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Philippine National Bank

(a universal banking corporation organized and existing under Philippine Laws)

₱[•] billion 6.30% Philippine Peso Denominated Fixed Rate Bonds Due 2021
Issue Price: [•] face value

Under this ₱100,000,000,000 Bond Program (the "Program"), Philippine National Bank ("PNB" or the "Bank" or the "Issuer"), subject to compliance with all relevant laws, regulations, and directives, may from time to time issue bonds (each a "Series", and collectively, the "Securities") denominated in Philippine Pesos (as defined below) with each issuance constituting a tranche ("Tranche") in one or more Series. The ₱[•] Fixed Rate Bonds (the "Bonds") covered by this Offering Circular and described below is offered by the Issuer as the first tranche of the Securities under the Program.

The Bonds will bear interest at the rate of 6.30% per annum from and including May 8, 2019 to but excluding May 8, 2021 and interest will be payable quarterly in arrears on each Interest Payment Date on August 8, November 8, February 8, and May 8 of each year, beginning on August 8, 2019.

The Bonds have a stated maturity date of May 8. 2021 (the "Maturity Date"). However, subject to satisfaction of certain regulatory approvals, the Bank may redeem the Bonds in whole but not in part at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest as of the date of such redemption, on any Interest Payment Date prior to the Maturity Date. (See "Terms and Conditions of the Bonds – Early Redemption Option")

The Bonds will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The Bonds will at all times rank *pari passu* and without any preference among themselves, and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law. (See "Terms and Conditions of the Bonds - Status and Ranking")

The Bonds will be registered in scripless form and in minimum denominations of ₱100,000.00 and in increments of ₱50,000.00 thereafter. The Bonds will be issued on such terms and conditions set out in the Terms and Conditions. Upon issuance, the Bonds will be listed for trading through the facilities of the Philippine Dealing and Exchange Corp. ("PDEx" or the "Exchange"), as required by the BSP Rules. The Registrar will also issue a Registry Confirmation in favor of each Holder. The Bonds will be eligible for electronic book-entry transfers in the Registry Book without the issuance of other evidences or certificates, and any sale, transfer, or conveyance of the Bonds shall be coursed through or effected using the trading facilities of the Exchange.

INVESTING IN THE BONDS INVOLVES CERTAIN RISKS. (SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE BONDS.)

The BSP takes no responsibility for the correctness of any of the statements made or opinions or reports contained in this Offering Circular.

The date of this Preliminary Offering Circular is April 23, 2019.

Sole Arranger and Bookrunner and Selling Agent

Standard Chartered

Selling Agents

PNB

The Bonds will be issued pursuant to BSP Circular No. 1010 (Series of 2018) and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

Unless the context indicates otherwise, any reference to "the Bank" refers to Philippine National Bank. The information contained in this Offering Circular relating to the Bank, its operations and those of its subsidiaries and associates has been supplied by the Bank, unless otherwise stated herein.

This Offering Circular has been prepared solely for the information of persons to whom it is transmitted. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

The Bank confirms that this document contains all information with respect to the Bank and its subsidiaries (collectively, the "Group") and the Bonds which is material in the context of the issue and offering of the Bonds, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, that there are no other facts, the omission of which would, in the context of the issue and offering of the Bonds, make this document as a whole or any such information or the expression of any such opinions or intentions misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank accepts responsibility accordingly.

In making an investment decision, you must rely on your own examination of the Bank and the terms of the offering of the Bonds, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have not relied on the Sole Arranger and Bookrunner or on the Selling Agents or on any person affiliated with the Sole Arranger and Bookrunner or the Selling Agents in connection with your investigation of the accuracy of any information in this Offering Circular or your investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Bonds other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank or the Sole Arranger and Bookrunner .

Each of the Sole Arranger and Bookrunner, the Selling Agents, and the Philippine Depository and Trust Corp. is a third-party in relation to the Issuer and none of the foregoing entities is not (i) a subsidiary or affiliate of the Issuer or (ii) related in any manner to the Issuer as would undermine its independence and ability to perform its obligations in relation to the issuance of the Bonds.

None of the Sole Arranger and Bookrunner and Selling Agents have independently verified all of the information contained or incorporated by reference in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Sole Arranger and Bookrunner and Selling Agents (other than the Bank) as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank in connection with the offering of the Bonds. The Sole Arranger and Bookrunner and Selling Agents assume no liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank in connection with the offering of the Bonds. Neither the delivery of this Offering Circular nor the offer of Bonds shall, under any circumstances, constitute a representation or create any implication that there has been no change, material or otherwise, in the condition, operations, or affairs of the Bank or the Group since the date of this Offering Circular or that any information contained herein is correct as of any date subsequent to the date hereof.

Neither the Bank, nor the Sole Arranger and Bookrunner nor the Selling Agents (other than the Bank) nor any of their respective affiliates or representatives is making any representation to any purchaser of Bonds regarding the legality of an investment by such purchaser under applicable laws. In addition, you should not construe the contents of this Offering Circular as legal, business, tax, or investment advice. You should be aware that you may be required to bear the financial risks of an investment in the Bonds for an indefinite period. You should consult with your own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Group is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as at any time subsequent to the date indicated in the document containing the same. The Sole Arranger and Bookrunner and Selling Agents hereby expressly disclaim any obligation to review the financial condition or affairs of the Bank during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

This Offering Circular does not constitute an offer to sell or an invitation by or on behalf of the Bank or the Sole Arranger and Bookrunner or the Selling Agents (other than the Bank) or any of their respective affiliates or representatives to purchase any of the Bonds, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case in any jurisdiction or in any circumstance in which such offer or solicitation is not authorized or is unlawful. Each investor in the Bonds must comply with all applicable laws and regulations in the jurisdiction in which it purchases or offers to purchase such Bonds, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchase or offer, and neither the Bank nor the Sole Arranger and Bookrunner or the Selling Agents shall have any responsibility therefor. Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions or legal requirements under the laws and regulations of the countries of their nationality, residence or domicile and as to any relevant tax or foreign exchange control laws and regulations that may affect them.

CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Philippines" are references to the Republic of the Philippines. All references to the "Government", "Philippine Government" or the "National Government" herein are references to the Government of the Philippines. All references to "United States" or "U.S." herein are to the United States of America. All references to "Peso", "Php" or "₱" herein are to the lawful currency of the Philippines and all references to "U.S. dollars" or "US$" herein are to the lawful currency of the United States.

