**9,681,480**	**6,447,587**	–	**(702,390)**	**(829,361)**	–	–	–	**14,597,316**	**(14,705)**	**14,582,611**
Issuance of stock (Note 25)	**11,065,007**	**785,309**	–	–	–	–	–	–	–	–	–	**11,850,316**	–	**11,850,316**
Other equity reserve (Note 32)	–	–	–	–	–	–	–	–	**(18,429)**	–	–	**(18,429)**	**5,262**	**(13,167)**
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	**(3,372)**	**(3,372)**
Transfer to surplus reserves (Note 32)	–	–	**21,445**	**(21,445)**	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2019	**₱61,030,594**	**₱32,116,560**	**₱642,018**	**₱56,273,492**	**₱3,250,651**	**₱–**	**(₱2,229,220)**	**₱947,562**	**₱35,466**	**₱12,280**	**₱13,959**	**₱152,093,362**	**₱2,882,038**	**₱154,975,400**
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949
Effect of adoption of Philippine Financial Reporting Standard (PFRS) 9, *Financial Instruments*	–	–	–	(1,660,119)	(688,514)	3,040,507	–	–	–	–	–	691,874	–	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,403	(688,514)	–	(2,106,586)	1,417,884	70,215	12,280	13,959	117,785,084	2,644,739	120,429,823
Total comprehensive income (loss) for the year	–	–	–	9,465,022	(2,508,422)	–	579,756	359,039	–	–	–	7,895,395	216,135	8,111,530
Sale of investment in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	–	–	100,000	100,000
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(62,655)	(62,655)
Other equity reserve (Note 32)	–	–	–	–	–	–	–	–	(16,320)	–	–	(16,320)	–	(16,320)
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(3,366)	(3,366)
Transfer to surplus reserves (Note 32)	–	–	22,968	(22,968)	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,457	(₱3,196,936)	₱–	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱13,959	₱125,664,159	₱2,894,853	₱128,559,012
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱13,959	₱107,311,541	₱2,649,162	₱109,960,703
Total comprehensive income (loss) for the year	–	–	–	8,160,570	–	429,432	715,267	502,662	–	9,193	–	9,817,124	(1,153)	9,815,971
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(3,270)	(3,270)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)	–	–	(35,455)	–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱13,959	₱117,093,210	₱2,644,739	₱119,737,949

See accompanying Notes to Financial Statements.

Parent Company

	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain (Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on AFS Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 28)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Total Equity
Balance at January 1, 2019	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,704**	**(₱3,196,936)**	**₱–**	**(₱1,526,830)**	**₱1,776,923**	**₱53,895**	**₱12,280**	**₱125,650,447**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**9,681,476**	**6,447,587**	**–**	**(702,390)**	**(829,361)**	**–**	**–**	**14,597,312**
Issuance of stock (Note 25)	**11,065,007**	**775,309**	**–**	**–**	**–**	**–**	**–**	**–**	**–**		**11,840,316**
Transfer to surplus reserves (Note 32)	**–**	**–**	**21,445**	**(21,445)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other equity reserves (Note 25)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(18,429)**	**–**	**(18,429)**
Balance at December 31, 2019	**₱61,030,594**	**₱32,106,560**	**₱642,018**	**₱56,273,735**	**₱3,250,651**	**₱–**	**(₱2,229,220)**	**₱947,562**	**₱35,466**	**₱12,280**	**₱152,069,646**
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445
Effect of adoption of PFRS 9	–	–	–	(1,660,119)	(688,514)	3,040,507	–	–	–	–	691,874
Balance at January 1, 2018	49,965,587	31,331,251	597,605	37,171,597	(688,514)	–	(2,106,586)	1,417,884	70,215	12,280	117,771,319
Total comprehensive income (loss) for the year	–	–	–	9,465,075	(2,508,422)	–	579,756	359,039	–	–	7,895,448
Transfer to surplus reserves (Note 32)	–	–	22,968	(22,968)	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(16,320)	–	(16,320)
Balance at December 31, 2018	₱49,965,587	₱31,331,251	₱620,573	₱46,613,704	(₱3,196,936)	₱–	(₱1,526,830)	₱1,776,923	₱53,895	₱12,280	₱125,650,447
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱3,087	₱107,297,783
Total comprehensive income for the year	–	–	–	8,160,563		429,432	715,267	502,662		9,193	9,817,117
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)	–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–		–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱12,280	₱117,079,445

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
Statements Cash Flows
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱12,232,192**	₱13,243,175	₱10,478,758	**₱11,767,940**	₱12,769,745	₱10,284,239
Adjustments for:						
Provision for impairment, credit and other losses (Note 16)	**2,909,858**	1,752,812	884,133	**1,593,219**	1,401,528	161,877
Depreciation and amortization (Note 11)	**2,804,123**	1,950,977	1,684,391	**2,207,071**	1,542,712	1,385,357
Unrealized foreign exchange loss (gain) on bills and acceptances payable	**(2,771,182)**	1,298,559	–	**(2,771,182)**	1,292,591	–
Losses (gains) on financial assets at FVTPL (Note 9)	**(1,355,606)**	21,548	(61,485)	**(1,334,550)**	10,386	58,156
Unrealized foreign exchange gain on bonds payable	**(1,029,880)**	–	–	**(1,029,880)**	–	–
Net gain on sale or exchange of assets (Note 13)	**(690,625)**	(5,861,143)	(3,921,136)	**(686,441)**	(5,841,136)	(3,862,341)
Realized trading gain on financial assets at FVOCI (Note 9)	**(317,609)**	(167,902)	–	**(317,609)**	(160,403)	
Amortization of transaction costs on borrowings (Notes 17 and 21)	**125,596**	51,502	60,239	**125,596**	51,502	60,239
Equity in net (earnings)loss of subsidiaries and an associate (Note 12)	**97,608**	(43,847)	(59,215)	**345,600**	(530,885)	(498,254)
Amortization of premium on investment securities	**95,849**	789,981	1,383,338	**78,880**	1,034,142	1,375,100
Loss (gain) on mark-to-market of derivatives (Note 23)	**(44,060)**	899,614	(128,417)	**(44,060)**	899,614	(124,679)
Realized trading gain on AFS investments (Note 9)	**–**	–	(506,238)	**–**	–	(506,238)
Amortization of fair value loss of HTM investments reclassified to AFS investments (Note 9)	**–**	–	141,802	**–**	4,945	141,802
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(1,220,264)**	678,014	(798,815)	**(421,675)**	274,268	(828,073)
Financial assets at FVTPL	**(2,068,543)**	(8,039,543)	(778,629)	**192,590**	(8,063,759)	(808,168)
Loans and receivables	**(75,034,482)**	(88,550,600)	(75,945,020)	**(78,630,395)**	(73,115,194)	(63,393,954)
Other assets	**(1,679,271)**	2,269,350	(777,538)	**300,790**	2,071,977	(2,103,444)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	**(225,029)**	127,126	–	**(236,287)**	124,863	–
Deposit liabilities	**92,702,273**	95,341,952	67,387,302	**92,402,864**	86,953,099	54,189,539
Accrued taxes, interest and other expenses	**561,268**	1,073,637	379,861	**516,800**	886,415	441,930
Other liabilities	**356,335**	548,819	(187,798)	**(301,401)**	804,897	(1,129,101)
Net cash generated from (used in) operations	**25,448,551**	17,384,031	(764,467)	**23,757,870**	22,411,307	(5,156,013)
Income taxes paid	**(3,369,421)**	(3,779,657)	(1,524,208)	**(3,043,713)**	(3,314,639)	(1,350,866)
Net cash provided by (used in) operating activities	**22,079,130**	13,604,374	(2,288,675)	**20,714,157**	19,096,668	(6,506,879)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of investment securities at amortized cost (Note 9)	**81,709,960**	19,356,795	–	**81,530,081**	37,694,571	–
Disposal/maturities of financial assets at FVOCI/AFS investments	**36,239,398**	41,459,104	199,856,642	**34,213,584**	41,652,990	199,690,619
Disposal of property and equipment (Note 11)	**162,143**	123,767	29,719	**3,531**	583,701	172,226
Disposal of investment properties	**712,650**	8,456,263	5,570,269	**717,677**	8,493,918	5,119,922
Share in dividends from subsidiaries (Note 12)	**–**	–	–	**–**	–	1,333,350
Acquisitions of:						
Financial assets at FVOCI/AFS investments	**(100,926,015)**	(23,729,263)	(202,587,314)	**(96,281,851)**	(25,122,624)	(201,794,860)
Investment securities at amortized cost	**(81,365,299)**	(93,782,890)	–	**(81,150,541)**	(111,057,852)	–
Property and equipment (Note 11)	**(2,299,285)**	(3,026,508)	(1,964,768)	**(1,634,668)**	(2,263,064)	(1,658,985)
Software cost (Note 14)	**(334,548)**	(169,231)	(1,162,121)	**(331,543)**	(160,857)	(1,045,743)
HTM investments	**–**	–	(2,801,983)	**–**	–	(2,726,786)
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(180,000)**	(266,000)	(700,000)
Closure of subsidiaries (Note 12)	**–**	–	–	**–**	–	50,000
Net cash used in investing activities	**(66,100,996)**	(51,311,963)	(3,059,556)	**(63,113,730)**	(50,445,217)	(1,560,257)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of bills and acceptances payable	**₱1,465,130,227**	₱187,599,609	₱164,866,720	**₱1,445,941,174**	₱178,534,210	₱159,025,830
Proceeds from issuance of bonds payable (Note 21)	**51,899,720**	15,398,696	–	**51,899,720**	15,398,696	–
Settlements of:						
Bills and acceptances payable	**(1,476,478,591)**	(162,732,019)	(157,020,131)	**(1,457,452,771)**	(158,520,810)	(151,794,765)
Subordinated debt	**–**	–	(3,500,000)	**–**	–	(3,500,000)
Proceeds from issuance of stocks (Note 25)	**11,850,316**	–	–	**11,840,316**	–	–
Payment of principal portion of lease liabilities (Note 29)	**(509,952)**	–	–	**(436,331)**	–	–
Dividends paid to non-controlling interest	**–**	–	(3,270)	–	–	–
Net cash provided by financing activities	**51,891,720**	40,266,286	4,343,319	**51,792,108**	35,412,096	3,731,065
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**7,869,854**	2,558,697	(1,004,912)	**9,392,535**	4,063,547	(4,336,071)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**16,825,487**	12,391,139	11,014,663	**15,904,663**	11,671,952	10,626,525
Due from Bangko Sentral ng Pilipinas	**102,723,312**	108,743,985	127,337,861	**98,665,375**	105,497,459	123,799,952
Due from other banks	**21,003,079**	22,025,322	22,709,805	**10,459,496**	10,755,260	12,831,514
Interbank loans receivable	**10,580,432**	11,491,684	7,243,886	**10,581,083**	9,700,916	7,352,840
Securities held under agreements to resell	**20,700,000**	14,621,483	1,972,310	**20,700,000**	14,621,483	1,972,310
	171,832,310	169,273,613	170,278,525	**156,310,617**	152,247,070	156,583,141
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**30,500,927**	16,825,487	12,391,139	**29,642,159**	15,904,663	11,671,952
Due from Bangko Sentral ng Pilipinas	**105,981,801**	102,723,312	108,743,985	**101,801,597**	98,665,375	105,497,459
Due from other banks	**17,758,143**	21,003,079	22,025,322	**10,835,106**	10,459,496	10,755,260
Interbank loans receivable (Note 8)	**22,943,529**	10,580,432	11,491,684	**22,274,306**	10,581,083	9,700,916
Securities held under agreements to resell	**2,517,764**	20,700,000	14,621,483	**1,149,984**	20,700,000	14,621,483
	₱179,702,164	₱171,832,310	₱169,273,613	**₱165,703,152**	₱156,310,617	₱152,247,070
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱17,522,121**	₱8,151,979	₱5,317,161	**₱15,188,304**	₱6,768,648	₱4,617,444
Interest received	**49,063,648**	32,969,308	28,559,267	**43,948,726**	28,399,766	25,320,173
Dividends received	–	3,366	3,270	–	3,366	32,417

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

Notes to Financial Statements

Amounts in Thousand Pesos except When Otherwise Indicated

1. Corporate Information

Philippine National Bank (PNB or the Parent Company) is a universal bank established in the Philippines in 1916. On June 21, 1989, PNB's shares were listed with the Philippine Stock Exchange (PSE). As of December 31, 2019 and 2018, the shares of PNB are held by the following:

	2019	2018
LT Group, Inc. (LTG) (indirect ownership through its various holding companies)	**59.83%**	59.83%
PCD Nominee Corporation	**17.86%**	17.33%
Other stockholders owning less than 10% each	**22.31%**	22.84%
	100.00%	100.00%

PNB's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are also incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services, which include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, investment banking, treasury operations, fund transfers, remittance and trust services, through its 715 and 711 domestic branches as of December 31, 2019 and 2018, respectively. As of the same dates, the Parent Company has 71 overseas branches, representative offices, remittance centers and subsidiaries in 16 locations in Asia, North America and Europe.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, nonlife insurance, banking, leasing, stock brokerage, foreign exchange trading and/or related services. The Parent Company and the subsidiaries are collectively referred hereinto as the Group.

The principal place of business of the Parent Company is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines.

Merger with Allied Banking Corporation

On March 6, 2012, the respective shareholders of PNB and Allied Banking Corporation (ABC), another listed universal bank, representing at least 2/3 of the outstanding capital stock of both banks, approved the Plan of Merger of the two banks. Under the Plan of Merger, PNB will be the surviving entity and it will issue to ABC shareholders 130 PNB common shares for every ABC common share and 22.763 PNB common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013 (the acquisition date), PNB concluded its merger with ABC with a purchase consideration amounting to ₱41.5 billion, representing 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio above (Note 14). The fair value of the shares is the published price of the shares of PNB as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On March 2, 2017, the Bureau of Internal Revenue (BIR) issued a final confirmation ruling that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code).

In connection with the merger, the BSP gave certain incentives to PNB, which include, among others:

- recognition of the fair value adjustments in both books prepared under Philippine Financial Reporting Standards (PFRS) and Regulatory Accounting Principles (RAP);
- full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of its capital adequacy ratio (CAR).

2. Summary of Significant Accounting Policies

Basis of Preparation of the Financial Statements

The Group prepared the accompanying financial statements on a historical cost basis, except for the following accounts which are measured at fair value:

- financial assets and liabilities at fair value through profit or loss (FVTPL); and
- financial assets at fair value through other comprehensive income (FVOCI).

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in their Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is Philippine pesos (₱ or PHP) and United States Dollar (USD), respectively. The individual financial statements of these units are combined and any inter-unit accounts and transactions are eliminated.

The Group presents the amounts in the financial statements to the nearest thousand pesos (₱000), unless otherwise stated.

Statement of Compliance

The Group prepared these financial statements in accordance with PFRS.

Presentation of the Financial Statements

The Group presents the statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 24.

The Group generally presents financial assets and financial liabilities at their gross amounts in the statement of financial position, unless the offsetting criteria under PFRS are met. The Group does not also set off items of income and expenses, unless offsetting is required or permitted by PFRS, or is specifically disclosed in the Group's accounting policies.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. In the consolidation, the Group eliminates in full all significant intra-group balances, transactions, and results of intra-group transactions.

The Group consolidates its subsidiaries from the date on which the Group obtains control over the subsidiary. The Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., those existing rights that give the Group 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.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, such as contractual arrangements with other voting shareholders of the investee, rights arising from other contractual arrangements, or any potential voting rights of the Group.

For partially-owned subsidiaries, the Group attributes the subsidiary's income, expenses and components of other comprehensive income (OCI) to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of the NCI. NCI represents the portion of profit or loss and the net assets not held by the Group, which are presented separately in the consolidated financial statements. NCI consists of the amount attributed to such interest from the date of business combination and its share in any changes in equity of the subsidiary.

When the Group's ownership interest in a subsidiary changed but it did not result in a loss of control, the Group adjusts the carrying amounts of the controlling interests and the NCI to their new relative interests in the subsidiary. The Group recognizes any difference between the amount by which the NCI is adjusted and the fair value of the consideration paid or received directly in equity as 'Other equity adjustment', which is attributed to the owners of the Parent Company.

Consolidation of a subsidiary ceases when the Group loses control over the subsidiary. In such circumstances, the Group derecognizes the assets (including goodwill), liabilities, NCI, and other components of equity of the subsidiary, and recognizes the consideration received and any investment retained at their fair values. The Group records any resulting difference in the statement of income.

<u>Changes in Accounting Policies and Disclosures</u>
Starting January 1, 2019, the Group applied for the first time the following new and amended accounting standards and interpretations.

<u>New Standard and Interpretation</u>

- PFRS 16, *Leases*
  PFRS 16 supersedes Philippine Accounting Standards (PAS) 17, *Leases*, Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, Philippine Interpretation SIC-15, *Operating Leases–Incentives*, and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the statement of financial position.

  Group as lessor
  Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. The Group continues to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact on leases where the Group is the lessor.

  Group as lessee
  The Group adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the Group applied PFRS 16 retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the transition practical expedient to no longer reassess whether a contract is, or contains, a lease at January 1, 2019. Instead, the Group applied PFRS 16 only to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4 at January 1, 2019.

The Group has entered into property lease contracts for some of its branch and office premises. Before the adoption of PFRS 16, the Group classified each of its leases at the inception date as either a finance lease or an operating lease. Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets.

Refer to the significant accounting policies prior to and beginning January 1, 2019.

Leases previously accounted for as operating leases
The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:
- relied on its assessment of whether leases are onerous immediately before the date of initial application
- applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019, the Group and the Parent Company recognized the following accounts in the statement of financial position:

	Consolidated	**Parent Company**
Right-of-use assets (included under 'Property and equipment') (Note 11)	**₱1,817,349**	**₱1,600,161**
Lease liabilities (Note 29)	**1,859,717**	**1,642,529**
Accrued rent (under 'Accrued taxes, interest and other expenses')	**(42,368)**	**(42,368)**
Prepayments (under 'Other assets')	**(5,272)**	**(5,272)**

As of January 1, 2019, the weighted average incremental borrowing rate applied by the Group to the lease liabilities ranges from 4.75% to 8.06%. The lease liabilities as at January 1, 2019 can be reconciled to the operating lease commitments as at December 31, 2018, as follows:

	Consolidated	**Parent Company**
Operating lease commitments as at December 31, 2018	**₱2,784,650**	**₱2,115,826**
Commitments relating to:		
Leases of short-term and low-value assets	**(679,474)**	**(366,091)**
Renewal periods not included in operating lease commitments as at December 31, 2018	**15,149**	**–**
Total gross lease payments as of January 1, 2019	**2,120,325**	**1,749,735**
Incremental borrowing rate	**4.75% to 8.06%**	**8.06%**
Lease liabilities as at January 1, 2019	**₱1,859,717**	**₱1,642,529**

The adoption of PFRS 16 had no impact on the Group's Statement of income, comprehensive income, changes in equity and cash flows. It has also no material impact on the Group's CAR and Common Equity Tier 1 (CET1) ratio.

- Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatment*
  The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:
  - whether the Group considers uncertain tax treatments separately;
  - the assumptions the Group makes about the examination of tax treatments by taxation authorities;
  - how the Group determines taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
  - how the Group considers changes in facts and circumstances

  The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

  Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments. Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its financial statements. Based on its assessment and in consultation with its tax counsel, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the financial statements of the Group.

Amendments to Accounting Standards
The adoption of the following amendments and improvements to accounting standards as at January 1, 2019 did not have an impact on the financial statements of the Group:

- Amendments to PFRS 9, *Financial Instruments: Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits: Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures*
- Annual Improvements to PFRS 2015 to 2017 Cycle
  - PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements–Previously held interest in a joint operation*
  - PAS 12, *Income Taxes–Income tax consequence of payments on financial instruments classified as equity*
  - PAS 23, *Borrowing Costs–Borrowing costs eligible for capitalization*

Future Changes in Accounting Standards

Listed below are accounting standards and interpretations issued but not yet effective up to the date of issuance of the Group's financial statements. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on the financial statements.

Effective beginning on or after January 1, 2020

- Amendments to PFRS 3, *Business Combinations: Definition of a Business*
  The amendments clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. These amendments will apply to future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8*, Accounting Policies*, *Changes in Accounting Estimates and Errors: Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRS and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgments.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's approval)

- PFRS 17*, Insurance Contracts*
  PFRS 17 is comprehensive new accounting standard for insurance contracts, covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. PFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. On November 14, 2019, the International Accounting Standards Board (IASB) proposed to extend the effective date to January 1, 2022. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15. The Group is still assessing the impact of adopting this standard.

Deferred effectivity

- PFRS 10, *Consolidated Financial Statements*, and PAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
  The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

  On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Significant Accounting Policies

Business Combinations and Goodwill
The Group accounts for business combinations using the acquisition method. Under this method, the Group measures the acquisition cost as the aggregate of the fair value of the consideration transferred and any amount of NCI in the acquiree. The Group then allocates that cost to the acquired identifiable assets and liabilities based on their respective fair values. Any excess acquisition cost over the fair value of the net assets acquired is allocated to goodwill. If the fair value of the net assets acquired exceeds the acquisition cost, the gain is recognized in the statement of income.

The Group recognizes any acquisition-related costs as administrative expenses as they are incurred. The Group also recognizes any contingent consideration to be transferred by the acquirer at its fair value at the acquisition date.

After initial recognition, the Group measures goodwill at cost less any accumulated impairment losses. For the purpose of impairment testing, the Group allocates the goodwill acquired in a business combination to each of its cash-generating units (CGUs) that are expected to benefit from the business combination.

In business combinations involving entities under common control, the Group determines whether or not the business combination has commercial substance. When there is commercial substance, the Group accounts for the transaction using the acquisition method as discussed above. Otherwise, the Group accounts for the transaction similar to a pooling of interests (i.e., the assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values, and any resulting difference with the fair value of the consideration given is accounted for as an equity transaction).

Non-current Assets and Disposal Group Held for Sale and Discontinued Operations
The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such, non-current assets and disposal groups are measured at the lower of their carrying amounts and fair value less costs to sell (i.e., the incremental costs directly attributable to the sale, excluding finance costs and income taxes).

The Group regards the criteria for held for sale classification as met only when:

- the Group has initiated an active program to locate a buyer;
- the Group is committed to the plan to sell the asset or disposal group, which should be available for immediate sale in its present condition;
- the sale is highly probable (i.e, expected to happen within one year from the date of the classification); and
- actions required to complete the plan indicate that it is unlikely that the plan will be significantly changed or withdrawn.

The Group presents separately the assets and liabilities of disposal group classified as held for sale in the statement of financial position.

The Group classifies a disposal group as discontinued operation if it is a component of the Group that either has been disposed of, or is classified as held for sale, and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The Group excludes discontinued operations from the results of continuing operations and presents them as a single amount as profit or loss after tax from discontinued operations in the statement of income.

If the above criteria are no longer met, the Group ceases to classify the asset or disposal group as held for sale. In such cases, the Group measures such asset or disposal group at the lower of its:

- carrying amount before it was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had it not been classified as such; and
- recoverable amount at the date of the subsequent decision not to sell.

The Group also amends financial statements for the periods since classification as held for sale if the asset or disposal group that ceases to be classified as held for sale is a subsidiary, joint operation, joint venture, associate, or a portion of an interest in a joint venture or an associate. Accordingly, for all periods presented, the Group reclassifies and includes in income from continuing operations the results of operations of the asset or disposal group previously presented in discontinued operations.

Foreign Currency Translation
For financial reporting purposes, the Group translates all accounts in the FCDU books and foreign currency-denominated accounts in the RBU books into their equivalents in Philippine pesos. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements are measured using that functional currency.

Transactions and balances
As at reporting date, the Group translates the following foreign currency-denominated accounts in the RBU in Philippine peso using:

Financial statement accounts in RBU	Exchange rate
Monetary assets and liabilities	Bankers Association of the Philippines (BAP) closing rate at end of year
Income and expenses	Rate prevailing at transaction date
Non-monetary items measured at historical cost in a foreign currency	Rate at the date of initial transaction
Non-monetary items measured at fair value in a foreign currency	Rate at the date when fair value is determined

The Group recognizes in the statement of income any foreign exchange differences arising from revaluation of monetary assets and liabilities. For non-monetary items measured at fair values, the Group recognizes any foreign exchange differences arising from revaluation in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

FCDU and overseas branches and subsidiaries
As at the reporting date, the Group translates the assets and liabilities of the FCDU and overseas branches and subsidiaries in Philippine peso at the BAP closing rate prevailing at the reporting date, and their income and expenses at the average exchange rate for the year. Foreign exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. Upon disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

Insurance Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk, which is the risk of a possible future change in one or more of a specified interest rate, security or commodity price, foreign exchange rate, a credit rating or credit index, or other variables. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant.
All non-life insurance products issued by the Group meet the definitions of insurance contract.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirement.

Fair Value Measurement
Fair value is the price that the Group would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). The fair value measurement is based on the presumption that these transactions take place either:
- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The Group measures the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has both bid and ask prices, the Group uses the price within the bid-ask spread, which is the most representative of fair value in the circumstances.

For nonfinancial assets, the Group measures their fair value considering a market participant's ability to generate economic benefits by using an asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

Financial Instruments – Initial Recognition

Date of recognition

The Group recognizes purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace on settlement date (i.e., the date that an asset is delivered to or by the Group), while derivatives are recognized on trade date (i.e., the date that the Group commits to purchase or sell). The Group recognizes deposits, amounts due to banks and customers and loans when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

Financial Instruments – Classification and Subsequent Measurement

The Group classifies and measures financial assets at FVTPL unless these are measured at FVOCI or at amortized cost. The classification of financial assets depends on the contractual terms and the business model for managing those financial assets.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test ('solely payments of principal and interest' or SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

For financial liabilities, the Group classifies them as either financial liabilities at FVTPL or financial liabilities at amortized cost.

Financial assets at FVTPL

Financial assets at FVTPL include the following:

- Financial assets held for trading–those acquired for the purpose of selling or repurchasing in the near term;
- Derivative instruments–contracts entered into by the Group (such as currency forwards, currency swaps, interest rate swaps and warrants) as a service to customers and as a means of reducing or managing their respective financial risk exposures, as well as for trading purposes;
- Financial assets that are not SPPI, irrespective of the business model; or
- Debt financial assets designated upon initial recognition at FVTPL – those assets where the Group applied the fair value option at initial recognition if doing so eliminates or significantly reduces an accounting mismatch

The Group carries financial assets at FVTPL in the statement of financial position at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. The Group recognizes any gains or losses arising from changes in fair values of financial assets at FVTPL directly in the statement of income under 'Trading and investment securities gains - net', except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities, which are subsequently measured at fair value. The Group recognizes the unrealized gains and losses arising from the fair valuation of financial assets at FVOCI, net of tax, in the statement of comprehensive income as 'Change in net unrealized loss on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions:
- the asset is held within a business model whose objective is to hold the financial asset in order to both collect contractual cash flows and sell the financial asset; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

The Group reports the effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, in the statement of income. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The Group recognizes the expected credit losses (ECL) arising from impairment of such financial assets in OCI with a corresponding charge to 'Provision for impairment, credit and other losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. The Group recognizes the dividends earned on holding the equity securities at FVOCI in the statement of income when the right to payment has been established. Gains and losses on disposal of these equity securities at FVOCI are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the OCI is reclassified to 'Surplus' or any other appropriate equity account upon disposal. The Group does not subject equity securities at FVOCI to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions:
- the asset is held within a business model whose objective is to hold the financial asset in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount.

This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', 'Investment securities at amortized cost', and 'Loans and receivables'.

The Group subsequently measures financial assets at amortized cost using the effective interest method of amortization, less allowance for credit losses. The Group includes the amortization in 'Interest income', and the ECL arising from impairment of such financial assets in 'Provision for impairment, credit and other losses' in the statement of income.

Policies on subsequent measurement of financial instruments affecting the 2017 financial statements
Prior to its adoption of PFRS 9 in January 1, 2018, the Group classified certain investment securities as available-for-sale (AFS) investments, which was the residual classification of financial assets under previous accounting policies. The Group recognized the unrealized gains and losses arising from the fair valuation of AFS investments, net of tax, in OCI, which is similar to the treatment of fair value changes of financial assets at FVOCI under PFRS 9. However, unlike financial assets at FVOCI, when the securities are disposed of, the Group recognized the cumulative gain or loss of AFS investments previously recognized in OCI as 'Trading and investment securities gains - net' in the statement of income, regardless whether the AFS investment is a debt or an equity security. The Group also subjected both AFS debt and equity securities to impairment assessment.

Subsequent measurement of loans and receivables and held-to-maturity (HTM) investments under PAS 39 were similar to that of financial assets at amortized cost under PFRS 9 (i.e., using effective interest method of amortization and subject to impairment). Further, there was no change in the subsequent measurement of financial assets at FVTPL from PAS 39 to PFRS 9, where all changes in fair values are recognized directly in the statement of income.

Financial liabilities at amortized cost
The Group classifies issued financial instruments or their components which are not designated at FVTPL, as financial liabilities at amortized cost under 'Deposit liabilities', 'Bills and acceptances payable', 'Bonds payable' or other appropriate financial liability accounts. The substance of the contractual arrangement for these instruments results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

The Group subsequently measures financial liabilities at amortized cost using the effective interest method of amortization.

Repurchase and reverse repurchase agreements
The Group does not derecognize from the statement of financial position securities sold under agreements to repurchase at a specified future date ('repos'). Instead, the Group recognizes the corresponding cash received, including accrued interest, as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, the Group does not recognize securities purchased under agreements to resell at a specified future date ('reverse repos'). The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The Group recognizes the corresponding cash paid, including accrued interest, as a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Reclassification of financial instruments
Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in the business models for managing these financial assets. Reclassification of financial liabilities is not allowed.

Financial Instruments – Derecognition

Financial assets

The Group derecognizes a financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) when:

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

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the Group recognizes the asset only to the extent of its continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

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

Financial Instruments – Impairment

ECL methodology

The Group's loss impairment method on financial instruments applies a forward-looking ECL approach, which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial instrument since origination (12-month ECL). Otherwise, if an SICR is observed, then the Group extends its ECL estimation until the end of the life of the financial instrument (Lifetime ECL). Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Staging assessment

The Group categorizes financial instruments subject to the ECL methodology into three stages:

- Stage 1 – comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Group recognizes 12-month ECL for Stage 1 financial instruments.
- Stage 2 – comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Group recognizes Lifetime ECL for Stage 2 financial instruments.
- Stage 3 – comprised of financial instruments which have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on their estimated future cash flows. The Group recognizes Lifetime ECL for Stage 3 (credit-impaired) financial instruments.

Definition of "default" and "cure"
The Group considers default to have occurred when:
- the obligor is past due for more than 90 days on any material credit obligation to the Group; or
- the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable.

The Group no longer considers an instrument to be in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining SICR
At each reporting date, the Group assesses whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at both the qualitative and quantitative elements, as well as if the loan or credit exposure is unpaid for at least 30 days ("backstop").

The Group assesses SICR on loans or credit exposures having potential credit weaknesses based on current and/or forward-looking information that warrant management's close attention. Such weaknesses, if left uncorrected, may affect the repayment of these exposures. The loan or credit exposure also exhibits SICR if there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

The Group looks at the quantitative element through statistical models or credit ratings process or scoring process that captures certain information, which the Group considers as relevant in assessing changes in credit risk. The Group also looks at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Transfer between stages
The Group transfers credit exposures from Stage 1 to Stage 2 if there is an SICR from initial recognition date. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, then the Group reverts them to Stage 1.

The Group transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both of the following indicators:
- quantitative – characterized by payments made within an observation period; and
- qualitative – pertain to the results of assessment of the borrower's financial capacity.

Generally, the Group considers that full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or restructured loans and other credit exposures
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. Such modifications can be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If a loan or credit exposure has been renegotiated or modified, and was not derecognized, the Group shall assess whether there has been a SICR by comparing the risk of default at reporting date based on modified terms, and the risk of default at initial recognition date based on original terms.

Purchased or originated credit-impaired loans
The Group considers a loan as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i.e., acquired/purchased at a deep discounted price). The Group recognizes the cumulative changes in Lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL
ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) – an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Loss-given-default (LGD) – an estimate of the loss arising in case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Group would expect to receive, including from any collateral.
- Exposure-at-default (EAD) – an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Discount rate – represents the rate to be used to discount an expected loss to present value at the reporting date using the original effective interest rate (EIR) determined at initial recognition.

In measuring ECL, the Group considers forward-looking information depending on the credit exposure. The Group applies experienced credit judgment, which is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported. Forward-looking macroeconomic information and scenarios consider:

- factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, among others;
- changes in government policies, rules and regulations, such as adjustments to policy rates;
- other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults or losses.

The Group also measures ECL by evaluating a range of possible outcomes and using reasonable and supportable pieces of information that are available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Policies on impairment of financial instruments affecting the 2017 financial statements
Prior to adoption of PFRS 9 on January 1, 2018, the Group applied the incurred loss approach by assessing impairment only when there had been an objective evidence of impairment, such as indications that the borrower was experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicated that there was measurable decrease in the estimated future cash flows.

For financial assets carried at amortized cost (such as loans and receivables and HTM investments), AFS debt securities, and reinsurance assets, the Group first assessed impairment for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If there was an objective evidence of incurred impairment, the Group measured the amount of the impairment loss as the difference between the asset's carrying amount and the present value of the estimated future cash flows computed using the financial asset's original EIR. If the Group determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it included the asset in a group of financial assets with similar credit risk characteristics (such as internal credit risk rating, collateral type, past-due status or term) and collectively assessed them for impairment based on historical loss experience.

The methodology and assumptions used by the Group for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The Group assessed for impairment its consumer loans and credit card receivables on a collective basis using a net flow rate methodology. Net flow tables were derived from account-level monitoring of monthly movements between different stage buckets, from one-day past due to 180-days past due. The net flow rate methodology relied on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The Group then computed the gross provision based on the outstanding balances of the receivables as of the reporting date and the net flow rates were determined for the current and each delinquency bucket.

For AFS equity securities, the Group assessed impairment whether there was a significant or prolonged decline in the fair value of the investments below their cost. The Group treated 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluated other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. When there was evidence of impairment, the Group excludes the cumulative loss on the AFS equity securities from OCI and recognized them in the statement of income. The Group did not reverse impairment losses on AFS equity securities through the statement of income and any increases in fair value after impairment were recognized directly in OCI.

Financial Guarantees and Undrawn Loan Commitments

The Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees are contracts that require the Group as issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. The Group initially recognizes financial guarantees on trade receivables at fair value under 'Bills and acceptances payable' or 'Other liabilities' in the statement of financial position. Subsequent to initial recognition, the Group measures these financial guarantees at the higher of:

- the initial fair value less any cumulative amount of income or amortization recognized in the statement of income; and
- the ECL determined under PFRS 9.

Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

The Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized in ‘Miscellaneous liabilities’ under ‘Other liabilities’.

Investments in Subsidiaries in the Parent Company Financial Statements
In the separate financial statements of the Parent Company, the Parent Company accounts for its investments in subsidiaries under the equity method of accounting as discussed below.

Investment in an Associate
The Group’s associate pertains to the entity over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group accounts for its investment in an associate under the equity method of accounting. Under this method, the Group carries the investment in an associate in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associate. The Group reflects its share in the results of operations of the associate in the statement of income. When there has been a change recognized in the associate’s OCI, the Group recognizes its share in any changes and discloses this in the statement of comprehensive income. The Group eliminates any profits or losses arising from transactions between the Group and the associate to the extent of the interest of the Group in the associate.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any resulting difference between the aggregate of the associate’s carrying amount upon disposal and the fair value of the retained investment, and proceeds from disposal is recognized in the statement of income.

Property and Equipment
The Group carries its land at cost less any impairment in value, and its depreciable properties such as buildings, right-of-use assets, furniture, fixtures and equipment, long-term leasehold land, and leasehold improvements at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. See accounting policy on Leases for the recognition and measurement of right-of-use assets included under ‘Property and equipment’.

The Group derecognizes an item of property and equipment upon disposal or when no future economic benefits are expected from its use or disposal. The Group includes any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) in the statement of income in the period the asset is derecognized.

Investment Properties and Chattel Mortgage Properties
The Group initially measures investment properties and chattel mortgage properties initially at cost, including transaction costs. When the investment property or chattel mortgage property is acquired through an exchange transaction, the Group measures the asset at its fair value, unless the fair value of such an asset cannot be reliably measured in which case the asset acquired is measured at the

carrying amount of asset given up. The Group recognizes any gain or loss on exchange in the statement of income under ‘Miscellaneous income’.

Foreclosed properties are classified under ‘Investment properties’ upon:
- entry of judgment in case of judicial foreclosure;
- execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, the Group carries the investment properties and chattel mortgage properties at cost less accumulated depreciation (for depreciable properties) and any impairment in value.

The Group derecognizes investment properties and chattel mortgage properties when they have either been disposed of or when the asset is permanently withdrawn from use and no future benefit is expected from its disposal. The Group recognizes any gains or losses on the retirement or disposal of an investment property in the statement of income under ‘Net gain on sale or exchange of assets’ in the period of retirement or disposal.

The Group transfers assets to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Conversely, the Group transfers out of investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Intangible Assets

The Group initially measures separately acquired intangible assets at cost, and the intangible assets acquired in a business combination at their fair values at the date of acquisition. Following initial recognition, the Group carries intangible assets at cost less any accumulated amortization and accumulated impairment losses. The Group does not capitalize internally generated intangibles, excluding capitalized development costs, and reflects in profit or loss the related expenditures in the period in which the expenditure is incurred.

The Group measures any gains or losses arising from derecognition of an intangible asset as the difference between the net disposal proceeds and the carrying amount of the asset. The Group recognizes these gains or losses in the statement of income in the period when the intangible asset is disposed of.

Intangibles with finite lives

The Group capitalizes software costs, included in ‘Intangible assets’, on the basis of the cost incurred to acquire and bring to use the specific software.

Customer relationship intangibles (CRI) and core deposits intangibles (CDI) are the intangible assets acquired by the Group through business combination. The Group initially measures these intangible assets at their fair values at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, intangibles with finite lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Goodwill
The Group initially measures goodwill acquired in a business combination at cost. With respect to investments in an associate, the Group includes goodwill in the carrying amount of the investments. Goodwill is not amortized, but is tested for impairment annually or more frequently if events or changes in circumstances that the carrying value may be impaired.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangible assets with finite lives, chattel mortgage properties, and investments in subsidiaries and an associate may be impaired. When an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the Group considers the asset as impaired and writes the asset down to its recoverable amount. In assessing value in use, the Group discounts the estimated future cash flows to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Group charges the impairment loss against current operations. At each reporting date, the Group assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the recoverable amount and reverses a previously recognized impairment loss only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal recognized in the statement of income cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. After such reversal, the Group adjust the depreciation and amortization in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Goodwill
The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

The Group determines impairment for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), the Group recognizes an impairment loss immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Nonlife Insurance Contract Liabilities
The Group recognizes insurance contract liabilities when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
The Group estimates outstanding claims provisions based on the ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The Group does not discount the liability for the time value of money and includes any provision for IBNR claims. The Group does not also recognize provision for equalization or catastrophic reserves. The Group derecognizes the liability when the contract is discharged or cancelled, and has expired.

Provision for unearned premiums
The Group defers as provision for unearned premiums the proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired. The Group accounts for the portion of the premiums written that relate to the unexpired periods of the policies at the reporting date as provision for unearned premiums and presented under 'Insurance contract liabilities' as part of 'Other liabilities' in the consolidated statement of financial position. Any change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. The Group makes further provisions to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test
At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to 'Loans and receivables'.

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability will be withheld and included as part of 'Other liabilities' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Costs (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized using the 24th method, except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to 'Service fees and commission expense' in the consolidated statement of income.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Equity
The Group measures capital stock at par value for all shares issued and outstanding. When the shares are sold at a premium, the Group credits the difference between the proceeds and the par value to 'Capital paid in excess of par value'. 'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

The reserves recorded in equity in the statement of financial position include:
- Remeasurement losses on retirement plan – pertains to the remeasurement comprising actuarial gains or losses on the present value of the defined benefit obligation, net of return on plan assets
- Accumulated translation adjustment – used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e., overseas branches and subsidiaries) to Philippine peso
- Net unrealized gain (loss) on financial assets at FVOCI – comprises changes in fair value of financial assets at FVOCI

Dividends
The Group recognizes dividends on common shares as a liability and deduction against 'Surplus' when approved by the Board of Directors (BOD) of the Parent Company. For dividends that are approved after the reporting date, the Group discloses them in the financial statements as an event after the reporting date.

Securities Issuance Costs
The Group capitalizes the issuance, underwriting and other related expenses incurred in connection with the issuance of debt securities (other than debt securities designated at FVTPL) and amortizes over the terms of the instruments using the effective interest method. The Group includes any unamortized debt issuance costs in the carrying value of the related debt instruments in the statement of financial position.