Figures in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown for the same item of information may vary and figures which are totals may not be an arithmetic aggregate of their components.

Unless otherwise indicated, the description of the Bank's business activities in this Offering Circular is presented on a consolidated basis. For further information on the Group, see "Description of the Bank - Subsidiaries".

FORWARD-LOOKING STATEMENTS

This Offering Circular includes statements which may contain words or phrases such as "will", "would", "aim", "aimed", "will likely result", "is likely", "are likely", "believe", "expect", "expected to", "will continue", "will achieve", "anticipate", "estimate", "estimating", "intend", "plan", "contemplate", "seek to", "seeking to", "trying to", "target", "propose to", "future", "objective", "goal", "project", "should", "can", "could", "may", "will pursue", "in management's judgment" and similar expressions or variations of such expressions that are "forward-looking statements". Actual results may differ materially from those suggested by the forward-looking statements due to certain risks or uncertainties associated with management's expectations with respect to, but not limited to:

- the actual growth in demand for banking and other financial products and services;
- future levels of non-performing assets;
- the Bank's growth strategy and expansion plans;
- the adequacy of the Bank's allowance for credit and investment losses;
- technological change;
- the Bank's ability to market new products and services;
- the outcome of any legal or regulatory proceedings to which the Bank is or may become a party;
- the future impact of new accounting standards;
- the impact of Philippine banking regulations on the Bank;
- the Bank's ability to access low-cost funding;
- increased competition from other banks; and
- the Bank's exposure to market risks.

By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on net interest income and net income could materially differ from those that have been estimated.

In addition, other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general economic and political conditions in the Philippines and the other countries which have an impact on the Bank's business activities or investments; the monetary and interest rate policies of the Government; inflation, volatility in interest rates, foreign exchange rates, equity prices or other rates or prices; the performance of the financial markets in the Philippines and globally; changes in Philippine and foreign laws and regulations, including tax, accounting and banking regulations; changes in competition in the Philippines; and changes in asset valuations. For further discussion of the factors that could cause actual results to differ, see "Investment Considerations".

The Bank, the Sole Arranger and Bookrunner and the Selling Agents assume no obligation to update any of the forward- looking statements after the date of this Offering Circular or to confirm these statements to actual results, subject to compliance with all applicable laws. The Bank, the Sole Arranger and Bookrunner and the Selling Agents assume no obligation to update any information contained in this Offering Circular or to publicly release any revisions to any forward-looking statements to reflect events or circumstances; or to reflect that the Issuer became aware of any such events or circumstances that occur after the date of this Offering Circular.

INDUSTRY AND MARKET DATA

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. None of the Bank or any of the Sole Arranger and Bookrunner and Selling Agents has verified such information with independent sources nor makes any representation as to the accuracy or completeness of such information. Industry publications and surveys and forecasts generally state that the information contained therein has been obtained from sources believed by the compiler of such information to be reliable, but the Bank cannot assure prospective purchasers of Bonds that such information is accurate or complete. While reasonable actions have been taken by the Bank to ensure that such information has been extracted accurately and in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the underlying economic assumptions relied upon therein.

Contents

1 GLOSSARY OF SELECTED TERMS

ABC	Allied Banking Corporation
Allocation Report	A report detailing the final issue size, the total amount of the Bonds for purchase and the final allocation of the Bonds among the Selling Agents and certain types of investors
AMLA or the Anti-Money Laundering Act	Anti-Money Laundering Act of the Philippines (Republic Act No. 9160) and its implementing rules and regulations, in each case, as may be amended from time to time
AMLC	Anti-Money Laundering Council
Application to Purchase	The application form to be completed by the prospective initial Purchasers of the Bonds and submitted to the Selling Agents, in such form attached as Schedule 5 to the Registry and Paying Agency Agreement dated [•].
Applications Schedule	The schedule of Applications to Purchase which sets out the aggregate amount of Bonds applied for by the respective applicants to the Selling Agents
Issue Management and Placement Agreement	The Issue Management and Placement Agreement dated [•] by and among the Issuer, the Sole Arranger and Bookrunner, and the Selling Agent.
ATM	Automated Teller Machine
Bank	Philippine National Bank, and except where the context otherwise requires, all of its subsidiaries
Banking Day	Any day other than one on which commercial banks and foreign exchange markets are not required to open or are authorized to close in Pasay City and Makati City
BASEL III	Basel Committee on Banking Supervision's Revised International Convergence and Capital Management and Capital Standards III
BIR	Philippines Bureau of Internal Revenue
Board or Board of Directors	The Board of Directors of the Bank
Bond Certificate	The certificate to be issued by the Issuer evidencing and covering such amount corresponding to the Bonds substantially in the form attached to the Registry and Paying Agency Agreement
Bonds	The bonds with a maximum aggregate principal amount of [•] (PHP[•]) to be issued by the Bank in accordance with the terms and conditions set out in the Terms and Conditions and the corresponding Bond Certificate
BSP	Bangko Sentral ng Pilipinas
Cash Settlement Account	an account designated by a Bondholder with a Cash Settlement

	Bank to which all interest, principal and other payments on the Bonds shall be credited
Cash Settlement Bank	a bank licensed and authorized under the laws of the Philippines and designated by the Bondholder as the bank with which the Bondholder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent
Contracts	(a) the Issue Management and Placement Agreement between the Bank, the Sole Arranger and Bookrunner, and the Selling Agents dated on or about [•] April 2019; (b) the Registry and Paying Agency Agreement between the Bank, and, the Registrar and Paying Agent dated on or about [•] April 2019; (c) the Terms and Conditions; (d) the Trust Agreement between the Bank and the Trustee dated on or about [•] April 2019, and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto
Closed Period	The periods during which the Registrar shall not register any transfer or assignment of the Bonds, specifically, the period of two (2) Banking Days preceding (i) any Interest Payment Date or (ii) the due date for any payment of the principal amount of the Bonds
Data Privacy Act	Republic Act No. 10173
Director	A director of the Bank
DOSRI	Directors, Officers, Shareholders and Related Interests
Eligible Bondholders	All prospective purchasers of the Bonds other than those identified as Prohibited Bondholders.
FCDU	Foreign Currency Deposit Unit
Final Sales Report	The report from the Selling Agent detailing the Applications to Purchase covering the Bonds approved and accepted for purchase during the Offer Period.
General Banking Law	General Banking Law of 2000 (Republic Act No. 8791)
GOCCs	Government Owned and Controlled Corporations
Bondholder	A person who, at any relevant time, appears in the Registry as the registered owner of the Bonds