For underwriting, share registration, and other share issuance costs and taxes incurred in connection with the issuance of equity securities, the Group accounts for these costs as reduction of equity against 'Capital paid in excess of par value'. If the 'Capital paid in excess of par value' is not sufficient, the share issuance costs are charged against the 'Surplus'. For transaction costs that relate jointly to the offering and listing of the shares, the Group allocates the costs to those transactions (i.e., reduction against equity for those allocated to offering of shares, and expensed for those allocated to listing of shares) using a basis of allocation that is rational and consistent with similar transactions.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15, *Revenue from Contracts with Customers*, effective January 1, 2018, revenue is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers:

- Fees from services that are provided over a certain period of time
  The Group accrues fees earned for the provision of services over a period of time. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees.

- Bancassurance fees
  The Group recognizes non-refundable access fees on a straight-line basis over the term of the period of the provision of the access. Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

- Fee income from providing transaction services
  The Group recognizes the fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, only upon completion of the underlying transaction. For fees or components of fees that are linked to a certain performance, the Group recognizes revenue after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees.

  The Group recognizes loan syndication fees as revenue when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

The Group assessed that there is no difference in accounting for the above service fees and commission income under PFRS 15 and PAS 18.

Interchange fees and revenue from rewards redeemed
The Group takes up as income the interchange fees under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

Prior to January 1, 2018, the Group allocates the consideration received between the discounts earned, interchange fee and the loyalty points earned, with the consideration allocated to the loyalty points equal to its fair value. The fair value is determined by applying statistical analysis. The Group then defers the fair value of the points issued and recognizes revenue only when the loyalty points are redeemed or have expired.

Effective January 1, 2018, the Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The Group defers the amount allocated to the loyalty program and recognizes revenue only when the loyalty points are redeemed or the likelihood of the credit cardholder redeeming the loyalty points becomes remote. The Group includes the deferred balance under 'Other liabilities' in the statement of financial position.

Commissions on credit cards
The Group recognizes commissions earned as revenue upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Other income
The Group recognizes income from sale of properties upon completion of the earning process (i.e., upon transfer of control under PFRS 15 and transfer of risks and rewards under PAS 18) and when the collectability of the sales price is reasonably assured.

The following are revenue streams of the Group, which are covered by accounting standards other than PFRS 15:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as financial assets at FVOCI/AFS investments, the Group records interest income using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. In calculating EIR, the Group considers all contractual terms of the financial instrument (for example, prepayment options), and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The Group adjusts the carrying amount of the financial instrument through 'Interest income' in the statement of income based on the original EIR.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, the

Group continues to recognize interest income using the original EIR applied to the new carrying amount.

Commitment fees
The Group defers the commitment fees for loans that are likely to be drawn down (together with any incremental costs) and includes them as part of the EIR of the loan. These are amortized using EIR and recognized as revenue over the expected life of the loan.

Commissions on installment credit sales
The Group records the purchases by the credit cardholders, collectible on installment basis, at the cost of the items purchased plus certain percentage of cost. The Group recognizes the excess over cost as 'Unearned and other deferred income', which is shown as a deduction from 'Loans and receivables' in the statement of financial position. The Group amortizes and recognizes as revenue the unearned and other deferred income over the installment terms using the effective interest method.

Insurance premiums and commissions on reinsurance
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. The Group recognizes premiums from short-duration insurance contracts and reinsurance commissions as revenue over the period of the contracts using the 24th method, except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The Group recognizes in the statement of income for the period the net changes in provisions for unearned premiums and deferred reinsurance premiums.

Dividend income
The Group recognizes dividend income when the Group's right to receive payment is established.

Trading and investment securities gains - net
The Group recognizes in 'Trading and investment securities gains - net' the results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL, and gains and losses from disposal of debt securities at FVOCI (under PFRS 9) and AFS investments (under PAS 39).

Rental income
The Group accounts for rental income arising on leased properties on a straight-line basis over the lease terms of ongoing leases, which is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
The Group recognizes income on direct financing leases and receivables financed using the effective interest method and any unearned discounts are shown as deduction against 'Loans and receivables' . Unearned discounts are amortized over the term of the note or lease using the effective interest method and consist of:

- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Expenditures

Operating expenses

This encompasses those expenses that arise in the course of the ordinary activities of the Group, as well as any losses incurred. These are recognized in the statement of income as they are incurred.

Taxes and licenses

This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Depreciation and amortization

The Group computes for depreciation and amortization of depreciable assets using the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives of the depreciable assets follow:

	Years
Property and equipment:	
Buildings	25 - 50
Right-of-use assets	More than 1 - 25 or the lease term, whichever is shorter (provided that lease term is more than one year)
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter
Investment properties	10 - 25
Chattel mortgage properties	5
Intangible assets with finite lives:	
Software costs	5
CDI	10
CRI	3

The Group reviews periodically the useful life and the depreciation and amortization method to ensure that these are consistent with the expected pattern of economic benefits from the depreciable assets. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the depreciation and amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Expenditures on nonfinancial assets

The Group charges against current operations the expenditures incurred after the nonfinancial assets (i.e., property and equipment, investment properties, software costs, and chattel mortgage properties) have been put into operation, such as repairs and maintenance. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of these nonfinancial assets beyond their originally assessed standard of performance, the Group capitalizes such expenditures as additional cost.

Borrowing costs

The Group recognizes borrowing costs as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method that the Group incurs in connection with borrowing of funds.

Retirement Benefits

Defined benefit plan

At the end of the reporting period, the Group determines its net defined benefit liability (or asset) as the difference between the present value of the defined benefit obligation and the fair value of plan assets, adjusted for any effect of asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs recognized in the statement of income consist of the following:

- service costs – include current service costs, past service costs (recognized when plan amendment or curtailment occurs) and gains or losses on non-routine settlements; and
- net interest on the net defined benefit liability or asset – pertains to the change during the period in the net defined benefit liability (or asset) that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Changes in the net defined benefit liability (or asset) also include remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling, excluding net interest on defined benefit liability (or asset). The Group recognizes theses remeasurements immediately in OCI in the period in which they arise. The Group does not reclassify these remeasurements to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies, and are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group recognizes its right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

The Group recognizes entitlements of employees to annual leave as a liability when they are accrued to the employees. The Group recognizes the undiscounted liability for leave expected to be settled wholly before 12 months after the end of the reporting period for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than 12 months after the reporting date, the Group engages an actuary to estimate the long-term liability, which is reported in ‘Accrued taxes, interest and other Expenses’ in the statement of financial position.

Share-based Payment

Employees of the Parent Company receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The Parent Company determines the cost of equity-settled transactions at fair value at the date when the grant is made, and recognizes as ‘Compensation and fringe benefits’, together with a corresponding increase in equity (‘Other equity reserves’), over the period in which the service is fulfilled. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Parent Company’s best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the period.

Leases
Policies applicable effective January 1, 2019
The Group determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

- Right-of-use assets
  At the commencement date of the lease (i.e, the date the underlying asset is available for use), the Group recognizes right-of-use assets measured at cost. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Subsequent to initial recognition, the Group measures the right-of-use assets at cost less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

  The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets.

- Lease liabilities
  At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term discounted using the Group's incremental borrowing rate, which is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The lease payments include fixed payments, any variable lease payments that depend on an index or a rate, and any amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs.

  After the commencement date of the lease, the Group measures the lease liabilities by increasing the carrying amount to reflect interest on the lease liabilities (recorded in 'Interest expense on bills payable and other borrowings'), reducing the carrying amount to reflect the lease payments made, and remeasuring the carrying amount to reflect any reassessment or lease modifications, or to reflect revised in-substance fixed lease payments.

- Short-term leases and leases of low-value assets
  The Group applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and the leases of low-value assets recognition exemption to its leases of ATM offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term

leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related costs' on a straight-line basis over the lease term.

Group as a lessor
For finance leases where the Group transfers substantially all the risks and rewards incidental to ownership of the leased item, the Group recognizes a lease receivable in the statement of financial position at an amount equivalent to the net investment (asset cost) in the lease. The Group includes all income resulting from the receivable in 'Interest income on loans and receivables' in the statement of income.

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

In operating leases where the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset, the Group recognizes rental income on a straight-line basis over the lease terms. The Group adds back the initial direct costs incurred in negotiating and arranging an operating lease to the carrying amount of the leased asset and recognizes them as rental income over the lease term on the same basis. The Group recognizes contingent rents as revenue in the period in which they are earned.

Policies applicable prior to January 1, 2019
In determining whether an arrangement was, or contained a lease, the Group assessed the substance of the arrangement whether the fulfillment of the arrangement was dependent on the use of a specific asset or assets, and the arrangement conveyed a right to use the asset. After inception of the lease, the Group reassessed the above basis only if one of the following applies:

- there is a change in contractual terms, other than a renewal or extension of the arrangement;
- there is a change in the determination of whether fulfillment is dependent on a specified asset;
- there is a substantial change to the asset; or
- a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term.

Where a reassessment was made, the Group commenced or ceased its lease accounting from the date when the change in circumstances gave rise to the reassessment for first three scenarios above, and at the date of renewal or extension period for last scenario above.

Group as lessee
At the inception of the lease, the Group capitalized finance leases, which are lease arrangements that transfer to the Group substantially all the risks and rewards incidental to ownership of the leased item, at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The Group included the amounts capitalized in 'Property and equipment' with the corresponding liability to the lessor included in 'Other liabilities'. The Group apportioned the lease payments between the finance charges (recorded in 'Interest expense on bills payable and other borrowings') and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability.

The Group depreciated the leased assets over the shorter of the estimated useful lives of the assets or the respective lease terms, if there was no reasonable certainty that the Group will obtain ownership by the end of the lease term.

For operating leases where the lessor retained substantially all the risks and rewards of ownership of the asset, the Group recognized the lease payments as expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Policies for lessor accounting under PAS 17 are substantially similar with those under PFRS 16, as described above.

Provisions
The Group recognizes provisions when:
- the Group has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the Group recognizes the reimbursement as a separate asset but only when the reimbursement is virtually certain. The Group presents the expense relating to any provision in the statement of income, net of any reimbursement.

If the effect of the time value of money is material, the Group determines provisions by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. When discounting is used, the Group recognizes the increase in the provision due to the passage as 'Interest expense on bills payable and other borrowings'.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes
Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax
The Group measures current tax assets and liabilities for the current periods at the amount expected to be recovered from or paid to the taxation authorities using the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Deferred tax
The Group provides for deferred tax using the balance sheet liability method on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The Group recognizes deferred tax liabilities for all taxable temporary differences, including asset revaluations. The Group recognizes deferred tax assets for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The Group, however, does not recognize deferred tax on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The Group does not also provide deferred tax liabilities on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries, the Group does not recognize deferred tax liabilities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets at each reporting date and reduces the recognized amount to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. The Group reassesses unrecognized deferred tax assets at each reporting date and recognizes amounts to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

The Group measures deferred tax assets and liabilities at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

For current and deferred tax relating to items recognized directly in OCI, the Group recognizes them also in OCI and not in the statement of income.
In the consolidated financial statements, the Group offsets deferred tax assets and liabilities if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Earnings per Share
The Group computes for the basic earnings per share (EPS) by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, after giving retroactive effect to any bonus issue, share split or reverse share split during the period.

The Group computes for the diluted EPS by dividing the aggregate of net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period, adjusted for the effects of any dilutive shares.

Events after the Reporting Date
The Group reflects in the financial statements any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event). The Group discloses post-year-end events that are not adjusting events, if any, when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

Fiduciary Activities
The Group excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customers, where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts and disclosures. The Group continually evaluates judgments and estimates and uses as basis its historical experience and other factors, including expectations of future events. The Group reflects the effects of any changes in estimates in the financial statements as they become reasonably determinable.

Judgments

(a) *Classification of financial assets (applicable effective January 1, 2018)*
The Group classifies its financial assets depending on the results of the SPPI test and on the business model used for managing those financial assets.

When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

As a second step, the Group performs business model assessment to reflect how financial assets are managed in order to generate net cash inflows based on the following factors:
- business objectives and strategies for holding the financial assets;
- performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets;
- risks associated to the financial assets and the tools applied in managing those risks;
- compensation structure of business units, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions; and
- frequency and timing of disposals.

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

(b) *Fair valuation of financial instruments*
When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, the Group uses valuation techniques and mathematical models (Note 5). The Group derives the inputs to these models from observable markets where possible, otherwise, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer-dated derivatives.

(c) *Determination of lease term for lease contracts with renewal and termination options (applicable effective January 1, 2019)*
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

(d) *Classification of leases (applicable prior to January 1, 2019)*
In arrangements that are, or contain, leases, the Group determines based on an evaluation of the terms and conditions of the arrangements whether or not the lessor retains all the significant risks and rewards of ownership of the properties which are leased out.

In classifying such arrangements as operating leases, the Group considers the following:
- the lease does not transfer ownership of the asset to the lessee by the end of the lease term;
- the lessee has no option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option is exercisable;
- the present value of the minimum lease payments is substantially lower than the fair value of the leased asset;
- the losses associated with any cancellation of the lease are borne by the lessor; and
- the lease term is not for the major part of the asset's economic useful life.

When the above terms and provisions do not apply, the Group classifies the lease arrangements as finance leases.

(e) *Contingencies*
The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 34).

(f) *Determination of functional currency*
PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires the Group to use its judgment to determine the functional currency of the Group, including its foreign operations, such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to each entity or reporting unit.

In making this judgment, the Group considers the following:
- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);

- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Estimates

(a) *Credit losses on financial assets effective January 1, 2018*

The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. The Group considers the following elements of the ECL models, among others, as significant accounting judgments and estimates:

- segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively;
- quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages;
- determination of expected life of the financial asset and expected recoveries from defaulted accounts;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs; and
- selection of forward-looking information and determination of probability-weightings to derive the ECL.

Refer to Note 16 for the details of the carrying value of financial assets subject to ECL and for the details of the ECL.

(b) *Credit losses on loans and receivables prior to January 1, 2018*

The Group reviews its impaired loans and receivables on a quarterly basis to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by the management is required in the estimating the amount and timing of future cash flows to determine the required level of allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The Group takes into account the latest available information of the borrower's financial condition, industry risk and market trends.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Refer to Note 16 for the details of the provision for credit losses recognized in 2017.

(c) *Recognition of deferred tax assets*

Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the availability of future taxable income in reference to financial forecast and tax strategies. The Group takes into consideration the loan portfolio and deposit growth rates .

(d) *Present value of lease liabilities (applicable effective January 1, 2019)*
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate to measure lease liabilities. The incremental borrowing rate reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency).

The Group estimates the incremental borrowing rate using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the subsidiary's stand-alone credit rating, or to reflect the terms and conditions of the lease).

The carrying amount of lease liabilities as of December 31, 2019 is disclosed in Note 29.

(e) *Present value of retirement obligation*
The Group determines the cost of defined benefit pension plan and other post-employment benefits using actuarial valuations, which involve making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The Group reviews all assumptions at each reporting date.

The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases are based on the Group's policy considering the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the Group estimates the fair value of plan assets by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 28.

(f) *Impairment of nonfinancial assets*
The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the Parent Company considers the following triggers for an impairment review on its investments in subsidiaries and an associate:
- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its property and equipment, investment properties and chattel properties, and intangibles with finite useful lives and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value-in-use (VIU), which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The VIU calculation is most sensitive to the following assumptions: production volume, price, exchange rates, capital expenditures, and long-term growth-rates.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties, intangible assets, and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(g) Impairment of goodwill
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support its carrying value. The recoverable amount of the CGU is determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period. The assumptions used in the calculation of VIU are sensitive to estimates of future cash flows from business, interest margin, discount rate, long-term growth rate (derived based on the forecast local gross domestic product) used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining VIU are disclosed in Note 14.

(h) Valuation of insurance contracts
For insurance contracts, the Group estimates both for the expected ultimate cost of claims reported and the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

In estimating the cost of notified and IBNR claims, the Group uses past claims settlement trends as primary technique to predict future claims settlement trends. At each reporting date, the Group assesses the estimates for adequacy and charges to provision any changes made to the estimates.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Note 22.

4. **Financial Risk Management Objectives and Policies**

Introduction
The Parent Company's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. As delegated by the BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by senior management. Details of the Parent Company's risk framework are discussed under the Risk Management Disclosure Section of the Parent Company's annual report.

The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either a ₱13.3 billion increase in risk weighted assets or a ₱1.7 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2019-2021, these are based on the following nine (11) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the ICAAP Document and required for monitoring.

Types and definition of each of these risks are discussed hereunder:

Pillar 1 Risks:
1. Credit Risk (includes Counterparty and Country Risks)
2. Market Risk
3. Operational Risk

Pillar 2 Risks:
4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.

The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk

Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:

- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the CAR report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
    a. portfolio growth
    b. movement of loan portfolio
    c. adequacy of loan loss reserves
    d. trend of nonperforming loans (NPLs)
    e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan. The loan portfolio is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions.

Credit-related commitments

The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.

To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2019			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱2,517,764**	**₱2,517,745**	**₱396**	**₱2,517,368**
Loans and receivables:				
Receivables from customers*:				
Corporates	**540,584,483**	**287,490,436**	**378,128,173**	**162,456,310**
Local government units (LGU)	**6,728,852**	**130,000**	**6,694,295**	**34,557**
Credit Cards	**14,264,195**	**–**	**14,264,195**	**–**
Retail small and medium enterprises (SME)	**18,942,720**	**28,248,029**	**5,493,593**	**13,449,127**
Housing Loans	**32,017,146**	**28,804,731**	**12,632,623**	**19,384,523**
Auto Loans	**12,861,345**	**13,687,982**	**9,681,175**	**3,180,170**
Others	**10,897,481**	**18,435,894**	**2,778,469**	**8,119,012**
Other receivables	**20,973,257**	**5,515,162**	**18,278,171**	**2,695,086**
	₱659,787,243	**₱384,829,979**	**₱447,951,090**	**₱211,836,153**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated 2018			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱20,700,000	₱19,947,247	₱752,753	₱19,947,247
Loans and receivables:				
Receivables from customers*:				
Corporates	471,254,760	349,173,297	413,164,650	58,090,110
LGU	6,849,595	203,000	6,646,595	203,000
Credit Cards	12,336,487	–	12,336,487	–
Retail SME	11,079,479	19,751,481	5,448,270	5,631,209
Housing Loans	32,569,910	32,010,871	12,442,493	20,127,417
Auto Loans	11,511,890	10,948,300	8,409,930	3,101,960
Others	16,995,348	13,688,546	12,984,529	4,010,819
Other receivables	23,419,669	11,841,204	12,645,429	10,774,240
	₱606,717,138	₱457,563,946	₱484,831,136	₱121,886,002

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent Company 2019			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱1,149,984**	**₱1,149,588**	**₱396**	**₱1,149,588**
Loans and receivables:				
Receivables from customers:				
Corporates	**528,998,204**	**265,980,283**	**377,651,021**	**151,347,183**
LGU	**6,728,852**	**130,000**	**6,694,295**	**34,557**
Credit Cards	**14,264,195**	–	**14,264,195**	–
Retail SME	**12,028,359**	**13,133,414**	**4,955,295**	**7,073,064**
Housing Loans	**3,772,739**	**2,090,860**	**2,511,743**	**1,260,996**
Auto Loans	**2,710,244**	**2,743,755**	**1,079,259**	**1,630,985**
Others	**3,910,134**	**13,656,194**	**1,079,543**	**2,830,591**
Other receivables	**14,833,169**	**5,515,162**	**12,138,083**	**2,695,086**
	₱588,395,880	**₱304,399,256**	**₱420,373,830**	**₱168,022,050**

	Parent Company 2018			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱20,700,000	₱19,947,247	₱752,753	₱19,947,247
Loans and receivables:				
Receivables from customers:				
Corporates	453,054,812	323,072,021	409,334,975	43,719,837
LGU	6,849,595	203,000	6,646,595	203,000
Credit Cards	12,336,487	–	12,336,487	–
Retail SME	7,240,249	6,387,250	4,993,424	2,246,825
Housing Loans	1,569,098	1,405,724	1,469,991	99,107
Auto Loans	433	4,074	–	433
Others	13,487,060	13,480,147	9,557,934	3,929,126
Other receivables	16,461,540	11,835,919	5,692,585	10,768,955
	₱531,699,274	₱376,335,382	₱450,784,744	₱80,914,530

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Group constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   For each CRR, the Parent Company sets limits per client or counterparty based on the regulatory Single Borrowers Limit.

   For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration
   The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated			
	2019			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱613,350,648**	**₱180,163,688**	**₱106,987,378**	**₱900,501,714**
Asia (excluding the Philippines)	**27,803,805**	**48,121,090**	**19,830,279**	**95,755,174**
United Kingdom	**14,086,115**	**626,474**	**9,041,330**	**23,753,919**
USA and Canada	**1,180,327**	**6,326,757**	**9,047,586**	**16,554,670**
Other European Union Countries	**467**	**237,953**	**6,282,610**	**6,521,030**
Middle East	**848,117**	**1,598,620**	**21,028**	**2,467,765**
	₱657,269,479	**₱237,074,582**	**₱151,210,211**	**₱1,045,554,272**

* *Loans and receivables exclude residual value of the leased asset (Note 10)*
** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Consolidated			
	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱555,861,986	₱121,072,569	₱127,163,463	₱804,098,018
Asia (excluding the Philippines)	27,523,240	34,425,377	13,337,474	75,286,091
USA and Canada	909,044	7,058,104	6,360,517	14,327,665
United Kingdom	38,764	340,809	8,069,032	8,448,605
Oceania	1,684,104	–	–	1,684,104
Other European Union Countries	–	39,599	1,532,835	1,572,434
Middle East	–	–	16,530	16,530
	₱586,017,138	₱162,936,458	₱156,479,851	₱905,433,447

* *Loans and receivables exclude residual value of the leased asset. (Note 10)*
** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2019			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱555,861,081**	**₱172,558,374**	**₱104,106,965**	**₱832,526,420**
Asia (excluding the Philippines)	**15,315,885**	**48,121,056**	**12,920,104**	**76,357,045**
United Kingdom	**14,077,779**	**626,474**	**9,041,330**	**23,745,583**
USA and Canada	**1,142,567**	**6,326,757**	**9,044,290**	**16,513,614**
Other European Union Countries	**467**	**38,848**	**2,529,297**	**2,568,612**
Middle East	**848,117**	**1,598,620**	**21,028**	**2,467,765**
	₱587,245,896	**₱229,270,129**	**₱137,663,014**	**₱954,179,039**

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2018			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱493,829,414	₱118,495,863	₱122,138,458	₱734,463,735
Asia (excluding the Philippines)	14,645,344	34,423,612	6,792,458	55,861,414
United Kingdom	840,412	6,926,975	4,617,267	12,384,654
Other European Union Countries	–	340,809	7,155,383	7,496,192
Oceania	1,684,104	–	–	1,684,104
USA and Canada	–	39,599	1,465,439	1,505,038
Middle East	–	–	16,530	16,530
	₱510,999,274	₱160,226,858	₱142,185,535	₱813,411,667

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

c. Concentration by Industry
The tables below show the industry sector analysis of the Group's and Parent Company's financial assets at amounts before taking into account the fair value of the loan collateral held or other credit enhancements.

	Consolidated			
	2019			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱106,952,236**	**₱23,768,955**	**₱42,589,959**	**₱173,311,150**
Wholesale and retail	**88,528,876**	–	–	**88,528,876**
Electricity, gas and water	**73,286,882**	**4,618,076**	–	**77,904,958**
Manufacturing	**45,365,433**	**352,344**	–	**45,717,777**
Transport, storage and communication	**31,625,156**	**144,343**	–	**31,769,499**
Public administration and defense	**15,627,272**	–	–	**15,627,272**
Agriculture, hunting and forestry	**9,715,700**	–	–	**9,715,700**
Secondary target industry:				
Government	–	**155,871,181**	**108,499,565**	**264,370,746**
Real estate, renting and business activities	**88,849,358**	**22,825,652**	**–**	**111,675,010**
Construction	**41,520,498**	–	–	**41,520,498**
Others**	**155,798,068**	**29,494,031**	**120,687**	**185,412,786**
	₱657,269,479	**₱237,074,582**	**₱151,210,211**	**₱1,045,554,272**

	Consolidated			
	2018			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱91,279,698	₱32,395,927	₱133,431,421	₱257,107,046
Wholesale and retail	82,869,619	–	–	82,869,619
Electricity, gas and water	72,395,370	3,825,413	–	76,220,783
Manufacturing	49,141,768	446,044	–	49,587,812
Transport, storage and communication	41,994,136	393,279	–	42,387,415
Public administration and defense	18,007,819	–	–	18,007,819
Agriculture, hunting and forestry	7,279,632	–	–	7,279,632
Secondary target industry:				
Government	961,957	101,365,868	22,148,910	125,441,825
Real estate, renting and business activities	83,004,427	14,604,914	–	83,362,991
Construction	25,852,120	358,564	–	40,457,034
Others**	113,230,592	9,546,449	899,520	122,711,471
	₱586,017,138	₱162,936,458	₱156,479,851	₱905,433,447

* *Loans and receivables exclude residual value of the leased asset (Note 10)*

** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2019			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Primary target industry:				
Financial intermediaries	**₱109,404,035**	**₱23,767,548**	**₱34,638,125**	**₱167,809,708**
Wholesale and retail	**82,650,251**	–	–	**82,650,251**
Electricity, gas and water	**73,286,882**	**4,608,032**	–	**77,894,914**
Manufacturing	**38,014,828**	**352,344**	–	**38,367,172**
Transport, storage and communication	**29,873,394**	–	–	**29,873,394**
Public administration and defense	**15,535,998**	–	–	**15,535,998**
Agriculture, hunting and forestry	**9,439,477**	–	–	**9,439,477**
Secondary target industry:				
Government	**1,901,507**	**154,209,813**	**102,951,581**	**259,062,901**
Real estate, renting and business activities	**88,849,358**	**17,653,676**	**–**	**106,503,034**
Construction	**39,795,803**	–	–	**39,795,803**
Others*	**98,494,363**	**28,678,716**	**73,308**	**127,246,387**
	₱587,245,896	**₱229,270,129**	**₱137,663,014**	**₱954,179,039**

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

	Parent Company			
	2018			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱91,254,439	₱32,382,583	₱22,148,910	₱145,785,932
Wholesale and retail	78,593,080	–	–	78,593,080
Electricity, gas and water	72,366,879	3,825,374	–	76,192,253
Transport, storage and communication	40,749,110	–	–	40,749,110
Manufacturing	45,073,568	446,044	–	45,519,612
Public administration and defense	18,007,819	–	–	18,007,819
Agriculture, hunting and forestry	7,274,620	–	–	7,274,620
Secondary target industry:				
Government	961,957	99,421,494	119,365,375	219,748,826
Real estate, renting and business activities	79,407,958	14,604,914	–	94,012,872
Construction	25,173,391	–	–	25,173,391
Others*	52,136,453	9,546,449	671,250	62,354,152
	₱510,999,274	₱160,226,858	₱142,185,535	₱813,411,667

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

In 2018, the Group re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward-looking conditions. Moreover, the Group has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the Group's exposures can be categorized as either Non-Retail and Retail. Non-Retail portfolio of the Group consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the Group's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g. Project Finance), Large Corporates, Middle Market and Commercial SME, government-owned and controlled corporations (GOCC) and LGUs. Retail exposures are exposures to individual person or persons or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables

The credit quality of Non-Retail portfolio is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the Parent Company transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).

Specific borrower rating models were developed by the Group to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The Group uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the Group in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e. FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g. CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the Group in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the Parent Company's and PNBSB receivables from customers are defined below:

Credit quality	**26-grade CRR system** **Used beginning January 1, 2018**
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility BRR 8 is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.

Credit quality	26-grade CRR system Used beginning January 1, 2018
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility. *BRR 16-18 Acceptable* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	*BRR 26 Default* Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the Group's and the Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2019 and 2018:

	Consolidated			
	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Subject to CRR				
Non-Retail - Corporate				
High	**₱1,568,009**	**₱–**	**₱–**	**₱1,568,009**
Standard	**450,193,955**	**2,476,621**	**19,409**	**452,689,985**
Substandard	**65,136,403**	**13,318,336**	**310,902**	**78,765,641**
Impaired	**–**	**–**	**10,654,905**	**10,654,905**
	516,898,367	**15,794,957**	**10,985,216**	**543,678,540**
Subject to Scoring & Unrated				
Non-Retail	**11,193,873**	**357,973**	**450,150**	**12,001,996**
Corporate	**4,490,031**	**288,929**	**423,164**	**5,202,124**
LGU	**6,703,842**	**69,044**	**26,986**	**6,799,872**
Retail	**69,064,486**	**2,795,458**	**11,261,073**	**83,121,017**
Auto Loans	**11,443,236**	**458,841**	**1,066,607**	**12,968,684**
Housing Loans	**26,601,243**	**1,571,291**	**5,396,497**	**33,569,031**
Retail SME	**17,437,236**	**345,217**	**2,930,903**	**20,713,356**
Credit Card	**13,582,771**	**420,109**	**1,867,066**	**15,869,946**
Others	**10,698,610**	**736,977**	**579,016**	**12,014,603**
	90,956,969	**3,890,408**	**12,290,239**	**107,137,616**
	₱607,855,336	**₱19,685,365**	**₱23,275,455**	**₱650,816,156**

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail – Corporate				
High	₱246,664,735	₱1,157,818	₱–	₱247,822,553
Standard	160,962,888	3,171,281	–	164,134,169
Substandard	39,018,920	844,624	–	39,863,544
Impaired	–	–	4,724,646	4,724,646
	446,646,543	5,173,723	4,724,646	456,544,912
Subject to Scoring & Unrated				
Non-Retail	22,672,264	4,808,639	64,611	27,545,514
Corporate	15,794,933	4,790,671	39,695	20,625,299
LGU	6,877,331	17,968	24,916	6,920,215
Retail	80,944,934	1,175,205	7,623,691	89,743,830
Auto Loans	11,682,195	21,442	39,608	11,743,245
Housing Loans	33,649,887	36,453	157,056	33,843,395
Retail SME	10,067,819	138,835	1,192,164	12,048,154
Credit Card	11,748,103	393,450	1,270,510	13,412,063
Others	13,796,930	585,025	4,964,353	19,346,308
	103,617,198	5,983,844	7,688,302	117,289,344
	₱550,263,741	₱11,157,567	₱12,412,948	₱573,834,256

	Parent Company			
	2019			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Subject to CRR				
Non-Retail - Corporate				
High	**₱–**	**₱–**	**₱–**	**₱–**
Standard	**437,200,615**	**2,384,412**	**–**	**439,585,027**
Substandard	**73,375,571**	**13,624,058**	**–**	**86,999,629**
Impaired	**–**	**–**	**7,867,316**	**7,867,316**
	510,576,186	**16,008,470**	**7,867,316**	**534,451,972**
Subject to Scoring & Unrated				
Non-Retail	**9,373,707**	**69,044**	**26,986**	**9,469,737**
Corporate	**2,669,865**	**–**	**–**	**2,669,865**
LGU	**6,703,842**	**69,044**	**26,986**	**6,799,872**
Retail	**31,529,302**	**601,067**	**2,690,108**	**34,820,477**
Auto Loans	**2,550,623**	**41,958**	**43,247**	**2,635,828**
Housing Loans	**3,698,821**	**37,740**	**111,671**	**3,848,232**
Retail SME	**11,697,087**	**101,260**	**668,124**	**12,466,471**
Credit Card	**13,582,771**	**420,109**	**1,867,066**	**15,869,946**
Others	**3,457,501**	**421,904**	**1,462,618**	**5,342,023**
	44,360,510	**1,092,015**	**4,179,712**	**49,632,237**
	₱554,936,696	**₱17,100,485**	**₱12,047,028**	**₱584,084,209**

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Subject to CRR				
Non-Retail - Corporate				
High	₱234,340,295	₱1,112,772	₱–	₱235,453,067
Standard	160,962,888	3,171,281	–	164,134,169
Substandard	39,018,920	844,624	–	39,863,544
Impaired	–	–	4,723,905	4,723,905
	434,322,103	5,128,677	4,723,905	444,174,685

(Forward)

	Parent Company 2018			
	Stage 1	Stage 2	Stage 3	Total
Subject to Scoring & Unrated				
Non-Retail	₱16,806,236	₱4,457,670	₱66,810	₱21,330,716
Corporate	9,928,905	4,439,702	41,894	14,410,501
LGU	6,877,331	17,968	24,916	6,920,215
Retail	19,744,284	535,608	2,629,113	22,909,005
Auto Loans	417	–	39,608	40,025
Housing Loans	1,483,609	15,850	127,863	1,627,322
Retail SME	6,512,155	126,308	1,191,132	7,829,595
Credit Card	11,748,103	393,450	1,270,510	13,412,063
Others	11,829,729	526,282	2,279,277	14,635,288
	48,380,248	5,519,561	4,975,200	58,875,009
	₱482,702,351	₱10,648,238	₱9,699,105	₱503,049,694

The analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated 2019				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
LGU	**₱–**	**₱69,044**	**₱–**	**₱26,986**	**₱96,030**
Credit Card	**–**	**420,109**	**–**	**1,867,066**	**2,287,175**
Retail SME	**365,556**	**345,217**	**902,794**	**2,028,109**	**3,641,676**
Housing Loans	**422,236**	**1,571,291**	**1,339,385**	**4,057,112**	**7,390,024**
Auto Loans	**156,989**	**458,841**	**273,445**	**793,162**	**1,682,437**
Others	**66,105**	**736,977**	**184,223**	**394,793**	**1,382,098**
Total	**₱1,010,886**	**₱3,601,479**	**₱2,699,847**	**₱9,167,228**	**₱16,479,440**

	Consolidated 2018				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
LGU	₱2,601,143	₱17,968	₱ 24,916	₱–	₱2,644,027
Credit Card	857	393,450	1,230,921	39,589	1,664,817
Retail SME	448,609	138,835	304,719	887,445	1,779,608
Housing Loans	149	15,850	151,639	5,417	173,055
Auto Loans	1,005	21,442	3,276	36,332	62,055
Others	101,342	585,025	1,385,452	3,578,901	5,650,720
Total	₱3,153,105	₱1,172,570	₱3,100,923	₱4,547,684	₱11,974,282

	Parent Company 2019				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Credit Card	**₱–**	**₱420,109**	**₱–**	**₱1,867,066**	**₱2,287,175**
Others	**800**	**417,564**	**25,377**	**1,441,581**	**1,885,322**
Retail SME	**–**	**101,260**	**173,634**	**494,490**	**769,384**
Housing Loans	**–**	**37,740**	**41,862**	**69,809**	**149,411**
Auto Loans	**–**	**41,958**	**12,215**	**31,032**	**85,205**
LGU	**–**	**69,044**	**–**	**26,986**	**96,030**
Total	**₱800**	**₱1,087,675**	**₱253,088**	**₱3,930,964**	**₱5,272,527**

	Parent Company				
	2018				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
LGU	₱2,601,143	₱17,968	₱24,916	₱–	₱2,644,027
Auto Loans	417	–	–	39,608	40,025
Housing Loans	–	15,850	127,863	–	143,713
Retail SME	448,609	126,308	476,453	714,679	1,766,049
Credit Card	–	393,450	1,230,921	39,589	1,663,960
Others	81,491	526,282	1,205,780	1,073,497	2,887,050
Total	₱3,265,691	₱1,079,858	₱3,065,933	₱1,867,373	₱9,144,824

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, the Group uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, gross of allowances, excluding receivables from customers, which are monitored using external ratings.

	Consolidated					
	2019					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱105,981,801**	**₱105,981,801**
Due from other banks	**5,038,372**	**3,090,447**	**7,990,152**	**16,118,971**	**1,642,531**	**17,761,502**
Interbank loans receivables	**9,594,780**	**13,182,252**	**434,761**	**23,211,793**	**1,626,742**	**24,838,535**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**2,519,676**	**2,519,676**
Financial assets at FVOCI						
Government securities	**460,363**	**2,124,737**	**88,335,353**	**90,920,453**	**129,262**	**91,049,715**
Private debt securities	**3,443,245**	**3,329,819**	**6,366,568**	**13,139,632**	**17,250,370**	**30,390,002**
Quoted equity securities	**–**	**–**	**159,725**	**159,725**	**911,809**	**1,071,534**
Unquoted equity securities	**–**	**–**	**–**	**–**	**629,589**	**629,589**

	Consolidated					
	2019					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Investment securities at amortized cost:						
Government securities	**₱–**	**₱–**	**₱55,304,814**	**₱55,304,814**	**₱290,046**	**₱55,594,860**
Private debt securities	**1,407,543**	**22,281,474**	**9,288,335**	**32,977,352**	**15,677,741**	**48,655,093**
Financial assets at amortized cost:						
Others[2/]	**–**	**–**	**5,964,656**	**5,964,656**	**19,353,086**	**25,317,742**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

	Consolidated					
	2018					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP[1/]	₱–	₱–	₱4,057,938	₱4,057,938	₱98,665,374	₱102,723,312
Due from other banks	8,756,826	5,844,679	2,843,242	17,444,747	3,558,332	21,003,079
Interbank loans receivables	3,260,308	7,385,582	453,379	11,099,269	149,186	11,248,455
Securities held under agreements to resell	–	–	–	–	20,700,000	20,700,000
Financial assets at FVOCI						
Government securities	1,078,129	–	32,446,636	33,524,795	–	33,524,795
Private debt securities	403,960	4,794,125	4,447,168	9,645,253	8,073,591	17,718,844
Quoted equity securities	–	–	183,148	183,148	616,911	800,059
Unquoted equity securities	–	–	–	–	86,123	86,123
Investment securities at amortized cost:						
Government securities	2,251,479	1,260,957	50,972,703	54,485,139	5,793,063	60,278,202
Private debt securities	151,666	–	2,737,374	2,889,040	41,407,883	44,296,923
Financial assets at amortized cost:						
Others[2/]	–	–	–	–	28,430,139	28,430,139

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

	Parent Company					
	2019					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱101,801,597**	**₱101,801,597**
Due from other banks	**5,038,372**	**3,090,447**	**2,319,497**	**10,448,316**	**390,149**	**10,838,465**
Interbank loans receivables	**9,594,780**	**13,182,252**	**434,761**	**23,211,793**	**592,962**	**23,804,755**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**1,149,984**	**1,149,984**
Financial assets at FVOCI						
Government securities	**–**	**2,124,737**	**87,992,726**	**90,117,463**	**302,728**	**90,420,191**
Private debt securities	**580,068**	**3,329,819**	**6,323,662**	**10,233,549**	**17,248,743**	**27,482,292**
Quoted equity securities	**–**	**–**	**–**	**–**	**596,148**	**596,148**
Unquoted equity securities	**–**	**–**	**–**	**–**	**397,933**	**397,933**
Investment securities at amortized cost						
Government securities	**–**	**–**	**54,275,608**	**54,275,608**	**234,160**	**54,509,768**
Private securities	**1,178,170**	**22,281,474**	**9,288,335**	**32,747,979**	**15,674,405**	**48,422,384**
Financial assets at amortized cost:						
Others[2/]	**–**	**–**	**5,964,656**	**5,964,656**	**11,856,286**	**17,820,942**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Note 10).

	Parent Company					
	2018					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated	Total
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱98,665,375	₱98,665,375
Due from other banks	3,275,420	3,838,006	792,377	7,905,803	2,553,693	10,459,496
Interbank loans receivables	3,260,308	7,385,582	453,379	11,099,269	590,145	11,689,414
Securities held under agreements to resell	–	–	–	–	20,700,000	20,700,000
Financial assets at FVOCI						
Government securities	783,879	–	31,913,930	32,697,809	–	32,697,809
Private debt securities	–	4,794,125	4,447,168	9,241,293	8,073,591	17,314,884
Quoted equity securities	–	–	–	–	558,077	558,077
Unquoted equity securities	–	–	–	–	86,123	86,123
Investment securities at amortized cost						
Government securities	2,251,479	1,260,957	49,884,300	53,396,736	6,695,084	60,091,820
Private securities	20,537	–	2,737,374	2,757,911	40,505,862	43,263,7736
Financial assets at amortized cost:						
Others[2/]	–	–	–	–	21,252,214	21,252,214

[/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Note 10).

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					
	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱30,500,927	₱–	₱–	₱–	₱–	₱30,500,927
Due from BSP and other banks	123,754,500	–	–	–	–	123,754,500
Interbank loans receivable	19,538,847	2,294,811	1,516,690	–	1,920,879	25,271,227
Securities held under agreements to resell	2,519,956	–	–	–	–	2,519,956
Financial assets at FVTPL:						
Government securities	1,527	–	965,353	–	9,874,107	10,840,987
Private debt securities	–	404,805	8,689	–	3,604,610	4,018,104
Equity securities	–	–	–	–	1,455,435	1,455,435
Investment in UITFs	6,532	–	–	–	–	6,532
Derivative assets:						
Gross contractual receivable	50,516,358	15,144,703	1,050,642	1,089,190	265,690	68,066,583
Gross contractual payable	(50,247,501)	(15,048,665)	(1,034,114)	(1,067,234)	(204,142)	(67,601,656)
	268,857	96,038	16,528	21,956	61,548	464,927
Financial Assets at FVOCI:						
Government securities	99,825	9,247,044	7,100,100	6,787,541	103,866,790	127,101,300
Private debt securities	289,360	1,254,865	475,396	2,764,029	29,550,648	34,334,298
Equity securities	1,701,123	–	–	–	–	1,701,123
Investment securities at amortized cost						
Government securities	759,187	10,030	2,204,668	1,002,409	67,026,127	71,002,421
Private debt securities	11,016,157	11,617,383	1,275,970	1,149,809	28,510,111	53,569,430
Financial assets at amortized cost:						
Receivables from customers	106,846,648	77,393,306	34,687,983	27,024,646	420,935,000	666,887,583
Other receivables	12,718,210	697,105	2,786,644	201,091	10,698,267	27,101,317
Other assets	420,846	–	–	–	54,930	475,776
Total financial assets	₱310,442,502	₱103,015,387	₱51,038,021	₱38,951,481	₱677,558,452	₱1,181,005,843
Financial Liabilities						
Deposit liabilities:						
Demand	₱172,228,956	₱–	₱–	₱–	₱–	₱172,228,956
Savings	391,769,777	–	–	–	–	391,769,777
Time and LTNCDs	154,612,024	48,316,708	17,170,359	9,753,174	49,383,102	279,235,367
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	34,974,301	15,819,971	840,580	1,069,063	216,301	52,920,216
Gross contractual receivable	(35,113,963)	(15,896,387)	(865,139)	(1,089,099)	(209,867)	(53,174,455)
	(139,662)	(76,416)	(24,559)	(20,036)	6,434	(254,239)
Bills and acceptances payable	18,063,404	17,835,510	3,221,186	32,778	16,857,628	56,010,506
Bonds Payable	–	–	–	–	75,600,929	75,600,929
Accrued interest payable and accrued other expenses payable	1,254,102	708,438	473,154	403,528	274,852	3,114,074
Other liabilities	11,914,442	–	–	–	1,075,209	12,989,651
Total financial liabilities	₱742,190,438	₱66,700,873	₱26,476,275	₱24,462,453	₱130,520,643	₱990,695,021

	Consolidated					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱16,825,487	₱–	₱–	₱–	₱–	₱16,825,487
Due from BSP and other banks	123,248,630	–	–	–	–	123,248,630
Interbank loans receivable	9,054,007	3,700,078	4,155	411,573	16,187,338	29,357,151
Securities held under agreements to resell	20,713,656	–	–	–	–	20,713,656
Financial assets at FVTPL:						
Government securities	116,041	301,268	134,906	682,305	10,119,980	11,354,500
Private debt securities	7,632	–	–	39	537,478	545,149
Equity securities	938	4,407	53,730	63,546	415,007	537,628
Investment in UITFs	6,375	–	–	–	1,362	7,737
Derivative assets:						
Gross contractual receivable	27,666,556	10,536,098	60,497	112,041	683,409	39,058,601
Gross contractual payable	(27,520,484)	(10,490,192)	(42,937)	(81,911)	(411,484)	(38,547,008)
	146,072	45,906	17,560	30,130	271,925	511,593
Financial Assets at FVOCI:						
Government securities	315,913	553,618	3,725,942	1,192,976	28,389,989	34,178,438
Private debt securities	319,173	152,913	484,719	2,756,936	14,374,652	18,088,393
Equity securities	–	–	–	–	886,182	886,182
Investment securities at amortized cost						
Government securities	684,637	1,140,676	1,740,843	7,563,320	60,259,803	71,389,279
Private debt securities	1,237,106	12,857,236	1,430,423	2,469,149	31,928,967	49,922,881
Financial assets at amortized cost:						
Receivables from customers	91,596,975	71,842,884	29,824,138	15,111,527	471,459,416	679,834,940
Other receivables	3,246,225	246,010	88,776	3,807,172	19,045,403	26,433,586
Other assets	669,790	–	–	–	135,215	805,005
Total financial assets	₱268,188,657	₱90,844,996	₱37,505,192	₱34,088,673	₱654,012,717	₱1,084,640,233
Financial Liabilities						
Deposit liabilities:						
Demand	₱153,065,163	₱–	₱–	₱–	₱–	₱153,065,163
Savings	401,622,361	–	–	–	–	401,622,361
Time and LTNCDs	60,076,025	48,435,639	19,755,960	12,647,731	46,732,131	187,647,486
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,312,878	4,168,069	59,131	112,041	625,556	26,277,675
Gross contractual receivable	(21,151,285)	(4,103,918)	(43,927)	(84,634)	(431,172)	(25,814,936)
	161,593	64,151	15,204	27,407	194,384	462,739
Bills and acceptances payable	21,220,087	31,470,973	7,650,651	1,731,191	9,251,132	71,324,034
Bonds Payable	–	–	335,198	335,198	18,044,999	18,715,395
Accrued interest payable and accrued other expenses payable	530,393	545,676	318,565	478,357	719,006	2,591,997
Other liabilities	9,374,656	79,932	10,663	4,958,474	1,483,565	15,907,290
Total financial liabilities	₱646,050,278	₱890,596,371	₱28,086,241	₱20,178,358	₱76,425,717	₱851,336,464

	Parent Company					
	2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1year**	**Total**
Financial Assets						
COCI	**₱29,642,159**	**₱–**	**₱–**	**₱–**	**₱–**	**₱29,642,159**
Due from BSP and other banks	**112,649,396**	**–**	**–**	**–**	**–**	**112,649,396**
Interbank loans receivable	**18,504,624**	**2,294,811**	**1,516,690**	**–**	**1,920,879**	**24,237,004**
Securities held under agreements to resell	**1,150,112**	**–**	**–**	**–**	**–**	**1,150,112**
Financial assets at FVTPL:						
Government securities	**1,527**	**–**	**965,353**	**–**	**9,874,107**	**10,840,987**
Private debt securities		**404,805**	**8,689**		**568,015**	**981,509**
Equity securities	**–**	**–**	**–**	**–**	**1,409,187**	**1,409,187**
Derivative assets:						
Gross contractual receivable	**50,488,626**	**15,144,703**	**1,043,814**	**1,089,190**	**265,690**	**68,032,023**
Gross contractual payable	**(50,247,501)**	**(15,048,665)**	**(1,034,114)**	**(1,067,234)**	**(204,142)**	**(67,601,656)**
	241,125	**96,038**	**9,700**	**21,956**	**61,548**	**430,367**

(Forward)

	Parent Company 2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1year**	**Total**
Financial assets at FVOCI:						
Government securities	**₱–**	**₱9,246,968**	**₱7,000,000**	**₱6,713,537**	**₱103,447,269**	**₱126,407,774**
Private debt securities	**238,331**	**1,254,543**	**366,742**	**2,615,908**	**26,353,954**	**30,829,478**
Equity securities	–	–	–	–	**994,081**	**994,081**
Investment securities at amortized cost:						
Government securities	**759,187**	–	**2,199,847**	**679,130**	**66,163,936**	**69,802,100**
Private debt securities	**11,016,157**	**11,617,383**	**1,275,970**	**1,044,553**	**28,364,719**	**53,318,782**
Financial assets at amortized cost:						
Receivables from customers	**101,007,042**	**74,680,573**	**30,731,382**	**23,442,870**	**366,996,961**	**596,858,828**
Other receivables	**6,024,061**	**528,119**	**2,701,399**	**148,302**	**10,202,633**	**19,604,514**
Other assets	**65,729**	–	–	–	**500**	**66,229**
Total financial assets	**₱281,299,450**	**₱100,123,240**	**₱46,775,772**	**₱34,666,256**	**₱616,357,789**	**₱1,079,222,507**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱168,628,123**	**₱–**	**₱–**	**₱–**	**₱–**	**₱168,628,123**
Savings	**384,773,630**	–	–	–	–	**384,773,630**
Time and LTNCDs	**137,087,076**	**31,516,650**	**14,106,500**	**9,269,240**	**44,734,752**	**236,714,218**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual receivable	**34,975,698**	**15,822,860**	**849,922**	**1,069,063**	**216,301**	**52,933,844**
Gross contractual payable	**(35,113,963)**	**(15,896,387)**	**(865,139)**	**(1,089,099)**	**(209,867)**	**(53,174,455)**
	(138,265)	**(73,527)**	**(15,217)**	**(20,036)**	**6,434**	**(240,611)**
Bills and acceptances payable	**7,153,273**	**11,859,566**	**8,857,321**	**14,325,787**	**3,538,962**	**45,734,909**
Bonds payable	–	–	–	–	**75,600,929**	**75,600,929**
Accrued interest payable and accrued other expenses payable	**1,116,173**	**701,408**	**394,596**	**384,322**	**273,149**	**2,869,648**
Other liabilities	**11,914,442**	–	–	–	**1,075,209**	**12,989,651**
Total financial liabilities	**₱710,534,452**	**₱44,004,097**	**₱23,343,200**	**₱23,959,313**	**₱125,229,435**	**₱927,070,497**

	Parent Company 2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱15,904,663	₱–	₱–	₱–	₱–	₱15,904,663
Due from BSP and other banks	109,124,871	–	–	–	–	109,124,871
Interbank loans receivable	9,054,007	3,700,078	4,155	411,573	16,187,338	29,357,151
Securities held under agreements to resell	20,713,656	–	–	–	–	20,713,656
Financial assets at FVTPL:						
Government securities	116,041	301,268	134,906	682,305	10,119,980	11,354,500
Private debt securities	938	4,407	53,730	63,546	415,007	537,628
Equity securities	–	–	–	–	537,478	537,478
Derivative assets:						
Gross contractual receivable	27,666,538	10,535,716	59,131	112,041	683,409	39,056,835
Gross contractual payable	(27,520,484)	(10,490,192)	(42,937)	(81,911)	(411,484)	(38,547,008)
	146,054	45,524	16,194	30,130	271,925	509,827
Financial Assets at FVOCI:						
Government securities	188,653	553,410	3,676,724	1,118,623	27,737,653	33,275,063
Private debt securities	319,173	152,913	594,186	2,756,936	14,102,844	17,926,052
Equity securities	–	–	–	–	644,200	644,200
Investment securities at a mortized cost:						
Government securities	653,485	1,117,154	1,668,329	7,306,538	59,680,400	70,425,906
Private debt securities	1,275,473	12,857,236	1,430,423	2,469,149	31,666,253	49,698,534
Financial assets at amortized cost:						
Receivables from customers	81,472,022	68,788,473	27,138,592	10,523,511	418,403,360	606,325,958
Other receivables	5,433,667	16,076	15,730	74,065	18,678,032	24,217,570
Other assets	670,750	–	–	–	500	671,250
Total financial assets	₱245,073,453	₱87,536,539	₱34,732,969	₱25,436,376	₱598,444,970	₱991,224,307

	Parent Company					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	₱149,539,540	₱–	₱–	₱–	₱–	₱149,539,540
Savings	394,004,547	–	–	–	–	394,004,547
Time and LTNCDs	46,928,129	30,903,441	17,218,753	11,293,593	38,173,888	144,517,804
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	21,312,878	4,168,069	59,131	112,041	625,556	26,277,675
Gross contractual receivable	(21,152,094)	(4,104,998)	(44,407)	(84,634)	(431,172)	(25,817,305)
	160,784	63,071	14,724	27,407	194,384	460,370
Bills and acceptances payable	21,130,622	27,986,302	6,850,651	92,303	7,451,938	63,511,816
Bonds Payable	–	–	335,198	335,198	18,044,999	18,715,395
Accrued interest payable and accrued other expenses payable	375,980	504,207	309,134	424,874	688,624	2,302,819
Other liabilities	11,748,075	–	–	–	1,052,542	12,800,617
Total financial liabilities	₱623,887,677	₱59,457,021	₱24,728,460	₱12,173,375	₱65,606,375	₱785,852,908

BSP reporting for liquidity positions and leverage
To promote short-term resilience of banks' liquidity risk profile, BSP requires banks and other regulated entities to maintain:

- over a 30-calendar day horizon, an adequate level of unencumbered high-quality liquid assets (HQLA) that consist of cash or assets that can be converted into cash to offset the net cash outflows they could encounter under a liquidity stress scenario; and
- a stable funding profile in relation to the composition of their assets and off-balance sheet activities.

To monitor the liquidity levels, the Group computes for its Liquidity Coverage Ratio (LCR), which is the ratio of HQLA to the total net cash outflows. As of December 31, 2019, LCR reported to the BSP is 127.48% and 131.93% for the Group and the Parent Company, respectively.

The Group also computes for its Net Stable Funding Ratio (NSFR), which is the ratio of the available stable funding to the required stable funding. Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations. As of December 31, 2019, NSFR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated	**Parent Company**
Available stable funding	**₱794,378**	**₱760,737**
Required stable funding	**641,399**	**603,804**
NSFR	**123.85%**	**125.99%**

Market Risk
Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk
Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking

advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

Objectives and limitations of the VaR methodology
The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Backtesting
The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2019 and 2018, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

Stress Testing
To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

VaR limits
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 29, 2019	**₱13.13**	**₱278.29**	**₱26.39**	**₱317.81**
Average Daily	**8.98**	**472.54**	**17.44**	**498.95**
Highest	**27.50**	**1160.34**	**34.89**	**1,222.73**
Lowest	**0.54**	**89.02**	**2.32**	**91.89**

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2018	₱5.27	₱523.30	₱4.59	₱533.16
Average Daily	3.49	292.78	2.98	299.25
Highest	14.85	574.50	5.04	594.39
Lowest	0.45	93.54	0.48	94.47

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk

<u>Non-trading Market Risk</u>
Interest rate risk
The Group seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose Group to interest rate risk. The Group measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					
	2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱27,272,787**	**₱1,575,228**	**₱563,759**	**₱127,798**	**₱94,139,826**	**₱123,679,398**
Interbank loans receivable and securities held under agreements to resell	**22,441,750**	**3,469,416**	**1,279,275**	**–**	**159,139**	**27,349,580**
Receivables from customers and other receivables - gross**	**148,095,239**	**58,597,849**	**26,796,208**	**8,019,438**	**98,959,095**	**340,467,829**
Total financial assets	**197,809,776**	**63,642,493**	**28,639,242**	**8,147,236**	**193,258,060**	**491,496,807**
Financial Liabilities*						
Deposit liabilities:						
Savings	**107,428,796**	**38,894,466**	**20,765,903**	**13,055,019**	**211,625,593**	**391,769,777**
Time***	**149,496,035**	**34,112,039**	**9,859,180**	**9,963,553**	**26,463,836**	**226,894,643**
Bonds payable					**66,615,078**	**66,615,078**
Bills and acceptances payable	**33,717,809**	**17,038,035**	**1,837,689**	**732,345**	**2,637,412**	**55,963,290**
Total financial liabilities	**₱290,642,640**	**₱90,044,540**	**₱32,462,772**	**₱23,750,917**	**₱304,341,919**	**₱741,242,788**
Repricing gap	**(₱92,893,364)**	**(₱26,402,046)**	**(₱3,823,531)**	**(₱15,603,680)**	**(₱111,083,859)**	**(₱249,745,981)**
Cumulative gap	**(92,893,364)**	**(119,234,911)**	**(123,058,441)**	**(138,662,122)**	**(249,745,981)**	

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

	Consolidated					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱17,188,885	₱2,226,848	₱358,643	₱114,017	₱103,360,241	₱123,248,634
Interbank loans receivable and securities held under agreements to resell	27,252,060	4,293,432	–	402,963	–	31,948,455
Receivables from customers and other receivables - gross**	133,599,243	49,477,333	14,250,209	10,655,001	85,551,833	293,533,619
Total financial assets	₱178,040,188	₱55,997,613	₱14,608,852	₱11,171,981	₱188,912,074	₱448,730,708
Financial Liabilities*						
Deposit liabilities:						
Savings	₱103,372,627	₱51,010,318	₱17,409,707	₱9,855,407	₱219,974,302	₱401,622,361
Time***	54,243,105	29,114,902	12,695,184	7,290,497	43,867,041	147,210,729
Bonds payable	–	–	–	–	15,661,372	15,661,372
Bills and acceptances payable	26,009,666	29,625,656	9,334,172	438,375	4,674,965	70,082,834
Total financial liabilities	₱183,625,398	₱109,750,876	₱39,439,063	₱17,584,279	₱284,177,680	₱634,577,296
Repricing gap	(₱5,585,210)	(₱53,753,263)	(₱24,830,211)	(₱6,412,298)	(₱95,265,605)	₱(185,846,588)
Cumulative gap	(5,585,210)	(59,338,473)	(84,168,684)	(90,580,982)	(185,846,588)	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivables from customers excludes residual value of leased assets (Note 10).*
*** *Excludes LTNCD.*

	Parent Company					
	2019					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱20,537,356**	**₱–**	**₱–**	**₱–**	**₱92,038,801**	**₱112,576,157**
Interbank loans receivable and securities held under repurchase agreement	**19,568,861**	**4,127,027**	**1,257,115**	**–**	**–**	**24,953,003**
Receivable from customers and other receivables - gross**	**148,095,239**	**58,597,849**	**26,796,208**	**8,019,438**	**98,959,095**	**340,467,829**
Total financial assets	**₱188,201,456**	**₱62,724,876**	**₱28,053,323**	**₱8,019,438**	**₱190,997,896**	**₱477,996,989**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱106,264,604**	**₱38,894,466**	**₱20,765,903**	**₱13,055,019**	**₱205,793,638**	**₱384,773,630**
Time***	**136,719,939**	**23,423,637**	**6,292,260**	**9,596,231**	**11,256,075**	**187,288,142**
Bonds payable	**-**	**-**	**-**	**-**	**66,615,078**	**66,615,078**
Bills and acceptances payable	**33,426,883**	**14,260,535**	**22,229**	**714,370**	**-**	**48,424,017**
Total financial liabilities	**₱276,411,426**	**₱76,578,638**	**₱27,080,392**	**₱23,365,620**	**₱283,664,792**	**₱687,100,867**
Repricing gap	**(₱88,209,969)**	**(₱13,853,763)**	**₱972,931**	**(₱15,346,182)**	**(₱92,666,895)**	**(₱209,103,878)**
Cumulative gap	**(88,209,969)**	**(102,763,732)**	**(101,090,801)**	**(116,436,983)**	**(209,103,878)**	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets (Note 10).*
*** *Excludes LTNCD.*

	Parent Company					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱11,459,496	₱–	₱–	₱–	₱97,665,375	₱109,124,871
Interbank loans receivable and securities held under repurchase agreement	27,525,060	4,734,391	–	402,963	–	32,662,414
Receivable from customers and other receivables - gross**	133,599,243	49,477,333	14,250,209	10,655,001	85,551,833	293,533,619
Total financial assets	₱172,583,799	₱54,211,724	₱14,250,209	₱11,057,964	₱183,217,208	₱435,320,904

	Parent Company					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Liabilities*						
Deposit liabilities:						
Savings	₱100,441,913	₱51,010,318	₱17,409,707	₱9,855,407	₱215,287,201	₱394,004,546
Time***	49,533,469	25,235,898	10,842,175	10,433,332	12,405,219	108,450,093
Bonds payable					15,661,372	15,661,372
Bills and acceptances payable	25,718,272	29,020,039	7,065,172	161,502	741,810	62,706,795
Total financial liabilities	₱175,693,654	₱105,266,255	₱35,317,054	₱20,450,241	₱244,095,602	₱580,822,806
Repricing gap	(₱3,109,855)	(₱51,054,531)	(₱21,066,845)	(₱9,392,277)	(₱60,878,394)	(₱145,501,902)
Cumulative gap	(3,109,855)	(54,164,386)	(75,231,231)	(84,623,508)	(145,501,902)	

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2019 and 2018:

	Consolidated			
	2019		2018	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱573,536**	**₱573,536**	₱321,344	₱321,344
-50bps	**(573,536)**	**(573,536)**	(321,344)	(321,344)
+100bps	**1,147,073**	**1,147,073**	642,687	642,687
-100bps	**(1,147,073)**	**(1,147,073)**	(642,687)	(642,687)

	Parent Company			
	2019		2018	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱492,130**	**₱492,130**	₱293,938	₱293,938
-50bps	**(492,130)**	**(492,130)**	(293,938)	(293,938)
+100bps	**984,261**	**984,261**	587,876	587,876
-100bps	**(984,261)**	**(984,261)**	(587,876)	(587,876)

As one of the long-term goals in the risk management process, the Group has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Group has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's and PNBSB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2019			2018		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱149,147**	**₱334,702**	**₱483,849**	₱137,978	₱330,617	₱468,595
Due from other banks	**9,638,368**	**6,083,847**	**15,722,215**	8,777,120	9,814,266	18,591,386
Interbank loans receivable and securities held under agreements to resell	**4,880,250**	**2,094,530**	**6,974,780**	2,869,290	1,950,059	4,819,349
Loans and receivables	**22,726,294**	**11,046,642**	**33,772,936**	18,453,000	11,376,886	29,829,886
Financial Assets at FVTPL	**352,344**	**148**	**352,492**	446,926	882	447,808
Financial Assets at FVOCI	**1,434,080**	**502,664**	**1,936,744**	4,180,482	1,325,930	5,506,412
Investment securities at amortized cost	**10,060,514**	**–**	**10,060,514**	10,206,937	775,295	10,982,232
Other assets	**5,402,127**	**2,685,523**	**8,087,650**	3,539,425	1,238,191	4,777,616
Total assets	**54,643,124**	**22,748,056**	**77,391,180**	48,611,158	26,812,126	75,423,284
Liabilities						
Deposit liabilities	**7,363,816**	**5,194,075**	**12,557,891**	9,288,237	9,261,411	18,549,648
Derivative liabilities	**6,814**	**6,814**	**13,628**	1,184	2,300	3,484
Bills and acceptances payable	**27,941,957**	**13,297,756**	**41,239,713**	8,548,504	26,777,697	35,326,201
Accrued interest payable	**154,037**	**31,771**	**185,808**	75,571	107,362	182,933
Other liabilities	**1,217,428**	**945,273**	**2,162,701**	1,390,598	1,135,891	2,526,489
Total liabilities	**36,684,052**	**19,475,689**	**56,159,741**	19,304,094	37,284,661	56,588,755
Net Exposure	**₱17,959,072**	**₱3,272,367**	**₱21,231,439**	₱29,307,064	(₱10,472,535)	₱18,834,529

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Parent Company					
	2019			2018		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱47,384**	**₱19,219**	**₱66,603**	₱81,634	₱328,417	₱410,051
Due from other banks	**6,259,259**	**1,557,174**	**7,816,433**	4,264,743	2,861,495	7,126,238
Interbank loans receivable and securities held under agreements to resell	**4,173,568**	**1,738,175**	**5,911,743**	2,869,290	1,950,059	4,819,349
Loans and receivables	**19,616,324**	**554,114**	**20,170,438**	15,902,948	540,618	16,443,566
Financial Assets at FVTPL	**352,344**	**148**	**352,492**	446,044	–	446,044
Financial Assets at FVOCI	**1,434,080**	**429,335**	**1,863,415**	4,154,658	1,252,187	5,406,845
Investment securities at amortized cost	**9,934,738**	**–**	**9,934,738**	10,153,480	775,295	10,928,775
Other assets	**5,402,127**	**1,589,228**	**6,991,355**	3,512,644	28,210	3,540,854
Total assets	**47,219,824**	**5,887,393**	**53,107,217**	41,385,441	7,736,281	49,121,722

(Forward)

	Parent Company					
	2019			2018		
	USD	**Others***	**Total**	USD	Others*	Total
Liabilities						
Deposit liabilities	**₱2,187,075**	**₱1,136,796**	**₱3,323,871**	₱2,156,093	₱4,118,554	₱6,274,647
Derivative liabilities	**–**	**–**	**–**	–	1,116	1,116
Bills and acceptances payable	**27,657,599**	**12,905,241**	**40,562,840**	8,379,264	26,425,533	34,804,797
Accrued interest payable	**141,059**	**22,201**	**163,260**	58,511	17,325	75,836
Other liabilities	**770,102**	**79,891**	**849,993**	992,992	141,222	1,134,214
Total liabilities	**30,755,835**	**14,144,129**	**44,899,964**	11,586,860	30,703,750	42,290,610
Net Exposure	**₱16,463,989**	**(₱8,256,736)**	**₱8,207,253**	₱29,798,581	(₱22,967,469)	₱6,831,112

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

Information relating to the Parent Company's currency derivatives is contained in Note 23.
The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱9.5 billion (sold) and ₱9.5 billion (bought) as of December 31, 2019 and ₱4.7 billion (sold) and ₱5.4 billion (bought) as of December 31, 2018.

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2019 and 2018 follow:

	2019	2018
US dollar - Philippine peso exchange rate	**₱50.63 to USD1.00**	₱52.58 to USD1.00

The following tables set forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2019 and 2018:

	2019			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱78,985**	**₱133,329**	**₱79,252**	**₱2,821**
-1.00%	**(78,985)**	**(133,329)**	**(79,252)**	**(2,821)**

	2018			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱251,592	₱293,071	₱256,439	₱297,986
-1.00%	(251,592)	(293,071)	(256,439)	(297,986)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

5. **Fair Value Measurement**

The Group used the following methods and assumptions in estimating the fair value of its assets and liabilities:

Assets and Liabilities	Fair value methodologies
Cash equivalents	At carrying amounts due to their relatively short-term maturity
Derivatives	Based on either: • quoted market prices; • prices provided by independent parties; or • prices derived using acceptable valuation models
Debt securities	For quoted securities – based on market prices from debt exchanges For unquoted securities [1] – estimated using either: • quoted market prices of comparable investments; or • discounted cash flow methodology
Equity securities	For quoted securities – based on market prices from stock exchanges For unquoted securities – estimated using quoted market prices of comparable investments [2]
Investments in UITFs	Based on their published net asset value per share
Loans and receivables	For loans with fixed interest rates – estimated using the discounted cash flow methodology [3] For loans with floating interest rates – at their carrying amounts
Investment properties	Appraisal by independent external and in-house appraisers based on highest and best use of the property (i.e., current use of the properties) [4] using either: • market data approach [5]; or • replacement cost approach [6]
Short-term financial liabilities	At carrying amounts due to their relatively short-term maturity
Long-term financial liabilities	For quoted debt issuances – based on market prices from debt exchanges For unquoted debt issuances – estimated using the discounted cash flow methodology [7]

Notes:

[1] *using interpolated PHP BVAL rates provided by the Philippine Dealing and Exchange Corporation (for government securities) and PHP BVAL rates plus additional credit spread (for corporate/private securities)*
[2] *using the most relevant multiples (e.g., earnings, book value)*
[3] *using the current incremental lending rates for similar loans*
[4] *considering other factors such as size, shape and location of the properties, price per square meter, reproduction costs new, time element, discount, among others*
[5] *using recent sales of similar properties within the same vicinity and considering the economic conditions prevailing at the time of the valuations and comparability of similar properties sold*
[6] *estimating the investment required to duplicate the property in its present condition*
[7] *using the current incremental borrowing rates for similar borrowings*

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities:

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

The Group and the Parent Company held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated				
	2019				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	**₱8,503,822**	**₱4,258,245**	**₱4,245,577**	**₱–**	**₱8,503,822**
Private debt securities	**3,130,156**	**2,246,515**	**883,641**	**–**	**3,130,156**
Equity securities	**1,455,435**	**1,455,435**	**–**	**–**	**1,455,435**
Derivative assets	**373,040**	**–**	**373,040**	**–**	**373,040**
Investment in UITFs	**6,532**	**1,373**	**5,159**	**–**	**6,532**
Financial assets at FVOCI:					
Government securities	**91,049,715**	**66,204,545**	**24,845,170**	**–**	**91,049,715**
Private debt securities	**30,390,002**	**9,130,230**	**18,496,386**	**2,763,386**	**30,390,002**
Equity securities	**1,701,123**	**428,706**	**790,013**	**482,404**	**1,701,123**
	₱136,609,825	**₱83,725,049**	**₱49,638,986**	**₱3,245,790**	**₱136,609,825**
Financial Liabilities					
Financial Liabilities at FVTPL:					
Derivative liabilities	**₱245,619**	**₱–**	**₱245,619**	**₱–**	**₱245,619**
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	**₱100,464,757**	**₱30,455,373**	**₱70,924,643**	**₱200,801**	**₱101,580,817**
Receivables from customers**	**636,950,500**	**–**	**–**	**695,304,130**	**695,304,130**
	₱737,415,257	**₱30,455,373**	**₱70,924,643**	**₱695,504,931**	**₱796,884,947**
Nonfinancial Assets					
Investment property:					
Land***	**₱12,917,821**	**₱–**	**₱–**	**₱23,894,410**	**₱23,894,410**
Buildings and improvements***	**2,126,005**	**–**	**–**	**4,844,980**	**4,844,980**
	₱15,043,826	**₱–**	**₱–**	**₱28,739,390**	**₱28,739,390**
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	**₱226,894,643**	**₱–**	**₱–**	**₱226,525,853**	**₱226,525,853**
LTNCDs	**35,152,104**	**–**	**35,311,473**	**–**	**35,311,473**
Bonds payable	**66,615,078**	**39,517,123**	**30,123,807**	**–**	**69,640,930**
Bills payable	**53,270,956**	**–**	**–**	**56,049,095**	**56,049,095**
	₱381,932,781	**₱39,517,123**	**₱65,435,280**	**₱282,574,948**	**₱387,527,351**

* *Net of expected credit losses (Note 9)*
** *Net of expected credit losses and unearned and other deferred income (Note 10)*
*** *Net of impairment losses (Note 13)*

	Consolidated				
	2018 (As restated – Note 36)				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,457,711	₱7,127,592	₱1,330,119	₱–	₱8,457,711
Derivative assets	574,629	–	516,775	57,854	574,629
Private debt securities	415,583	–	415,583	–	415,583
Equity securities	545,149	545,149	–	–	545,149
Investments in UITFs	7,704	1,329	6,375	–	7,704
Financial assets at FVOCI:					
Government securities*	33,524,795	19,824,000	13,700,795	–	33,524,795
Private debt securities*	17,718,844	5,628,559	12,090,285	–	17,718,844
Equity securities	886,182	488,548	397,634	–	886,182
	₱62,130,597	₱33,615,177	₱28,457,566	₱57,854	₱62,130,597
Financial Liabilities					
Financial Liabilities at FVTPL:					
Derivative liabilities	₱470,648	₱–	₱470,648	₱–	₱470,648
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost:					
Investment securities at amortized cost*	₱100,805,861	₱88,039,346	₱8,980,697	₱200,702	₱97,220,745
Receivables from customers**	563,246,806			563,776,759	563,776,759
	₱664,052,667	₱88,039,346	₱8,980,697	₱563,977,461	₱683,237,883
Nonfinancial Assets					
Investment property:					
Land***	₱11,298,258	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements***	2,190,608	–	–	2,662,848	2,662,848
	₱13,488,866	₱–	₱–	₱25,245,876	₱25,245,876
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱147,210,729	₱–	₱–	₱144,481,264	₱144,481,264
LTNCDs	31,403,225	28,517,657	–	–	28,517,657
Bonds payable	15,661,372	16,019,776	–	–	16,019,776
Bills payable	68,316,974	–	–	60,436,716	60,436,716
	₱262,592,300	₱44,537,433	₱–	₱204,917,980	₱249,455,413

* *Net of expected credit losses (Note 9)*
** *Net of expected credit losses and unearned and other deferred income (Note 10)*
*** *Net of impairment losses (Note 13)*

	Parent Company				
	2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	**₱8,503,822**	**₱4,258,244**	**₱4,245,578**	**₱–**	**₱8,503,822**
Equity securities	**1,409,187**	**1,409,187**	**–**	**–**	**1,409,187**
Private debt securities	**883,641**	**–**	**883,641**	**–**	**883,641**
Derivative assets	**373,006**	**–**	**373,006**	**–**	**373,006**
Financial assets at FVOCI:					
Government securities	**90,420,191**	**65,753,164**	**24,667,027**	**–**	**90,420,191**
Private debt securities	**27,482,292**	**8,985,905**	**18,496,387**	**–**	**27,482,292**
Equity securities	**994,081**	**357,863**	**385,469**	**250,749**	**994,081**
	₱130,066,220	**₱80,764,363**	**₱49,051,108**	**₱250,749**	**₱130,066,220**
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	**₱231,992**	**₱–**	**₱231,992**	**₱–**	**₱231,992**
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	**₱99,203,909**	**₱29,247,604**	**₱70,871,451**	**₱200,801**	**₱100,319,856**
Receivables from customers**	**572,412,727**	**–**	**–**	**630,739,252**	**630,739,252**
	₱671,616,636	**₱29,247,604**	**₱70,871,451**	**₱630,940,053**	**₱731,059,108**

	Parent Company 2019				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total**
Nonfinancial Assets					
Investment property:					
Land***	**₱12,549,288**	**₱–**	**₱–**	**₱23,659,779**	**₱23,659,779**
Buildings and improvements***	**2,127,099**	**–**	**–**	**4,524,061**	**4,524,061**
	₱14,676,387	**₱–**	**₱–**	**₱28,183,840**	**₱28,183,840**
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	**₱187,288,142**	**₱–**	**₱–**	**₱187,681,683**	**₱187,681,683**
LTNCDs	**35,152,104**	**–**	**35,311,473**	**–**	**35,311,473**
Bonds payable	**66,615,078**	**39,517,123**	**30,123,807**	**–**	**69,640,930**
Bills payable	**45,731,683**	**–**	**–**	**46,078,492**	**46,078,492**
	₱334,787,007	**₱39,517,123**	**₱65,435,280**	**₱233,760,175**	**₱338,992,252**

* *Net of expected credit losses (Note 9)*
** *Net of expected credit losses and unearned and other deferred income (Note 10)*
*** *Net of impairment losses (Note 13)*

	Parent Company 2018				
	Carrying Value	Level 1	Level 2	Level 3	Total
Measured at fair value:					
Financial Assets					
Financial assets at FVTPL:					
Government securities	₱8,457,711	₱7,127,592	₱1,330,119	₱–	₱8,457,711
Derivative assets	572,864	–	515,010	57,854	572,864
Private debt securities	415,583	–	415,583	–	415,583
Equity securities	537,478	537,478	–	–	537,478
Financial assets at FVOCI:					
Government securities*	32,697,809	19,040,788	13,657,021	–	32,697,809
Private debt securities*	17,314,884	5,534,891	11,779,993	–	17,314,884
Equity securities	644,200	353,853	175,190	115,157	644,200
	₱60,640,529	₱32,594,602	₱27,872,916	₱173,011	₱60,640,529
Financial Liabilities					
Financial liabilities at FVTPL:					
Derivative liabilities	₱468,279	₱–	₱468,279	₱–	₱468,279
Fair values are disclosed:					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost*	₱99,586,329	₱86,862,640	₱9,181,399	₱200,702	₱96,244,741
Receivables from customers**	494,537,734	–	–	497,752,999	497,752,999
	₱594,124,063	₱86,862,640	₱9,181,399	₱497,953,701	₱593,997,740
Nonfinancial Assets					
Investment property:					
Land***	₱10,963,770	₱–	₱–	₱22,008,927	₱22,008,927
Buildings and improvements	2,185,588			2,286,209	2,286,209
	₱13,149,358	₱–	₱–	₱24,295,136	₱24,295,136
Financial Liabilities					
Financial liabilities at amortized cost:					
Time deposits	₱108,450,094	₱–	₱–	₱105,450,094	₱105,450,094
LTNCDs	31,403,225	28,517,657	–	–	28,517,657
Bonds payable	15,661,372	16,019,776	–	–	16,019,776
Bills payable	60,940,934	–	–	60,928,743	60,928,743
	₱216,455,625	₱44,537,433	₱–	₱166,378,837	₱210,916,270

* *Net of expected credit losses (Note 9)*
** *Net of expected credit losses and unearned and other deferred income (Note 10)*
*** *Net of impairment losses (Note 13)*

As of December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements. Transfers into Level 3 reflect changes in market conditions as a result of which instruments become less liquid.

The following table summarizes the significant unobservable inputs used to calculate the fair value of Level 3 financial assets at FVOCI of the Group and the Parent Company as of December 31, 2019 and the range of values indicating the highest and lowest level input used in the valuation techniques.

		Consolidated		Parent Company	
	Significant Unobservable Input	Low	High	Low	High
Private debt securities	Credit spread	₱2,732,039	₱2,845,789	₱–	₱–
Equity securities	Price-to-book multiple	826,758	914,718	420,823	₱510,059

Credit spreads
The Group differentiates between credit spreads and discount margins/spreads (more widely used to any discounted cash flow type modes). Credit spreads reflect the credit quality of the underlying instrument, by reference to the applicable benchmark reference rates (i.e., PHP BVAL). Credit spreads can be implied from market prices and are usually unobservable for illiquid or complex instruments.

Price-to-book multiples
The price-to-book ratio measures an equity price in relation to its book value. The Group uses price-to-book multiples of comparable instruments as benchmark references.

Fair values of Level 3 financial assets measured at fair value as of December 31, 2018 are not material to the consolidated financial statements.