Interest Payment Date	August 8, November 8, February 8, and May 8 of each year up while the Bonds are outstanding to but excluding the Maturity Date. Interest shall be computed based on the outstanding balance of the Bonds. If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.
Interest Period	The period commencing on the Issue Date and having a duration of three (3) months and, thereafter, each successive three (3)-month period commencing on the last day of the immediately preceding Interest Period up to, but excluding, the first (1st) day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.
Interest Rate	6.36% per annum, payable in arrears on each Interest Payment Date. Interest on the Bonds shall be calculated on a 30/360 basis.
Issue Date	8 May 2019, or such other date as the Issuer may advise PDTC in writing.
Issue Price	at par or, an amount equal to one hundred percent (100%) of the face value thereof
Issuer	Philippine National Bank
Sole Arranger and Bookrunner	Standard Chartered Bank
LGUs	Local Government Units
LT Group	A group of companies and individual shareholders affiliated/associated with and/or have given special powers of attorney to Dr. Lucio C. Tan
Majority Bondholders	At any time, the Bondholder or Bondholders who hold, represent or account for more than fifty percent (50%) of the aggregate outstanding principal amount of the Bonds
Maturity Date	The date that is two years from Issue Date,, provided, that if such date is not a Banking Day, the Maturity Date shall be the next succeeding Banking Day
Maturity Value	The Issue Price plus unpaid accrued applicable interest on the Bonds up to but excluding the Maturity Date.
Monetary Board	Monetary Board of the BSP
Moody's	Moody's Investor Services, Inc.
National Government	The Government of the Republic of the Philippines

New Central Bank Act	New Central Bank Act of 1993 (Republic Act No. 7653)
NGAs	National Government Agencies
NPAs	Non-Performing Assets
NPLs	Non-performing loans of the Parent Company
Offer	An offer for the sale and distribution of the Bonds to Eligible Bondholders
Offering Circular	The preliminary offering circular dated 17 April 2019 and final offering circular dated [•].
Offer Period	The period when the Bonds are offered for sale by the Bank through the Bank's branches and Selling Agents to prospective Eligible Holders, as determined by the Issuer and the Sole Arranger and Bookrunner, commencing at at 9:00 a.m. and ending at 6:00 p.m. on such day or dates as may be determined by the Bank and the Sole Arranger and Bookrunner.
OFWs	Overseas Filipino Workers
Parent Company	Philippine National Bank only excluding its subsidiaries
Paying Agent	Philippine Depository & Trust Corporation or such successor or substitute paying agent to be appointed by the Issuer upon prior approval of the BSP
Payment Account	The account to be opened and maintained by the Paying Agent with such Payment Account Bank designated by the Issuer and solely managed by the Paying Agent, in trust and for the irrevocable benefit of the Bondholders, into which the Issuer shall deposit the amount of the interest and/or principal payments due on the outstanding Bonds on each Payment Date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders.
Payment Date	An Interest Payment Date, the Maturity Date, and any other date on which principal, interest on and/or any other amounts on the Bonds are due and payable to the Holders
PDEx	Philippine Dealing and Exchange Corp.
PDIC	Philippine Deposit Insurance Corporation
PFRS	Philippine Financial Reporting Standards
Prohibited Bondholders	Persons and entities which are prohibited from purchasing and/or holding the Bonds of the Bank pursuant to regulations governing the Bank, specifically: a. the Issuer or any related party over which the Issuer exercises control or significant influence including subsidiaries and affiliates of the Issuer, as well as the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates except for its trust departments or related trust entities, pursuant to BSP Circular No. 1010 (Series of 2018), except

where the Issuer purchases and cancels the Bonds under the conditions listed in Condition 14 of the Terms and Conditions; or

b. such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEx, BSP, AMLC, or other government regulation in any relevant jurisdiction; or

c. persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time, which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; I (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person; or

d. persons classified as a Restricted Party.

For purposes of the definition of Prohibited Bondholders, a "***subsidiary***" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned by the Bank and/or one or more of its subsidiaries or affiliates. An "***affiliate***" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "***controlled***" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

PSE	Philippine Stock Exchange
RAP	Regulatory Accounting Policies
Record Date	With respect to any Payment Date, the second Banking Day immediately preceding such Payment Date
Registrar or Registrar and Paying Agent	Philippine Depository & Trust Corporation or such successor or substitute registry to be appointed by the Issuer upon prior approval of the BSP
Registry and Paying Agency Agreement	The Registry and Paying Agency Agreement dated as of [•] by and between the Issuer and the Registry and Paying Agent.

Registry or Registry Book	The electronic registry book of the Registrar and Paying Agent containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon.
Registry Confirmation	The written advice substantially in the form set out in Schedule 6 of the Registry and Paying Agency Agreement dated [•], to be sent by the Registrar to the relevant Bondholder to confirming the registration in the name of such Bondholder and the number and terms and conditions of Bonds issued to or purchased by a Bondholder, in the Registry, and setting forth the declarations required by the BSP
Restricted Party	A Person that is: (i) listed on, or owned or controlled by a Person listed on, or acting on behalf of a Person listed on, any Sanctions List; (ii) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organized under the laws of a country or territory that is the target of countrywide or territory-wide Sanctions; or (iii) otherwise a target of Sanctions ("target of Sanctions" signifying a Person with whom the United States of America ("US") Person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business, or other activities)
ROPA	Real and Other Properties Acquired
RTGS	The Philippines Payment System via Real Time Gross Settlement that would allow banks to continually effect electronic payment transfers which are interfaced directly to the automated accounting and settlement systems of the BSP
Sanctions	The economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the US; (ii) the United Nations; (iii) the European Union (iv) the United Kingdom of Great Britain and Northern Ireland; or (v) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury "OFAC", the US Department of State, and Her Majesty's Treasury ("HMT") (together the "Sanctions Authorities")
Sanctions List	The "Specially Designated Nationals and Blocked Persons" list maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Bank List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities
SEC	Philippine Securities and Exchange Commission
Selling Agents	Philippine National Bank and Standard Chartered Bank, and includes their respective successor entities, or the selling agent(s) in respect of the Bonds appointed from time to time under the Issue Management and Placement Agreement or an agreement supplemental to it
SGV & Co.	SyCip Gorres Velayo & Co., a member firm of Ernst & Young Global Limited

SMEs	Small to Medium-sized Enterprises
Terms and Conditions	The terms and conditions of the Bonds, as set out in, and as qualified by, the section "*Terms and Conditions of the Bonds*" of this Offering Circular.
Tranche	Each tranche of the Bonds issued in accordance with the Bond Agreements
Trust Agreement	The Trust Agreement dated as of [•] by and between the Issuer and the Trustee
Trustee	Development Bank of the Philippines Trust

2 SUMMARY OF THE COMPANY

This summary highlights information contained elsewhere in this Offering Circular. This summary is qualified by, and must be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this Offering Circular. Investors should read this entire Offering Circular carefully including the Bank's consolidated financial statements and related notes and "Investment Considerations".