6. Segment Information

Business Segments
The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

- Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers;
- Global Banking and Market - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of Treasury-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and
- Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, the chief operating decision maker (CODM), is based on the reportorial requirements under RAP of the BSP, which differ from PFRS due to the manner of provisioning for impairment and credit losses, measurement of investment properties, and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2019					
	Retail Banking	**Corporate Banking**	**Global Banking and Market**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	(₱5,844,018)	₱31,918,140	₱5,733,291	₱511,020	₱125,140	₱32,443,573
Inter-segment	23,647,539	(23,030,539)	(617,000)	–	–	–
Net interest margin after inter-segment transactions	17,803,521	8,887,601	5,116,291	511,020	125,140	32,443,573
Other income	3,211,234	2,685,445	1,772,206	2,293,134	604,081	10,566,100
Segment revenue	21,014,755	11,573,046	6,888,497	2,804,154	729,221	43,009,673
Other expenses	11,881,474	5,636,497	472,000	(77,794)	729,221	18,641,398
Segment result	₱9,133,281	₱5,936,548	₱6,416,498	₱2,881,948	₱–	24,368,275
Unallocated expenses						12,136,083
Income before income tax						12,232,192
Income tax						2,470,986
Net income						9,761,206
Non-controlling interests						79,726
Net income for the year attributable to equity holders of the Parent Company						₱9,681,480
Other segment information						
Capital expenditures	₱1,134,511	₱2,327	₱35,242	₱421,317	₱–	₱1,593,397
Unallocated capital expenditure						1,040,436
Total capital expenditure						₱2,633,833
Depreciation and amortization	₱1,201,558	₱138,114	₱1,850	₱595,416	₱–	₱1,936,938
Unallocated depreciation and amortization						867,185
Total depreciation and amortization						₱2,804,123
Provision for (reversal of) impairment, credit and other losses	₱1,671,154	₱1,289,340	₱–	(₱50,636)	₱–	₱2,909,858

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2018 (As restated – Note 36)					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,287,627	₱21,844,985	₱3,583,152	₱933,281	(₱584,495)	₱27,064,550
Inter-segment	14,775,986	(14,652,247)	(123,739)	–	–	–
Net interest margin after inter-segment transactions	16,063,613	7,192,738	3,459,413	933,281	(584,495)	27,064,550
Other income	2,538,607	8,377,408	485,407	2,783,494	(261,602)	13,923,314
Segment revenue	18,602,220	15,570,146	3,944,820	3,716,775	(846,097)	40,987,864
Other expenses	12,726,476	2,343,403	375,651	3,344,266	(925,897)	17,863,899
Segment result	₱5,875,744	₱13,226,743	₱3,569,169	₱372,509	₱79,800	23,123,965
Unallocated expenses						9,880,790
Income before income tax						13,243,175
Income tax						3,687,105
Net income						9,556,070
Non-controlling interests						91,048
Net income for the year attributable to equity holders of the Parent Company						₱9,465,022
Other segment information						
Capital expenditures	₱1,241,242	₱2,180	₱268	₱495,658	₱–	₱1,739,348
Unallocated capital expenditure						1,456,391
Total capital expenditure						₱3,195,739
Depreciation and amortization	₱599,118	₱33,299	₱1,192	₱230,306	₱44,873	₱908,788
Unallocated depreciation and amortization						1,042,189
Total depreciation and amortization						₱1,950,977
Provision for (reversal of) impairment, credit and other losses	₱854,341	₱800,926	₱–	₱2,579	₱94,966	₱1,752,812

	2017 (As restated – Note 36)					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,404,759	₱17,112,989	₱3,313,723	₱123,190	₱121,991	₱22,076,652
Inter-segment	9,459,213	(9,193,733)	(265,480)	–	–	–
Net interest margin after inter-segment transactions	10,863,972	7,919,256	3,048,243	123,190	121,991	22,076,652
Other income	1,881,418	4,934,247	1,916,159	3,337,214	(123,852)	11,945,186
Segment revenue	12,745,390	12,853,503	4,964,402	3,460,404	(1,861)	34,021,838
Other expenses	11,519,652	2,025,522	168,908	1,688,555	68,159	16,157,702
Segment result	₱1,225,738	₱10,827,981	₱4,795,493	₱1,771,849	(₱70,020)	₱17,864,136
Unallocated expenses						7,385,378
Income before income tax						10,478,758
Income tax						2,322,213
Net income						8,156,545
Non-controlling interest						4,025
Net income for the year attributable to equity holders of the Parent Company						₱8,160,570
Other segment information						
Capital expenditures	₱820,121	₱4,278	₱–	₱282,846	₱–	₱1,107,245
Unallocated capital expenditure						2,019,644
Total capital expenditure						₱3,126,889
Depreciation and amortization	₱520,812	₱138,463	₱1,478	₱281,698	₱–	₱942,451
Unallocated depreciation and amortization						741,940
Total depreciation and amortization						₱1,684,391
Provision for (reversal of) impairment, credit and other losses	(₱1,477)	₱599,901	(₱41,417)	₱182,333	₱334,193	₱884,133

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2019					
	Retail Banking	**Corporate Banking**	**Global Banking and Market**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱700,967,750**	**₱230,221,786**	**₱195,813,132**	**₱81,111,908**	**(₱71,364,991)**	**₱1,136,749,584**
Unallocated assets						**5,541,027**
Total assets						**₱1,142,290,611**
Segment liabilities	**₱694,547,248**	**₱140,490,040**	**₱190,729,000**	**₱17,804,392**	**(₱62,345,117)**	**₱981,225,563**
Unallocated liabilities						**6,089,648**
Total liabilities						**₱987,315,211**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2018					
	Retail Banking	Corporate Banking	Global Banking and Market	Others	Adjustments and Eliminations*	Total
Segment assets	₱675,593,916	₱192,740,146	₱129,761,319	₱53,314,794	(₱71,435,872)	₱979,511,948
Unallocated assets						4,136,238
Total assets						₱983,648,186
Segment liabilities	₱649,898,976	₱138,236,987	₱102,725,318	₱23,225,342	(₱62,465,415)	₱851,621,208
Unallocated liabilities						3,467,966
Total liabilities						₱855,089,174

**The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in four principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets*		**Liabilities**		**Capital Expenditures**	
	2019	2018	**2019**	2018	**2019**	2018
Philippines	**₱550,854,343**	₱451,576,392	**₱950,248,431**	₱821,782,475	**₱2,625,086**	₱3,555,349
Asia (excluding Philippines)	**13,031,999**	5,828,575	**34,243,417**	30,496,429	**2,634**	8,053
USA and Canada	**120,835,377**	127,628,675	**2,349,279**	2,311,128	**3,721**	632
United Kingdom	**1,228,180**	1,731,423	**474,084**	499,142	**2,392**	21
	₱685,949,899	₱586,765,065	**₱987,315,211**	₱855,089,174	**₱2,633,833**	₱3,564,055

** Gross of allowance for impairment and credit losses (Note 16), unearned and other deferred income (Note 10), and accumulated amortization and depreciation (Notes 11, 13, and 14)*

	Credit Commitments		**External Revenues**		
	2019	2018	**2019**	2018	2017
Philippines	**₱39,456,355**	₱44,358,069	**₱58,703,722**	₱47,899,027	₱37,887,854
Asia (excluding Philippines)	**–**	881,144	**1,614,370**	1,290,100	1,021,619
USA and Canada	**–**	–	**717,489**	684,794	543,158
United Kingdom	**–**	–	**129,534**	124,861	110,915
	₱39,456,355	₱45,239,213	**₱61,165,115**	₱49,998,782	₱39,563,546

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Demand deposit (Note 17)	**₱92,181,801**	₱101,027,312	**₱90,394,597**	₱97,665,375
Term deposit facility (TDF)	**13,800,000**	1,696,000	**11,407,000**	1,000,000
	₱105,981,801	₱102,723,312	**₱101,801,597**	₱98,665,375

TDFs bear annual interest rates ranging from to 3.50% to 5.23% in 2019, from 3.22% to 5.24% in 2018 and from 3.45% to 3.50% in 2017.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

Interbank loans receivables of the Group and the Parent Company bear interest ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Peso-denominated	**N/A**	3.0% - 3.1%	2.6%	**N/A**	3.0% - 3.1%	2.6%
Foreign currency-denominated	**0.0% - 5.0%**	0.0% - 5.0%	0.2% - 4.4%	**0.0% - 5.0%**	0.0% - 5.0%	0.2% - 4.4%

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Interbank loans receivable	**₱24,838,535**	₱11,248,455	**₱23,804,312**	₱11,689,414
Less: Allowance for credit losses (Note 16)	**6,719**	–	**1,293**	–
	24,831,816	11,248,455	**23,803,019**	11,689,414
Less: Interbank loans receivable not considered as cash and cash equivalents	**1,888,287**	668,023	**1,528,713**	1,108,331
	₱22,943,529	₱10,580,432	**₱22,274,306**	₱10,581,083

Securities held under agreements to resell bear interest ranging from 4.00% to 4.75%, from 3.00% to 4.75%, and 3.00% in 2019, 2018 and 2017, respectively. As of December 31, 2019, allowance for credit losses on securities held under agreements to resell amounted to ₱1.9 million.

In 2019, 2018 and 2017, interest income on interbank loans receivable and securities held under agreements to resell amounted to ₱668.2 million, ₱379.4 million, and ₱480.0 million, respectively, for the Group and ₱568.1 million, ₱350.8 million, and ₱446.1 million, respectively, for the Parent Company.

The fair value of the treasury bills pledged under these agreements as of December 31, 2019 and 2018 amounted to ₱2.5 billion and ₱19.9 billion, respectively, for the Group, and ₱1.1 billion and ₱19.9 billion, respectively, for the Parent Company (Note 35).

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Financial assets at FVTPL	**₱13,468,985**	₱10,000,776	**₱11,169,656**	₱9,983,636
Financial assets at FVOCI	**123,140,840**	52,129,821	**118,896,564**	50,656,893
Investment securities at amortized cost	**100,464,757**	100,805,861	**99,203,909**	99,586,329
	₱237,074,582	₱162,936,458	**₱229,270,129**	₱160,226,858

Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Government securities	**₱8,503,822**	₱8,457,711	**₱8,503,822**	₱8,457,711
Private debt securities	**3,130,156**	415,583	**883,641**	415,583
Equity securities	**1,455,435**	545,149	**1,409,187**	537,478
Derivative assets (Notes 23 and 35)	**373,040**	574,629	**373,006**	572,864
Investment in UITFs	**6,532**	7,704	**–**	–
	₱13,468,985	₱10,000,776	**₱11,169,656**	₱9,983,636

The effective interest rates of debt securities at FVTPL range from:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Government securities	**2.8% - 9.5%**	2.8% - 8.4%	2.1% - 6.1%	**2.8% - 9.5%**	2.8% - 8.4%	2.1% - 6.1%
Private debt securities	**5.5% - 7.4%**	3.0% - 7.5%	5.2% - 6.6%	**5.5% - 7.4%**	3.0% - 7.5%	5.2% - 6.6%

Financial Assets at FVOCI

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Government securities (Note 19)	**₱91,049,715**	₱33,524,795	**₱90,420,191**	₱32,697,809
Private debt securities (Note 19)	**30,390,002**	17,718,844	**27,482,292**	17,314,884
Equity securities				
Quoted	**1,071,534**	800,059	**596,148**	558,077
Unquoted	**629,589**	86,123	**397,933**	86,123
	₱123,140,840	₱52,129,821	**₱118,896,564**	₱50,656,893

The nominal interest rates of debt securities at FVOCI range from:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Government securities	**0.2% - 9.5%**	1.8% - 11.6%	1.1% - 10.6%	**0.2% - 9.5%**	1.8% - 11.6%	1.1% - 10.6%
Private debt securities	**3.5% - 6.9%**	2.6% - 7.4%	5.5% - 7.4%	**3.5% - 6.9%**	2.6% - 7.4%	5.5% - 7.4%

As of December 31, 2019 and 2018, the fair value of financial assets at FVOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱8.1 billion and ₱11.3 billion, respectively (Note 19). The counterparties have an obligation to return the securities to the Parent

Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

The movements in 'Net unrealized gain (loss) on financial assets at FVOCI' of the Group and the Parent Company are as follows:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Balance at the beginning of the year	**(₱3,196,936)**	(₱688,514)	**(₱3,196,936)**	(₱688,514)
Changes in fair values:				
Debt securities	**5,202,946**	(2,046,092)	**5,257,015**	(2,137,364)
Equity securities	**583,286**	93,112	**349,881**	93,112
Expected credit losses (reversals of provision)	**5,290**	(12,151)	**5,290**	(12,151)
Realized losses (gains)	**281,340**	(167,902)	**317,609**	(167,902)
Share in net unrealized gains (losses) of subsidiaries and an associate (Note 12)	**447,169**	(375,389)	**590,236**	(284,117)
	3,323,095	(3,196,936)	**3,323,095**	(3,196,936)
Income tax effect	**(72,444)**	–	**(72,444)**	–
	₱3,250,651	(₱3,196,936)	**₱3,250,651**	(₱3,196,936)

As of December 31, 2019 and 2018, the ECL on debt securities at FVOCI (included in 'Net unrealized gain (loss) on financial assets at FVOCI') amounted to ₱51.6 million and ₱46.3 million, respectively, for the Group and the Parent Company (Note 16). Movements in ECL on debt securities at FVOCI are mostly driven by movements in the corresponding gross figures.

Investment Securities at Amortized Cost

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Government securities (Notes 19 and 32)	**₱55,594,860**	₱60,278,202	**₱54,509,768**	₱60,091,820
Private debt securities	**48,655,093**	44,296,923	**48,422,384**	43,263,773
	104,249,953	104,575,125	**102,932,152**	103,355,593
Less allowance for credit losses (Note 16)	**3,785,196**	3,769,264	**3,728,243**	3,769,264
	₱100,464,757	₱100,805,861	**₱99,203,909**	₱99,586,329

In 2019 and 2018, movements in allowance for expected credit losses on investment securities at amortized cost are mostly driven by newly originated assets which remained in Stage 1 and amortization of the corresponding gross figures.

On various dates in April 2019, the Parent Company sold a portion of its investment securities at amortized cost with a carrying value of ₱29.5 million and corresponding gain of ₱0.2 million as part of its risk management policies.

As of December 31, 2019 and 2018, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱21.0 billion and ₱36.7 billion, respectively (Note 19).

Interest Income on Investment Securities at Amortized Cost and FVOCI/AFS and HTM Investments
This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017	2019	2018	2017
Financial assets at FVOCI	**₱4,289,406**	₱2,279,491	₱–	**₱4,076,597**	₱2,189,159	₱–
Investment securities at amortized cost	**4,515,879**	2,315,284	–	**4,472,466**	2,313,172	–
AFS investments	**–**	–	2,121,231	**–**	–	2,056,124
HTM investments	**–**	–	978,680	**–**	–	977,719
	₱8,805,285	₱4,594,775	₱3,099,911	**₱8,549,063**	₱4,502,331	₱3,033,843

Trading and Investment Securities Gains - net
This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Financial assets at FVTPL						
Government securities	**₱1,199,934**	(₱7,616)	₱27,940	**₱1,199,934**	(₱7,616)	₱27,940
Private debt securities	**122,502**	(13,732)	17,197	**102,524**	(13,782)	17,197
Equity securities	**36,694**	4,028	8,347	**35,827**	11,013	5,111
Derivatives (Note 23)	**(3,733)**	161	(57)	**(3,733)**	161	(57)
Investment in UITFs	**209**	–	93	**–**	–	–
Financial assets at FVOCI						
Government securities	**(317,244)**	132,670	–	**(317,609)**	132,670	–
Private debt securities	**35,904**	35,232	–	**–**	35,232	–
Investment securities at amortized cost	**212**	–	–	**212**	–	–
AFS investments	**–**	–	506,238	**–**	–	506,238
	₱1,074,478	₱150,743	₱559,758	**₱1,017,155**	₱157,678	₱556,429

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	2019	2018
Receivables from customers:				
Loans and discounts	**₱620,389,633**	₱541,940,938	**₱556,791,901**	₱474,384,927
Credit card receivables	**15,869,946**	13,412,063	**15,869,946**	13,412,063
Customers' liabilities on letters of credit and trust receipts	**7,492,970**	12,230,782	**7,345,029**	12,046,744
Lease contracts receivable (Note 29)	**3,079,713**	2,928,339	**7,150**	9,618
Customers' liabilities on acceptances (Note 19)	**2,692,334**	1,765,861	**2,692,334**	1,765,861
Bills purchased (Note 22)	**1,945,838**	2,205,608	**1,377,849**	1,430,481
	651,470,434	574,483,591	**584,084,209**	503,049,694
Less unearned and other deferred income	**451,191**	979,678	**366,471**	677,052
	651,019,243	573,503,913	**583,717,738**	502,372,642
Other receivables:				
Sales contract receivables (Note 33)	**7,173,039**	12,296,470	**7,129,811**	12,242,869
Accounts receivable	**9,932,499**	9,015,490	**3,994,064**	3,433,521
Accrued interest receivable	**7,814,819**	6,551,255	**6,372,891**	5,065,963
Miscellaneous	**397,385**	566,924	**324,176**	509,861
	25,317,742	28,430,139	**17,820,942**	21,252,214
	676,336,985	601,934,052	**601,538,680**	523,624,856
Less allowance for credit losses (Note 16)	**18,413,228**	15,267,577	**14,292,784**	12,625,582
	₱657,923,757	₱586,666,475	**₱587,245,896**	₱510,999,274

Below is the reconciliation of loans and receivables as to classes:

	Consolidated 2019								
	Corporate Loans	**LGU**	**Credit Cards**	**Retail SMEs**	**Housing Loans**	**Auto Loans**	**Other Loans**	**Other Receivables**	**Total**
Receivables from customers:									
Loans and discounts	**₱537,313,169**	**₱6,799,872**	**₱–**	**₱18,585,473**	**₱33,569,031**	**₱12,968,684**	**₱11,153,404**	**₱–**	**₱620,389,633**
Credit card receivables	–	–	**15,869,946**	–	–	–	–	–	**15,869,946**
Customers' liabilities on letters of credit and trust receipts	**6,778,112**	–	–	**176,144**	–	–	**538,714**	–	**7,492,970**
Lease contracts receivable (Note 29)	**553,114**	–	–	**2,519,449**	–	–	**7,150**	–	**3,079,713**
Customers' liabilities on acceptances (Note 19)	**2,692,334**	–	–	–	–	–	–	–	**2,692,334**
Bills purchased (Note 22)	**1,543,935**	–	–	**86,568**	–	–	**315,335**	–	**1,945,838**
	548,880,664	**6,799,872**	**15,869,946**	**21,367,634**	**33,569,031**	**12,968,684**	**12,014,603**	–	**651,470,434**
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	**7,173,039**	**7,173,039**
Accounts receivable	–	–	–	–	–	–	–	**9,932,499**	**9,932,499**
Accrued interest receivable	–	–	–	–	–	–	–	**7,814,819**	**7,814,819**
Miscellaneous	–	–	–	–	–	–	–	**397,385**	**397,385**
	548,880,664	**6,799,872**	**15,869,946**	**21,367,634**	**33,569,031**	**12,968,684**	**12,014,603**	**25,317,742**	**676,788,176**
Less: Unearned and other deferred income	**243,249**	**3,370**	–	**288,184**	**464**	**(136,504)**	**47,935**	**4,493**	**451,191**
Allowance for credit losses (Note 16)	**8,052,932**	**67,650**	**1,605,751**	**1,482,452**	**1,551,421**	**243,843**	**1,069,187**	**4,339,992**	**18,413,228**
	₱540,584,483	**₱6,728,852**	**₱14,264,195**	**₱19,596,998**	**₱32,017,146**	**₱12,861,345**	**₱10,897,481**	**₱20,973,257**	**₱657,923,757**

	Consolidated 2018 (As restated – Note 36)								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱468,488,623	₱6,920,215	₱–	₱11,820,434	₱33,843,395	₱11,743,245	₱9,125,026	₱–	₱541,940,938
Credit card receivables	–	–	13,412,063	–	–	–	–	–	13,412,063
Customers' liabilities on letters of credit and trust receipts	6,183,217	–	–	208,255	–	–	5,839,310	–	12,230,782
Lease contracts receivable (Note 29)	–	–	–	–	–	–	2,928,339	–	2,928,339
Customers' liabilities on acceptances (Note 19)	983,637	–	–	2,637	–	–	779,587	–	1,765,861
Bills purchased (Note 22)	1,514,735	–	–	16,828	–	–	674,045	–	2,205,608
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,346,307	–	574,483,591
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	12,296,470	12,296,470
Accounts receivable	–	–	–	–	–	–	–	9,015,490	9,015,490
Accrued interest receivable	–	–	–	–	–	–	–	6,551,255	6,551,255
Miscellaneous	–	–	–	–	–	–	–	566,924	566,924
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,346,307	28,430,139	602,913,730
Less: Unearned and other deferred income	755,202	–	–	104,542	–	–	117,096	2,838	979,678
Allowance for credit losses (Note 16)	5,160,250	70,620	1,075,576	864,133	1,273,485	231,355	1,584,526	5,007,632	15,267,577
	₱471,254,760	₱6,849,595	₱12,336,487	₱11,079,479	₱32,569,910	₱11,511,890	₱17,644,685	₱23,419,669	₱586,666,475

	Parent Company 2019								
	Corporate Loans	**LGU**	**Credit Cards**	**Retail SMEs**	**Housing Loans**	**Auto Loans**	**Other Loans**	**Other Receivables**	**Total**
Receivables from customers:									
Loans and discounts	**₱526,781,899**	**₱6,799,872**	**₱–**	**₱12,245,247**	**₱3,848,232**	**₱2,635,828**	**₱4,480,823**	**₱–**	**₱556,791,901**
Credit card receivables	–	–	**15,869,946**	–	–	–	–	–	**15,869,946**
Customers' liabilities on letters of credit and trust receipts	**6,630,171**	–	–	**176,144**	–	–	**538,714**	–	**7,345,029**
Lease contracts receivable (Note 29)	–	–	–	–	–	–	**7,150**	–	**7,150**
Customers' liabilities on acceptances (Note 19)	**2,692,334**	–	–	–	–	–	–	–	**2,692,334**
Bills purchased (Note 22)	**1,017,433**	–	–	**45,080**	–	–	**315,336**	–	**1,377,849**
	537,121,837	**6,799,872**	**15,869,946**	**12,466,471**	**3,848,232**	**2,635,828**	**5,342,023**	–	**584,084,209**
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	**7,129,811**	**7,129,811**
Accrued interest receivable	–	–	–	–	–	–	–	**6,372,891**	**6,372,891**
Accounts receivable	–	–	–	–	–	–	–	**3,994,064**	**3,994,064**
Miscellaneous	–	–	–	–	–	–	–	**324,176**	**324,176**
	537,121,837	**6,799,872**	**15,869,946**	**12,466,471**	**3,848,232**	**2,635,828**	**5,342,023**	**17,820,942**	**601,905,151**
Less: Unearned and other deferred income	**450,530**	**3,370**	–	**15,723**	**464**	**(136,504)**	**30,554**	**2,334**	**366,471**
Allowance for credit losses (Note 16)	**7,673,103**	**67,650**	**1,605,751**	**422,389**	**75,029**	**62,088**	**1,401,335**	**2,985,439**	**14,292,784**
	₱528,998,204	**₱6,728,852**	**₱14,264,195**	**₱12,028,359**	**₱3,772,739**	**₱2,710,244**	**₱3,910,134**	**₱14,833,169**	**₱587,245,896**

	Parent Company 2018								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱450,849,723	₱6,920,215	₱–	₱7,614,915	₱1,627,322	₱40,025	₱7,332,727	₱–	₱474,384,927
Credit card receivables	–	–	13,412,063	–	–	–	–	–	13,412,063
Customers' liabilities on letters of credit and trust receipts	6,012,028	–	–	195,405	–	–	5,839,311	–	12,046,744
Lease contracts receivable (Note 29)	–	–	–	–	–	–	9,618	–	9,618
Customers' liabilities on acceptances (Note 19)	983,637	–	–	2,637	–	–	779,587	–	1,765,861
Bills purchased (Note 22)	739,798	–	–	16,638	–	–	674,045	–	1,430,481
	458,585,186	6,920,215	13,412,063	7,829,595	1,627,322	40,025	14,635,288	–	503,049,694
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	12,242,869	12,242,869
Accrued interest receivable	–	–	–	–	–	–	–	5,065,963	5,065,963
Accounts receivable	–	–	–	–	–	–	–	3,433,521	3,433,521
Miscellaneous	–	–	–	–	–	–	–	509,861	509,861
	458,585,186	6,920,215	13,412,063	7,829,595	1,627,322	40,025	14,635,288	21,252,214	524,301,908
Less: Unearned and other deferred income	546,141	–	–	10,977	–	–	117,096	2,838	677,052
Allowance for credit losses (Note 16)	4,984,233	70,620	1,075,576	578,369	58,224	39,592	1,031,132	4,787,836	12,625,582
	₱453,054,812	₱6,849,595	₱12,336,487	₱7,240,249	₱1,569,098	₱433	₱13,487,060	₱16,461,540	₱510,999,274

Lease contract receivables

An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Minimum lease payments				
Due within one year	**₱1,260,542**	₱1,101,635	**₱3,250**	₱3,118
Due beyond one year but not over five years	**1,164,893**	1,151,333	**3,900**	6,500
Due beyond five years	**–**	26,034	**–**	–
	2,425,435	2,279,002	**7,150**	9,618
Residual value of leased equipment				
Due within one year	**304,898**	298,725	**–**	–
Due beyond one year but not over five years	**349,380**	350,612	**–**	–
	654,278	649,337	**–**	–
Gross investment in lease contract receivables (Note 29)	**₱3,079,713**	₱2,928,339	**₱7,150**	₱9,618

Interest income

Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
Receivables from customers and sales contract receivables	**₱39,853,001**	₱30,202,835	₱22,523,464	**₱35,164,556**	₱25,504,159	₱19,100,932
Unquoted debt securities	**–**	–	146,012	**–**	–	144,878
	₱39,853,001	₱30,202,835	₱22,669,476	**₱35,164,556**	₱25,504,159	₱19,245,810

As of December 31, 2019 and 2018, 71.1% and 64.1%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2019 and 2018, 70.2% and 61.7%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.0% to 9.0% in 2019, from 1.8% to 9.0% in 2018 and from 1.9% to 9.0% in 2017 for foreign currency-denominated receivables, and from 2.5% to 19.4% in 2019, from 1.5% to 13.0% in 2018 and from 1.9% to 8.0% in 2017 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 3.3% to 21.0%, 3.3% to 21.0% and 2.7% to 21.0% in 2019, 2018 and 2017, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated							
	2019							
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Long-term Leasehold Land**	**Construction in-progress**	**Leasehold Improvements**	**Right-of-use Asset – Bank Premises**	**Total**
Cost								
Balance at beginning of year, as previously reported	**₱11,467,244**	**₱6,464,316**	**₱6,628,516**	**₱579,324**	**₱1,206,057**	**₱1,557,767**	**₱–**	**₱27,903,224**
Effect of adoption of PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**–**	**–**	**1,817,349**	**1,817,349**
Balance at beginning of year, as restated	**11,467,244**	**6,464,316**	**6,628,516**	**579,324**	**1,206,057**	**1,557,767**	**1,817,349**	**29,720,573**
Additions	**–**	**246,704**	**1,346,830**	**–**	**590,403**	**115,348**	**461,918**	**2,761,203**
Disposals	**(2)**	**(72,114)**	**(304,506)**	**(8,868)**	**–**	**(401,390)**	**–**	**(786,880)**
Transfers/others	**209,862**	**387,995**	**131,130**	**–**	**(1,002,762)**	**239,165**	**–**	**(34,610)**
Balance at end of year	**11,677,104**	**7,026,901**	**7,801,970**	**570,456**	**793,698**	**1,510,890**	**2,279,267**	**31,660,286**
Accumulated Depreciation and Amortization								
Balance at beginning of year	**–**	**2,996,722**	**3,904,873**	**48,908**	**–**	**999,596**	**–**	**7,950,099**
Depreciation and amortization	**–**	**293,543**	**1,032,834**	**5,697**	**–**	**219,182**	**568,067**	**2,119,323**
Disposals	**–**	**(25,373)**	**(199,214)**	**(3,512)**	**–**	**(387,677)**	**–**	**(615,776)**
Transfers/others	**–**	**(54,450)**	**(481,098)**	**–**	**–**	**458,237**	**–**	**(77,311)**
Balance at end of year	**–**	**3,210,442**	**4,257,395**	**51,093**	**–**	**1,289,338**	**568,067**	**9,376,335**
Allowance for Impairment Losses (Note 16)	**543,175**	**571,982**	**–**	**–**	**–**	**–**	**–**	**1,115,157**
Net Book Value at End of Year	**₱11,133,929**	**₱3,244,477**	**₱3,544,575**	**₱519,363**	**₱793,698**	**₱221,552**	**₱1,711,200**	**₱21,168,794**

	Consolidated						
	2018 (As restated – Note 36)						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction in-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱11,469,376	₱6,043,314	₱5,599,720	₱566,245	₱856,472	₱1,351,284	₱25,886,411
Additions	–	418,578	1,345,486	–	1,048,288	214,156	3,026,508
Disposals	–	(57,419)	(304,963)	–	–	(3,595)	(365,977)
Transfers/others	(2,132)	59,843	(11,727)	13,079	(698,703)	(4,078)	(643,718)
Balance at end of year	11,467,244	6,464,316	6,628,516	579,324	1,206,057	1,557,767	27,903,224
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568
Depreciation and amortization	–	257,784	823,696	5,688	–	197,517	1,284,685
Disposals	–	(14,414)	(256,198)	–	–	–	(270,612)
Transfers/others	–	(50,097)	(776)	4,785	–	(11,454)	(57,542)
Balance at end of year	–	2,996,722	3,904,873	48,908	–	999,596	7,950,099
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486
Net Book Value at End of Year	₱11,377,128	₱3,329,224	₱2,723,643	₱530,416	₱1,206,057	₱558,171	₱19,724,639

	Parent Company						
	2019						
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Construction in-progress**	**Leasehold Improvements**	**Right-of-use Asset – Bank Premises**	**Total**
Cost							
Balance at beginning of year, as previously reported	**₱11,264,043**	**₱6,216,294**	**₱4,865,627**	**₱1,206,056**	**₱1,206,373**	**₱–**	**₱24,758,393**
Effect of adoption of PFRS 16 (Note 2)	**–**	**–**	**–**	**–**	**–**	**1,600,161**	**1,600,161**
Balance at beginning of year, as restated	**11,264,043**	**6,216,294**	**4,865,627**	**1,206,056**	**1,206,373**	**1,600,161**	**26,358,554**
Additions	**–**	**203,869**	**789,601**	**590,403**	**50,795**	**432,157**	**2,066,825**
Disposals	**–**	**(13,124)**	**(140,985)**	**–**	**(21)**	**–**	**(154,130)**
Transfers/others	**209,862**	**387,987**	**122,904**	**(1,002,762)**	**240,977**	**–**	**(41,032)**
Balance at end of year	**11,473,905**	**6,795,026**	**5,637,147**	**793,697**	**1,498,124**	**2,032,318**	**28,230,217**
Accumulated Depreciation and Amortization							
Balance at beginning of year	**–**	**2,929,042**	**3,158,729**	**–**	**836,445**	**–**	**6,924,216**
Depreciation and amortization	**–**	**291,779**	**675,761**	**–**	**161,217**	**488,171**	**1,616,928**
Disposals	**–**	**(11,408)**	**(142,459)**	**–**	**(21)**	**–**	**(153,888)**
Transfers/others	**–**	**(56,908)**	**(5,693)**	**–**	**(6,903)**	**–**	**(69,504)**
Balance at end of year	**–**	**3,152,505**	**3,686,338**	**–**	**990,738**	**488,171**	**8,317,752**
Allowance for Impairment Losses (Note 16)	**543,175**	**571,982**	**–**	**–**	**–**	**–**	**1,115,157**
Net Book Value at End of Year	**₱10,930,730**	**₱3,070,539**	**₱1,950,809**	**₱793,697**	**₱507,386**	**₱1,544,147**	**₱18,797,308**

	Parent Company 2018					
	Land	Building	Furniture, Fixtures and Equipment	Construction in-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱11,266,176	₱5,801,707	₱4,347,447	₱856,473	₱1,059,955	₱23,331,758
Additions	–	375,743	687,937	1,048,288	151,096	2,263,064
Disposals	–	(19,117)	(163,932)	–	–	(183,049)
Transfers/others	(2,133)	57,961	(5,825)	(698,705)	(4,678)	(653,380)
Balance at end of year	11,264,043	6,216,294	4,865,627	1,206,056	1,206,373	24,758,393
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,750,464	2,760,305	–	698,718	6,209,487
Depreciation and amortization	–	256,337	561,787	–	149,331	967,455
Disposals	–	(14,414)	(162,596)	–	–	(177,010)
Transfers/others	–	(63,345)	(767)	–	(11,604)	(75,716)
Balance at end of year	–	2,929,042	3,158,729	–	836,445	6,924,216
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,174,379	₱3,148,882	₱1,706,898	₱1,206,056	₱369,928	₱17,606,143

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱1.7 billion and ₱2.6 billion as of December 31, 2019 and 2018, respectively.

Gain (loss) on disposal of property and equipment in 2019, 2018 and 2017 amounted to (₱9.0 million), ₱28.4 million, and ₱4.3 million, respectively, for the Group and ₱1.0 million, ₱28.4 million and ₱2.0 million, respectively, for the Parent Company (Note 26).

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2019	2018 (As restated – Note 36	2017 (As restated – Note 36	**2019**	2018	2017
Depreciation						
Property and equipment	**₱2,119,323**	₱1,284,685	₱1,091,437	**₱1,616,928**	₱967,456	₱886,788
Investment properties (Note 13)	**179,619**	177,611	152,894	**120,604**	129,615	136,507
Chattel mortgage properties	**17,024**	27,276	33,009	**–**	1,330	8,122
Amortization of intangible assets (Note 14)	**488,157**	461,405	407,051	**469,539**	444,311	353,940
	₱2,804,123	₱1,950,977	₱1,684,391	**₱2,207,071**	₱1,542,712	₱1,385,357

Certain property and equipment of the Parent Company with carrying amount of ₱92.6 million and ₱98.3 million are temporarily idle as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, property and equipment of the Parent Company with gross carrying amount of ₱5.1 billion are fully depreciated but are still being used.

12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership Direct	Percentage of Ownership Indirect
Subsidiaries					
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–
PNB Holdings Corporation (PNB Holdings)	Holding Company	- do -	Php	**100.00**	–
PNB General Insurers, Inc. (PNB Gen)	Insurance	- do -	Php	**65.75**	**34.25**
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–
PNB Corporation – Guam [(a)]	Remittance	USA	USD	**100.00**	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–
PNB Remittance Centers, Inc. (PNB RCI) [(b)]	Remittance	- do -	USD	–	**100.00**
PNB Remittance Co. (Nevada) [(c)]	Remittance	-do-	USD	–	**100.00**
PNB RCI Holding Co. Ltd. (PNB RHCL) [(c)]	Holding Company	- do -	USD	–	**100.00**
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**
PNB Europe PLC	Banking	United Kingdom	GBP	**100.00**	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	CNY	**99.04**	–
PNB-IBJL Leasing and Finance Corporation (PILFC)	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-IBJL Equipment Rentals Corporation [(e)]	Rental	- do -	Php	–	**75.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	- do -	HKD	**51.00**	–
ACR Nominees Limited [(f)] *	Banking	- do -	HKD	–	**51.00**
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	- do -	Php	**44.00**	–

** Subsidiaries acquired as a result of the merger with ABC*
[(a)] *Ceased operations on June 30, 2012 and license status became dormant thereafter*
[(b)] *Owned through PNB IIC*
[(c)] *Owned through PNB RCI*
[(d)] *Owned through PNB RHCL*
[(e)] *Owned through PILFC*
[(f)] *Owned through ABCHKL*

The details of this account follow:

	Consolidated 2019	Consolidated 2018	Parent Company 2019	Parent Company 2018
Investment in Subsidiaries				
PNBSB	**₱–**	₱–	**₱10,935,041**	₱10,935,041
ACB	–	–	**6,087,520**	6,087,520
PNB IIC	–	–	**2,028,202**	2,028,202
PNB Europe PLC	–	–	**1,327,393**	1,327,393
PNB Gen (Note 36)	–	–	**980,000**	800,000
ABCHKL	–	–	**947,586**	947,586
PNB Capital	–	–	**850,000**	850,000
PNB GRF	–	–	**753,061**	753,061
PILFC	–	–	**481,943**	481,943
PNB Holdings	–	–	**377,876**	377,876
OHBVI	–	–	**291,841**	291,841
PNB Securities	–	–	**62,351**	62,351
PNB Corporation – Guam	–	–	**7,672**	7,672
	–	–	**25,130,486**	24,950,486
Investment in an Associate – APLII	**2,728,089**	2,728,089	**2,728,089**	2,728,089
Accumulated equity in net earnings of subsidiaries and an associate:				
Balance at beginning of year	**173,282**	129,435	**189,711**	(389,781)
Equity in net earnings (losses) for the year	**(97,608)**	43,847	**(345,599)**	530,885
Dissolution of a subsidiary	–	–	–	48,607
	75,674	173,282	**(155,889)**	189,711

(Forward)

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Accumulated share in:				
Net unrealized gains (losses) on financial assets at FVOCI (Note 9)	**(₱198,846)**	(₱646,013)	**₱5,207**	(₱585,029)
Remeasurement gain (loss) on retirement plan	**(11,724)**	151,204	**83,429**	158,444
Aggregate reserves on life insurance policies	**12,280**	12,280	**12,280**	12,280
Accumulated translation adjustments	**–**	–	**626,755**	1,191,826
	(198,290)	(482,529)	**727,671**	777,521
	₱2,605,473	₱2,418,842	**₱28,430,358**	₱28,645,807

As of December 31, 2019 and 2018, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and are not available for dividend declaration.

Investment in PNBSB
On September 28, 2018, the Parent Company's BOD approved the full integration of PNBSB through the acquisition of its assets and assumption of its liabilities in exchange for cash.

On August 29, 2019, the Monetary Board of BSP, through its Resolution No. 1310, approved the integration of PNBSB with the Parent Company. Once integration is rolled out, the Parent Company will be able to deliver a more efficient banking experience and serve a wider customer base, while the customers of PNBSB will have access to the Parent Company's diverse portfolio of financial solutions. The consumer lending business, currently operated through PNBSB, will also benefit from the Group's ability to efficiently raise low cost of funds.

The proposed integration shall take effect on March 1, 2020.

Investment in PNB Gen
On April 26, 2018 and May 26, 2018, the BODs of the Parent Company and its subsidiary, PNB Holdings, respectively, approved the exchange of all their holdings in PNB Gen with shares in Alliedbankers Insurance Corporation (ABIC), an affiliate. On September 13, 2019, ABIC revised its offer to purchase all of the shares of PNB Gen through cash acquisition instead, which superseded ABIC's initial offer of exchange of shares. As a result, the proposed merger of PNB Gen with ABIC did not materialize (Note 36).

On November 21, 2018, the Parent Company's BOD approved the capital infusion of ₱180.0 million to PNB Gen as part of the latter's capital build-up and minimum net worth requirements as an insurance company doing business in the Philippines. On January 31, 2019, the Parent Company received BSP's approval of the additional capital infusion.

On January 24, 2020, the Parent Company received BSP's approval for another round of additional capital infusion of the Group to PNB Gen of up to ₱300.0 million.

Investments in PILFC
On January 22, 2018, the Parent Company's Board of Directors (BOD) approved the capital infusion of ₱400.0 million to PILFC. This resulted in an increase in the ownership interest of the Parent Company to PILFC from 75% to 85%. The remaining interest is owned by IBJ Leasing Co., Ltd (IBJLC), a foreign company incorporated in Japan.

On July 27, 2018, the BOD approved the sale of 1,000,000 common shares of the Parent Company in PILFC to IBJLC for ₱100.0 million at par, which was consummated on August 29, 2018 via a deed of assignment, reverting the Parent Company's ownership in PILFC to 75%.

Material Non-controlling Interests
Proportion of equity interest held by material NCI follows:

		Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
	Principal Activities	**2019**	2018	**2019**	2018	**2019**	2018
ABCHKL	Banking	**49.00%**	49.00%	**₱1,777,670**	₱1,731,842	**₱97,409**	₱80,595
OHBVI	Holding Company	**72.22%**	72.22%	**973,846**	1,008,307	**2,909**	9,602

The following table presents financial information of ABCHKL as of December 31, 2019 and 2018:

	2019	2018
Statement of Financial Position		
Current assets	**₱10,391,232**	₱11,079,475
Non-current assets	**1,001,907**	1,007,236
Current liabilities	**7,607,263**	8,396,635
Non-current liabilities	**157,978**	155,705
Statement of Comprehensive Income		
Revenues	**467,860**	444,968
Expenses	**269,067**	280,490
Net income	**198,794**	164,478
Total comprehensive income	**89,669**	319,254
Statement of Cash Flows		
Net cash provided by (used in) operating activities	**222,734**	(274,555)
Net cash used in investing activities	**(245)**	(891)
Net cash used in financing activities	**(6,730)**	(6,971)

The following table presents financial information of OHBVI as of December 31, 2019 and 2018:

	2019	2018
Statement of Financial Position		
Current assets	**₱1,348,444**	₱1,396,160
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive	**4,028**	13,296
Statement of Cash Flows		
Net cash provided by (used in) operating activities	**(47,717)**	68,649

The Parent Company determined that it controls OHBVI through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

Investment in APLII
On June 6, 2016, the Parent Company entered into agreements with Allianz SE (Allianz), a German company engaged in insurance and asset management, for the:

- sale of the 51.00% interest in PNB Life Insurance, Inc. (PNB Life) for a total consideration of USD66.0 million to form a new joint venture company named "Allianz-PNB Life Insurance, Inc."; and

- a 15-year exclusive distribution access to the branch network of the Parent Company and PNBSB (Exclusive Distribution Rights or EDR).

The purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in PNB Life and the EDR amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively. The consideration allocated to the EDR was recognized as 'Deferred revenue - Bancassurance' (Note 22) and is amortized to income over 15 years from date of sale. The Parent Company also receives variable annual and fixed bonus earn-out payments based on milestones achieved over the 15-year term of the distribution agreement.

Summarized financial information of APLII as of December 31, 2019 and 2018 follows:

	2019	2018
Current assets	**₱1,287,221**	₱1,260,591
Noncurrent assets	**35,866,453**	28,363,443
Current liabilities	**1,130,146**	1,079,194
Noncurrent liabilities	**33,766,163**	26,504,728

	2019	2018
Total assets	**₱37,153,674**	₱29,624,034
Total liabilities	**34,896,309**	27,583,922
	2,257,365	2,040,112
Percentage of ownership of the Group	**44%**	44%
Share in the net assets of the associate	**₱993,241**	₱897,649

The difference between the share in the net assets of APLII and the carrying value of the investments represents premium on acquisition/retained interest.

Summarized statement of comprehensive income of APLII in 2019 and 2018 follows:

	2019	2018
Revenues	**₱3,721,320**	₱2,752,253
Costs and expenses	**3,881,720**	(2,602,153)
Net income (loss)	**(160,400)**	150,100
Other comprehensive income	**297,095**	128,595
Total comprehensive income	**₱136,695**	₱278,695
Group's share of comprehensive income for the period	**₱60,145**	₱122,626

Dissolved Subsidiaries

The following are the dissolved subsidiaries of the Group from 2017 to 2019:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership Direct	Percentage of Ownership Indirect	Date of Regulatory Approval for Dissolution
Subsidiaries						
PNB Forex, Inc.	FX Trading	Philippines	Php	100.00	–	August 24, 2017
Allied Leasing and Finance Corporation (ALFC)	Rental	- do -	Php	57.21	–	December 18, 2017
PNB Remittance Co. (Nevada)	Remittance	USA	Php	–	100.00	January 16, 2019

On April 3, 2018, the Parent Company received liquidating dividends amounting to ₱84.0 million from the dissolution of ALFC.