Description of the Bank

The Bank provides a full range of banking and other financial services to large corporate, middle- market, small to medium-sized enterprises ("SMEs") and retail customers, as well as to the Philippine Government, National Government agencies ("NGAs"), local government units ("LGUs") and government owned and controlled corporations ("GOCCs"). While the Bank's principal focus has historically been to serve the banking needs of Government-related entities and GOCCs, the Bank's focus since 2000 after its privatization has been to further develop its banking services for large corporates, middle-market, SMEs, retail customers and Overseas Filipino Workers ("OFWs").

Following the merger with Allied Banking Corporation ("ABC") in February 2013, PNB secured its position as the fourth largest private domestic bank in the country in terms of total assets, a position it continues to hold to date. As of 31 December 2018, based on disclosures to the PSE, the Bank remains the fourth largest privately-owned Philippine commercial bank in terms of total assets, with total assets of ₱983.6 billion. PNB likewise ranks fourth in terms of net loans and receivables, capital and deposits. As of the same date, the Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches. PNB has 711 branches and offices and 1,473 ATMs located throughout the Philippines. The Bank has the largest overseas network among Philippine banks with 72 overseas branches, representative offices, remittance centers and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia. As of 31 December 2018, the Bank also maintained correspondent relationships with 545 banks and financial institutions worldwide. As a result of this large geographic coverage, the Bank is one of the leading providers of remittance services to OFWs.

The Bank's principal commercial banking activities include deposit-taking, lending, bills discounting, trade finance, foreign exchange dealings, fund transfers/remittance servicing, a full range of retail banking and trust services, and treasury operations. Through its subsidiaries and affiliate, the Bank engages in thrift banking; 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.

As of 31 December 2018, the Bank's consolidated Tier 1 capital adequacy ratio and total consolidated capital adequacy ratio under the Basel Committee on Banking Supervision's Revised International Convergence of Capital Management and Capital Standards ("BASEL III") as reported to the BSP was 13.55% and 14.35%, respectively. The Bank has been listed on the Philippine Stock Exchange ("PSE") since June 1989. The market capitalization of the Bank on 31 December 2018 (based on the closing price of the shares of the Bank on the PSE on that date of ₱43.0 per Share) was ₱56.7 billion.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths relative to the banking sector:

Well-positioned franchises in robust Philippine banking sector

The Bank believes that it is well-positioned in the robust Philippine banking sector. The Philippines has one of the lowest banking penetrations in Asia, leaving significant headroom for growth. The banking sector has also stabilized over the years, with the gross NPL ratio steadily declining from 14.6% in 2002 to 1.83% as of 31 December 2018, according to preliminary data from the BSP.

The Bank's scale, reach, business mix, product offerings and brand recognition have made it among the leading financial institutions in the Philippines. According to BSP data, based on the Bank's published Statement of Condition as of 31 December 2018, the Bank is the Philippines' fourth largest private commercial bank in terms of total capital, assets, deposits, and net loans and receivables.

Extensive and strategically located distribution network

The Bank believes it has one of the most extensive branch networks among its competitors in the Philippines. As at 31 December 2018, the Bank had 711 domestic branches and offices and 1,473 ATMs. The Bank's branches and ATMs are strategically located to maximize market potential and cover areas where competitors are less present, making financial services accessible to untapped customers and investment opportunities. The Bank's extensive distribution network allows for a strong deposit gathering capability and the ability to sell and distribute fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards. Based on data obtained from the BSP, the 711 domestic branches and offices of the Bank comprised approximately 7.65% of the total number of branches of all private commercial and universal banks in the Philippines as at 31 December 2018. As of 31 December 2018, the 1,473 ATMs of the Bank represented about 7.12% of the total number of ATMs of commercial and universal banks.

Major Player in the OFW remittance business

The Bank's large-scale remittance business is supported by the Bank's extensive overseas network. It has the widest international footprint among Philippine banks, spanning 16 countries in Asia, Europe, the Middle East and North America, with its 72 branches, representative offices and remittance centers. As of 31 December 2018, the Bank also maintained correspondent relationships with 545 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to a diversified customer base including government entities, large corporate, middle-market, SMEs and retail customers. As at 31 December 2018, the Bank's clientele included approximately 5.0 million private and government depositors, and at least 67,000 private corporations, government entities and individual borrowers. As at 31 December 2018, the Bank's receivables from customers were well-diversified across the large corporate, Government, SMEs and retail segments, amounting to ₱458.6 billion, ₱6.9 billion, ₱22.9 billion and ₱35.7 billion, respectively, at the parent company or PNB's level. As at 31 December 2018, PNB's receivables from large corporate, Government, SMEs, and retail segments, as a percentage of PNB's total receivables, were 87.5%, 1.3%, 4.3%, and 6.9%, respectively.

Solid capitalization, improving asset quality and stable financial performance

The Bank believes its capital position is strong, with a consolidated Tier 1 ratio of 13.55% and consolidated CAR of 14.35% as of 31 December 2018 as reported to the BSP. The Bank's strong capital position gives it the flexibility to expand its business, invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy. Moreover, the Bank has been committed to prudent credit approval and risk management processes, which have resulted in improving asset quality. As of 31 December 2018, the Bank recorded a net NPL ratio of 0.34%, a net NPA ratio of 2.21% and an NPL coverage ratio of 156.87% as reported to the BSP.

Strong shareholder group and experienced management

As a member of the LT Group Inc. and other affiliated companies ("the LT Group"), the Bank believes that it will continue to benefit from being part of one of the largest and most diversified conglomerates in the Philippines, with interests ranging from beverages, airlines, tobacco, property development, education and others. The Bank believes that it has been able to achieve significant synergies with the LT Group and its member companies, such as partnering with Philippine Airlines, Inc. to introduce one of the most popular mileage rewards credit cards in the Philippine market, providing collection facilities through its nationwide branches for sellers of Philip Morris Fortune Tobacco Corporation, Inc.'s products and for other affiliated companies and facilitating guarantees for ticketing agents of Philippine Airlines.

The Bank has also assembled a strong management team, led by Dr. Lucio C. Tan, the founder of the LT

Group. Mr. Tan and the Bank's senior executive officers (consisting of those officers at the executive vice-president level and above) have, on average, over 37 years of experience in the banking sector.

As of 31 December 2018, the Bank has several banking industry leaders on its Board of Directors, including Ms. Florencia G. Tarriela, Mr. Felix Enrico R. Alfiler, and Mr. Florido P. Casuela, while its other top executives have a proven track record in banking, finance and in other industries given their experience with leading Philippine corporations. In addition, the Board of Directors has a strong independent element, with five of its 15 members (including the chairman and vice-chairman of the Board) being independent Directors. The Bank believes that the extensive experience and financial acumen of its management provide it with a significant competitive advantage.

PNB Strategic Business Plan

The Bank aims to fortify its position as one of the leading banks in the Philippines, delivering high profitability supported by a solid balance sheet. To achieve this corporate goal, the Bank will undertake the following strategic initiatives for 2019:

1. Increase core business in terms of lending, deposits and fee-based and other income
2. Rationalize PNB's subsidiaries
3. Enhance efficiency through process improvements and automation
4. Undertake the following initiatives for its human resource:
   a) scale up institutional strengthening and organizational integration;
   b) implement Project Retool that shall equip existing employees with the necessary skill-set to undertake the aggressive growth strategy;
   c) Increase employee engagement and cultivate high performance culture
5. Digitization to grow the business across multiple channels.

Credit Ratings Upgrade

PNB's borrowing costs are affected directly by PNB's credit ratings.

Recognizing the consistent improvement in PNB's credit profile, Fitch Ratings affirmed in March 2019 PNB's long-term Issuer Default Rating at BB+. Likewise, Moody's affirmed in December 2018 the Bank's foreign currency and local currency deposit ratings at Baa2/P-2, two notches above investment grade. The upgrade reflects the improvement in financial profile since PNB's merger with Allied Bank.

The Bank's credit ratings by Moody's Investor Service as of December 2018 and Fitch Ratings as of March 2019 are set forth below:

	Moody's December 2018	**Fitch Ratings March 2019**
Outlook	Stable	Stable
Long-Term IDR		BB+
Short-Term IDR		B
Viability Rating		bb+
Bank Deposits	Baa2/P2	
Baseline Credit Assessment (BCA)	baa3	
Adjusted Baseline Credit Assessment	baa3	
Counterparty Risk Assessment	Baa2 (cr)/P-2 (cr)	

A securities rating is not a recommendation to buy, sell or hold securities. A securities rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Investment Considerations

Before making an investment decision, investors should carefully consider the risks associated in purchasing the Bonds. These risks include:

- Risks relating to the Bank, its subsidiaries and their businesses;
- Risks related to the Philippine banking industry;
- Risks related to the Philippines;

- Risks relating to the Bonds; and
- Risks relating to the market generally

See "Investment Considerations", which, while not intended to be an exhaustive enumeration of all risks, should be considered in connection with a purchase of the Bonds.

Recent Developments

On 22 January 2018, the Bank's Board of Directors approved and confirmed the appointment of Mr. Roland V. Oscuro as Chief Security Officer (CSO) and Head of Enterprise Security Group in concurrent capacity as Chief Information Security Officer (CISO) effective 22 January 2018.

On 23 February 2018, the Bank's Board of Directors accepted the resignation of Mr. Joseph T. Chua as Board Advisor of the Bank and its subsidiaries.

On 26 April 2018, the Bank's Board of Directors approved the exchange of six million (6,000,000) common shares in PNB General Insurers Co., Inc. ("PNB Gen") for 178,895,061 common shares in Allied Bankers Insurance Corporation ("ABIC"). On 31 May 2018, the Board of Directors of PNB Holdings Corporation, a wholly-owned subsidiary of the Parent Bank, approved the exchange of 3,126,000 common shares in PNB Gen for 93,204,327 common shares in ABIC. These exchanges have obtained regulatory and other necessary approvals and are currently completing closing conditions. Upon completion, the Group will effectively increase its ownership in ABIC from 4% to 33.1%.

On 26 April 2018, the Bank issued 4.25% fixed coupon rate unsecured medium term note listed on the Singapore Stock Exchange. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of 27 April 2023.

On 24 May 2018, the Bank's Board of Directors approved and confirmed the following:

a. Resignation of Mr. Roberto S. Vergara as First Vice President, Chief Trust Officer and Head of Trust Banking Group effective 30 April 2018
b. Appointment of Ms. Joy Jasmin R. Santos as First Vice President and OIC of Trust Banking Group effective 2 April 2018

On 27 July 2018, the Bank's Board of Directors approved the sale of one million (1,000,000) shares held by PNB in PNB-IBJL Leasing and Finance Corporation to IBJ Leasing Co., Ltd. For ₱100 million.

On 24 August 2018, the Bank's Board of Directors approved and confirmed the following:

a. Resignation of Mr. Reynaldo A. Maclang as Director, President, and CEO effective 15 November 2018
b. Appointment of Mr. Jose Arnulfo A. Veloso as Director, President, and CEO effective 16 November 2018

On 28 September 2018, the Bank's Board of Directors approved and confirmed the following:

a. Full integration of the Bank's wholly-owned thrift bank subsidiary, PNB Savings Bank, through acquisition of its assets, and assumption of its liabilities in exchange for cash, subject to regulatory and other necessary approvals.
b. Sale of the Bank's 100% shareholdings in its wholly-owned subsidiaries, Bulawan Mining Corporation and PNB Management and Development Corporation, to MacroAsia Mining Corporation.

On 26 October 2018, the Bank's Board of Directors approved and confirmed the following:

a. Resignation of Mr. Horacio E. Cebrero III as Executive Vice President and Head of the Treasury Sector effective 5 November 2018
b. Appointment of Mr. Michael M. Morallos as Senior Vice President and Head of Banking Applications/User Support Division under the Information Technology Group effective 5 November 2018
c. Appointment of Mr. Luis Lorenzo T. Africa as Senior Vice President and Head of Infrastructure and Support System Division under the Information Technology Group effective 26 November 2018

On 23 November 2018, the Bank's Board of Directors confirmed the appointment of Mr. Ponciano C. Bautista, Jr. as Senior Vice President and Officer-in-Charge of Treasury Sector effective 5 November 2018.