Significant Restrictions
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

13. Investment Properties

This account consists of real properties as follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Foreclosed or acquired in settlement of loans	**₱10,591,598**	₱8,773,682	**₱9,925,490**	₱8,129,625
Held for lease	**4,452,228**	4,715,184	**4,750,897**	5,019,733
Total	**₱15,043,826**	₱13,488,866	**₱14,676,387**	₱13,149,358

The composition of and movements in this account follow:

	Consolidated 2019		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱14,326,994**	**₱4,278,472**	**₱18,605,466**
Additions	**841,422**	**126,189**	**967,611**
Disposals	**(30,663)**	**(41,195)**	**(71,858)**
Transfers/others	**(288,666)**	**13,811**	**(274,855)**
Balance at end of year	**14,849,087**	**4,377,277**	**19,226,364**
Accumulated Depreciation			
Balance at beginning of year	–	**1,833,237**	**1,833,237**
Depreciation (Note 11)	–	**179,619**	**179,619**
Disposals	–	**(49,833)**	**(49,833)**
Transfers/others	–	**70,607**	**70,607**
Balance at end of year	–	**2,033,630**	**2,033,630**
Allowance for Impairment Losses (Note 16)	**1,931,266**	**217,642**	**2,148,908**
Net Book Value at End of Year	**₱12,917,821**	**₱2,126,005**	**₱15,043,826**

	Consolidated 2018		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱15,864,125	₱4,474,906	₱20,339,031
Additions	518,404	315,460	833,864
Disposals	(2,050,017)	(581,409)	(2,631,426)
Transfers/others	(5,518)	69,515	63,997
Balance at end of year	14,326,994	4,278,472	18,605,466
Accumulated Depreciation			
Balance at beginning of year	–	1,725,681	1,725,681
Depreciation (Note 11)	–	177,611	177,611
Disposals	–	(243,085)	(243,085)
Transfers/others	–	173,030	173,030
Balance at end of year	–	1,833,237	1,833,237
Allowance for Impairment Losses (Note 16)	3,028,736	254,627	3,283,363
Net Book Value at End of Year	₱11,298,258	₱2,190,608	₱13,488,866

	Parent Company 2019		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱13,992,505**	**₱4,242,719**	**₱18,235,224**
Additions	**795,390**	**90,282**	**885,672**
Disposals	**(30,663)**	**(3,936)**	**(34,599)**
Transfers/others	**(278,814)**	**15,313**	**(263,501)**
Balance at end of year	**14,478,418**	**4,344,378**	**18,822,796**
Accumulated Depreciation			
Balance at beginning of year	**–**	**1,801,399**	**1,801,399**
Depreciation (Note 11)	**–**	**120,604**	**120,604**
Disposals	**–**	**(3,080)**	**(3,080)**
Transfers/others	**–**	**73,173**	**73,173**
Balance at end of year	**–**	**1,992,096**	**1,992,096**
Allowance for Impairment Losses (Note 16)	**1,929,130**	**225,183**	**2,154,313**
Net Book Value at End of Year	**₱12,549,288**	**₱2,127,099**	**₱14,676,387**

	Parent Company 2018		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱15,535,748	₱4,515,886	₱20,051,634
Additions	500,445	279,554	779,999
Disposals	(2,050,017)	(581,409)	(2,631,426)
Transfers/Others	6,329	28,688	35,017
Balance at end of year	13,992,505	4,242,719	18,235,224
Accumulated Depreciation			
Balance at beginning of year	–	1,713,804	1,713,804
Depreciation (Note 11)	–	129,615	129,615
Disposals	–	(243,085)	(243,085)
Transfers/others	–	201,065	201,065
Balance at end of year	–	1,801,399	1,801,399
Allowance for Impairment Losses (Note 16)	3,028,735	255,732	3,284,467
Net Book Value at End of Year	₱10,963,770	₱2,185,588	₱13,149,358

Foreclosed properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱455.6 million and ₱307.8 million, as of December 31, 2019 and 2018, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

The total recoverable value of certain investment properties of the Group that were impaired amounted to ₱4.7 billion and ₱4.3 billion as of December 31, 2019 and 2018, respectively.
For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱4.6 billion and ₱4.2 billion as of December 31, 2019 and 2018, respectively.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - others', amounted to ₱12.3 million, ₱58.6 million and ₱27.5 million in 2019, 2018, and 2017, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - others', amounted to ₱190.7 million, ₱271.4 million and ₱173.9 million in 2019, 2018, and 2017, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - others', amounted to ₱12.3 million, ₱58.6 million and ₱27.5 million in 2019, 2018, and 2017, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱190.7 million, ₱271.4 million and ₱167.1 million in 2019, 2018, and 2017, respectively.

14. Goodwill and Intangible Assets

These accounts consist of:

	Consolidated				
	2019				
	Intangible Assets with Finite Lives				
	CDI	**CRI**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱3,581,616**	**₱5,871,348**	**₱13,375,407**
Additions	**–**	**–**	**334,548**	**334,548**	**–**
Others	**–**	**–**	**2,605**	**2,605**	**–**
Balance at end of year	**1,897,789**	**391,943**	**3,918,769**	**6,208,501**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**1,118,641**	**391,943**	**1,327,401**	**2,837,985**	**–**
Amortization (Note 11)	**189,779**	**–**	**298,378**	**488,157**	**–**
Others	**–**	**–**	**40,370**	**40,370**	**–**
Balance at end of year	**1,308,420**	**391,943**	**1,666,149**	**3,366,512**	**–**
Net Book Value at End of Year	**₱589,369**	**₱–**	**₱2,252,620**	**₱2,841,989**	**₱13,375,407**

	Consolidated				
	2018 (As restated – Note 36)				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱3,432,798	₱5,722,530	₱13,375,407
Additions	–	–	169,231	169,231	–
Others	–	–	(20,413)	(20,413)	–
Balance at end of year	1,897,789	391,943	3,581,616	5,871,348	13,375,407
Accumulated Amortization					
Balance at beginning of year	928,862	391,943	1,067,924	2,388,729	–
Amortization (Note 11)	189,779	–	271,626	461,405	–
Others	–	–	(12,149)	(12,149)	–
Balance at end of year	1,118,641	391,943	1,327,401	2,837,985	–
Net Book Value at End of Year	₱779,148	₱–	₱2,254,215	₱3,033,363	₱13,375,407

	Parent Company				
	2019				
	Intangible Assets with Finite Lives				
	CDI	**CRI**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱4,556,717**	**₱6,846,449**	**₱13,515,765**
Additions	**–**	**–**	**331,543**	**331,543**	**–**
Others	**–**	**–**	**(2,140)**	**(2,140)**	**–**
Balance at end of year	**1,897,789**	**391,943**	**4,886,120**	**7,175,852**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**1,118,641**	**391,943**	**2,456,012**	**3,966,596**	**–**
Amortization (Note 11)	**189,779**	**–**	**279,760**	**469,539**	**–**
Others	**–**	**–**	**40,563**	**40,563**	**–**
Balance at end of year	**1,308,420**	**391,943**	**2,776,335**	**4,476,698**	**–**
Net Book Value at End of Year	**₱589,369**	**₱–**	**₱2,109,785**	**₱2,699,154**	**₱13,515,765**

	Parent Company				
	2018				
	Intangible Assets with Finite Lives				
	CDI	CRI	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱ 391,943	₱4,395,633	₱6,685,365	₱13,515,765
Additions	–	–	160,857	160,857	–
Others	–	–	227	227	–
Balance at end of year	1,897,789	391,943	4,556,717	6,846,449	13,515,765
Accumulated Amortization					
Balance at beginning of year	928,862	391,943	2,201,317	3,522,122	–
Amortization (Note 11)	189,779	–	254,532	444,311	–
Others	–	–	163	163	–
Balance at end of year	1,118,641	391,943	2,456,012	3,966,596	–
Net Book Value at End of Year	₱779,148	₱–	₱2,100,705	₱2,879,853	₱13,515,765

CDI and CRI

CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost

Software cost as of December 31, 2019 and 2018 includes capitalized development costs amounting to ₱2.0 billion, related to the Parent Company's new core banking system.

Goodwill

As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities. The business combination resulted in the recognition of goodwill amounting to ₱13.4 billion.

Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: Retail Banking, Corporate Banking and Global Banking and Market. Goodwill allocated to the CGUs amounted to ₱6.1 billion, ₱4.2 billion and ₱3.1 billion, respectively. CDI is allocated to Retail Banking while CRI is allocated to Corporate Banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGU's fair value less costs to sell and its value in use. The goodwill impairment test did not result in an impairment loss of goodwill of the CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount.

The recoverable amounts of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2019			2018		
	Retail Banking	**Corporate Banking**	**Global Banking and Market**	Retail Banking	Corporate Banking	Global Banking and Market
Pre-tax discount rate	**10.29%**	**10.29%**	**6.37%**	11.90%	11.90%	7.76%
Projected growth rate	**4.32%**	**4.32%**	**4.32%**	6.50%	6.50%	6.50%

The calculation of value in use is most sensitive to interest margin, discount rates, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

The discount rate applied have been determined based on cost of equity for Retail and Corporate Banking segments and weighted average cost of capital for Global Banking and Market segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor, all of which were obtained from external sources of information.

Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. Other Assets

This account consists of:

	Consolidated		**Parent Company**	
	2019	2018 (As restated – Note 36	**2019**	2018
Financial				
Checks for clearing	**₱7,079**	₱499,792	**₱7,079**	₱499,792
Return checks and other cash items	**58,678**	169,997	**56,469**	166,992
Security deposits	**44,132**	129,309	**–**	–
Receivable from special purpose vehicle (SPV)	**500**	500	**500**	500
Miscellaneous	**10,298**	5,407	**9,260**	3,966
	120,687	805,005	**73,308**	671,250
Non-financial				
Creditable withholding taxes	**4,103,986**	4,046,130	**3,660,735**	4,018,405
Deferred reinsurance premiums (Note 36)	**1,135,113**	985,966	**–**	–
Deferred benefits	**743,727**	622,035	**639,625**	540,328
Real estate inventories held under development (Note 33)	**728,752**	728,752	**728,752**	728,752
Prepaid expenses	**567,137**	501,478	**430,805**	382,146
Documentary stamps on hand	**464,616**	438,312	**464,616**	431,751
Chattel mortgage properties - net of depreciation	**168,661**	109,264	**32,401**	32,437
Input value added tax	**101,138**	99,817	**–**	–
Stationeries and supplies	**86,843**	99,176	**85,997**	93,594
Miscellaneous (Note 28)	**922,986**	133,784	**264,876**	186,319
	9,022,959	7,764,714	**6,307,807**	6,413,732
	9,143,646	8,569,719	**6,381,115**	7,084,982
Less allowance for credit and impairment losses (Note 16)	**1,058,123**	1,178,605	**1,028,352**	1,178,555
	₱8,085,523	₱7,391,114	**₱5,352,763**	₱5,906,427

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2019 and 2018.

Deferred benefits
This represents the share of the Group in the cost of transportation equipment acquired under the Group's car plan which shall be amortized monthly.

Real estate inventories held under development
This represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums and taxes.

Chattel mortgage properties
As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱94.5 million and ₱105.9 million, respectively. As of December 31, 2019 and 2018, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱57.9 million and ₱58.2 million, respectively.

As of December 31, 2019 and 2018, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired is at ₱0.9 million .

Receivable from SPV
This represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, Opal Portfolio Investing, Inc. (an SPV), relative to the sale of certain non-performing assets of the Group.

Miscellaneous
Other financial assets include revolving fund, petty cash fund and miscellaneous cash and other cash items.

Other nonfinancial assets include postages, refundable deposits, notes taken for interest and sundry debits.

16. **Allowance for Impairment and Credit Losses**

Provision for Impairment, Credit and Other Losses

This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36	2017 (As restated – Note 36	**2019**	2018	2017
Provision for (reversal of) impairment	**₱500,253**	(₱71,135)	₱421,792	**(₱55,272)**	(₱71,135)	₱422,451
Provision for credit losses	**2,481,641**	1,823,947	793,523	**1,648,491**	1,472,663	70,609
Reversal of other losses (Note 34)	**(72,036)**	–	(331,182)	**–**	–	(331,183)
	₱2,909,858	₱1,752,812	₱884,133	**₱1,593,219**	₱1,401,528	₱161,877

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated												
	2019								2018 (As restated – Note 36)				
	Securities Held Under Agreements to Resell	**Due from Other Banks**	**Interbank Loans Receivable**	**Financial Assets at FVOCI**	**Investment Securities at Amortized Cost**	**Loans and Receivables**	**Other Assets**	**Total**	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	**₱–**	**₱–**	**₱–**	**₱46,349**	**₱3,769,264**	**₱15,267,577**	**₱500**	**₱19,083,690**	₱58,500	₱3,711,523	₱14,851,170	₱500	₱18,621,693
Provisions (reversals)	**1,912**	**3,359**	**6,719**	**5,290**	**15,932**	**2,448,429**	**–**	**2,481,641**	(12,151)	57,741	1,778,357	–	1,823,947
Accounts charged-off	**–**	**–**	**–**	**–**	**–**	**(577,613)**	**–**	**(577,613)**	–	–	(328,251)	–	(328,251)
Transfers and others	**–**	**–**	**–**	**–**	**–**	**1,274,835**	**–**	**1,274,835**	–	–	(1,033,699)	–	(1,033,699)
Balance at end of year	**₱1,912**	**₱3,359**	**₱6,719**	**₱51,639**	**₱3,785,196**	**₱18,413,228**	**₱500**	**₱22,262,553**	₱46,349	₱3,769,264	₱15,267,577	₱500	₱19,083,690

	Parent Company											
	2019							2018				
	Due from Other Banks	**Interbank Loans Receivable**	**Financial Assets at FVOCI**	**Investment Securities at Amortized Cost**	**Loans and Receivables**	**Other Assets**	**Total**	Financial Assets at FVOCI	Investment Securities at Amortized Cost	Loans and Receivables	Other Assets	Total
Balance at beginning of year	**₱–**	**₱–**	**₱46,349**	**₱3,769,264**	**₱12,625,582**	**₱500**	**₱16,441,695**	₱58,500	₱3,711,523	₱12,730,628	₱500	₱16,501,151
Provisions (reversals)	**3,359**	**1,293**	**5,290**	**(41,021)**	**1,679,570**	**–**	**1,648,491**	(12,151)	57,741	1,427,073	–	1,472,663
Accounts charged-off	**–**	**–**	**–**	**–**	**(479,032)**	**–**	**(479,032)**	–	–	(420,193)	–	(420,193)
Transfers and others	**–**	**–**	**–**	**–**	**466,664**	**–**	**466,664**	–	–	(1,111,926)	–	(1,111,926)
Balance at end of year	**₱3,359**	**₱1,293**	**₱51,639**	**₱3,728,243**	**₱14,292,784**	**₱500**	**₱18,077,818**	₱46,349	₱3,769,264	₱12,625,582	₱500	₱16,441,695

Movements in the allowance for impairment losses on nonfinancial assets follow:

Consolidated

	2019				2018 (As restated – Note 36)			
	Property and Equipment	**Investment Properties**	**Other Assets**	**Total**	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	**₱228,486**	**₱3,283,363**	**₱1,178,105**	**₱4,689,954**	₱228,486	₱3,018,965	₱954,090	₱4,201,541
Provisions (reversals)	**–**	**500,253**	**–**	**500,253**	–	13,221	(84,356)	(71,135)
Disposals	**–**	**(1,924)**	**(333)**	**(2,257)**	–	(25,274)	(301)	(25,575)
Transfers and others	**886,671**	**(1,632,784)**	**(120,149)**	**(866,262)**	–	276,451	308,672	585,123
Balance at end of year	**₱1,115,157**	**₱2,148,908**	**₱1,057,623**	**₱4,321,688**	₱228,486	₱3,283,363	₱1,178,105	₱4,689,954

Parent Company

	2019				2018			
	Property and Equipment	**Investment Properties**	**Other Assets**	**Total**	Property and Equipment	Investment Properties	Other Assets	Total
Balance at beginning of year	**₱228,034**	**₱3,284,467**	**₱1,178,055**	**₱4,690,556**	₱228,034	₱3,019,422	₱922,032	₱4,169,488
Provisions (reversals)	**–**	**(55,272)**	**–**	**(55,272)**	–	13,221	(84,356)	(71,135)
Disposals	**–**	**(1,924)**	**(9)**	**(1,933)**	–	(25,274)	(301)	(25,575)
Transfers and others	**887,123**	**(1,072,958)**	**(150,194)**	**(336,029)**	–	277,098	340,680	617,778
Balance at end of year	**₱1,115,157**	**₱2,154,313**	**₱1,027,852**	**₱4,297,322**	₱228,034	₱3,284,467	₱1,178,055	₱4,690,556

The reconciliation of allowance for the receivables from customers are shown below.

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	**₱1,295,286**	**₱36,592**	**₱3,828,372**	**₱5,160,250**	₱1,469,029	₱23,150	₱3,850,384	₱5,342,563
Newly originated assets which remained in Stage 1 as at year-end	**858,446**	**–**	**–**	**858,446**	477,090	–	–	477,090
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**602,760**	**2,185,515**	**2,788,275**	–	30,229	499,307	529,536
Transfers to Stage 1	**6,465**	**(5,342)**	**(1,123)**	**–**	1,082	(921)	(161)	–
Transfers to Stage 2	**(18,613)**	**45,272**	**(26,659)**	**–**	(4,437)	4,437	–	–
Transfers to Stage 3	**(8,691)**	**(2,070)**	**10,761**	**–**	(2,163)	(5,012)	7,175	–
Accounts charged off	**–**	**–**	**(97,153)**	**(97,153)**	–	–	(94,461)	(94,461)
Provisions (reversals)	**(12,038)**	**30,755**	**101,466**	**120,183**	82,761	136,288	440,496	659,545
Effect of collections and other movements	**(769,156)**	**154,436**	**(162,349)**	**(777,069)**	(728,076)	(151,579)	(874,368)	(1,754,023)
Ending Balance	**1,351,699**	**862,403**	**5,838,830**	**8,052,932**	1,295,286	36,592	3,828,372	5,160,250
LGU								
Beginning Balance	**41,515**	**4,190**	**24,915**	**70,620**	3,510	5,415	24,915	33,840
Newly originated assets which remained in Stage 1 as at year-end	**4,480**	**–**	**–**	**4,480**	7,430	–	–	7,430
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 1	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 2	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 3	**–**	**–**	**–**	**–**	–	–	–	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	–	–
Provisions	**–**		**–**	**–**	–	–	–	–
Effect of collections and other movements	**(15,906)**	**6,902**	**1,554**	**(7,450)**	30,575	(1,225)	–	29,350
Ending Balance	**30,089**	**11,092**	**26,469**	**67,650**	41,515	4,190	24,915	70,620
Credit Cards								
Beginning Balance	**138,090**	**398,114**	**539,372**	**1,075,576**	36,041	42,372	501,035	579,448
Newly originated assets which remained in Stage 1 as at year-end	**5,432**	**–**	**–**	**5,432**	18,591	–	–	18,591
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**3,930**	**33,824**	**37,754**	–	13,923	67,864	81,787
Transfers to Stage 1	**15,147**	**(6,325)**	**(8,822)**	**–**	83,458	(38,154)	(45,304)	–
Transfers to Stage 2	**(1,004)**	**1,100**	**(96)**	**–**	–	–	–	–
Transfers to Stage 3	**(2,350)**	**(19,524)**	**21,874**	**–**	–	(106,197)	106,197	–
Accounts charged off			**(328,919)**	**(328,919)**	–	(132,531)	–	(132,531)
Provisions	**16,519**	**19,561**	**692,661**	**728,741**	–	–	–	–
Effect of collections and other movements	**15,036**	**(16,012)**	**88,143**	**87,167**	–	618,701	(90,420)	528,281
Ending Balance	**186,870**	**380,844**	**1,038,037**	**1,605,751**	138,090	398,114	539,372	1,075,576
Retail SMEs								
Beginning Balance	**199,401**	**64,134**	**600,598**	**864,133**	156,783	6,190	558,726	721,699
Newly originated assets which remained in Stage 1 as at year-end	**212,530**	**–**	**–**	**212,530**	46,891	–	–	46,891
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**13,307**	**55,459**	**68,766**	–	8,304	68,455	76,759
Transfers to Stage 1	**23,983**	**(2,039)**	**(21,944)**	**–**	–	–	–	–
Transfers to Stage 2	**(178)**	**2,472**	**(2,294)**	**–**	(187)	187	–	–
Transfers to Stage 3	**(2,412)**	**(1,881)**	**4,293**	**–**	–	–	–	–
Accounts charged off	**–**	**–**	**(12,750)**	**(12,750)**	–	–	(27,833)	(27,833)
Provisions	**15,170**	**4,015**	**236,637**	**255,822**	486	1,532	9,799	11,817
Effect of collections and other movements	**(71,059)**	**(6,427)**	**171,437**	**93,951**	(4,572)	47,921	(8,549)	34,800
Ending Balance	**377,435**	**73,581**	**1,031,436**	**1,482,452**	199,401	64,134	600,598	864,133

(Forward)

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Housing Loans								
Beginning Balance	**₱498,036**	**₱643,926**	**₱131,523**	**₱1,273,485**	₱ 400,894	₱40,247	₱374,370	₱ 815,511
Newly originated assets which remained in Stage 1 as at year-end	**501,707**	–	–	**501,707**	35,622	–	–	35,622
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**16,462**	**59,779**	**76,241**	–	37,823	11,149	48,972
Transfers to Stage 1	**173,452**	**(121,482)**	**(51,970)**		7,215	(7,137)	(78)	–
Transfers to Stage 2	**(14,155)**	**27,900**	**(13,745)**	–	(435,782)	534,643	(98,861)	–
Transfers to Stage 3	**(20,109)**	**(296,405)**	**316,514**	–	(51,117)	(70,076)	121,193	–
Accounts charged off	–	–	**(39,865)**	**(39,865)**	–	–	–	–
Provisions	–	**51,681**	**542,813**	**594,494**	13,748	22,392	17,529	53,669
Effect of collections and other movements	**(249,506)**	**225,507**	**(830,642)**	**(854,641)**	527,456	86,034	(293,779)	319,711
Ending Balance	**889,425**	**547,589**	**114,407**	**1,551,421**	498,036	643,926	131,523	1,273,485
Auto Loans								
Beginning Balance	**114,151**	**67,820**	**49,384**	**231,355**	70,682	5,117	74,066	149,865
Newly originated assets which remained in Stage 1 as at year-end	**67,305**		**–**	**67,305**	8,863	–	–	8,863
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**4,522**	**16,728**	**21,250**	–	4,962	1,623	6,585
Transfers to Stage 1	**28,932**	**(12,239)**	**(16,693)**	**–**	2,293	(2,206)	(87)	–
Transfers to Stage 2	**(1,063)**	**4,433**	**(3,370)**	**–**	(2,576)	3,386	(810)	–
Transfers to Stage 3	**(1,029)**	**(12,351)**	**13,380**	**–**	(3,926)	(7,332)	11,258	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	(5,416)	(5,416)
Provisions			**101,941**	**101,941**	7,067	6,516	3,281	16,864
Effect of collections and other movements	**(54,166)**	**(6,873)**	**(116,969)**	**(178,008)**	31,748	57,377	(34,531)	54,594
Ending Balance	**154,130**	**45,312**	**44,401**	**243,843**	114,151	67,820	49,384	231,355
Other Loans								
Beginning Balance	**508,416**	**119,909**	**956,201**	**1,584,526**	734,409	363,554	1,219,525	2,317,488
Newly originated assets which remained in Stage 1 as at year-end	**214,087**	**–**	**–**	**214,087**	304	–	–	304
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**1,656**	**16,845**	**18,501**	–	4,999	940	5,939
Transfers to Stage 1	**7,501**	**(780)**	**(6,721)**	**–**	–	–	–	–
Transfers to Stage 2	**(23)**	**220**	**(197)**	**–**	(19,120)	52,355	(33,235)	–
Transfers to Stage 3	**(97)**	**(7,184)**	**7,281**	**–**	(5,529)	(3,368)	8,897	–
Accounts charged off	**–**	**(33,294)**	**(16,236)**	**(49,530)**	–	–	(38,601)	(38,601)
Provisions (reversals)	**(5,581)**	**8**	**23,520**	**17,947**	168,037	16,882	18,330	203,249
Effect of collections and other movements	**(715,379)**	**(18,346)**	**17,381**	**(716,344)**	(369,685)	(314,513)	(219,655)	(903,853)
Ending Balance	**8,924**	**62,189**	**998,074**	**1,069,187**	508,416	119,909	956,201	1,584,526
Other Receivables								
Beginning Balance	**1,084,900**	**2,723,474**	**1,199,258**	**5,007,632**	2,715,351	923,602	1,025,211	4,664,164
Newly originated assets which remained in Stage 1 as at year-end	**76,724**	**–**	**–**	**76,724**	12,478	–	–	12,478
Newly originated assets which moved toStages 2 and 3 as at year-end	**–**	**32,200**	**499,646**	**531,846**	–	75,814	89,550	165,364
Transfers to Stage 1	**16,734**	**(7,198)**	**(9,536)**	**–**	936	(171)	(765)	–
Transfers to Stage 2	**(880)**	**3,599**	**(2,719)**	**–**	(2,364)	2,364	–	–
Transfers to Stage 3	**(2,227)**	**(21,054)**	**23,281**	**–**	–	(457)	457	–
Accounts charged off	**–**	**–**	**(49,396)**	**(49,396)**	–	–	(29,409)	(29,409)
Provisions	**123,479**	**21,901**	**572,768**	**718,148**	76,395	–	28,333	104,728
Effect of collections and other movements	**(1,221,233)**	**(2,731,007)**	**2,007,278**	**(1,944,962)**	(1,717,896)	1,722,322	85,881	90,307
Ending Balance	**77,497**	**21,915**	**4,240,580**	**4,339,992**	1,084,900	2,723,474	1,199,258	5,007,632
Total Loans and Receivables								
Beginning Balance	**3,789,375**	**3,718,712**	**7,759,490**	**15,267,577**	5,586,699	1,409,647	7,628,232	14,624,578
Newly originated assets which remained in Stage 1 as at year-end	**1,940,711**	–	–	**1,940,711**	607,269	–	–	607,269
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**674,837**	**2,867,796**	**3,542,633**	–	176,054	738,888	914,942

(Forward)

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	**₱272,214**	**(₱155,405)**	**(₱116,809)**	**₱–**	₱153,567	(₱17,902)	(₱135,665)	₱–
Transfers to Stage 2	**(35,916)**	**84,996**	**(49,080)**	–	(464,466)	597,372	(132,906)	–
Transfers to Stage 3	**(36,915)**	**(360,469)**	**397,384**	–	(62,735)	(192,442)	255,177	–
Accounts charged off	–	**(33,294)**	**(544,319)**	**(577,613)**	–	(132,531)	(195,720)	(328,251)
Provisions	**137,549**	**139,676**	**2,271,806**	**2,549,031**	348,494	183,610	517,768	1,049,872
Effect of collections and other movements	**(3,144,805)**	**(2,398,722)**	**1,234,416**	**(4,309,111)**	(2,379,453)	1,694,904	(916,284)	(1,600,833)
Ending Balance	**₱2,922,213**	**₱1,670,331**	**₱13,820,684**	**₱18,413,228**	₱3,789,375	₱3,718,712	₱7,759,490	₱15,267,577

* Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of December 31, 2019 and 2018 are ₱339.2 million and ₱151.2 million, respectively. Movements during the year were mostly driven by new loan facility availments in 2019.

	Parent Company							
	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	**₱1,143,785**	**₱25,894**	**₱3,814,554**	**₱4,984,233**	₱1,405,697	₱22,673	₱3,839,860	₱5,268,230
Newly originated assets which remained in Stage 1 as at year-end	**819,483**	–	–	**819,483**	476,383	–	–	476,383
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**599,413**	**2,122,244**	**2,721,657**	–	19,531	498,861	518,392
Transfers to Stage 1	**5,316**	**(5,316)**		–	1,319	(1,319)	–	–
Transfers to Stage 2	**(14,958)**	**41,617**	**(26,659)**	–	(4,442)	4,442	–	–
Transfers to Stage 3	**(2,914)**	**(2,070)**	**4,984**	–	(2,167)	(5,012)	7,179	–
Accounts charged off	–	–	**(29,922)**	**(29,922)**	–	–	(94,461)	(94,461)
Provisions	**18,372**	**50**	**47**	**18,469**	7,958	136,288	437,473	581,719
Effect of collections and other movements	**(745,664)**	**154,701**	**(249,854)**	**(840,817)**	(740,963)	(150,709)	(874,358)	(1,766,030)
Ending Balance	**1,223,420**	**814,289**	**5,635,394**	**7,673,103**	1,143,785	25,894	3,814,554	4,984,233
LGU								
Beginning Balance	**41,515**	**4,190**	**24,915**	**70,620**	3,510	5,415	24,915	33,840
Newly originated assets which remained in Stage 1 as at year-end	**4,480**	–	–	**4,480**	7,430	–	–	7,430
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–	–	–	–	–
Transfers to Stage 1	–	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Accounts charged off	–	–	–	–	–	–	–	–
Provisions	–	**11,755**	–	**11,755**	–	–	–	–
Effect of collections and other movements	**(20,759)**	–	**1,554**	**(19,205)**	30,575	(1,225)	-	29,350
Ending Balance	**25,236**	**15,945**	**26,469**	**67,650**	41,515	4,190	24,915	70,620
Credit Cards								
Beginning Balance	**47,670**	**58,667**	**969,239**	**1,075,576**	36,041	42,372	501,035	579,448
Newly originated assets which remained in Stage 1 as at year-end	**5,432**	**–**	**–**	**5,432**	18,591	–	–	18,591
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**3,930**	**33,824**	**37,754**	–	13,923	67,864	81,787
Transfers to Stage 1	**15,147**	**(6,325)**	**(8,822)**	**–**	142,041	(7,467)	(134,574)	–
Transfers to Stage 2	**(1,004)**	**1,100**	**(96)**	**–**	–	–	–	–
Transfers to Stage 3	**(2,350)**	**(19,524)**	**21,874**	**–**	–	(106,197)	106,197	–
Accounts charged off	**–**	**–**	**(328,919)**	**(328,919)**	–	(132,531)	–	(132,531)
Provisions	**16,519**	**19,561**	**692,661**	**728,741**	–	–	–	–
Effect of collections and other movements	**(43,547)**	**(16,012)**	**146,726**	**87,167**	(149,003)	248,567	428,717	528,281
Ending Balance	**37,867**	**41,397**	**1,526,487**	**1,605,751**	47,670	58,667	969,239	1,075,576
Retail SMEs								
Beginning Balance	**51,113**	**7,789**	**519,467**	**578,369**	74,686	5,935	483,607	564,228
Newly originated assets which remained in Stage 1 as at year-end	**81,916**	–	–	**81,916**	44,940	–	–	44,940
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**9,291**	**2,750**	**12,041**	–	2,418	35,319	37,737

(Forward)

	Parent Company							
	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	**₱668**	**(₱135)**	**(₱533)**	**₱–**	₱50	₱–	(₱50)	₱–
Transfers to Stage 2	**(115)**	**328**	**(213)**	–	(593)	908	(315)	–
Transfers to Stage 3	**(863)**	**(1,712)**	**2,575**	–	(547)	–	547	–
Accounts charged off	–	–	**(12,750)**	**(12,750)**	–	–	(27,833)	(27,833)
Provisions	**330**	–	**1**	**331**	361	337	28,362	29,060
Effect of collections and other movements	**(47,340)**	**(1,545)**	**(188,633)**	**(237,518)**	(67,784)	(1,809)	(170)	(69,763)
Ending Balance	**85,709**	**14,016**	**322,664**	**422,389**	51,113	7,789	519,467	578,369
Housing Loans								
Beginning Balance	**21,672**	**876**	**35,676**	**58,224**	1,398	678	40,245	42,321
Newly originated assets which remained in Stage 1 as at year-end	**14,421**	–	–	**14,421**	6	–	–	6
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**1,989**	**382**	**2,371**	–	3	4,497	4,500
Transfers to Stage 1	**8,102**	**(134)**	**(7,968)**	**–**	134	(38)	(96)	–
Transfers to Stage 2	**(273)**	**273**	**–**	**–**	–	–	–	–
Transfers to Stage 3	**(71)**	**(223)**	**294**	**–**	(207)	(89)	296	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	–	–
Provisions	**32**	**–**	**1**	**33**	–	–	252	252
Effect of collections and other movements	**(14,959)**	**903**	**14,036**	**(20)**	20,341	322	(9,518)	11,145
Ending Balance	**28,924**	**3,684**	**42,421**	**75,029**	21,672	876	35,676	58,224
Auto Loans								
Beginning Balance	**3**	–	**39,589**	**39,592**	17	38	43,120	43,175
Newly originated assets which remained in Stage 1 as at year-end	**23,108**	**–**	**–**	**23,108**	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**3,558**	**4,391**	**7,949**	–	–	–	–
Transfers to Stage 1			**–**	**–**	17	(17)	–	–
Transfers to Stage 2	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 3	**–**	**–**	**–**	**–**	–	–	–	–
Accounts charged off	**–**	**–**	**(8,515)**	**(8,515)**	–	–	–	–
Provisions	**–**	**–**	**–**	**–**	–	–	–	–
Effect of collections and other movements	**(3)**	**–**	**(43)**	**(46)**	(31)	(21)	(3,531)	(3,583)
Ending Balance	**23,108**	**3,558**	**35,422**	**62,088**	3	–	39,589	39,592
Other Loans								
Beginning Balance	**202**	**57,572**	**973,358**	**1,031,132**	2,142	362,248	1,194,078	1,558,468
Newly originated assets which remained in Stage 1 as at year-end	**3,093**	**–**	**–**	**3,093**	154	–	–	154
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**1,656**	**16,845**	**18,501**	–	141	–	141
Transfers to Stage 1	**960**	**(170)**	**(790)**	**–**	404	(335)	(69)	–
Transfers to Stage 2	**–**	**–**	**–**	**–**	(411)	757	(346)	–
Transfers to Stage 3	**–**	**(6,293)**	**6,293**	**–**	(40)	(303)	343	–
Accounts charged off	**–**	**(33,296)**	**(16,234)**	**(49,530)**	–	–	(38,601)	(38,601)
Provisions	**–**	**12**	**–**	**12**	–	13,480	37,683	51,163
Effect of collections and other movements	**310**	**(8,163)**	**405,980**	**398,127**	(2,047)	(318,416)	(219,730)	(540,193)
Ending Balance	**4,565**	**11,318**	**1,385,452**	**1,401,335**	202	57,572	973,358	1,031,132
Other Receivables								
Beginning Balance	**1,104,095**	**2,644,819**	**1,038,922**	**4,787,836**	2,613,376	920,913	936,791	4,471,080
Newly originated assets which remained in Stage 1 as at year-end	**8,279**	**–**	**–**	**8,279**	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**1,647**	**14,551**	**16,198**	–	–	–	–
Transfers to Stage 1	**594**	**(142)**	**(452)**	**–**	–	–	–	–
Transfers to Stage 2	**(750)**	**1,225**	**(475)**	**–**	–	–	–	–
Transfers to Stage 3	**(1,962)**	**(349)**	**2,311**	**–**	–	–	–	–
Accounts charged off	**–**	**–**	**(49,396)**	**(49,396)**	–	–	(29,409)	(29,409)
Provisions	**321**	**–**	**29,778**	**30,099**	–	–	28,333	28,333
Effect of collections and other movements	**(1,051,124)**	**(2,637,439)**	**1,880,986**	**(1,807,577)**	(1,509,281)	1,723,906	103,207	317,832
Ending Balance	**59,453**	**9,761**	**2,916,225**	**2,985,439**	1,104,095	2,644,819	1,038,922	4,787,836

(Forward)

	Parent Company							
	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Total Loans and Receivables								
Beginning Balance	**₱2,410,055**	**₱2,799,807**	**₱7,415,720**	**₱12,625,582**	₱4,136,867	₱1,360,272	₱7,063,651	₱12,560,790
Newly originated assets which remained in Stage 1 as at year-end	**960,212**	**–**	**–**	**960,212**	547,504	–	–	547,504
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**621,484**	**2,194,987**	**2,816,471**	–	36,016	606,541	642,557
Transfers to Stage 1	**30,787**	**(12,222)**	**(18,565)**	**–**	143,965	(9,176)	(134,789)	–
Transfers to Stage 2	**(17,100)**	**44,543**	**(27,443)**	**–**	(5,446)	6,107	(661)	–
Transfers to Stage 3	**(8,160)**	**(30,171)**	**38,331**		(2,961)	(111,601)	114,562	–
Accounts charged off	**–**	**(33,296)**	**(437,221)**	**(470,517)**	–	(132,531)	(190,304)	(322,835)
Provisions	**35,574**	**31,378**	**722,488**	**789,440**	8,319	150,105	532,103	690,527
Effect of collections and other movements	**(1,923,086)**	**(2,507,555)**	**2,002,237**	**(2,428,404)**	(2,418,193)	1,500,615	(575,383)	(1,492,961)
Ending Balance	**₱1,488,282**	**₱913,968**	**₱11,890,534**	**₱14,292,784**	₱2,410,055	₱2,799,807	₱7,415,720	₱12,625,582

*Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of December 31, 2019 and 2018 are ₱339.2 million and ₱151.2 million, respectively. Movements during the year were mostly driven by new loan facility availments in 2019.