On 25 January 2019, the Bank's Board of Directors approved and confirmed the following:

a. Creation of the Strategy and Financial Advisory Sector (SFAS)
b. Reclassification and renaming of the Marketing and Product Development Group to Marketing and Brand Management Sector (MBMS) and creation of Digital Innovation Group
c. Establishment of a Php Bonds and Commercial Paper program of up to P100 Billion to be issued in one or more tranches
d. Hiring under Management Contract of Mr. Jovencio B. Hernandez as Head of Marketing and Brand Management Sector with the rank of Executive Vice President, effective 1 February 2019
e. Hiring of Mr. Chester Y. Luy as Head of Strategy and Financial Advisory Sector and concurrent Head of Wealth Management Group, with the rank of Executive Vice President, effective 28 January 2019
f. Hiring of Mr. Noel C. Malabag as Chief Dealer and Trading Division Head, with the rank of Senior Vice President, effective 1 February 2019
g. Early retirement of Mr. Ponciano C. Bautista, Senior Vice President and Officer-in-Charge of the Treasury Sector effective 17 February 2019
h. Appointment of Mr. Simeon T. Yap as Chief Risk Officer and Head of the Risk Management Group of the Bank effective March 01, 2019
i. Change in Designation of First Senior Vice President Carmela Leticia A. Pama's from Chief Risk Officer, Data Protection Officer and Head of Risk Management Group to Data Protection Officer effective March 01, 2019

On February 20, 2019, the Bank raised a total of PHP8.22 billion worth of Long Term Negotiable Certificates of Deposit (LTNCDs) with a coupon rate of 5.75% per annum and a tenor of 5 years and six months. The transaction, whose initial planned issuance was PHP3 billion, had to be upsized to meet its 2.7x oversubscription.

On 28 February 2019, the Bank's Board of Directors approved and confirmed the following:

a. Designation of Mr. Noel C. Malabag, Senior Vice President, as Officer-in-Charge of the Treasury Sector, effective 18 February 2019;
b. End of Management Contract effective 31 March 2019 of Ms. Carmela Leticia A. Pama, First Senior Vice President, Chief Risk Officer, Data Protection Officer and Head of the Risk Management Group; and
c. Appointment of Mr. Luis Lorenzo T. Africa, Senior Vice President, as Head of the Information Technology Group, effective 3 March 2019

Effective March 05, 2019, Senior Vice President Luis Lorenzo T. Africa resigned as Head of the Information Technology Group

On March 07, 2019, Senior Vice President Michael M. Morallos was appointed as Acting Head of the Information Technology Group effective March 05, 2019

On March 22, 2019, The PNB Board of Board approved and confirmed the resignation and appointment of certain senior officers:

a. Resignation of First Senior Vice President Alice Z. Cordero as Chief Compliance Officer and Head of the Global Compliance Group effective April 08, 2019
b. Appointment of Atty. Isagani A. Cortes as Chief Compliance Officer and Head of the Global Compliance Group effective April 08, 2019
c. Change in Designation of Simeon T. Yap from Chief Risk Officer and Head of Risk Management Group to Head of Risk Management Group and Data Protection Officer effective April 01, 2019

On April 12, 2019, the Board of Directors of the Philippine National Bank (the "Bank") has approved and confirmed the following:

a. The Bank shall conduct a Stock Rights Offering (the "Offer") to strengthen its Common Equity Tier 1 and enable the Bank to sustain its asset growth;
b. Subject to regulatory approvals as may be required, such as but not limited to the Securities and Exchange Commission (the SEC) and the Bangko Sentral ng Pilipinas (the BSP), and the approval for listing of the Philippine Stock Exchange (the PSE), the Bank has been authorized to issue shares (the "Offer Shares") from its authorized but unissued capital stock by way of the Offer;

c. The Offer, which is expected to raise approximately Php12.0 Billion, shall be conducted upon such terms and conditions including the final issue size, entitlement ratio, offer price, record date, appointment of the parties and other terms as may hereafter be finally determined by Management. The Bank shall promptly disclose to the Exchange the terms of the Offer.

3 SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following summary financial information as of and for the years ended 31 December 2016, 2017 and 2018 has been derived from the annual audited consolidated financial statements, included elsewhere in this offering document, and had been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), and audited by SyCip Gorres Velayo & Co. (SGV) in accordance with the Philippine Standards on Auditing.

Comparison of audited financial information for the years ended 31 December 2016, 2017 and 2018.
Consolidated Statements of Income

	For the years ended 31 December		
	2016 (restated)[1]	2017 (restated)[1]	**2018**
(₱ millions)		**(audited)**	
Interest income on			
Loans and receivables	19,686	22,669	30,203
Investment securities at amortized cost and FVOCI, AFS and HTM Investments	3,162	3,053	4,534
Deposits with banks and others	626	1,325	776
Interbank loans receivable and securities held under agreements to resell	794	480	379
Financial assets at FVTPL	41	39	121
	24,309	27,566	36,013
Interest expense on			
Deposit liabilities	3,780	4,794	7,871
Bonds payable	–	–	478
Bills payable and securities sold under repurchase agreements, subordinated debts and others	998	748	662
	4,778	5,542	9,011
Net interest income	19,531	22,024	27,002
Service fees and commission income	3,402	3,982	4,252
Service fees and commission expense	667	787	773
Net service fees and commission income	2,735	3,195	3,479
Other income			
Net gains on sale or exchange of assets	2,510	3,921	5,861
Foreign exchange gains - net	1,486	1,677	942
Trading and investment securities gains - net	1,364	560	151
Equity in net earnings of subsidiaries and an associate	70	59	44
Miscellaneous	1,539	894	1,425
Total operating income	29,236	32,330	38,904
Operating expenses			
Compensation and fringe benefits	8,400	8,960	9,380
Taxes and licenses	2,171	2,489	3,729
Depreciation and amortization	1,549	1,678	1,945
Occupancy and equipment-related costs	1,457	1,577	1,716
Provision for impairment, credit and other losses[2]	3,213	904	1,740
Miscellaneous	6,104	6,321	6,954
Total operating expenses	22,894	21,929	25,464
Income before income tax	6,342	10,401	13,440
Provision for income tax	1,510	2,315	3,664
Net income from continuing operations	4,832	8,086	9,776
Net income from discontinued operations net of tax[1]	2,330	71	(220)
Net income	7,162	8,157	9,556
Attributable to:			
Equity holders of the Bank	7,124	8,161	9,465
Non-controlling Interest	38	(4)	91
	7,162	8,157	9,556
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Bank	5.70	6.53	7.58
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Bank from Continuing Operations	3.84	6.48	7.75

PUBLIC

Note:

(1) "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, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations."

(2) "Effective January 1, 2018, PFRS 9 replaces Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement. PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to information presented in 2018. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

Consolidated Statements of Financial Position

	As at 31 December		
(₱ millions)	**2016**	**2017**	**2018**
		(audited)	
Assets			
Cash and Other Cash Items	11,015	12,391	16,825
Due from Bangko Sentral ng Pilipinas	127,338	108,744	102,723
Due from Other Banks	22,710	22,025	20,525
Interbank Loans Receivable	7,791	12,838	11,249
Securities Held Under Agreements to Resell	1,972	14,622	20,700
Financial Assets at Fair Value Through Profit or Loss	1,914	2,883	9,999
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)[(2)]	–	–	51,674
Financial Assets at Amortized Cost [(2)]	–	–	99,773
Available-for-Sale Investments[(2)]	67,341	69,837	–
Held-to-Maturity Investments[(2)]	24,174	26,805	–
Loans and Receivables[(2)]	428,217	502,319	581,696
Property and Equipment	18,097	18,664	19,710
Investments in Subsidiaries and an Associate	2,557	2,364	2,419
Investment Properties	16,341	15,594	13,489
Deferred Tax Assets	1,482	1,695	2,087
Intangible Assets	2,562	3,323	3,025
Goodwill	13,375	13,375	13,375
Assets of Disposal Group Classified as Held for Sale[(1)]	–	–	8,239
Other Assets	7,096	8,878	6,140
Total Assets	753,982	836,357	983,648
Liabilities and Equity			
Liabilities			
Deposit Liabilities			
Demand	117,329	125,582	153,065
Savings	341,009	351,422	401,622
Time	87,784	129,552	147,211
Long Term Negotiable Certificates	24,381	31,364	31,403
	570,503	637,920	733,301
Financial Liabilities at Fair Value Through Profit or Loss	233	344	471
Bonds Payable	–	–	15,661
Bills and Acceptances Payable	35,886	43,917	70,083
Accrued Taxes, Interest and Other Expenses	4,944	5,323	6,167
Subordinated Debt	3,498	–	–
Income Tax Payable	195	993	901
Liabilities of Disposal Group Classified as Held for Sale [(1)]	–	–	7,238
Other Liabilities	28,761	28,122	21,267

(₱ millions)	As at 31 December		
	2016	2017	2018
		(audited)	
	644,021	716,619	855,089
Equity			
Attributable to Equity Holders of the Bank	107,312	117,093	125,664
Non-controlling Interests	2,649	2,645	2,895
Total Liabilities and Equity	753,982	836,357	983,648

Note:

(1) "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, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations."

(2) "Effective January 1, 2018, PFRS 9 replaces Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement. PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard. Therefore, the comparative information for 2017 is reported under PAS 39 and is not comparable to information presented in 2018. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9. The Group adopted the classification and measurement, impairment and hedge accounting.

Selected Financial Ratios and Earnings Per Share

	For the year ended 31 December		
	2016	**2017**	**2018**
Return on average assets(1)	1.0%	1.0%	1.1%
Return on average equity(2)	6.7%	7.1%	7.7%
Net interest margin on average earning assets(3)	2.8%	3.1%	3.3%
Operating expenses (excluding provision for impairment, credit and other losses)	19,682	21,025	23,724
Total operating expenses	22,895	21,929	25,464
Provision for impairment, credit and other losses	3,213	904	1,740
Total operating income	29,236	32,330	38,904
Efficiency ratio(4)	67.3%	65.0%	61.0%
Receivable from customers, gross	416,398	482,300	574,477
Total deposit liabilities	570,503	637,920	733,301
Receivables from customers to deposit liabilities(5)	73.0%	75.6%	78.3%
Tier 1 capital ratio(6)	15.8%	14.6%	13.6%
Total capital ratio(7)	16.7%	15.4%	14.4%
Total equity	109,961	119,738	128,559
Total assets	753,982	836,357	983,648
Total capital funds to total assets(8)	14.6%	14.3%	13.1%
NPLs (net of NPLs fully covered by allowance for credit losses)	701	1,176	1,831
NPLs, gross	8,772	9,026	9,450
Specific allowance for credit losses of NPLs	8,069	7,850	7,619
Total loans	381,561	452,272	535,439
NPL ratio(9)	0.2%	0.3%	0.3%
Allowance for credit losses (loans)	8,374	8,496	10,260
Allowance for credit losses (loans) to total receivable from customers(10)	2.0%	1.8%	1.8%
Allowance for credit loan losses (loans) to total nonperforming loans(11)	135.2%	130.6%	156.9%
Basic/Diluted Earnings per share attributable to equity holders of the Bank(12)	₱5.70	₱6.53	₱7.58

Average balances, as referred to below, are determined as the sum of the beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two

[1]*Net income divided by average total assets for the period indicated.*

[2]*Net income divided by average total equity for the period indicated.*

[3]*Net interest income divided by average interest-earning assets.*

[4]*Total operating expenses (excluding provision for impairment, credit and other losses) divided by total operating income for the period indicated.*

[5]*Receivable from customers, gross of unearned and other deferred income, divided by total deposit liabilities*

[6]*Tier 1 capital divided by total risk-weighted assets, as reported to the BSP.*

[7]*Total capital divided by total risk-weighted assets, as reported to the BSP.*

[8]*Total equity divided by total assets.*

[9]*NPLs (net of NPLs fully covered by allowance for credit losses) divided by total loans (receivable from customers, interbank loans and securities under agreements to re-sell) of the Parent Company.*

[10]*Total allowance for credit losses pertaining to receivable from customers divided by receivable from customers, gross of unearned and other deferred income*

[11]*Total allowance for credit losses based on RAP divided by total NPLs, gross of NPLs fully covered by allowance for credit losses and consists of the Parent Company only.*

[12]*Net income attributable to equity holders of the Parent Company divided by weighted average number of common shares.*

4 INVESTMENT CONSIDERATIONS

Before investing in the Bonds, prospective investors should pay particular attention to the fact that the Bank and its activities are governed by the legal, regulatory and business environment in the Philippines. The business of the Bank is subject to a number of factors, many of which are outside the control of the Bank. Prior to making an investment decision, prospective investors should carefully consider, along with the other information in this Offering Circular, the following investment considerations. The investment considerations set forth below are not an exhaustive list of the challenges currently facing the Bank or that may develop in the future. Additional considerations, whether known or unknown, may in the future have a material adverse effect on the Bank or the Bonds.