Movements of the gross carrying amounts of receivables from customers are shown below:

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	**₱463,867,001**	**₱5,792,259**	**₱6,755,750**	**₱476,415,010**	₱384,446,065	₱3,003,511	₱6,000,790	₱393,450,366
Newly originated assets which remained in Stage 1 as at year-end	**303,638,405**	**–**	**–**	**303,638,405**	231,847,502	–	–	231,847,502
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**10,959,867**	**3,700,995**	**14,660,862**	–	4,519,519	1,334,506	5,854,025
Transfers to Stage 1	**1,008,052**	**(1,012,278)**	**4,226**	**–**	296,280	(296,280)	–	–
Transfers to Stage 2	**(5,720,152)**	**5,781,921**	**(61,769)**	**–**	(545,396)	839,071	(293,675)	–
Transfers to Stage 3	**(1,701,453)**	**(356,342)**	**2,057,795**	**–**	(393,213)	(251,314)	644,527	–
Accounts charged off	**–**	**–**	**(97,157)**	**(97,157)**	(8,352)	–	(94,461)	(102,813)
Effect of collections and other movements	**(239,250,016)**	**(5,081,541)**	**(1,648,148)**	**(245,979,705)**	(151,775,885)	(2,022,248)	(835,937)	(154,634,070)
Ending Balance	**521,841,837**	**16,083,886**	**10,711,692**	**548,637,415**	463,867,001	5,792,259	6,755,750	476,415,010
LGU								
Beginning Balance	**6,877,331**	**17,968**	**24,916**	**6,920,215**	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	**1,223,390**	**–**	**–**	**1,223,390**	6,877,331	–	–	6,877,331
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**–**	**–**	**–**	–	16,070	24,916	40,986
Transfers to Stage 1	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 2	**–**	**–**	**–**	**–**	–	–	–	–
Transfers to Stage 3	**–**	**–**	**–**	**–**	–	–	–	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	–	–
Effect of collections and other movements	**(1,396,879)**	**47,706**	**2,070**	**(1,347,103)**	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	**6,703,842**	**65,674**	**26,986**	**6,796,502**	6,877,331	17,968	24,916	6,920,215
Credit Cards								
Beginning Balance	**11,802,517**	**393,493**	**1,216,053**	**13,412,063**	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	**1,550,335**	**–**	**–**	**1,550,335**	2,894,354	–	–	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**54,662**	**44,797**	**99,45**	–	76,426	81,210	157,636
Transfers to Stage 1	**114,740**	**(104,028)**	**(10,712)**	**–**	142,041	(78,154)	(63,887)	–
Transfers to Stage 2	**(334,322)**	**334,463**	**(141)**	**–**	(263,134)	271,709	(8,575)	–
Transfers to Stage 3	**(831,146)**	**(234,001)**	**1,065,147**	**–**	(620,055)	(162,122)	782,177	–
Accounts charged off			**(328,919)**	**(328,919)**	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	**1,339,230**	**(24,480)**	**(177,742)**	**1,137,008**	602,249	33,483	(58,801)	576,931
Ending Balance	**13,641,354**	**420,109**	**1,808,483**	**15,869,946**	11,802,517	393,493	1,216,053	13,412,063

(Forward)

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Retail SMEs								
Beginning Balance	₱10,270,353	₱200,847	₱1,472,412	₱11,943,612	₱11,648,490	₱337,636	₱488,606	₱12,474,732
Newly originated assets which remained in Stage 1 as at year-end	14,272,023	–	–	14,272,023	8,237,072	–	–	8,237,072
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	315,726	113,566	429,292	–	188,861	1,443,678	1,632,539
Transfers to Stage 1	237,154	(181,422)	(55,732)	–	–	–	–	–
Transfers to Stage 2	(30,160)	35,566	(5,406)	–	(191,176)	191,176	–	–
Transfers to Stage 3	(417,838)	(46,032)	463,870	–	–	–	–	–
Accounts charged off	–	–	(12,750)	(12,750)	–	–	–	–
Effect of collections and other movements	(5,522,861)	(116,935)	87,069	(5,552,727)	(9,424,033)	(516,826)	(459,872)	(10,400,731)
Ending Balance	18,808,671	207,750	2,063,029	21,079,450	10,270,353	200,847	1,472,412	11,943,612
Housing Loans								
Beginning Balance	22,772,350	7,737,946	3,333,099	33,843,395	16,469,522	8,717,747	1,676,936	26,864,205
Newly originated assets which remained in Stage 1 as at year-end	11,545,147	–	–	11,545,147	6,773,796	–	–	6,773,796
Newly originated assets which moved to Stages 2 and 3 as at year-end	-	188,203	264,961	453,164	–	355,084	46,294	401,378
Transfers to Stage 1	82,895	(2,382)	(80,513)	–	2,066,914	(2,038,294)	(28,620)	–
Transfers to Stage 2	(17,456)	17,456	-	–	(4,814,883)	5,904,269	(1,089,386)	–
Transfers to Stage 3	(4,068,415)	(513,704)	4,582,119	–	(282,094)	(385,334)	667,428	–
Accounts charged off	–	–	(51,500)	(51,500)	–	–	–	–
Effect of collections and other movements	(3,713,278)	(5,856,228)	(2,652,133)	(12,221,639)	2,559,095	(4,815,526)	2,060,447	(195,984)
Ending Balance	26,601,243	1,571,291	5,396,033	33,568,567	22,772,350	7,737,946	3,333,099	33,843,395
Auto Loans								
Beginning Balance	9,418,556	2,165,913	158,776	11,743,245	6,251,527	2,757,834	218,887	9,228,248
Newly originated assets which remained in Stage 1 as at year-end	5,884,421	–	–	5,884,421	5,171,719	–	–	5,171,719
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	125,425	127,089	252,514	–	338,571	12,530	351,101
Transfers to Stage 1	582,409	(482,925)	(99,484)	–	887,495	(853,998)	(33,497)	–
Transfers to Stage 2	(349,085)	369,715	(20,630)	–	(1,407,767)	1,847,521	(439,754)	–
Transfers to Stage 3	(368,300)	(507,136)	875,436	–	(21,707)	(40,541)	62,248	–
Accounts charged off	–	–	(8,515)	(8,515)	–	–	(5,416)	(5,416)
Effect of collections and other movements	(3,589,088)	(1,212,151)	34,762	(4,766,477)	(1,462,711)	(1,883,474)	343,778	(3,002,407)
Ending Balance	11,578,913	458,841	1,067,434	13,105,188	9,418,556	2,165,913	158,776	11,743,245
Other Loans								
Beginning Balance	11,870,519	5,891,187	1,467,505	19,229,211	19,627,677	696,618	1,350,439	21,674,734
Newly originated assets which remained in Stage 1 as at year-end	11,803,126	–	–	11,803,126	7,296,449	–	–	7,296,449
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	575,765	458,343	1,034,108	–	6,463,430	3,695	6,467,125
Transfers to Stage 1	65,648	(23,718)	(41,930)	–	19,194	–	(19,194)	–
Transfers to Stage 2	(26,435)	27,565	(1,130)	–	(76,478)	114,267	(37,789)	–
Transfers to Stage 3	(225,836)	(463,651)	689,487	–	(8,273)	–	8,273	–
Accounts charged off	–	(33,296)	(16,234)	(49,530)	–	–	(38,601)	(38,601)
Effect of collections and other movements	(14,421,148)	(5,268,417)	(360,682)	(20,050,247)	(14,988,050)	(1,383,128)	200,682	(16,170,496)
Ending Balance	9,065,874	705,435	2,195,359	11,966,668	11,870,519	5,891,187	1,467,505	19,229,211
Other Receivables								
Beginning Balance	22,949,168	4,644,141	833,992	28,427,301	16,740,788	4,723,127	833,454	22,297,369
Newly originated assets which remained in Stage 1 as at year-end	6,522,346	–	–	6,522,346	11,275,032	–	–	11,275,032
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	449,753	818,513	1,268,266	–	143,045	130,350	273,395
Transfers to Stage 1	213,018	(105,355)	(107,663)	–	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	(59,769)	84,113	(24,344)	–	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	(867,921)	(2,495,196)	3,363,117	–	(20,443)	(3,999)	24,442	–
Accounts charged off	–	–	(49,396)	(49,396)	–	–	(29,408)	(29,408)
Effect of collections and other movements	(12,391,217)	2,773,557	(1,237,608)	(10,855,268)	(5,144,262)	(222,836)	(21,989)	(5,389,087)
Ending Balance	16,365,625	5,351,013	3,596,611	25,313,249	22,949,168	4,644,141	833,992	28,427,301

(Forward)

	Consolidated							
	2019				2018 (As restated – Note 36			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Total Loans and Receivables								
Beginning Balance	₱559,827,795	₱26,843,754	₱15,262,503	₱601,934,052	₱471,385,875	₱20,554,177	₱11,260,511	₱503,200,563
Newly originated assets which remained in Stage 1 as at year-end	356,439,193	–	–	356,439,193	280,373,255	–	–	280,373,255
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	12,669,401	5,528,264	18,197,665	–	12,101,006	3,077,179	15,178,185
Transfers to Stage 1	2,303,916	(1,912,108)	(391,808)	–	3,543,575	(3,319,422)	(224,153)	–
Transfers to Stage 2	(6,537,379)	6,650,799	(113,420)	–	(7,332,432)	9,225,513	(1,893,081)	–
Transfers to Stage 3	(8,480,909)	(4,616,062)	13,096,971	–	(1,345,785)	(843,310)	2,189,095	–
Accounts charged off	–	(33,296)	(564,471)	(597,767)	(145,804)	(42,326)	(350,440)	(538,570)
Effect of collections and other movements	(278,945,257)	(14,738,489)	(5,952,412)	(299,636,158)	(186,650,889)	(10,831,884)	1,203,392	(196,279,381)
Ending Balance	₱624,607,359	₱24,863,999	₱26,865,627	₱676,336,985	₱559,827,795	₱26,843,754	₱15,262,503	₱601,934,052

	Parent Company							
	2019				2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*								
Beginning Balance	₱446,682,503	₱5,137,582	₱6,218,960	₱458,039,045	₱377,379,028	₱2,170,755	₱4,950,332	₱384,500,115
Newly originated assets which remained in Stage 1 as at year-end	296,460,743	–	–	296,460,743	229,278,616	–	–	229,278,616
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	10,920,510	3,499,281	14,419,791	–	4,333,052	1,328,441	5,661,493
Transfers to Stage 1	1,014,922	(1,014,922)	–	–	300,679	(300,679)	–	–
Transfers to Stage 2	(5,479,370)	5,541,139	(61,769)	–	(925,229)	925,229	–	–
Transfers to Stage 3	(1,316,130)	(356,342)	1,672,472	–	(458,770)	(251,314)	710,084	–
Accounts charged off	–	–	(29,922)	(29,922)	–	–	(94,461)	(94,461)
Effect of collections and other movements	(224,498,310)	(4,222,297)	(3,497,743)	(232,218,350)	(158,891,821)	(1,739,461)	(675,436)	(161,306,718)
Ending Balance	512,864,358	16,005,670	7,801,279	536,671,307	446,682,503	5,137,582	6,218,960	458,039,045
LGU								
Beginning Balance	6,877,331	17,968	24,916	6,920,215	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	1,223,390	–	–	1,223,390	6,877,331	–	–	6,877,331
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–	–	16,070	24,916	40,986
Transfers to Stage 1	–	–	–	–	–	–	–	–
Transfers to Stage 2	–	–	–	–	–	–	–	–
Transfers to Stage 3	–	–	–	–	–	–	–	–
Accounts charged off	–	–	–	–	–	–	–	–
Effect of collections and other movements	(1,396,879)	47,706	2,070	(1,347,103)	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	6,703,842	65,674	26,986	6,796,502	6,877,331	17,968	24,916	6,920,215
Credit Cards								
Beginning Balance	11,743,934	393,493	1,274,636	13,412,063	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	1,550,335	–	–	1,550,335	2,894,354	–	–	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	54,662	44,797	99,459	–	76,426	81,210	157,636
Transfers to Stage 1	114,740	(104,028)	(10,712)	–	83,458	(78,154)	(5,304)	–
Transfers to Stage 2	(334,322)	334,463	(141)	–	(263,134)	271,709	(8,575)	–
Transfers to Stage 3	(831,146)	(234,001)	1,065,147	–	(620,055)	(162,122)	782,177	–
Accounts charged off	–	–	(328,919)	(328,919)	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	1,339,230	(24,480)	(177,742)	1,137,008	602,249	33,483	(58,801)	576,931
Ending Balance	13,582,771	420,109	1,867,066	15,869,946	11,743,934	393,493	1,274,636	13,412,063
Retail SMEs								
Beginning Balance	6,483,477	125,965	1,209,176	7,818,618	9,352,537	77,189	324,783	9,754,509
Newly originated assets which remained in Stage 1 as at year-end	10,985,586	–	–	10,985,586	6,494,319	–	–	6,494,319
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	68,845	34,775	103,620	–	125,965	1,383,885	1,509,850

(Forward)

	Parent Company							
	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	**₱18,549**	**(₱9,693)**	**(₱8,856)**	**₱–**	₱833	₱–	(₱833)	₱–
Transfers to Stage 2	**(21,726)**	**22,576**	**(850)**	**–**	(105,242)	105,242	–	–
Transfers to Stage 3	**(133,014)**	**(31,245)**	**164,259**	**–**	(186,948)	(14,410)	201,358	–
Accounts charged off	**–**	**–**	**(12,750)**	**(12,750)**	–	–	(27,833)	(27,833)
Effect of collections and other movements	**(5,651,312)**	**(75,364)**	**(717,650)**	**(6,444,326)**	(9,072,022)	(168,021)	(672,184)	(9,912,227)
Ending Balance	**11,681,560**	**101,084**	**668,104**	**12,450,748**	6,483,477	125,965	1,209,176	7,818,618
Housing Loans								
Beginning Balance	**1,397,681**	**15,850**	**213,791**	**1,627,322**	1,272,340	7,848	247,536	1,527,724
Newly originated assets which remained in Stage 1 as at year-end	**2,516,320**	**–**	**–**	**2,516,320**	8,644	–	–	8,644
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**19,951**	**1,396**	**21,347**	–	63	16,830	16,893
Transfers to Stage 1	**82,895**	**(2,382)**	**(80,513)**	**–**	947	(421)	(526)	–
Transfers to Stage 2	**(17,456)**	**17,456**	**–**	**–**	(18,313)	18,313	–	–
Transfers to Stage 3	**(14,487)**	**(4,198)**	**18,685**	**–**	(6,190)	(2,909)	9,099	–
Accounts charged off	**–**	**–**	**–**	**–**	–	–	–	–
Effect of collections and other movements	**(266,132)**	**(9,400)**	**(41,689)**	**(317,221)**	140,253	(7,044)	(59,148)	74,061
Ending Balance	**3,698,821**	**37,277**	**111,670**	**3,847,768**	1,397,681	15,850	213,791	1,627,322
Auto Loans								
Beginning Balance	**417**	**–**	**39,608**	**40,025**	3,506	420	47,776	51,702
Newly originated assets which remained in Stage 1 as at year-end	**2,550,623**	**–**	**–**	**2,550,623**	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**41,958**	**12,215**	**54,173**	–	–	–	–
Transfers to Stage 1				**–**	–	–	–	–
Transfers to Stage 2				**–**	–	–	–	–
Transfers to Stage 3				**–**	(130)	–	130	–
Accounts charged off	**–**	**–**	**(8,515)**	**(8,515)**	–	–	(5,416)	(5,416)
Effect of collections and other movements	**136,087**	**–**	**(61)**	**136,026**	(2,959)	(420)	(2,882)	(6,261)
Ending Balance	**2,687,127**	**41,958**	**43,247**	**2,772,332**	417	–	39,608	40,025
Other Loans								
Beginning Balance	**7,434,165**	**5,735,761**	**1,348,266**	**14,518,192**	10,609,247	492,402	1,173,090	12,274,739
Newly originated assets which remained in Stage 1 as at year-end	**2,990,921**	**–**	**–**	**2,990,921**	5,576,195	–	–	5,576,195
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**352,576**	**18,049**	**370,625**	–	6,420,312	–	6,420,312
Transfers to Stage 1	**5,892**	**(2,937)**	**(2,955)**	**–**	2,712	(2,251)	(461)	–
Transfers to Stage 2	**(2,161)**	**2,161**	**–**	**–**	(109,767)	111,665	(1,898)	–
Transfers to Stage 3	**(241)**	**(436,558)**	**436,799**	**–**	(8,268)	(3,750)	12,018	–
Accounts charged off	**–**	**(33,296)**	**(16,234)**	**(49,530)**	–	–	(38,602)	(38,602)
Effect of collections and other movements	**(6,980,986)**	**(5,196,887)**	**(340,866)**	**(12,518,739)**	(8,635,954)	(1,282,617)	204,119	(9,714,452)
Ending Balance	**3,447,590**	**420,820**	**1,443,059**	**5,311,469**	7,434,165	5,735,761	1,348,266	14,518,192
Other Receivables								
Beginning Balance	**15,771,243**	**4,644,141**	**833,992**	**21,249,376**	10,519,844	4,723,127	833,454	16,076,425
Newly originated assets which remained in Stage 1 as at year-end	**1,406,430**	**–**	**–**	**1,406,430**	10,495,560	–	–	10,495,560
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**28,572**	**25,570**	**54,142**	–	143,045	130,350	273,395
Transfers to Stage 1	**90,494**	**(21,345)**	**(69,149)**	**–**	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	**(42,700)**	**57,821**	**(15,121)**	**–**	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	**(32,081)**	**(2,287,963)**	**2,320,044**	**–**	(20,443)	(3,999)	24,442	–
Accounts charged off	**–**	**–**	**(49,396)**	**(49,396)**	–	–	(29,408)	(29,408)
Effect of collections and other movements	**(3,147,264)**	**(1,210,486)**	**(484,194)**	**(4,841,944)**	(5,321,771)	(222,836)	(21,989)	(5,566,596)
Ending Balance	**14,046,122**	**1,210,740**	**2,561,746**	**17,818,608**	15,771,243	4,644,141	833,992	21,249,376
Total Loans and Receivables								
Beginning Balance	**496,390,751**	**16,070,760**	**11,163,345**	**523,624,856**	425,338,308	7,789,445	8,268,370	441,396,123
Newly originated assets which remained in Stage 1 as at year-end	**319,684,348**	**–**	**–**	**319,684,348**	261,625,019	–	–	261,625,019
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**11,487,074**	**3,636,083**	**15,123,157**	–	11,114,933	2,965,632	14,080,565

(Forward)

	Parent Company							
	2019				2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	**₱1,327,492**	**(₱1,155,307)**	**(₱172,185)**	**₱–**	₱520,280	(₱434,201)	(₱86,079)	₱–
Transfers to Stage 2	**(5,897,735)**	**5,975,616**	**(77,881)**	**–**	(1,455,283)	1,489,658	(34,375)	–
Transfers to Stage 3	**(2,327,099)**	**(3,350,307)**	**5,677,406**	**–**	(1,300,804)	(438,504)	1,739,308	–
Accounts charged off		**(33,296)**	**(445,736)**	**(479,032)**	(137,452)	(42,326)	(378,274)	(558,052)
Effect of collections and other movements	**(240,465,566)**	**(10,691,208)**	**(5,257,875)**	**(256,414,649)**	(188,199,317)	(3,408,245)	(1,311,238)	(192,918,799)
Ending Balance	**₱568,712,191**	**₱18,303,332**	**₱14,523,157**	**₱601,538,680**	₱496,390,751	₱16,070,760	₱11,163,345	₱523,624,856

17. Deposit Liabilities

As of December 31, 2019 and 2018, noninterest-bearing deposit liabilities amounted to ₱37.5 billion and ₱28.6 billion, respectively, for the Group, and ₱25.5 billion and ₱25.2 billion, respectively, for the Parent Company.

The remaining deposit liabilities of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Peso-denominated	**0.10% - 6.00%**	0.01% - 10.00%	0.01% - 4.13%	**0.10% - 10.00%**	0.01% - 10.00%	0.01% - 4.13%
Foreign currency-denominated	**0.01% - 5.75%**	0.01% - 8.00%	0.01% - 2.10%	**0.01% - 8.00%**	0.01% - 8.00%	0.01% - 2.10%

As of December 31, 2019, non-FCDU deposit liabilities of the Parent Company and PNBSB are subject to reserves equivalent to 13.84% and 3.89%, respectively (reduced from 18.00% and 8.00%, respectively, as of December 31, 2018).

Available reserves booked under 'Due from BSP' are as follows:

	2019	2018
Parent Company	**₱90,394,597**	₱97,665,375
PNBSB	**1,787,204**	3,361,937
	₱92,181,801	₱101,027,312

LTNCDs issued by the Parent Company consist of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2019	Carrying Value 2018
October 11, 2019	April 11, 2025	₱4,600,000	4.38%	Quarterly	**₱4,563,212**	₱–
February 27, 2019	August 27, 2024	8,220,000	5.75%	Quarterly	**8,155,043**	–
October 26, 2017	April 26, 2023	6,350,000	3.88%	Quarterly	**6,323,898**	6,316,699
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,751,954**	3,747,669
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,362,599**	5,355,858
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,995,398**	6,985,553
October 21,2013	April 22, 2019	4,000,000	3.25%	Quarterly	–	3,998,167
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	–	4,999,279
		₱44,315,000			**₱35,152,104**	₱31,403,225

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Savings	**₱6,706,938**	₱3,240,636	₱1,940,283	**₱6,639,928**	₱3,236,424	₱1,904,459
Time	**5,870,981**	3,338,531	1,815,853	**4,127,553**	2,079,674	1,169,541
LTNCDs	**1,386,082**	1,170,378	933,632	**1,386,082**	1,170,378	933,631
Demand	**60,898**	121,628	104,459	**48,213**	104,812	97,167
	₱14,024,899	₱7,871,173	₱4,794,227	**₱12,201,776**	₱6,591,288	₱4,104,798

In 2019, 2018 and 2017, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱40.5 million, ₱39.3 million and ₱32.1 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱162.9 million and ₱91.8 million as of December 31, 2019 and 2018, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

As of December 31, 2019 and 2018, this account consists of derivative liabilities amounting to ₱245.6 million and ₱470.6 million, respectively, for the Group, and ₱232.0 million and ₱468.3 million, respectively, for the Parent Company (Notes 23 and 35).

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Bills payable to:				
BSP and local banks (Note 33)	**₱52,664,371**	₱67,792,569	**₱45,729,610**	₱60,940,934
Foreign banks	**606,585**	521,405	**2,073**	–
Others	–	3,000	–	–
	53,270,956	68,316,974	**45,731,683**	60,940,934
Acceptances outstanding (Note 10)	**2,692,334**	1,765,861	**2,692,334**	1,765,861
	₱55,963,290	₱70,082,835	**₱48,424,017**	₱62,706,795

Bills payable of the Group and the Parent Company generally earn annual fixed interest rates ranging from:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Peso-denominated	**4.0% - 5.4%**	0.6% - 5.4%	0.6%	**4.0% - 5.4%**	0.6% - 5.4%	0.6%
Foreign currency-denominated	**0.2% - 4.4%**	0.0% - 4.4%	0.1% - 3.6%	**0.2% - 4.4%**	0.0% - 4.4%	0.1% - 3.6%

As of December 31, 2019 and 2018, bills payable with a carrying amount of ₱23.3 billion and ₱48.0 billion are secured by a pledge of financial assets at FVOCI with fair values of ₱8.1 billion and ₱11.3 billion, respectively, and investment securities at amortized cost with carrying values of ₱21.0 billion and ₱36.7 billion, respectively, and fair values of ₱21.6 billion and ₱39.5 billion, respectively (Note 9).

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Bills payable	**₱2,034,818**	₱653,391	₱600,334	**₱1,578,614**	₱434,650	₱507,332
Lease liabilities (Note 29)	**131,661**	–	–	**118,365**	–	–
Subordinated debt (Note 21)	–	–	75,314	–	–	75,314
Others	**18,567**	8,949	71,833	**43,643**	37,461	68,078
	₱2,185,046	₱662,340	₱747,481	**₱1,740,622**	₱ 472,111	₱650,724

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36	**2019**	2018
Accrued taxes and other expenses	**₱4,995,519**	₱4,960,643	**₱4,219,587**	₱4,295,448
Accrued interest	**1,944,207**	1,436,481	**1,838,507**	1,264,512
	₱6,939,726	₱6,397,124	**₱6,058,094**	₱5,559,960

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36	**2019**	2018
Financial liabilities:				
Promotional expenses	**₱673,648**	₱628,733	**₱657,373**	₱592,769
Information technology-related expenses	**182,057**	145,206	**180,952**	127,914
Rent and utilities payable	**127,165**	164,640	**119,128**	139,511
Repairs and maintenance	**64,806**	94,353	**62,446**	93,996
Management, directors and other professional fees	**36,021**	125,861	**11,242**	84,117
	1,083,697	1,158,793	**1,031,141**	1,038,307
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,436,248**	1,671,002	**1,376,105**	1,635,451
Other taxes and licenses	**894,001**	738,499	**544,137**	515,292
PDIC insurance premiums	**843,677**	716,041	**776,578**	667,982
Employee benefits	**139,850**	236,698	**128,218**	127,374
Other expenses	**598,046**	439,610	**363,408**	311,042
	3,911,822	3,801,850	**3,188,446**	3,257,141
	₱4,995,519	₱4,960,643	**₱4,219,587**	₱4,295,448

'Other expenses' include janitorial, representation and entertainment, communication and other operating expenses.

21. Bonds Payable and Subordinated Debt

Bonds Payable
This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2019	Carrying Value 2018
Fixed rate medium term senior notes						
June 27, 2019	September 27, 2024	USD750,000	3.28%	Semi-annually	**₱37,718,077**	₱–
April 26, 2018	April 27, 2023	300,000	4.25%	Semi-annually	**15,108,746**	15,661,372
		USD1,050,000			**52,826,823**	15,661,372
Fixed rate bonds						
May 8, 2019	May 8, 2021	₱13,870,000	6.30%	Quarterly	**13,788,255**	–
					₱66,615,078	₱15,661,372

The fixed rate medium term senior notes are drawdowns from the Parent Company's Medium Term Note Programme (the MTN Programme), which was established on April 13, 2018 with an initial nominal size of US$1.0 billion. On June 14, 2019, the Parent Company increased the size of its MTN Programme to US$2.0 billion. Both issued fixed rate medium term senior notes are listed in the Singapore Exchange Securities Trading Limited.

The fixed rate bonds represent the Parent Company's maiden issuance of Philippine peso-denominated bonds in Philippine Dealing & Exchange Corp.

As of December 31, 2019 and 2018, the unamortized transaction costs of bonds payable amounted to ₱421.7 million and ₱112.6 million, respectively. In 2019 and 2018, amortization of transaction costs amounting to ₱98.5 million and ₱15.9 million, were charged to 'Interest expense on bonds payable' in the statement of income.

Subordinated Debt
On May 9, 2012, the Parent Company issued unsecured subordinated notes (the 2012 Notes) amounting to ₱3.5 billion, with original maturity of May 9, 2022, but redeemable at the option of the Parent Company on May 10, 2017. The 2012 Notes carried interest at the rate of 5.88% per annum, payable quarterly. The 2012 Notes qualified as Lower Tier 2 capital of the Parent Company.

On May 10, 2017, the Parent Company exercised its call option at an amount equal to the aggregate issue price of the 2012 Notes plus accrued and unpaid interest as approved by the MB of the BSP on January 26, 2017.

In 2017, amortization of transaction costs amounting to ₱2.2 million is charged to 'Interest expense on bills payable and other borrowings' in the statement of income (Note 19).

22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36	**2019**	2018
Financial				
Accounts payable	**₱9,526,347**	₱9,181,245	**₱8,125,229**	₱7,398,716
Insurance contract liabilities	**5,745,820**	5,420,538	**–**	–
Manager's checks and demand drafts outstanding	**1,393,535**	1,545,888	**1,332,285**	1,217,043
Bills purchased - contra (Note 10)	**1,348,148**	1,396,318	**1,348,148**	1,396,128
Dormant credits	**1,100,311**	946,354	**972,082**	922,167
Deposits on lease contracts	**833,853**	823,968	**103,127**	130,375
Due to other banks (Note 33)	**538,612**	919,838	**99,776**	538,861
Accounts payable - electronic money	**454,833**	519,810	**454,833**	519,810
Payment order payable	**333,909**	632,477	**329,699**	630,395
Margin deposits and cash letters of credit	**224,873**	44,383	**208,027**	31,651
Commission payable	**75,467**	81,108	**–**	–
Transmission liability	**19,225**	25,896	**–**	–
Deposit for keys on safety deposit boxes	**16,473**	15,493	**16,445**	15,471
	21,611,406	21,553,316	**12,989,651**	12,800,617
Nonfinancial				
Reserve for unearned premiums	**1,470,274**	1,304,143	**–**	–
Provisions (Note 34)	**969,106**	969,106	**969,106**	969,106
Retirement benefit liability (Note 28)	**804,733**	1,223,830	**803,653**	1,221,705
Deferred revenue - Bancassurance (Note 12)	**720,074**	793,274	**720,074**	793,274
Due to Treasurer of the Philippines	**681,835**	571,235	**681,343**	570,742
Deferred revenue - Credit card-related	**468,238**	260,969	**468,238**	260,969
Withholding tax payable	**385,294**	518,233	**350,389**	476,196
Deferred tax liabilities (Note 30)	**165,851**	166,979	**–**	–
SSS, Philhealth, Employer's compensation premiums and Pag-IBIG contributions payable	**35,939**	28,599	**35,129**	28,160
Miscellaneous	**1,810,703**	885,340	**841,352**	411,819
	7,512,047	6,721,708	**4,869,284**	4,731,971
	₱29,123,453	₱28,275,024	**₱17,858,935**	₱17,532,588

'Deferred revenue - Bancassurance' pertains to the allocated portion of the consideration received for the disposal of APLII related to the EDR (Note 12). In 2019 and 2018, amortization of other deferred revenue amounting to ₱73.2 million were recognized under 'Service fees and commission income' (Note 26).

'Deferred revenue - Credit card-related' includes portion of fee allocated to the loyalty points, deferred by the Group and recognized as revenue when the points are redeemed or have expired.

'Miscellaneous' include interoffice floats, remittance-related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The tables below show the fair values of the derivative financial instruments entered into by the Group and the Parent Company, recorded as 'Financial assets at FVTPL' (Note 9) or 'Financial liabilities at FVTPL' (Note 18), together with the notional amounts.

The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2019 and 2018 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2019			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Currency forwards and spots:				
BUY:				
USD	**₱23,951**	**₱179,106**	**50.64**	**1,042,766**
CNY	**39**	**–**	**0.14**	**2,000**
EUR	**39**	**2,114**	**1.11**	**11,173**
GBP	**278**	**–**	**1.31**	**1,700**
JPY	**2**	**–**	**0.01**	**666**
SGD	**3**	**–**	**0.74**	**23,394**
SELL:				
USD	**280,652**	**8,432**	**50.64**	**1,677,221**
AUD	**–**	**27**	**0.70**	**100**
CAD	**–**	**809**	**0.77**	**1,500**
EUR	**4,613**	**51**	**1.11**	**28,691**
GBP	**176**	**211**	**1.31**	**5,150**
HKD	**–**	**7,010**	**0.13**	**399,627**
JPY	**2,869**	**66**	**0.01**	**1,152,909**
PHP	**–**	**106**	**1.00**	**30,000**
Interest rate swaps	**60,418**	**47,687**		
	₱373,040	**₱245,619**		

	Consolidated			
	2018			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Currency forwards and spots:				
BUY:				
USD	₱1,710	₱97,106	53.11	482,974
CNY	33	–	0.14	1,000
EUR	60,822	74,001	1.15	385,712
GBP	211	–	1.26	1,100
HKD	874	36	0.13	219,355
JPY	24,985	16	0.01	6,018,002
SELL:				
USD	119,480	2,965	52.98	690,340
AUD	72	–	0.71	500
CAD	1,365	–	0.75	2,005
CHF	7	–	0.99	200
EUR	–	432	1.14	3,618
GBP	–	428	1.27	3,700
HKD	36	1,222	0.13	276,171
JPY	91	9,469	0.01	1,121,000
SGD	–	14	0.73	200
Interest rate swaps	307,089	284,959		
Warrants	57,854	–		
	₱574,629	₱470,648		

	Parent Company			
	2019			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Currency forwards and spots:				
BUY:				
USD	**₱23,934**	**₱179,105**	**50.64**	**1,018,425**
CNY	**39**	**–**	**0.14**	**2,000**
EUR	**27**	**2,114**	**1.11**	**10,850**
GBP	**278**	**–**	**1.31**	**1,700**

(Forward)

	Parent Company 2019			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
SELL:				
USD	**₱280,652**	**₱1,619**	**50.64**	**1,283,875**
AUD	**–**	**27**	**0.70**	**100**
CAD	**–**	**809**	**0.77**	**1,500**
EUR	**4,613**	**36**	**1.11**	**27,500**
GBP	**176**	**211**	**1.31**	**5,150**
HKD	**–**	**278**	**0.13**	**8,000**
JPY	**2,869**	**–**	**0.01**	**1,150,000**
PHP	**–**	**106**	**1.00**	**30,000**
Interest rate swaps	**60,418**	**47,687**		
	₱373,006	**₱231,992**		

	Parent Company 2018			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱828	₱97,106	53.11	266,500
CNY	33	–	0.14	1,000
EUR	60,813	74,001	1.15	384,781
GBP	211	–	1.26	1,100
HKD	–	36	0.13	3,912
JPY	24,985	16	0.01	6,018,002
SELL:				
USD	119,480	1,781	53.11	418,613
AUD	72		0.71	500
CAD	1,365	–	0.75	2,005
CHF	7	–	0.99	200
EUR	–	421	1.14	2,150
GBP	–	428	1.27	3,700
HKD	36	47	0.13	5,912
JPY	91	9,470	0.01	1,121,000
SGD	–	14	0.73	200
Interest rate swaps	307,089	284,959		
Warrants	57,854	–		
	₱572,864	₱468,279		

**The notional amounts and average forward rates pertain to original currencies.*

The rollforward analysis of net derivative assets in 2019 and 2018 follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Balance at the beginning of the year:				
Derivative assets	**₱574,629**	₱562,984	**₱572,864**	₱559,692
Derivative liabilities	**470,649**	343,522	**468,279**	343,416
	103,980	219,462	**104,585**	216,276
Changes in fair value				
Currency forwards and spots*	**(663,118)**	(723,087)	**(663,118)**	(723,087)
Interest rate swaps and warrants**	**(3,733)**	161	**(3,733)**	161
	(666,851)	(722,926)	**(666,851)**	(722,926)
Net availments (settlements)	**690,292**	607,444	**703,280**	611,235
Balance at end of year:				
Derivative assets	**373,040**	574,629	**373,006**	572,864
Derivative liabilities	**245,619**	470,649	**231,992**	468,279
	₱127,421	₱103,980	**₱141,014**	₱104,585

* *Presented as part of 'Foreign exchange gains - net'*
** *Recorded under 'Trading and investment securities gains - net' (Note 9)*

24. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2019			2018 (As restated – Note 36		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	**₱30,500,927**	**₱–**	**₱30,500,927**	₱16,825,487	₱–	₱16,825,487
Due from BSP	**105,981,801**	**–**	**105,981,801**	102,723,312	–	102,723,312
Due from other banks	**17,761,502**	**–**	**17,761,502**	21,003,079	–	21,003,079
Interbank loans receivable (Note 8)	**23,344,062**	**1,494,473**	**24,838,535**	161,630	11,086,825	11,248,455
Securities held under agreements to resell (Note 8)	**2,519,676**	**–**	**2,519,676**	20,700,000	–	20,700,000
Financial assets at FVTPL (Note 9)	**13,468,985**	**–**	**13,468,985**	1,129,002	8,871,774	10,000,776
Financial assets at FVOCI (Note 9)	**16,448,728**	**106,692,112**	**123,140,840**	9,684,883	42,444,938	52,129,821
Investment securities at amortized cost (Note 9)	**28,981,027**	**75,268,926**	**104,249,953**	26,223,677	78,351,448	104,575,125
Loans and receivables (Note 10)	**263,166,643**	**412,967,255**	**676,133,898**	210,367,043	391,897,350	602,264,393
Other assets (Note 15)	**420,846**	**54,930**	**475,776**	669,790	135,215	805,005
	502,594,197	**596,477,696**	**1,099,071,893**	409,487,903	532,787,550	942,275,453
Nonfinancial Assets						
Property and equipment (Note 11)	**–**	**31,660,286**	**31,660,286**	–	27,903,223	27,903,223
Investment in an associate (Note 12)	**–**	**2,605,473**	**2,605,473**	–	2,418,842	2,418,842
Investment properties (Note 13)	**–**	**19,226,364**	**19,226,364**	–	18,605,466	18,605,466
Deferred tax assets (Note 30)	**–**	**2,580,809**	**2,580,809**	–	2,112,689	2,112,689
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	**–**	**6,208,501**	**6,208,501**	–	5,871,348	5,871,348
Residual value of leased assets (Note 10)	**304,898**	**349,380**	**654,278**	298,725	350,612	649,337
Other assets (Note 15)	**5,821,416**	**2,846,454**	**8,667,870**	5,881,365	1,883,349	7,764,714
	6,126,314	**78,852,674**	**84,978,988**	6,180,090	72,520,936	78,701,026
Less: Allowance for impairment and credit losses (Note 16)			**26,538,007**			23,727,295
Unearned and other deferred income (Note 10)			**451,191**			979,678
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**14,771,072**			12,621,320
			₱1,142,290,611			₱983,648,186
Financial Liabilities						
Deposit liabilities (Note 17)	**₱779,949,597**	**₱46,095,883**	**₱826,045,480**	₱686,082,355	₱47,219,123	₱733,301,478
Financial liabilities at FVTPL (Note 18)	**210,265**	**35,354**	**245,619**	470,648	–	470,648
Bills and acceptances payable (Note 19)	**51,821,601**	**4,141,689**	**55,963,290**	60,549,245	9,533,590	70,082,835
Accrued interest payable (Note 20)	**1,803,453**	**140,754**	**1,944,207**	1,408,168	28,313	1,436,481
Accrued other expenses payable (Note 20)	**1,035,769**	**134,098**	**1,169,867**	631,748	690,693	1,322,441
Bonds payable (Note 31)	**–**	**66,615,078**	**66,615,078**	–	15,661,372	15,661,372
Other liabilities (Note 22)	**19,940,541**	**1,608,024**	**21,548,565**	20,079,891	1,468,695	21,548,586
	854,761,226	**118,770,880**	**973,532,106**	769,222,055	74,601,786	843,823,841
Nonfinancial Liabilities						
Lease liabilities (Note 29)	**559,960**	**1,246,449**	**1,806,409**	–	–	–
Accrued taxes and other expenses (Note 20)	**3,825,652**	**–**	**3,825,652**	3,638,202	–	3,638,202
Income tax payable	**576,156**	**–**	**576,156**	900,693	–	900,693
Other liabilities (Note 22)	**5,201,424**	**2,373,464**	**7,574,888**	1,548,903	5,177,535	6,726,438
	10,163,192	**3,619,913**	**13,783,105**	6,087,798	5,177,535	11,265,333
	₱864,924,418	**₱122,390,793**	**₱987,315,211**	₱775,309,853	₱79,779,321	₱855,089,174

	Parent Company					
	2019			2018		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	**₱29,642,159**	**₱–**	**₱29,642,159**	₱15,904,663	₱–	₱15,904,663
Due from BSP	**101,801,597**	**–**	**101,801,597**	98,665,375	–	98,665,375
Due from other banks	**10,838,465**	**–**	**10,838,465**	10,459,496	–	10,459,496
Interbank loans receivable (Note 8)	**22,309,839**	**1,494,473**	**23,804,312**	161,630	11,527,784	11,689,414
Securities held under agreements to resell (Note 8)	**1,149,984**	**–**	**1,149,984**	20,700,000	–	20,700,000
Financial assets at FVTPL (Note 9)	**11,169,656**	**–**	**11,169,656**	9,983,636	–	9,983,636
Financial assets at FVOCI (Note 9)	**16,018,940**	**102,877,624**	**118,896,564**	9,369,217	41,287,676	50,656,893
Investments securities at amortized cost (Note 9)	**24,830,301**	**78,101,851**	**102,932,152**	25,839,002	77,516,591	103,355,593
Loans and receivables (Note 10)	**257,541,945**	**344,363,206**	**601,905,151**	191,004,032	335,730,751	526,734,783
Other assets (Note 15)	**72,808**	**500**	**73,308**	670,750	500	671,250
	475,375,694	**526,837,654**	**1,002,213,348**	382,757,801	466,063,302	848,821,103

	Parent Company					
	2019			2018		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment (Note 11)	**₱–**	**₱28,230,217**	**₱28,230,217**	₱–	₱24,758,393	₱24,758,393
Investment properties (Note 13)	**–**	**18,822,796**	**18,822,796**	–	18,235,224	18,235,224
Deferred tax assets (Note 30)	**–**	**1,985,597**	**1,985,597**	–	1,452,153	1,452,153
Investments in subsidiaries and an associate (Note 12)	**–**	**28,430,358**	**28,430,358**	–	28,645,807	28,645,807
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765
Intangible assets (Note 14)	**–**	**7,175,852**	**7,175,852**	–	6,846,449	6,846,449
Other assets (Note 15)	**4,071,106**	**2,236,701**	**6,307,807**	5,081,853	1,331,879	6,413,732
	4,071,106	**100,397,286**	**104,468,392**	5,081,853	94,785,670	99,867,523
Less: Allowance for impairment and credit losses (Note 16)			**22,323,501**			21,085,902
Unearned and other deferred income (Note 10)			**366,471**			677,052
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**14,786,546**			12,692,211
			₱1,069,025,222			₱911,800,586
Financial Liabilities						
Deposit liabilities (Note 17)	**₱736,882,795**	**₱ 38,959,204**	**₱775,841,999**	₱644,774,714	₱38,622,692	₱683,397,406
Financial liabilities at FVTPL (Note 18)	**196,638**	**35,354**	**231,992**	468,279	–	468,279
Bills and acceptances payable (Note 19)	**44,886,841**	**3,537,176**	**48,424,017**	55,747,402	6,959,393	62,706,795
Accrued interest payable (Note 20)	**1,699,457**	**139,050**	**1,838,507**	1,236,200	28,312	1,264,512
Accrued other expenses payable (Note 20)	**897,043**	**134,098**	**1,031,141**	377,996	660,311	1,038,307
Bonds payable (Note 21)	**–**	**66,615,078**	**66,615,078**	–	15,661,372	15,661,372
Other liabilities (Note 22)	**11,914,442**	**1,075,209**	**12,989,651**	11,748,075	1,052,542	12,800,617
	796,477,216	**110,495,169**	**906,972,385**	714,352,666	62,984,622	777,337,288
Nonfinancial Liabilities						
Lease liabilities (Note 29)	**492,749**	**1,140,334**	**1,633,083**	–	–	–
Accrued taxes and other expenses (Note 20)	**3,188,446**	**–**	**3,188,446**	3,257,141	–	3,257,141
Income tax payable	**472,378**	**–**	**472,378**	823,739	–	823,739
Other liabilities (Note 22)	**2,663,244**	**2,206,040**	**4,869,284**	1,169,596	3,562,375	4,731,971
	6,816,817	**3,346,374**	**10,163,191**	5,250,476	3,562,375	8,812,851
	₱803,294,033	**₱113,841,543**	**₱917,135,576**	₱719,603,142	₱66,546,997	₱786,150,139

25. Equity

Capital Stock

This account consists of (amounts in thousands, except for par value and number of shares):

	2019		2018	
	Shares	**Amount**	Shares	Amount
Common - ₱40 par value				
Authorized	**1,750,000,001**	**₱70,000,000**	1,750,000,001	₱70,000,000
Issued and outstanding				
Balance at beginning of the year	**1,249,139,678**	**₱49,965,587**	1,249,139,678	₱49,965,587
Issuance of stock	**276,625,172**	**11,065,007**	–	–
Balance at end of the year	**1,525,764,850**	**₱61,030,594**	1,249,139,678	₱49,965,587

The history of share issuances of the Parent Company since its initial public offering follows:

Date	Type of issuance	Number of common shares	Par value	Offer price
July 2019	Stock rights	276,625,172	₱40.00	₱43.38
February 2014	Stock rights	162,931,262	40.00	71.00
February 2013	Share-for-share swap with ABC common and preferred shares *	423,962,500	40.00	97.90
September 2000	Pre-emptive stock rights	71,850,215	100.00	60.00
September 1999	Stock rights	68,740,086	100.00	137.80
December 1995	Third public offering	7,200,000	100.00	260.00
April 1992	Second public offering	8,033,140	100.00	265.00
June 1989	Initial public offering	10,800,000	100.00	100.00

* *In January 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001*

The Parent Company's shares are listed in the PSE. As of December 31, 2019 and 2018, the Parent Company had 36,471 and 36,940 stockholders, respectively.

On July 22, 2019, the Parent Company successfully completed its Stock Rights Offering (the Offer) of 276,625,172 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱43.38 each, raising gross proceeds of ₱12.0 billion. The Rights Shares were offered to all eligible shareholders of the Parent Company from July 3 to 12, 2019 at the proportion of one Rights Share for every 4.516 existing common shares as of the record date of June 21, 2019. The Parent Company incurred transaction costs of ₱312.5 million, of which ₱159.7 million was deducted against 'Capital paid in excess of par value'. Out of the ₱159.7 million transaction costs, underwriting fees amounting to ₱10.0 million paid to PNB Capital, being one of the joint lead managers of the Offer, was eliminated in the consolidated financial statements.

Surplus

The computation of surplus available for dividend declaration in accordance with the Philippine Securities and Exchange Commission (SEC) Memorandum Circular No. 11-2008 differs to a certain extent from the computation following BSP guidelines.

As of December 31, 2019 and 2018, surplus amounting to ₱9.6 billion, representing the balances of the following equity items that have been applied to eliminate the Parent Company's deficit through quasi-reorganizations in 2002 and 2000, is not available for dividend declaration without prior approval from the Philippine SEC and the BSP:

Revaluation increment on land and buildings	₱7,691,808
Accumulated translation adjustment	1,315,685
Accumulated equity in net earnings of investees	563,048
	₱9,570,541

In addition, surplus amounting to ₱705.9 million and ₱1.0 billion as of December 31, 2019 and 2018, respectively, corresponding to the undistributed equity in net earnings of investees, is not available for dividend declaration until realized by the Parent Company through dividends from the investees.

Surplus Reserves
This account consists of:

	2019	2018
Reserve for trust business (Note 32)	**₱562,018**	₱540,573
Reserve for self-insurance	**80,000**	80,000
	₱642,018	₱620,573

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Accumulated Translation Adjustment
As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion, including ₱0.6 billion accumulated equity in net earnings as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions:

- remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of 'Capital paid in excess of par value' in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC;
- for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Other Equity Reserves
On August 26, 2016, the Parent Company's BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company's shares of stock. The acquisition and distribution of the estimated 3.0 million shares shall be done over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date is April 27, 2017 when the fair value of the centennial bonus shares is ₱65.20. In 2019, 2018 and 2017, the Parent Company awarded 277 thousand, 343 thousand and 1.12 million, respectively, centennial bonus shares and applied the settlement of the awards against 'Other equity reserves' amounting to ₱18.4 million, ₱16.3 million and ₱35.45 million, respectively.

Capital Management
The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company and its financial allied subsidiaries are subject to the regulatory requirements of the BSP. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

The Group has a nonlife insurance business, through PNB Gen, which is subject to the regulatory requirements of the Insurance Commission (IC).

The Group has complied with all externally imposed capital requirements throughout the year.

BSP reporting for capital management
Under existing BSP regulations, the determination of the Group's compliance with regulatory requirements and ratios is based on the amount of the Group's unimpaired capital (regulatory net worth) reported to the BSP, which is determined based on RAP, which differ from PFRS in some respects. In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% at all times for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on RAP. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

On May 16, 2002, the BSP approved the booking of additional appraisal increment on properties of ₱431.8 million and recognition of the same in determining the CAR, and booking of translation adjustment of ₱1.6 billion representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2019 and 2018, CAR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

	2019		2018	
Consolidated	**Actual**	**Required**	Actual	Required
CET1 Capital (Gross)	**₱146,808**		₱121,744	
Less: Regulatory Adjustments to CET 1	**22,303**		22,110	
CET1 Capital (Net)	**124,505**		99,634	
Add: Additional Tier 1 Capital (AT1)	**–**		–	
Tier 1 Capital	**124,505**		99,634	
Add: Tier 2 Capital	**6,183**		5,882	
Total qualifying capital	**₱130,688**	**₱88,306**	₱105,516	₱73,533
Total risk-weighted assets	**₱883,055**		₱735,332	
Tier 1 capital ratio	**14.10%**		13.55%	
Total capital ratio	**14.80%**		14.35%	

	2019		2018	
Parent Company	**Actual**	**Required**	Actual	Required
CET1 Capital (Gross)	**₱144,654**		₱117,541	
Less: Regulatory Adjustments to CET 1	**47,960**		46,665	
CET1 Capital (Net)	**96,694**		70,876	
Add: AT1	**–**		–	
Tier 1 Capital	**96,694**		70,876	
Add: Tier 2 Capital	**5,564**		5,079	
Total qualifying capital	**₱102,258**	**₱79,695**	₱75,955	₱65,309
Total risk-weighted assets	**₱796,949**		₱653,088	
Tier 1 capital ratio	**12.13%**		10.85%	
Total capital ratio	**12.83%**		11.63%	

The Group considered BSP regulations, which set out a minimum CET1 ratio of 6.00% and Tier 1 capital ratio of 7.50%, and require capital conservation buffer of 2.50% comprised of CET1 capital.

In line with its Internal Capital Adequacy Assessment Process (ICAAP), the Parent Company maintains a capital level that not only meets the BSP's CAR requirement, but also covers all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning and strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2019, BLR reported to the BSP is shown in the table below (amounts, except ratios, are expressed in millions):

	Consolidated	Parent Company
Tier 1 capital	₱124,505	₱96,694
Total exposure measure	1,161,264	1,070,585
BLR	10.72%	9.03%

BLR is computed based on RAP.

IC reporting for capital management
Under the requirements of the IC and the Insurance Code, PNB Gen should meet the minimum levels set for the following capital requirements:

- minimum statutory net worth of ₱900.0 million by December 31, 2019 and ₱1.3 billion by December 31, 2022;
- risk-based capital (RBC) ratio of 100.00%.

The RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of Tier 1 capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis and additional Tier 2 less certain deductions, subject to applicable limits and determinations. The RBC requirement is the required capital to cover the insurance risks computed using the IC-prescribed regulations.

As of December 31, 2019 and 2018, PNB Gen has an estimated statutory net worth amounting to ₱960.6 million and ₱597.1 million, respectively. PNB Gen's RBC ratio as of December 31, 2019 and 2018 is 248.43% and 165.00%, respectively.

26. Other Operating Income

Service Fees and Commission Income
This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	2019	2018	2017
Deposit-related	**₱1,120,069**	₱1,075,496	₱889,067	**₱1,101,249**	₱930,563	₱866,454
Credit-related	**1,042,011**	612,058	554,608	**647,215**	604,790	547,618
Remittance	**714,330**	766,652	819,689	**373,330**	401,223	430,324
Underwriting fees	**655,450**	140,660	389,283	–	–	–
Interchange fees	**506,521**	625,059	503,133	**506,521**	625,059	503,133
Credit card-related	**456,176**	407,013	278,579	**456,176**	407,013	278,579
Trust fees (Note 32)	**281,228**	279,131	300,047	**281,228**	279,131	300,047
Bancassurance (Note 22)	**188,263**	208,653	130,450	**188,263**	208,653	130,450
Miscellaneous	**212,452**	144,562	316,005	**123,707**	67,831	74,178
	₱5,176,500	₱4,259,284	₱4,180,861	**₱3,677,689**	₱3,524,263	₱3,130,783

'Interchange fees' and 'Credit card-related fees' were generated from the credit card business by the Parent Company.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

Net Insurance Premium (Benefits and Claims)
This account consists of:

	Consolidated		
	2019	2018	2017
Net insurance premiums			
Gross earned premium	**₱3,221,128**	₱2,501,725	₱2,291,986
Reinsurer's share of gross earned premiums	**(2,069,423)**	(1,272,931)	(1,635,657)
	1,151,705	1,228,794	656,329
Less net insurance benefits and claims			
Gross insurance contract benefits and claims paid	**299,815**	1,711,759	428,225
Reinsurer's share of gross insurance contract benefits and claims paid	**(236,927)**	(606,275)	(86,845)
Gross change in insurance contract liabilities	**81,550**	109,703	147,880
Reinsurer's share of change in insurance contract liabilities	**765,537**	77,762	(167,016)
	909,975	1,292,949	322,244
	₱241,730	(₱64,155)	₱334,085

Net Gains on Sale or Exchange of Assets
This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	2019	2018	2017
Net gains from foreclosure and repossession of investment properties	**₱482,661**	₱129,218	₱162,125	**₱505,137**	₱129,218	₱162,125
Net gains (losses) from sale of receivables	**165,310**	–	(804)	**165,310**	–	–
Net gains from sale of investment properties (Note 33)	**48,599**	5,703,523	3,755,533	**6,218**	5,683,516	3,698,236
Net gains from sale of other assets	**3,016**	–	–	**8,753**	–	–
Net gains (losses) from sale of property and equipment (Note 11)	**(8,961)**	28,402	4,282	**1,023**	28,402	1,980
	₱690,625	₱5,861,143	₱3,921,136	**₱686,441**	₱5,841,136	₱3,862,341

27. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Rental income (Note 29)	**₱832,031**	₱767,505	₱424,758	**₱566,665**	₱583,636	₱290,562
Recoveries	**76,362**	58,584	73,845	**66,694**	57,767	72,990
Dividends	**89,528**	55,906	33,577	**60,046**	54,520	32,417
Referral fees	**2,516**	3,011	3,448	–	–	–
Miscellaneous Income-Credit Card Related	**16,958**	12,571	7,662	**16,958**	12,571	7,662
Miscellaneous Income-Trade Related	**23,588**	30,110	26,454	**23,588**	30,110	26,454
Miscellaneous Income-Loan Related	**79,409**	114,063	22,284	**79,409**	114,063	22,284
Others	**344,090**	383,689	301,489	**163,462**	249,208	139,672
	₱1,464,482	₱1,425,439	₱893,517	**₱976,822**	₱1,101,875	₱592,041

'Others' consist of income from wire transfers, tellers' overages and penalty payments received by the Bank which are related to loan accounts.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
Insurance	**₱1,851,994**	₱1,601,910	₱1,428,680	**₱1,632,028**	₱1,397,590	₱1,287,724
Secretarial, janitorial and messengerial	**1,648,222**	1,480,505	1,283,655	**1,521,042**	1,379,306	1,199,446
Marketing expenses	**1,141,243**	1,178,340	928,613	**1,117,113**	1,032,695	836,491
Information technology	**818,896**	568,141	446,393	**796,016**	542,478	418,954
Management and other professional fees	**488,495**	415,271	431,312	**432,425**	346,398	359,078
Travelling	**377,379**	328,983	290,850	**345,626**	297,506	262,954
Litigation and assets acquired expenses	**326,588**	490,732	290,044	**290,775**	473,660	268,075
Postage, telephone and cable	**231,174**	218,298	187,953	**165,533**	156,160	132,872
Entertainment, amusement and recreation (EAR) (Note 30)	**166,977**	132,113	136,825	**153,999**	119,713	123,130
Repairs and maintenance	**73,601**	75,235	86,787	**73,601**	75,235	86,787
Freight	**41,811**	28,093	57,039	**38,003**	25,350	54,456
Fuel and lubricants	**18,671**	19,425	16,774	**12,677**	11,541	10,879
Others (Notes 13 and 33)	**547,478**	462,426	782,594	**275,821**	267,702	593,173
	₱7,732,529	₱6,999,472	₱6,367,519	**₱6,854,659**	₱6,125,334	₱5,634,019

'Others' include stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

28. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Retirement benefit liability (included in 'Other liabilities')	**₱804,733**	₱1,223,830	**₱803,653**	₱1,221,705
Net plan assets (included in 'Other assets - miscellaneous')	**5,003**	76,509	**–**	–
	₱799,730	₱1,147,321	**₱803,653**	₱1,221,705

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2019 and 2018, the Parent Company has two separate regular retirement plans for the employees of PNB and ABC. In addition, the Parent Company provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The latest actuarial valuations for these retirement plans were made as of December 31, 2019. The following table shows the actuarial assumptions as of December 31, 2019 and 2018 used in determining the retirement benefit obligation of the Group:

	Consolidated		Parent Company					
			ABC		PNB		EIP	
	2019	2018*	**2019**	2018	**2019**	2018	**2019**	2018
Discount rate	**4.65%-5.09%**	7.23%-8.11%	**4.65%**	7.23%	**4.65%**	7.23%	**4.65%**	7.23%
Salary rate increase	**4.00%-8.00%**	4.00%-8.00%	**5.00%**	6.00%	**5.00%**	6.00%	**–**	–

**Restated to include PNB Gen*

The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated
2019

		Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2019	**Current service cost**	**Past Service Cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan asset excluding amount included in net interest)**	**Actuarial changes Arising from demographic assumptions**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contributions by employer**	**December 31, 2019**
Present value of pension obligation	**₱6,685,101**	**₱476,653**	**₱3,774**	**₱482,414**	**₱962,841**	**(₱369,733)**	**₱–**	**₱–**	**₱71,802**	**₱815,339**	**₱887,141**	**₱–**	**₱8,165,350**
Fair value of plan assets	**5,537,780**	–	–	**400,507**	**400,507**	**(369,733)**	**124,228**	–	–	–	**124,228**	**1,672,838**	**7,365,620**
	₱1,147,321	**₱476,653**	**₱3,774**	**₱81,907**	**₱562,334**	**₱–**	**(₱124,228)**	**₱–**	**₱71,802**	**₱815,339**	**₱762,913**	**(₱1,672,838)**	**₱799,730**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income*

Consolidated
2018 (As restated – Note 36)

		Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2018	Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes Arising from demographic assumptions	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2018
Present value of pension obligation	₱6,824,948	₱481,108	₱352,310	₱312,712	₱1,146,130	(₱585,194)	₱–	₱–	₱126,538	(₱827,321)	(₱700,783)	₱–	₱6,685,101
Fair value of plan assets	5,287,162	–	–	243,130	243,130	(585,194)	(467,664)	–	–	–	(467,664)	1,060,346	5,537,780
	₱1,537,786	₱481,108	₱352,310	₱69,582	₱903,000	₱–	₱467,664	₱–	₱126,538	(₱827,321)	(₱233,119)	(₱1,060,346)	₱1,147,321

**Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income*

Parent Company

2019

	January 1, 2019	Net benefit costs*: Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2019
Present value of pension obligation	**₱6,542,733**	**₱448,582**	**₱–**	**₱471,434**	**₱920,016**	**(₱360,119)**	**₱–**	**₱–**	**₱62,180**	**₱761,007**	**₱823,187**	**₱–**	**₱7,925,817**
Fair value of plan assets	**5,321,028**	–	–	**384,710**	**384,710**	**(360,119)**	**112,791**	–	–	–	**112,791**	**1,663,754**	**7,122,164**
	₱1,221,705	**₱448,582**	**₱–**	**₱86,724**	**₱535,306**	**₱–**	**(₱112,791)**	**₱–**	**₱62,180**	**₱761,007**	**₱710,396**	**(₱1,663,754)**	**₱803,653**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income*

Parent Company

2018

	January 1, 2018	Net benefit costs*: Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Remeasurements in other comprehensive income: Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2018
Present value of pension obligation	₱6,544,823	₱432,091	₱352,310	₱ 368,296	₱ 1,152,697	(₱578,307)	₱–	₱152,146	₱–	(₱728,626)	(₱576,480)	₱–	₱6,542,733
Fair value of plan assets	5,059,397	–	–	280,697	280,697	(578,307)	(460,592)	–	–	–	(460,592)	1,019,833	5,321,028
	₱1,485,426	₱432,091	₱352,310	₱87,599	₱872,000	₱–	₱460,592	₱152,146	₱–	(₱728,626)	(₱115,888)	(₱1,019,833)	₱1,221,705

**Net benefit costs is included in 'Compensation and fringe benefits' in the statements of income*

The Group and the Parent Company expect to contribute ₱1,148.1 million and ₱1,089.5 million, respectively, to the defined benefit plans in 2020. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2019 is 16.0 years and 13.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Less than one year	**₱1,334,360**	₱1,095,158	**₱1,325,247**	₱1,077,394
More than one year to five years	**4,948,248**	4,160,409	**4,888,126**	4,115,892
More than five years to 10 years	**4,103,971**	4,522,095	**3,927,916**	4,370,627
More than 10 years to 15 years	**2,426,245**	3,265,337	**2,092,890**	2,960,912
More than 15 years	**7,030,900**	8,856,164	**4,974,489**	6,705,994

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2019	2018 (As restated – Note 36)	**2019**	2018
Cash and cash equivalents	**₱2,137,666**	₱1,011,495	**₱2,100,971**	₱974,608
Equity investments				
Financial institutions (Note 33)	**311,446**	321,213	**305,036**	321,213
Electricity, gas and water	**550,964**	–	**550,964**	–
Real estate, renting and business activities	**377,240**	254,683	**377,240**	254,683
Others	**76,032**	77,834	**59,245**	63,241
Debt investment				
Private debt securities	**1,513,726**	2,323,954	**1,505,272**	2,312,092
Government securities	**1,344,608**	1,026,787	**1,329,390**	1,017,080
Investment in UITFs	**699,511**	480,687	**556,816**	352,144
Loans and receivables	**313,024**	13,903	**313,024**	248
Interest and other receivables	**45,974**	29,268	**28,643**	27,692
	7,370,191	5,539,824	**7,126,601**	5,323,001
Accrued expenses	**(4,571)**	(2,044)	**(4,437)**	(1,973)
	₱7,365,620	₱5,537,780	**₱7,122,164**	₱5,321,028

All equity and debt investments held including investments in UITF have quoted prices in active markets. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2019 and 2018 for the Group includes investments in the Parent Company shares of stock with fair value amounting to ₱305.0 million and ₱321.2 million, respectively.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2019			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱347,506)**	**+1.00%**	**(₱318,742)**
	-1.00%	**579,626**	**-1.00%**	**544,780**
Salary increase rate	**+1.00%**	**523,547**	**+1.00%**	**489,098**
	-1.00%	**(477,056)**	**-1.00%**	**(447,910)**
Employee turnover rate	**+10.00%**	**(40,580)**	**+10.00%**	**(54,224)**
	-10.00%	**40,580**	**-10.00%**	**54,224**

	2018			
	Consolidated*		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱390,188)	+1.00%	(₱375,372)
	-1.00%	434,571	-1.00%	417,013
Salary increase rate	+1.00%	401,417	+1.00%	383,553
	-1.00%	(376,934)	-1.00%	(361,488)
Employee turnover rate	+10.00%	(47,273)	+10.00%	(64,019)
	-10.00%	47,273	-10.00%	64,019

**Restated to include PNB Gen*

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

29. Leases

Group as Lessee

The Group has entered into commercial leases for its branch sites, ATM offsite location and other equipment. These non-canceleable leases have lease terms of 1 to 25 years. Most of these lease contracts include escalation clauses, an annual rent increase of 2.00% to 10.00%. The Group ROU asset is composed of the Parent Company's branch sites and its subsidiaries offices under lease arrangements.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension and termination options are reasonably certain to be exercised.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱581.1 million, ₱844.6 million and ₱787.1 million in 2019, 2018 and 2017, respectively, for the Group, of which ₱454.1 million, ₱808.3 million and ₱668.7 million in 2019, 2018, and 2017, respectively, pertain to the Parent Company. Rent expense in 2019 pertains to expenses from short-term leases and leases of low-value assets.

As of December 31, 2019 and 2018, the Group has no contingent rent payable.

As of December 31, 2019, the carrying amounts of 'Lease liabilities' are as follows:

	Consolidated	Parent Company
Balance at beginning of year	₱1,859,717	₱1,642,529
Additions	456,644	426,885
Interest expense (Note 19)	131,661	118,365
Payments	(641,613)	(554,696)
	₱1,806,409	₱1,633,083

Future minimum rentals payable under non-cancelable leases follow:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Within one year	**₱777,971**	₱803,019	**₱615,874**	₱595,764
Beyond one year but not more than five years	**1,492,322**	1,569,722	**1,245,792**	1,176,135
More than five years	**231,550**	411,909	**229,398**	343,927
	₱2,501,843	₱2,784,650	**₱2,091,064**	₱2,115,826

Group as Lessor

The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2019, 2018 and 2017, total rent income (included under 'Miscellaneous income') amounted to ₱832.0 million, ₱767.5 million and ₱424.8 million, respectively, for the Group and ₱566.7 million, ₱583.6 million and ₱290.6 million, respectively, for the Parent Company (Note 27).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Within one year	**₱511,055**	₱492,548	**₱171,630**	₱219,106
Beyond one year but not more than five years	**1,009,932**	1,130,331	**654,515**	786,391
More than five years	**248,374**	401,779	**248,374**	401,779
	₱1,769,361	₱2,024,658	**₱1,074,519**	₱1,407,276

Finance Lease

Group as Lessor

Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease (effective interest method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

The future minimum lease receivables under finance leases are disclosed under 'Loans and Receivables' in Note 10.

30. Income and Other Taxes

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

RCIT rate is 30.00% and interest allowed as a deductible expenses is reduced by 33.00% of interest income subjected to final tax. MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence. FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. Income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
Current						
Regular	**₱1,653,473**	₱2,888,800	₱1,898,387	**₱1,367,233**	₱2,610,768	₱1,577,777
Final	**1,391,411**	734,802	636,353	**1,325,119**	692,984	548,095
	3,044,884	3,623,602	2,534,740	**2,692,352**	3,303,752	2,125,872
Deferred	**(573,898)**	63,503	(212,527)	**(605,888)**	918	(2,196)
	₱2,470,986	₱3,687,105	₱2,322,213	**₱2,086,464**	₱3,304,670	₱2,123,676

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deferred tax assets on:				
Allowance for impairment, credit and other losses	**₱5,761,259**	₱5,528,194	**₱5,234,231**	₱4,951,145
Accumulated depreciation on investment properties and appraisal increment	**745,362**	673,617	**709,277**	648,712
Accrued expenses	**484,529**	738,651	**484,529**	738,651
Retirement liability	**514,936**	296,942	**514,901**	272,723
Deferred revenues	**234,397**	183,340	**234,397**	168,330
Unrealized losses on financial assets at FVTPL and FVOCI	**694**	25,996	**694**	25,289
Others	**82,596**	83,641	–	–
	7,823,773	7,530,381	**7,178,029**	6,804,850
Deferred tax liabilities on:				
Revaluation increment on land and buildings [1/]	**3,133,453**	3,133,453	**3,133,453**	3,133,453
Fair value adjustment on investment properties	**1,077,752**	1,248,724	**1,048,107**	1,245,547
Fair value adjustments due to business combination	**405,545**	620,039	**405,545**	620,039
Unrealized foreign exchange gains	**328,812**	124,651	**328,811**	124,651
Gain on remeasurement of previously held interest	**164,429**	164,429	**164,429**	164,429
Unrealized gains on financial assets at FVTPL and FVOCI	**78,637**	–	**78,637**	–
Others	**54,336**	126,396	**33,450**	64,578
	5,242,964	5,417,692	**5,192,432**	5,352,697
	₱2,580,809	₱2,112,689	**₱1,985,597**	₱1,452,153

[1/] *Balance includes deferred tax liability amounting to ₱736.4 million acquired from business combination*

As of December 31, 2019 and 2018, the Group's net deferred tax liabilities as disclosed in 'Other liabilities' (Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million and on accelerated depreciation on property and equipment amounting to ₱6.8 million and ₱7.9 million, respectively.

Benefit from /Provision for deferred tax credited/debited directly to OCI pertains to deferred tax on remeasurement losses/gain on retirement plan amounting to ₱4.4 million and ₱2.9 million in 2019 and 2018, respectively, for the Group. Provision for deferred tax charged directly to OCI pertains to deferred tax on net unrealized gains on financial assets at FVOCI in 2019 amounting to ₱73.1 million for the Group and ₱72.4 million for the Parent Company.

Unrecognized deferred tax assets
The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Allowance for impairment and credit losses	**₱6,998,404**	₱4,734,474	**₱3,699,850**	₱3,769,234
Unamortized past service cost	**1,901,476**	1,974,207	**1,901,476**	1,973,506
Retirement liability	**803,653**	1,221,835	**803,653**	1,221,707
Derivative liabilities	**180,759**	182,903	**180,759**	182,903
NOLCO	**196,251**	260,537	**–**	–
Provision for IBNR	**111,097**	42,025	**–**	–
Lease liabilities	**95,209**	–	**88,935**	–
Accrued expenses	**58,711**	1,118	**–**	–
Unrealized loss on financial assets at FVOCI	**–**	1,173,243	**–**	1,173,243
Other equity reserves	**–**	70,213	**–**	70,213
Others	**14,087**	105	**–**	–
	₱10,359,647	₱9,660,660	**₱6,674,673**	₱8,390,806

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱103,937	₱23,807	₱80,130	Not applicable
2016	2,668	2,668	–	2019
2017	2,968	2,968	–	2020
2018	305,055	188,934	116,121	2021
	₱414,628	₱218,377	₱196,251	

The Group has net operating loss carryforwards for US federal tax purposes of USD9.8 million and USD8.7 million as of December 31, 2019 and 2018, respectively, and net operating loss carryforwards for California state tax purposes of USD5.8 million and USD5.2 million as of December 31, 2019 and 2018, respectively.

Unrecognized deferred tax liabilities
As of December 31, 2019, there was a deferred tax liability of ₱756.0 million (₱674.6 million in 2018) for temporary differences of ₱2.5 billion (₱2.2 billion in 2018) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2019	2018	2017	**2019**	2018	2017
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
Non-deductible expenses	**13.52**	8.00	2.51	**10.68**	6.27	1.98
Net unrecognized deferred tax assets	**(7.68)**	0.21	2.44	**(8.98)**	(1.06)	0.73
Tax-paid income	**(7.05)**	(2.61)	(6.76)	**(7.23)**	(2.36)	(6.80)
Tax-exempt income	**(6.43)**	(3.56)	(4.11)	**(4.94)**	(3.69)	(3.49)
FCDU income before tax	**(1.74)**	(4.20)	(1.67)	**(1.80)**	(3.28)	(1.78)
Optional standard deduction	**(0.42)**	–	(0.25)	**–**	–	–
Effective income tax rate	**20.20%**	27.84%	22.16%	**17.73%**	25.88%	20.64%

The amount of EAR expenses deductible for tax purposes is limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expenses' in the statements of income) amounted to ₱167.0 million in 2019, ₱132.1 million in 2018, and ₱136.8 million in 2017 for the Group, and ₱154.0 million in 2019, ₱119.7 million in 2018, and ₱123.1 million in 2017 for the Parent Company (Note 27).

31. Earnings Per Share

Earnings per share attributable to equity holders of the Parent Company is computed as follows:

	2019	2018	2017
a) Net income attributable to equity holders of the Parent Company	**₱9,681,480**	₱9,465,022	₱8,160,570
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,372,674**	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱7.05**	₱7.58	₱6.53

As of December 31, 2019 and 2018 and 2017, there are no potential common shares with dilutive effect on the basic earnings per share.

32. Trust Operations

Securities and other properties held by the Parent Company through its Trust Baking Group (TBG) in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱95.9 billion and ₱87.7 billion as of December 31, 2019 and 2018, respectively. In connection with the trust functions of the Parent Company, government securities amounting to ₱1.0 billion and ₱941.5 million (included under 'Investment securities at amortized cost') as of December 31, 2019 and 2018, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2019, 2018 and 2017 amounting to ₱281.2 million, ₱279.1 million and ₱300.0 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱21.4 million, ₱23.0 million and ₱23.9 million in 2019, 2018 and 2017, respectively, which correspond to 10.00% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital (Note 25).

33. Related Party Transactions

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

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors and their subsidiaries and associates called affiliates;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investors			
Deposit liabilities		**₱270,544**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	**₱13,976**		Interest expense on deposits
Net withdrawals	**222,636**		Net withdrawals during the period
Subsidiaries			
Receivables from customers		**2,122,676**	Term Loan maturing in 2020 with nominal interest rates ranging from 3.87% to 5.75%. Domestic Bills Purchased.
Loan releases	**16,205,901**		
Loan collections	**14,341,029**		
Loan commitments		**6,270,640**	Omnibus line; credit line
Interbank loans receivable		**34,240**	Foreign currency-denominated interbank term loans with interest rates ranging from 0.57% to 1.00% and maturity terms ranging from 33 to 138 days with Allied Commercial Bank Xiamen
Availments	**216,849**		
Settlements	**623,568**		
Due from other banks		**336,879**	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50% with PNB Europe.
Accrued interest receivable		**1,886**	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		**222,770**	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		**54,815**	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net withdrawals	**1,641,715**		Net withdrawals during the period
Bills payable		**34,058**	Foreign currency-denominated bills payable with Allied Commercial Bank Xiamen; Interest rates ranging from 0.5% and 0.8% and maturity terms ranging from 30 to 137 days.
Availments	**216,490**		
Settlements	**220,277**		
Due to other banks		**31,385**	Foreign currency-denominated clearing accounts used for funding and settlement of remittances with GRFC, IIC, Europe, and Allied Commercial Bank

	2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Accrued interest payable		**₱212**	Accrued interest on deposit liabilities and bills payable
Rental deposit		**8,412**	Advance rental deposit received for 2 years and 3 months
Interest income	**₱135,383**		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	**53,653**		Interest expense on deposit liabilities and bills payable
Rental income	**53,653**		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Miscellaneous other income	**1,970**		Management and other professional fees
Securities transactions			
Purchases	**7,221,360**		Outright purchase of securities
Sales	**383,472**		Outright sale of securities
Trading gain	**7,356**		Gain from sale of investment securities
Affiliates			
Receivables from customers		**39,487,080**	Secured by real estate; With interest rates ranging from 2.75% to 9.72% with maturity terms ranging from 30 days to 10 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	**9,617,440**		
Loan collections	**6,662,009**		
Loan commitments		**25,235,370**	Omnibus line; credit line
Financial assets at FVOCI		**73,140**	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		**323,758**	Parent Company's investment properties sold on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	**4,495,927**		
Accrued interest receivable		**95,191**	Accrued interest on receivables from customers
Rental deposits		**30,535**	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		**15,138,059**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net withdrawals	**916,094**		Net withdrawals during the period
Bonds payable		**75,953**	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		**25,989**	Accrued interest payable from various deposits
Other liabilities		**5**	Various manager's check related to EISP and premium insurance
Accrued other expenses		**318,155**	Accruals in relation to promotional expenses
Interest income	**1,255,819**		Interest income on receivables from customers
Interest expense	**246,104**		Interest expense on deposit liabilities
Miscellaneous expenses	**233,385**		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	**89,300**		Outright purchase of securities
Sales	**2,100**		Outright sale of securities
Associate			
Deposit liabilities		**1,066,858**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Accrued interest payable		**31**	Accrued interest payable from various deposits
Rental deposits		**27**	Advance rental and security deposits received for three months
Deferred revenue		**841,789**	Unamortized portion of income related to the sale of APLII
Interest expense	**1,523**		Interest expense on deposit liabilities
Service fees and commission income	**73,199**		Bancassurance fees earned based on successful referrals and income related to the sale of APLII

	2019		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Key Management Personnel			
Loans to officers		**₱6,499**	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	**₱1,209**		Settlement of loans and interest
Other equity reserves	**77,652**		Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		**653,468**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest receivable		**5,420**	Interest accrual on receivables from customers
Deposit liabilities		**1,298,894**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest payable		**5,580**	Accrued interest payable from various deposits
Other liabilities		**1**	Various manager's check
Interest income	**23,090**		Interest income on receivables from customers
Interest expense	**28,483**		Interest expense on Deposit liabilities.

	2018		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit Liabilities		₱493,180	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱15,976		Interest expense on deposits
Net withdrawals	311,740		Net withdrawals during the period
Subsidiaries			
Receivables from customers		257,804	Term loan maturing in 2018 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	8,146,771		
Loan collections	10,152,899		
Loan commitments		10,914,480	Omnibus line; credit line
Interbank loans receivable		440,959	Foreign currency-denominated interbank term loans with interest rates ranging from 0.65% to 1.00% and maturity terms ranging from 33 to 172 days
Availments	5,130,011		
Settlements	4,815,791		
Due from other banks		471,229	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		3,616	Interest accrual on receivables from customers and interbank loans receivable
Accounts receivable		176,041	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		5,624,250	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net deposits	796,930		Net withdrawals during the period
Bills payable		37,846	Foreign currency-denominated bills payable with interest rates ranging from 0.87% to 1.90% and maturity terms ranging from 30 to 172 days
Availments	274,350		
Settlements	423,095		
Due to other banks		26,748	Foreign currency-denominated clearing accounts used for funding and settlement of remittances

	2018		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accounts payable		₱12	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		28,123	Accrued interest on deposit liabilities and bills payable
Rental deposit		8,412	Advance rental deposit received for 2 years and 3 months
Interest income	₱70,926		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	41,018		Interest expense on deposit liabilities and bills payable
Rental income	47,985		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Miscellaneous other income	1,614		Management and other professional fees
Securities transactions			
Purchases	2,589,086		Outright purchase of securities
Sales	424,196		Outright sale of securities
Trading loss	8,398		Loss from sale of investment securities
Affiliates			
Receivables from customers		38,793,646	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired; With interest rates ranging from 2.82% to 6.00% with maturity terms ranging from 90 days to 12 years and payment terms of ranging from monthly to quarterly payments.
Loan releases	20,240,654		
Loan collections	17,978,657		
Loan commitments		13,934,400	Omnibus line; credit line
Investment in non-marketable equity securities		20,000	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		4,819,685	Parent Company's investment properties sold on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	52,692		
Gain on sale of investment properties	3,942,967		Sale of investment properties with interest rate of 4.5% for the first year and quarterly repricing of PDST-R2 for three months plus 1% for the succeeding years.
Accrued interest receivable		211,965	Accrued interest on receivables from customers
Rental deposits		30,535	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		16,054,153	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	2,557,541		Net withdrawals during the period
Bonds payable		104,409	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years
Accrued interest payable		29,014	Accrued interest payable from various deposits
Other liabilities		3	Various manager's check related to EISP and premium insurance
Accrued other expenses		371,416	Accruals in relation to promotional expenses
Interest income	1,194,578		Interest income on receivables from customers
Interest expense	191,663		Interest expense on deposit liabilities
Service fees and commission income			Bancassurance fees earned based on successful referrals and other milestones
Rental expense	18,242		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expenses	324,938		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	41,500		Outright purchase of securities
Sales	501,800		Outright sale of securities
Trading gains	7,793		Gain from sale of investment securities

	2018		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Associate			
Deposit liabilities		₱836,717	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Accrued interest payable		775	Accrued interest payable from various deposits
Rental deposits		27	Advance rental and security deposits received for three months
Deferred revenue		914,988	Unamortized portion of income related to the sale of APLII
Interest expense	₱2,923		Interest expense on deposit liabilities
Service fees and commission income	217,532		Bancassurance fees earned based on successful referrals and income related to the sale of APLII
Key Management Personnel			
Loans to officers		7,708	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	5,035		Settlement of loans and interest
Other equity reserves	77,652		Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		773,853	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		2,721,772	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest payable		2,503	Accrued interest payable from various deposits
Interest income	36,893		Interest income on receivables from customers
Interest expense	75,436		Interest expense on bills payable

The related party transactions shall be settled in cash.

Outsourcing Agreement between the Parent Company and PNB GRF

The ‘Pangarap Loans’, which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. PNB GRF calls on the deposits when a Pangarap loan is in default and requests the Parent Bank to credit the peso collateral deposit to their settlement account maintained with the Parent Bank.

Financial Assets at FVTPL Traded through PNB Securities

As of December 31, 2019 and 2018, the Parent Company’s financial assets at FVTPL include equity securities traded through PNB Securities with a fair value of ₱404.8 million and ₱231.4 million, respectively. The Parent Company recognized trading losses amounting to ₱7.2 million in 2019, ₱8.4 million in 2018 and ₱16.6 million in 2017 from the trading transactions facilitated by PNB Securities.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2019	2018	2017
Short-term employee benefits	**₱541,386**	₱519,441	₱481,011
Post-employment benefits	**45,996**	47,215	60,554
	₱587,382	₱566,656	₱541,565

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance. In 2019 and 2018, total per diem given to the BOD amounted to ₱45.5 million and ₱43.0 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all BOD activities and membership of committees and subsidiary companies. In 2019 and 2018, key management personnel received Parent Company shares in relation to the centennial bonus distribution of 29,951 and 36,262, respectively.

Joint Arrangements
The Parent Company and Eton Properties Philippines, Inc. (EPPI) signed two joint venture Agreements (JVAs) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion at the time of signing. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the joint venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs.

In July 2016, the Parent Company executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

Outsourcing Agreement between the Parent Company and PNBSB
PNBSB and the Parent Company entered into a servicing agreement pertaining to the purchased loan portfolio. The agreement shall be valid and binding until terminated by the either party if so required by the BSP or upon a 60-day prior written notice to the other party. As to the amount of service fee, the Parent Company shall charge PNBSB with the amount it charges it customers.

Service charges pertain to outsourced services rendered by the Parent Company, including legal and information technology services. These are payable on a monthly basis.

PNBSB has available credit lines with the Parent Company amounting to ₱750.0 million as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the credit lines remain undrawn.

Transactions with Retirement Plans
Management of the retirement funds of the Group and the Parent Company is handled by its TBG. The fair values and carrying values of the funds of the Parent Company amounted to ₱7.1 billion and ₱5.3 billion as of December 31, 2019 and 2018, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		Parent Company	
	2019	2018	**2019**	2018
Deposits with PNB	**₱563,314**	₱102,689	**₱563,314**	₱102,326
Investment in UITFs	**556,816**	476,336	**556,816**	352,144
Investment in PNB Shares	**305,036**	321,213	**305,036**	321,213
Investment in PNB bonds	**142,724**	–	**142,724**	–
Total Fund Assets	**₱1,567,890**	₱900,238	**₱1,567,890**	₱775,683
Unrealized loss on PNB shares	**(₱73,992)**	(₱124,241)	**(₱73,992)**	(₱124,241)
Interest income	**7,454**	1,293	**7,454**	850
	(66,538)	(122,948)	**(66,538)**	(123,391)
Trust fees	**(7,468)**	(6,449)	**(7,468)**	(6,288)
Fund loss	**(₱74,006)**	(₱129,397)	**(₱74,006)**	(₱129,679)

As of December 31, 2019 and 2018, the retirement fund of the Group and the Parent Company includes 8,841,622 and 7,513,746 PNB shares, respectively, classified as financial assets FVTPL. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

34. Provisions, Contingent Liabilities and Other Commitments

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

In 2019, the Group and the Parent Company's outstanding provisions for legal claims remained at ₱0.5 billion as of December 31, 2019 and 2018.

There were no significant settlements made in 2019.

<u>Tax Assessment</u>
In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

35. Offsetting of Financial Assets and Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements to the Group and the Parent Company's financial statements are disclosed in the succeeding tables.

Consolidated

2019

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱74,965,186	(₱74,592,146)	₱373,040	(₱45,891)	₱–	₱327,149
Securities held under agreements to resell (Note 8)	2,517,764	–	2,517,764	–	(2,517,745)	396
Total	₱77,482,950	(₱74,592,146)	₱2,890,804	(₱45,891)	(₱2,517,745)	₱327,545

2018

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱–	₱447,125
Securities held under agreements to resell (Note 8)	20,700,000	–	20,700,000	–	(19,947,247)	752,753
Total	₱ 66,775,448	(₱45,569,485)	₱ 21,205,963	(₱58,838)	(₱19,947,247)	₱ 1,199,878

2019

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱60,131,350	(₱59,885,731)	₱245,619	(₱155,245)	₱	₱90,374
Securities sold under agreements to repurchase (Notes 9 and 19)*	23,268,257	–	23,268,257	–	(29,655,404)	–
Total	₱83,399,607	(₱59,885,731)	₱23,513,876	(₱155,245)	(₱29,655,404)	₱90,374

2018

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱32,870,042	(₱33,325,851)	(₱455,809)	(₱92,025)	₱–	(₱363,784)
Securities sold under agreements to repurchase (Notes 9 and 19)*	48,035,239	–	48,035,239	–	(50,776,539)	–
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	(₱92,025)	(₱50,776,539)	(₱363,784)

** Included in bills and acceptances payable in the statements of financial position*

Parent Company

				2019		
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets	**₱74,965,136**	**(₱74,592,130)**	**₱373,006**	**(₱45,571)**	**₱–**	**₱327,435**
Securities held under agreements to resell (Notes 8 and 19)	**1,149,984**	**–**	**1,149,984**	**–**	**(1,149,588)**	**396**
Total	**₱76,115,120**	**(₱74,592,130)**	**₱1,522,990**	**(₱45,571)**	**(₱1,149,588)**	**₱327,831**

				2018		
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱46,075,448	(₱45,569,485)	₱505,963	(₱58,838)	₱–	₱447,125
Securities held under agreements to resell (Notes 8 and 19)	20,700,000	–	20,700,000	–	(19,947,247)	752,753
Total	₱ 66,775,448	(₱45,569,485)	₱ 21,205,963	(₱58,838)	(₱19,947,247)	₱ 1,199,878

				2019		
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities	**₱60,117,063**	**(₱59,885,071)**	**₱231,992**	**(₱144,586)**	**₱**	**₱87,406**
Securities sold under agreements to repurchase (Notes 9 and 19)*	**23,268,257**	**–**	**23,268,257**	**–**	**(29,655,404)**	**–**
Total	**₱83,385,320**	**(₱59,885,071)**	**₱23,500,429**	**(₱144,586)**	**(₱29,655,404)**	**₱87,406**

				2018		
				Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱32,870,042	(₱33,325,851)	(₱455,809)	(₱92,025)	₱–	(₱363,784)
Securities sold under agreements to repurchase (Notes 9 and 19)*	48,035,239	–	48,035,239	–	(50,776,539)	–
Total	₱80,905,281	(₱33,325,851)	₱47,579,430	(₱92,025)	(₱50,776,539)	(₱363,784)

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

36. Restatements of Prior Year Financial Statements

On April 26, 2018, the BOD of the Parent Company and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, in 2018, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' amounting to ₱8.2 billion and 'Liabilities of disposal group classified as held for sale' amounting to ₱7.2 billion, respectively, in the consolidated statement of financial position as of December 31, 2018. The business of PNB Gen represents the Group's non-life insurance business, included in the 'Others' business segment.

On September 13, 2019, ABIC submitted a revised offer to purchase all of the shares of PNB Gen owned by the Parent Company and PNB Holdings through cash acquisition instead. The Parent Company and PNB Holdings did not assent to ABIC's revised offer due to certain regulatory requirements for the parties to undergo a price discovery process with other possible acquirers. On October 1, 2019, ABIC acknowledged the joint decision of the Parent Company and PNB Holdings, formally closing the former's negotiations to purchase the shares of PNB Gen. With this, the Group reverted the assets and liabilities of PNB Gen from 'Assets and liabilities of disposal group classified as held for sale' of the Group to their respective accounts in the consolidated statements of financial position. Likewise, the results of its operations in 2018 and 2017 amounting to ₱220.0 million (net loss) and ₱70.4 million (net income), respectively, were also reverted from discontinued operations to continuing operations.

The tables below present the impact of the restatements in each line item in the consolidated statement of financial position as of December 31, 2018 and consolidated statements of income and comprehensive income for the years ended December 31, 2018 and 2017:

	As of December 31, 2018		
Consolidated Statement of Financial Position	**As previously reported**	**Restatements**	**As restated**
Assets			
Due from other banks	₱20,525,318	₱477,761	₱21,003,079
Financial assets at FVTPL	9,999,447	1,329	10,000,776
Financial assets at FVOCI	51,674,167	455,654	52,129,821
Investment securities at amortized cost	99,772,711	1,033,150	100,805,861
Loans and receivables	581,695,477	4,970,998	586,666,475
Property and equipment	19,710,145	14,494	19,724,639
Deferred tax assets	2,086,510	26,179	2,112,689
Intangible assets	3,025,157	8,206	3,033,363
Assets of disposal group classified as held for sale	8,238,623	(8,238,623)	–
Other assets	6,140,262	1,250,852	7,391,114
Liabilities			
Accrued taxes, interest and other expenses	6,167,398	229,726	6,397,124
Liabilities of disposal group classified as held for sale	7,237,811	(7,237,811)	–
Other liabilities	21,266,939	7,008,085	28,275,024

(Forward)

Consolidated Statement of Financial Position	As of December 31, 2018 As previously reported	Restatements	As restated
Equity			
Net unrealized loss on financial assets at FVOCI	(₱3,181,335)	(₱15,601)	(₱3,196,936)
Remeasurement losses on retirement plan	(1,520,538)	(6,292)	(1,526,830)
Reserves of a disposal group classified as held for sale	(21,893)	21,893	–
Net impact in the consolidated statement of financial position	₱–	₱–	₱–

Consolidated Statement of Income	2018 As previously reported	2018 Restatements	2018 As restated	2017 As previously reported	2017 Restatements	2017 As restated
Interest income on:						
Loans and receivables	₱30,202,480	₱355	₱30,202,835	₱22,669,107	₱369	₱22,669,476
Investment securities at amortized cost and FVOCI/AFS and HTM investments	4,534,297	60,478	4,594,775	3,053,243	46,668	3,099,911
Deposits with banks and others	775,820	1,993	777,813	1,324,526	5,618	1,330,144
Interest income	36,012,642	62,826	36,075,468	27,565,676	52,684	27,618,360
Net interest income	27,001,724	62,826	27,064,550	22,023,968	52,684	22,076,652
Service fees and commission income	4,251,692	7,592	4,259,284	3,982,496	198,365	4,180,861
Net service fees and commission income	3,478,610	7,592	3,486,202	3,195,579	(102,216)	3,093,363
Net insurance premium	–	1,228,794	1,228,794	–	656,329	656,329
Net insurance benefits and claims	–	1,292,949	1,292,949	–	322,244	322,244
Net insurance premium (benefits and claims)	–	(64,155)	(64,155)	–	334,085	334,085
Other income						
Foreign exchange gains - net	942,372	11,692	954,064	1,676,926	(2,556)	1,674,370
Trading and investments securities gains - net	150,691	52	150,743	559,758	–	559,758
Total operating income	38,903,826	18,007	38,921,833	32,330,099	281,997	32,612,096
Operating expenses						
Compensation and fringe benefits	9,380,199	130,241	9,510,440	8,959,754	149,083	9,108,837
Taxes and licenses	3,729,016	931	3,729,947	2,489,342	3,050	2,492,392
Provision for impairment, credit and other losses	1,740,177	12,635	1,752,812	903,595	(19,462)	884,133
Depreciation and amortization	1,944,808	6,169	1,950,977	1,678,227	6,164	1,684,391
Occupancy and equipment-related costs	1,716,315	18,695	1,735,010	1,577,367	18,699	1,596,066
Miscellaneous	6,953,525	45,947	6,999,472	6,320,707	46,812	6,367,519
Total operating expenses	25,464,040	214,618	25,678,658	21,928,992	204,346	22,133,338
Income before income tax	13,439,786	(196,611)	13,243,175	10,401,107	77,651	10,478,758
Provision for income tax	3,663,744	23,361	3,687,105	2,314,934	7,279	2,322,213
Net income (loss) from discontinued operations, net of tax	(219,972)	219,972	–	70,372	(70,372)	–
Basic/diluted EPS attributable to equity holders of the Parent Company from continuing operations	7.75	(0.17)	7.58	6.48	0.05	6.53

Consolidated Statement of Comprehensive Income	2018 As previously reported	2018 Restatement	2018 As restated	2017 As previously reported	2017 Restatement	2017 As restated
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax	(₱1,610,066)	(₱616,079)	(₱2,226,145)	₱–	₱–	₱–
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains on retirement plan	199,257	(6,292)	192,965	952,697	–	952,697

37. Notes to Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	Consolidated 2019			
	Beginning balance (As restated – Note 2)	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱70,082,835**	**(₱11,348,364)**	**(₱2,771,181)**	**₱55,963,290**
Bonds payable	**15,661,372**	**51,899,720**	**(946,014)**	**66,615,078**
Lease liabilities	**1,859,717**	**(641,613)**	**588,305**	**1,806,409**
	₱87,603,924	**₱39,909,743**	**(₱3,128,890)**	**₱124,384,777**

	Consolidated 2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱43,916,687	₱24,867,590	₱1,298,558	₱70,082,835
Bonds payable	–	15,398,696	262,676	15,661,372
	₱43,916,687	₱40,266,286	₱1,561,234	₱85,744,207

	Parent Company 2019			
	Beginning balance (As restated – Note 2)	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱62,706,795**	**(₱11,511,597)**	**(₱2,771,181)**	**₱48,424,017**
Bonds payable	**15,661,372**	**51,899,720**	**(946,014)**	**66,615,078**
Lease liabilities	**1,642,529**	**(554,696)**	**545,250**	**1,633,083**
	₱80,010,696	**₱39,833,427**	**(₱3,171,945)**	**₱116,672,178**

	Parent Company 2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱41,400,804	₱20,013,400	₱1,292,591	₱62,706,795
Bonds payable	–	15,398,696	262,676	15,661,372
	₱41,400,804	₱35,412,096	₱1,555,267	₱78,368,167

Consolidated Statement of Comprehensive Income	2018 As previously reported	2018 Restatement	2018 As restated	2017 As previously reported	2017 Restatement	2017 As restated
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on debt securities at FVOCI, net of tax	(₱1,610,066)	(₱616,079)	(₱2,226,145)	₱–	₱–	₱–
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement gains on retirement plan	199,257	(6,292)	192,965	952,697	–	952,697

37. Notes to Statements of Cash Flows

Cash Flows from Financing Activities

The changes in liabilities arising from financing activities in 2019 and 2018 follow:

	Consolidated 2019			
	Beginning balance (As restated – Note 2)	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱70,082,835**	**(₱11,348,364)**	**(₱2,771,181)**	**₱55,963,290**
Bonds payable	**15,661,372**	**51,899,720**	**(946,014)**	**66,615,078**
Lease liabilities	**1,859,717**	**(641,613)**	**588,305**	**1,806,409**
	₱87,603,924	**₱39,909,743**	**(₱3,128,890)**	**₱124,384,777**

	Consolidated 2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱43,916,687	₱24,867,590	₱1,298,558	₱70,082,835
Bonds payable	–	15,398,696	262,676	15,661,372
	₱43,916,687	₱40,266,286	₱1,561,234	₱85,744,207

	Parent Company 2019			
	Beginning balance (As restated – Note 2)	**Net cash flows**	**Others**	**Ending balance**
Bills and acceptances payable	**₱62,706,795**	**(₱11,511,597)**	**(₱2,771,181)**	**₱48,424,017**
Bonds payable	**15,661,372**	**51,899,720**	**(946,014)**	**66,615,078**
Lease liabilities	**1,642,529**	**(554,696)**	**545,250**	**1,633,083**
	₱80,010,696	**₱39,833,427**	**(₱3,171,945)**	**₱116,672,178**

	Parent Company 2018			
	Beginning balance	Net cash flows	Others	Ending balance
Bills and acceptances payable	₱41,400,804	₱20,013,400	₱1,292,591	₱62,706,795
Bonds payable	–	15,398,696	262,676	15,661,372
	₱41,400,804	₱35,412,096	₱1,555,267	₱78,368,167

Others include the effects of foreign exchange revaluations, amortization of transaction costs, and accretion of interest.

Non-cash Transactions
Effective January 1, 2019, the Group and the Parent Company adopted PFRS 16, in which the Group and the Parent Company recognized right-of-use asset and the corresponding lease liabilities, adjusted for previously recognized prepaid and accrued lease payments. Additions to the right-of-use assets of the Group and the Parent Company in 2019 amounted to ₱461.9 million and ₱432.2 million, respectively. The Group and the Parent Company recognized additional lease liabilities in 2019 amounting to ₱456.6 million and ₱426.9 million, respectively.

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.6 billion in 2019, 2018 and 2017, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱1.3 billion, ₱2.6 billion and ₱1.5 billion in 2019, 2018, and 2017, respectively.

The Group acquired investment properties through foreclosure and rescission amounting to ₱1.0 billion, ₱0.8 billion, and ₱0.6 billion in 2019, 2018 and 2017, respectively. The Parent Company, acquired investment properties acquired through foreclosure and rescission amounted to ₱0.9 billion, ₱0.8 billion and ₱0.5 billion in 2019, 2018 and 2017, respectively.

38. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 28, 2020.

39. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010, which provides that the notes to the financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2019 (in absolute amounts):

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,937,257,636
Documentary stamp taxes	4,250,000,000
Real estate tax	174,928,125
Local taxes	119,691,567
Others	55,151,088
	₱6,537,028,416

2. Withholding taxes

	Remitted	Outstanding
Withholding Taxes on compensation and benefits	₱854,049,580	₱172,269,329
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,880,365,194	142,015,074
Expanded withholding taxes	205,833,103	18,021,257
VAT withholding taxes	11,406,259	
Other final taxes	99,941,955	18,666,231
	₱3,051,596,091	₱350,971,891

Tax Cases and Assessments
As of December 31, 2019 and 2018, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

40. Report on the Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 which amends certain provisions of Section 174 of the Manual of Regulations for Banks relating to the audited financial statements. It also required banks to disclose the following supplementary information in the financial statements:

Basic Quantitative Indicators of Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2019	2018 (As restated – Note 36)	2017 (As restated – Note 36)	**2019**	2018	2017
Return on average equity (a/b)	**6.89%**	7.70%	7.10%	**6.97%**	7.80%	7.27%
a) Net income	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,075	₱8,160,563
b) Average total equity	**141,767,206**	124,148,481	114,849,326	**138,860,047**	121,364,946	112,188,614
Return on average assets (c/d)	**0.92%**	1.05%	1.03%	**0.98%**	1.12%	1.10%
c) Net income	**₱9,761,206**	₱9,556,070	₱8,156,545	**₱9,681,476**	₱9,465,076	₱8,160,563
d) Average total assets	**1,062,969,399**	910,002,446	795,169,171	**990,502,904**	845,386,554	745,248,937
Net interest margin on average earning assets (e/f)	**3.31%**	3.24%	3.06%	**3.29%**	3.12%	2.92%
e) Net interest income	**₱32,443,573**	₱27,064,550	₱22,076,652	**₱29,446,638**	₱23,461,884	₱19,062,428
f) Average interest earning assets	**979,672,558**	836,422,422	722,399,466	**893,991,058**	752,841,931	651,934,531

Note: Average balances are the sum of beginning and ending balances of the respective statement of financial position accounts divided by two (2)

Description of Capital Instruments Issued
As of December 31, 2019 and 2018, the Parent Company has only one class of capital stock, which are common shares.

Significant Credit Exposures as to Industry Sector

An industry sector analysis of the Group's and the Parent Company's receivables from customers before taking into account the unearned and other deferred income and allowance for credit losses as reported to BSP is shown below.

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Primary target industry:								
Financial intermediaries	₱94,291,450	14.47	₱96,285,130	16.76	₱94,956,862	16.26	₱92,274,585	18.34
Wholesale and retail	93,349,206	14.33	87,989,193	15.32	84,529,429	14.47	79,904,533	15.88
Electricity, gas and water	80,217,983	12.31	75,194,463	13.09	78,190,318	13.39	73,139,221	14.54
Manufacturing	50,291,571	7.72	51,156,432	8.90	43,338,738	7.42	45,848,301	9.11
Transport, storage and communication	55,776,211	8.56	44,401,302	7.73	50,923,236	8.72	41,374,773	8.22
Public administration and defense	17,576,928	2.70	18,034,106	3.14	16,037,308	2.75	18,034,106	3.58
Agriculture, hunting and forestry	10,328,197	1.59	8,072,538	1.41	9,707,810	1.66	7,290,142	1.45
Secondary target industry:								
Real estate, renting and business activities	108,814,797	16.70	84,432,904	14.70	98,413,311	16.85	75,432,007	15.00
Construction	43,098,605	6.62	27,489,273	4.79	41,037,785	7.03	25,562,907	5.08
Others	97,725,487	15.00	81,428,251	14.16	66,949,412	11.45	44,189,119	8.80
	₱651,470,435	100.00	₱574,483,592	100.00	₱584,084,209	100.00	₱503,049,694	100.00

Breakdown of Total Loans as to Security

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivables from customers as to secured and unsecured and as to collateral as reported to BSP follows:

	Consolidated				Parent Company			
	2019		2018		2019		2018	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
Secured:								
Real estate mortgage	₱93,532,178	14.36	₱90,848,090	15.81	₱55,931,416	9.58	₱57,344,870	11.40
Chattel mortgage	28,529,391	4.38	28,854,626	5.02	17,742,678	3.04	13,791,833	2.74
Bank deposit hold-out	13,769,941	2.11	22,786,131	3.97	13,631,552	2.33	22,305,850	4.43
Shares of stocks	1,703,980	0.26	–	–	–	–	–	–
Others	12,502,005	1.66	81,550,765	14.20	9,096,231	1.55	78,199,196	15.55
	148,333,515	22.77	224,039,612	39.00	96,401,878	16.50	171,641,749	34.12
Unsecured	503,136,920	77.23	350,443,980	61.00	487,682,331	83.50	331,407,945	65.88
	₱651,470,435	100.00	₱574,483,592	100.00	₱584,084,209	100.00	₱503,049,694	100.00

Breakdown of Total Loans as to Status

The table below shows the status of the Group and the Parent Company's loans (gross of unearned and other deferred income and allowance for credit losses) as to performing and non-performing loans (NPL) per product line as reported to BSP:

	Consolidated			
	2019		2018	
	Performing	NPL	Performing	NPL
Corporate	₱53,570,857	₱9,170,391	₱477,052,004	₱7,175,576
Commercial	19,172,710	2,149,979	16,567,663	1,200,891
Credit cards	13,828,905	2,041,041	11,966,721	1,445,342
Consumer	11,841,323	916,448	6,071,843	630,272
Others	50,287,499	6,491,281	49,972,905	2,400,375
	₱630,701,294	₱20,769,140	₱561,631,136	₱12,852,456

	Parent Company			
	2019		2018	
	Performing	**NPL**	Performing	NPL
Corporate	**₱520,149,958**	**₱8,509,588**	₱454,947,414	₱4,807,867
Commercial	**15,217,135**	**835,311**	14,854,964	707,934
Credit cards	**13,828,905**	**2,041,041**	11,966,721	1,445,342
Consumer	**6,884,924**	**266,265**	1,765,336	362,488
Others	**15,899,116**	**451,966**	11,739,392	452,236
	₱571,980,038	**₱12,104,171**	₱495,273,826	₱7,775,867

Loans and receivables are considered NPL, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, are considered NPL if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered NPL after contractual due date or after they have become past due. Restructured loans are considered NPL. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

NPLs remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As of December 31, 2019, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 3.05% and 1.59%, and 1.99% and 0.68%, respectively. As of December 31, 2018, gross and net NPL ratios of the Group and the Parent Company were 2.87% and 1.69% and 1.76% and 0.34%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

Information on Related Party Loans

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.
The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2019 and 2018, the Parent Company is in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company as reported to BSP follows:

	2019		2018	
	DOSRI loans	**Related party loans (inclusive of DOSRI loans)**	DOSRI loans	Related party loans (inclusive of DOSRI loans)
Total outstanding loans	**7,615,058**	**63,034,358**	7,888,476	57,138,672
Percent of DOSRI/related party loans to total loan portfolio	**1.26%**	**10.41%**	1.47%	10.65%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	–	**65.59%**	–	38.95%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	**0.01%**	–	0.01%	–
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	**0.01%**	–	0.01%	–

**Includes outstanding unused credit accommodations of ₱707.1 million as of December 31, 2019 and ₱860.0 million as of December 31, 2018.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

Under BSP regulations, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.00% of the Group's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the Parent Company.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2019 and 2018, 'Bills payable' amounting to ₱23.3 billion and ₱48.0 billion, respectively, are secured by a pledge of certain 'Financial assets at FVOCI' amounting to ₱8.1 billion and ₱19.7 billion respectively, and 'Investment securities at amortized cost' amounting to ₱21.0 billion and ₱36.7 billion, respectively.

Contingencies and Commitments Arising from Off-Balance Sheet Items

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts as reported to BSP:

	Consolidated		**Parent Company**	
	2019	2018	**2019**	2018
Derivative forwards	**₱130,176,855**	₱90,091,191	**₱124,729,334**	₱83,530,898
Trust department accounts	**95,875,990**	87,746,184	**95,875,990**	87,746,184
Standby letters of credit	**40,003,450**	43,503,980	**39,479,985**	43,503,980
Unutilized credit card lines	**37,002,312**	42,577,148	**37,002,312**	42,577,148
Derivative spots	**29,844,753**	12,069,390	**29,844,753**	12,069,390
Interest rate swaps	**29,423,981**	31,587,678	**29,423,981**	31,587,678
Deficiency claims receivable	**23,001,760**	22,671,321	**22,951,844**	22,621,405
Inward bills for collection	**1,185,972**	560,885	**1,184,071**	558,506
Items held as collateral	**504,210**	1,577,577	**504,179**	1,577,550
Unused commercial letters of credit	**431,757**	278,721	**431,757**	278,721
Outward bills for collection	**192,513**	229,428	**96,832**	101,345
Shipping guarantees issued	**84,905**	11,510	**11,223**	11,510
Confirmed export letters of credit	**54,686**	3,944	**54,686**	3,944
Other contingent accounts	**33,450**	62,059	**29,749**	39,306

Management's Discussion and Analysis

2019 vs 2018

The Group's consolidated total assets stood at P1.1 trillion as of December 31, 2019, 16.1% or P158.6 billion higher compared to P983.6 billion reported as of December 31, 2018. Significant changes (more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas (BSP) and Interbank Loans Receivable registered increased by P13.7 billion, P3.3 billion and by P13.6 billion, respectively, from P16.8 billion, P102.7 billion and P11.2 billion, respectively as of December 31, 2018.

- Due from Other Banks and Securities Held Under Agreements to Resell as of December 31, 2019 at P17.8 billion and P2.5 billion, respectively, decreased by P3.2 billion and P18.2 billion compared to P21.0 billion and P20.7 billion, respectively, as of December 31, 2018.

Please refer to the Statements of Cash Flow for more information relating to cash and cash equivalents.

- Financial Assets at Fair Value Through Profit or Loss (FVTPL) is at P13.5 billion as of December 31, 2019, 34.7% or P3.5 billion higher from P10.0 billion as of December 31, 2018 attributed mainly due to higher purchases over securities sold.

- Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) at P123.1 billion as of December 31, 2019 is 136.2% or P71.0 billion higher from P52.1 billion as of December 31, 2018 due to acquisitions of various investment securities net of securities sold.

- Investment Securities at Amortized Cost amounted to P100.5 billion as of December 31, 2019, a decline of P0.3 billion from the P100.8 billion level as of December 31, 2019 which decreased by P0.3 billion compared to P100.8 billion as of December 31, 2018.

- Loans and Receivables is at P657.9 billion or P71.3 billion higher than the P586.7 billion as of December 31, 2018 level due mainly from increase in corporate loans.

- Property and Equipment went up by P1.5 billion from P19.7 billion as of December 31, 2018 to P21.2 billion as of December 31, 2019, mainly due to the recognition of the right of use asset (ROU) as a result of the adoption of Philippine Financial Reporting Standard (PFRS) 16 – Leases. The transition adjustment at January 1, 2019 resulted in the recognition of ROU and lease liability amounting to P1.8 billion and P1.9 billion, respectively.

- Investment Properties increased by P1.6 billion from P13.5 billion as of December 31, 2018 to P15.1 billion as of December 31, 2019 due mainly to foreclosures during the year.

- Intangible Assets decreased by P0.2 billion due mainly from P3.0 billion as of December 31, 2018 mainly due to the amortization of core banking integration costs and other IT assets and software.

- Deferred Tax Assets was higher by P0.4 billion from P2.1 billion to P2.5 billion as of December 31, 2019 mainly due to the recognition of additional deferred tax assets on allowance for credit losses, which the Group has the benefit of tax deductions against future taxable income only upon actual write-offs.

- Other Assets amounted to P8.1 billion as of December 31, 2019 or an increase of P0.7 billion from P7.4 billion as of December 31, 2018.

Consolidated liabilities increased by 15.5% or P132.2 billion from P855.1 billion as of December 31, 2018 to P987.3 billion as of December 31, 2019. Major changes in liability accounts were as follows:

- Deposit Liabilities totaled P826.0 billion, P92.74 billion or 12.6% higher compared to its year-end 2018 level of P733.3 billion. Demand deposits, Time deposits and Long-Term Negotiable Certificate of Deposits (LTNCD) went up by P19.2 billion or 12.5%, P79.7 billion or 54.1%and P3.7 billion or 11.9%, respectively, partially offset by the decrease in Savings deposits by P9.9 billion or 2.5%.

- Financial liabilities at FVTPL decreased by P0.2 billion from P0.5 billion as of December 31, 2018 year-end balance of P0.5 billion mainly from the decrease in negative fair value balance of interest rate swaps and forwards.

- Bonds Payable increased by P51.0 billion from P15.6 billion as of December 31, 2018 to P66.6 billion as of December 31, 2019, mainly accounted for by the Parent Company's issuance of P13.7 billion fixed-rate bonds on May 8, 2019 due in 2021 and additional issuance of US$750 million fixed-rate senior notes from its Euro Medium Term Note (EMTN) Program on June 27, 2019 maturing on September 27, 2024.

- Bills and Acceptances Payable decreased by P14.1 billion or 20.1% from P70.1 billion to P56.0 billion as of December 31, 2018 and December 31, 2019, respectively, due to settlement of interbank loans from the BSP and local banks.

- Lease liability of P1.8 billion pertains to the lease liability of the Group as a result of the adoption of PFRS 16 – Leases. Refer to the discussion above on Property and Equipment, and Leases.

- Accrued Taxes, Interest and Other Expenses was higher by P0.5 billion from P6.4 billion as of December 31, 2018 to P6.9 billion as of December 31, 2019, mainly due to the increase in accrued interest from deposits and bonds.

- Income Tax Payable decreased by P0.3 billion from P0.9 billion to P0.6 billion as of December 31, 2018 and December 31, 2019, respectively.

Total equity accounts stood at P155.0 billion from P128.6 billion as of December 31, 2018, or an improvement of P26.4 billion attributed mainly to the following:

- Capital Stock and Additional Paid-In Capital increased by P11.9 billion from the net proceeds from the 2019 Stock Rights Offering.
- Current period's net income attributable to Equity Holders of the Parent Company of P9.7 billion.
- Decrease in Accumulated Translation Gain of P0.8 billion.

- Remeasurement loss P0.7 billion.
- Remeasurement loss of improvement in Net unrealized gains/(losses) on Financial. Assets at FVOCI from a P3.2 billion loss as of December 31, 2018 to a gain amounting to P3.2 billion as of December 31, 2019, resulting in an unrealized gain of P6.4 billion for the period.

2018 vs. 2017

The Group's consolidated total assets stood at P983.7 billion as of December 31, 2018, 17.6% or P147.5 billion higher compared to P836.2 billion reported as of December 31, 2017. Significant changes (more than 5%) in assets were registered in the following accounts:

- Securities Held Under Agreements to Resell as of December 31, 2018 at P20.7 billion, which represents lending transactions of the Bank with the BSP, was higher by P6.1 billion compared to P14.6 billion as of December 31, 2017.

- Financial Assets at Fair Value Through Profit or Loss as of December 31, 2019 at P10.0 billion went up by 246.9% or P7.1 billion from P2.9 billion attributed mainly to the purchases of various investment securities, net of sold as of December 31, 2018 and matured securities.

- Investment Securities at Amortized Cost was higher at P100.8 billion while Financial Assets at Fair Value Through Other Comprehensive Income was lower at P52.1 billion as of December 31, 2018, an increase of P74.0 billion or by 276.1% and a decline of P17.7 billion or by 25.4% from the P26.8 billion and P69.8 billion level, respectively, as of December 31, 2017 due to purchases of various investment securities, net of disposals and maturities.

- Loans and Receivables registered an increase at P586.7 billion or P84.6 billion higher than the P502.1 billion as of December 31, 2017 level mainly due to loan releases, net of pay downs, mainly to various corporate and retail borrowers.

- Investment Properties decreased by P2.1 billion from P15.6 billion as of December 31, 2017 to P13.5 billion as of December 31, 2018, mainly due to disposal of foreclosed properties.

- Intangible Assets decreased by P0.3 billion from P3.3 billion in December 31, 2017 mainly due to the decline in capitalization of core banking integration costs and other software acquisitions.

- Deferred Tax Assets were higher by P0.4 billion from P1.7 billion to P2.1 billion and a decrease in Other Assets of P1.5 billion from P8.9 billion to P7.4 billion. Decline in Other Assets was due to decreases in creditable withholding taxes, deferred charges and outstanding clearing items received as of year-end.

Consolidated liabilities went up by 19.4% or P138.7 billion from P716.4 billion as of December 31, 2017 to P855.1 billion as of December 31, 2018. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P733.3 billion, P95.4 billion more than 5% compared to its year-end 2017 level of P637.9 billion due to increases in Demand deposits by P27.5 billion, Savings deposits by P50.2 billion, Time deposits by P17.6 and LTNCD by P0.1 billion.

- Bills and Acceptances Payable increased by P26.2 billion, from P43.9 billion to P70.1 billion, mainly accounted for by borrowings from other banks.

- Accrued Expenses increased by P1.1 billion from P5.3 billion as of December 31, 2017 to P6.4 billion as of December 31, 2018.

- Financial liabilities at Fair value through profit or loss was higher by P0.1 billion from 2017 year-end balance of P0.4 billion.

- Income Tax Payable decreased by P0.1 billion from P1.0 billion to P0.9 billion, due to the decline in the income tax provisions for the year.

- Other Liabilities increased by P0.4 billion, from P27.9 billion in December 31, 2017 to P28.3 billion as of December 31, 2018.

Total equity accounts stood at P128.5 billion from P119.7 billion as of December 31, 2017, or an improvement of P8.8 billion attributed to current period's net income of P8.2 billion, improvement/increase in Net Unrealized Loss on Available-for-Sale Investments, Accumulated Translation Adjustments and Remeasurement Losses on Retirement Plan.

2017 vs. 2016

The Group's consolidated assets reached at P836.2 billion as of December 31, 2017, 10.9% or P82.2 billion higher compared to P754.0 billion reported as of December 31, 2016. Changes (more than 5%) in assets were registered in the following accounts:

- Interbank Loans Receivable registered an increase as of December 31, 2017, by P5.0 billion from P7.8 billion, and decreases in Due from Bangko Sentral ng Pilipinas and Due from Other Banks of P18.6 billion and P0.7 billion, respectively, from P127.3 billion and P22.7 billion, respectively, as of December 31, 2016. On the other hand, Cash and Other Cash Items increased by P1.4 billion from P11.0 as of December 31, 2016.

- Loans and Receivables registered an increase of P502.1 billion or P73.9 billion higher than the P428.2 billion as of December 31, 2016 level mainly due to loan releases in the current year to various corporate borrowers.

- Financial Assets at Fair Value Through Profit or Loss at P2.9 billion as of December 31, 2017 was higher by 52.6% or P1.0 billion from P1.9 billion in 2016 attributed mainly due to the sale of various investment securities.

- Securities Held Under Agreements to Resell is at P14.6 billion as of December 31, 2017 which is higher by P12.6 billion compared to P2.0 billion as of December 31, 2016. This represents lending transactions of the Bank with the BSP.

- Investment Properties decreased by P0.7 billion from P16.3 billion as of December 31, 2016 to P15.6 billion as of December 31, 2017 due to the disposal of foreclosed properties.

- Property and Equipment increased by P0.6 billion from P18.1 billion as of December 31, 2016 to P18.7 billion as of December 31, 2017 mainly due to the additional acquisitions for the year.

- Intangible Assets, Deferred Tax Assets and Other Assets increased by P0.7 billion,
- P0.2 billion and P1.8 billion from P2.6 billion to P3.3 billion, P1.5 billion to P1.7 billion and P7.1 billion to P8.9 billion, respectively.

Consolidated liabilities went up by 11.2% or P72.4 billion from P644.0 billion as of December 31, 2016 to P716.4 billion as of December 31, 2017. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P637.9 billion, P67.4 billion higher compared to its year-end 2016 level of P570.5 billion. Increases were registered in Demand, Time and LTNCD by P8.2 billion, P69.6 billion and P7.0 billion, respectively, and an offset in Savings of P17.4 billion.

- Bills and Acceptances Payable increased by P8.0 billion, from P35.9 billion to P43.9 billion, mainly accounted for by various borrowings from other banks.

Results of Operations

2019 vs 2018

- For the year ended December 31, 2019, the Group registered a net income of P9.8 billion, P0.2 billion or 2.1% higher than the P9.6 billion net income for the same period last year. The Group's core income comprising primarily of net interest income and net service fees and commissions recorded substantial improvements in the current period. Net income for the current period also included increase in net gains from trading and investment securities.

- Net interest income totaled P32.4 billion, higher by 19.9% or P5.4 billion compared to the same period last year mainly due to the expansion in loan, interbank loans, and trading and investment securities portfolios which accounted for the P14.5 billion, P9.6 billion, P0.3 billion and P4.2 billion increase in interest income, respectively, partly offset by the decrease of P0.1 billion in deposits with banks and others. Total interest income increased by 40.3% or P14.5 billion from P36.1 billion to P50.6 billion. Total interest expense also increased to P18.1 billion or by P9.1 billion from P9.0 billion for the same period last year primarily due to growth in deposit liabilities and other borrowings.

- Other income decreased to P4.2 billion compared to P8.4 billion for the same period last year mainly due to decline in net gains on sale or exchange of assets of P5.1 billion, partly offset by higher net gains in trading and investment securities by P0.9 billion.

- Net service fees and commission income stood at P4.2 billion, 20.1% or P0.7 billion higher compared the same period last year driven by growth in deposit and credit card related fees.

- Administrative and other operating expenses amounted to P28.9 billion for the year ended December 31, 2019, or 12.5% higher compared to the same period last year as strong revenue growth, particularly in interest income and trading gains, translated to higher business related taxes.

- Total Comprehensive Income for the year ended December 31, 2019 amounted to P14.6 billion which is P7.2 billion higher than the same period last year due mainly to increase in net unrealized gains on financial assets at FVOCI.

2018 vs 2017

- For the year ended December 31, 2018, the Bank registered a net income of P9.6 billion, P1.4 billion or 17.2% higher than the P8.2 billion net income for the same period last year on account of substantial improvements in core income, primarily net interest income and gains from the sale of foreclosed assets.

- Net interest income totaled P27.1 billion, higher by 22.6% or P5.0 billion compared to the last year mainly due to the expansion in the loan and investment securities portfolio which accounted for the P7.5 billion and P1.5 billion increase in interest income, respectively. This was partly offset by the decrease in interest income of deposits with banks and others by P0.6 billion. Total interest income increased by 30.6% or P8.5 billion from P27.6 billion to P36.1 billion. Total interest expense however, was also higher at P9.0 billion or by 62.6% or by P3.5 billion from P5.5 billion last year.

- Other income increased significantly to P8.4 billion compared to P7.1 billion for last year mainly due to higher net gain on sale or exchange of assets by P1.9 billion and improvement in miscellaneous income by P0.5 billion partly offset by P0.7 billion decrease in foreign exchange gain and P0.4 billion decline in trading and investment securities gains.

- Net service fees and commission income stood at P3.5 billion, 12.7% or P0.4 billion higher compared last year. The minimal growth was attributed to lower levels of underwriting and investment banking fees.

- Administrative and other operating expenses amounted to P25.7 billion for the year ended December 31, 2018.

- Total Comprehensive Income for the year ended December 31, 2018 amounted to P8.1 billion.

2017 vs 2016

- For the year ended December 31, 2017, the Bank registered a net income of P8.2 billion, P1.0 billion higher compared to the P7.2 billion net income for the same period last year.

- Net interest income totaled P22.1 billion, higher by 12.8% or P2.5 billion compared to the net interest income for last year mainly due to expansion in the loan portfolio and income from deposits with banks which accounted for P3.0 billion and P0.7 billion increase in interest income, respectively, partly offset by the decline in interest on investment securities and interbank loans receivable by P0.1 billion and P0.3 billion, respectively. Total interest income was up by P3.3 billion from P24.3 billion to P27.6 billion. Total interest expense however, was also higher at P5.5 billion or by P0.7 billion from P4.8 billion last year.

- Other income is at P7.1 billion, higher by P0.1 billion compared to P7.0 billion last year.

- Net service fees and commission income at P3.1 billion for the year ended December 31, 2017.

- Administrative and other operating expenses amounted to P22.1 billion for the year ended December 31, 2017, lower compared to last year mainly due to decrease in provision for impairment, credit and other losses by P2.3 billion. This was partly offset by increases in Compensation and fringe benefits, Taxes and Licenses, Occupancy and equipment related costs, Depreciation and amortization and Miscellaneous expenses by P0.6 billion, P0.3 billion, P0.1 billion, P0.2 billion and P0.2 billion, respectively.

- Reported income from discontinued operations in June 2016 pertains to the income from the 51% ownership interest in PNB Life due to classification as a discontinued operation.

- Total Comprehensive Income for the year ended December 31, 2017 amounted to P9.8 billion, P3.1 billion higher compared to the P6.7 billion for the same period last year mainly due to higher remeasurement gains on retirement plan and net income reported in the current year.

Key Performance Indicators

- Capital Adequacy/Capital Management

  The Parent Company's Capital Management (Sub-Committee of the Asset/Liability Committee) has been created to specifically handle policies and procedures pertaining to the capital planning and assessment as well as possible equity investments of the Bank.

  The Sub-Committee shall be responsible for the following:

  - Determine the appropriate level of capital that will support the attainment of the Bank's strategic objectives, meet the minimum regulatory requirements and cover all material risks that the Bank may encounter in the course of its business

  - Periodically monitor and assess the capital ratios of the Bank. Monitoring shall include capital ratios with and without the regulatory stress test prescribed by the regulators, based on both the consolidated and solo financial statements of the bank

  - Report to the ALCO the Bank's capital ratio and position based the consolidated and solo financial statements on a monthly basis and to the Board ICAAP Steering Committee on a quarterly basis

  - Inform the ALCO/ Board ICAAP Steering Committee on possible breach of ICAAP capital thresholds, particularly during period of stress and activating the Bank's capital contingency plan, if needed

    - The Sub-Committee will evaluate and endorse to the Board the options to improve the Bank's capital adequacy as provided for in the Capital Contingency Plan
    - In case of capital sourcing, the Sub-Committee shall endorse to the Board ICAAP Steering Committee / Board the manner, the amount and time period for capital raising.

- Ensure that the capital ratios resulting from the three-year strategic business plan under the Bank's ICAAP shall meet the minimum regulatory requirement as well as the Bank's internal thresholds.
  - The Sub-Committee shall determine the Bank's internal thresholds and shall endorse the same to the Board ICAAP Steering Committee / Board.

- Undertake the optimal allocation of the capital to the different business groups in accordance with the portfolio diversification policy and subject to the sustainability of earnings, risk weights of assets, among others.

The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

As required under BSP Circular 781, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Other minimum ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A conservation buffer of 2.5%, comprised of CET 1 capital is likewise imposed.

Banks and their subsidiaries are subject to the following risk-based capital adequacy ratios (CARs):

a. Common Equity Tier 1 – must be at least 6.0% of risk weighted assets at all time;
b. Tier 1 capital must be at least 7.5% of risk weighted assets at all times; and
c. Qualifying capital (Tier 1 Capital plus Tier 2 Capital) must be at least 10.0% of risk weighted assets at all times.

Qualifying capital consists of the sum of the following elements, net of required deductions:

a. Common equity Tier 1 capital consists of 1) paid up common stock that meet the eligibility criteria, 2) common stock dividends distributable, additional paid in capital resulting from the issuance of common stock included in CET1 capital, 3) deposits for common stock subscription, 4) retained earnings, 5) undivided profits, 6) other comprehensive income (net unrealized gains or losses on AFS and cumulative foreign currency translation) and minority interest on subsidiary banks which are less than wholly-owned
b. Additional Tier 1 capital consists of instruments issued by the bank that are not included in CET 1 capital that meet the criteria for inclusion in additional tier 1 capital, meet the required loss absorbency features for instrument classified as liabilities and loss absorbency feature at point of non-viability as defined in the BSP guidelines.
c. Tier 2 capital is composed of 1) instruments issued by the Bank (and are not included in AT1 capital) that meet criteria for inclusion in Tier 2 and meet the required loss absorbency feature at point of non-viability as defined in the guidelines, 2) deposits for subscription of T2 capital, 3) appraisal increment reserves on bank premises as authorized by the Monetary Board, 4) general loan loss provision, limited to a maximum of 1.00% of credit risk weighted asset, and minority interest in subsidiaries which are less than wholly owned as defined in the guidelines.

A capital conservation buffer of 2.5% of risk weighted assets, comprised of CET 1 capital, shall be required. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down to absorb losses during period of financial and economic stress.

The Group's consolidated capital adequacy ratio for combined credit, market and operational risks computed based on BSP Circular No. 781 (for 2014) and BSP Circular No. 538 (for 2013 and 2012) were 14.80%, 14.35%, and 15.35% as of December 31, 2019, 2018 and 2017, respectively, above the minimum 10% required by BSP. For the detailed calculation and discussion kindly refer to Item 1, no. 10 – Risk Management.

- Asset Quality

The Parent Company's non-performing loans (gross of unearned and other deferred income and allowance for credit losses) increased to P12.1 billion as of December 31, 2019 compared to P7.8 billion as of December 31, 2018. NPL ratios of the Bank based on BSP guidelines, net of valuation reserves is better than industry average at 0.68% as at December 31, 2019, compared to 0.34% at end of 2018. Gross NPL ratio is at 1.99% at end of 2019 and 1.76% at end of 2018.

- Profitability

	Years Ended	
	12/31/19	12/31/18
Return on equity (ROE)[1/]	6.89%	7.70%
Return on assets (ROA)[2/]	0.92%	1.05%
Net interest margin (NIM)[3/]	3.31 %	3.24%

[1/]Net income divided by average total equity for the period indicated
[2/]Net income divided by average total assets for the period indicated
[3/]Net interest income divided by average interest-earning assets

- Liquidity

The ratio of liquid assets to liquid liabilities as of December 31, 2019 was 24.57% compared to 22.39%as of December 31, 2018. Ratio of current assets to current liabilities was at 58.82% as of December 31, 2019 compared to 53.61% as of December 31, 2018.

- Cost Efficiency

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to total operating income resulted to 63.17% for the year ended December 2019 compared to 61.47% for the same period last year.

Reconciliation of Regulatory Capital to Audited Financial Statements

(In Thousands)

Regulatory capital, per Financial Reporting Package submitted to the Bangko Sentral ng Pilipinas	**₱147,099,885**
Reconciling items:	
Fair value adjustments on net assets acquired, net of depreciation	6,305,917
Adjustment to net retirement obligation	1,162,652
Additional accumulated translation adjustment	640,744
Mark-to-market adjustments on financial assets at fair value through other comprehensive income	(172,573)
Other adjustments	(61,225)
	7,875,515
Total equity, per Audited Financial Statements	**₱154,975,400**

For a digital copy of the full 2019 Annual Report, Audited Financial Statements & Management's Discussion and Analysis, please download at:

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