Considerations relating to the Bank

The Bank has incurred significant losses in the past and suffered a liquidity crisis in the third quarter of 2000 due to significant levels of deposit withdrawals; in response to this crisis the Government rescued the Bank and provided emergency financial assistance to the Bank

The Asian financial crisis of 1997 and its aftermath significantly and adversely affected the Bank, leading to a consistent decline in asset quality, high levels of NPLs and declining levels of deposits from the public and other parties, which culminated in a liquidity crisis in the third quarter of 2000 and five consecutive years of losses up to 2002. As a result of the consecutive years of losses and the Bank's increasing level of non-performing assets (NPAs), the Bank recorded significant deficits (negative surplus) up to 2008. However, the Bank's financial profile and asset quality has since improved. The Bank has been able to improve its capital position through rights offerings as well as through issuances of Tier 2 capital via the capital markets. The Bank's improving profitability position likewise continues to bolster its capital position. Although the Bank has been able to successfully raise capital in the past, there can be no assurance that the Bank will be able to continue to fund its capital or continue to post a surplus in the future, nor can there be any assurance that the Bank will be able to continue to record net income in the future. Should the previous problems faced by the Bank, including liquidity difficulties, recur, this would have a material adverse effect on the financial position and results of operations of the Bank.

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan portfolio

The Bank has expanded and intends to aggressively expand its consumer loan operations. Such expansion increases the Bank's vulnerability to changes in the general economic conditions affecting Philippine consumers. Accordingly, economic developments that have a significant adverse effect on Philippine consumers could result in the deterioration in the credit quality of the bank's consumer loan portfolios.

The Bank has faced significant levels of non-performing loans and provisions for impairment losses that may affect its results of operations

Volatile economic conditions may adversely affect the ability of the Bank's borrowers to repay their debt obligations and, as a result, the Bank may experience an increase in NPLs and provisions for impairment losses. While the Bank has successfully managed to reduce its NPLs, the Bank's results of operations have been, and continue to be, materially adversely affected by the level of its NPLs. The Bank's net NPLs as of 31 December 2018 reported to the BSP amounted to ₱1.8 billion as compared to ₱1.2 billion and ₱0.7 billion as of 31 December 2017 and 31 December 2016, respectively. However, the Bank's net NPL ratio computed as NPLs divided by total loans (receivable from customers, interbank loans and securities under agreements to re-sell) is the same 0.3% as of 31 December 2018 and 2017. The net NPL ratio was at 0.2% as of 31 December 2016. Average net NPL ratios for the Philippine banking system was 0.5%, and 0.3% as of 31 December 2017, and 31 December 2016, respectively. As of 31 December 2018, it was 0.9%. In order to fund its NPLs, the Bank relies on funding from its deposit base and other sources. There can be no assurance that the Bank will be able to continue to reduce its NPL levels to within industry standards.

For the period ended 31 December 2018, the Bank's provision for credit losses was ₱1.8 billion, representing 5.0% of the Bank's gross interest income for the period. For the year ended 31 December 2017, the Bank's provision for credit losses for loans and receivables was ₱813.0 million, representing 2.9% of the Bank's gross interest income for the same period. For the year ended 31 December 2016, the Bank's provision for credit losses was ₱2.7 billion, which represented 11.1% of the Bank's gross interest income for the same period.

Loan loss coverage for NPLs of the Bank stood at 156.9%, 130.6% and 132.8% as of 31 December 2018, 2017 and 2016, respectively.

The Bank's restructured loans may become non-performing

In the restructuring of a number of loans, the Bank has agreed with borrowers to set interest payments at a relatively low level for a certain time-frame followed by much larger payments of interest in later periods. The relatively low interest payments improve the likelihood that a restructured loan will be categorized as performing during the period of such payments. As of 31 December 2016, the Bank had ₱1.5 billion of restructured loans in its loan portfolio. Restructured loans tally at ₱2.1 billion as of 31 December 2018 and 2017. However, future interest payments that may be significantly higher may cause the loan to again become non-performing if the borrower is unable to make such larger payments in the later periods. If a significant number of the Bank's customers are unable to pay larger interest payments on their respective restructured loans, a larger number of restructured loans may become non-performing, thereby requiring additional provisions, additional capital and having a material adverse effect on the Bank's financial position, liquidity and results of operations.

The Bank's funding is primarily core deposits and liquidity risk can arise when the Bank's traditional sources of funding is threatened

A significant portion of the Bank's funding needs is satisfied from short-term sources, primarily in the form of time, savings and demand deposits. As of 31 December 2015, 77.7% of total deposit liabilities was considered core while 22.3% was volatile. As of 31 December 2016, 80.9% of the Bank's funding was considered core while 19.1% was volatile. As of 31 December 2017, 80.5% of the Bank's funding were considered core while 19.5% was volatile. As of 31 December 2018, the Bank's core deposits comprise about 79.0% of total deposits with the balance of 21.0% deemed as volatile. Core deposits are deposits (both Current and Term Deposits) that are expected to remain with the bank for a relatively long period of time usually beyond one year. On the other hand, volatile deposits or deposits maturing within one year are interest rate sensitive, hence, they are treated as an unstable source of funding.

Accordingly, the maturity profile of the Bank's assets and liabilities may from time to time show a negative gap in the short-term when the Bank's liabilities which are composed of short-term funding sources (primarily in the form of deposits) and other liabilities are of shorter average maturity than its loans and investments, thereby resulting in a funding mismatch and creating a potential risk for liquidity squeeze.

The liquidity risk arises when the Bank's core funding sources are threatened. These events could either be a major economic event affecting the whole industry, and/or specific negative events that could result in major withdrawals of the Bank's current level of deposits. The Bank is then forced to seek alternative sources to fund growth in assets. This risk could have major impact on the Bank's financial condition and operations.

The Bank may be unable to recover the appraised value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses

The Bank may be unable to recover the value of any collateral or enforce any guarantee due, in part, to the difficulties and delays involved in enforcing such obligations in the Philippine legal system. In order to foreclose collateral or enforce a guarantee, banks in the Philippines are required to follow certain procedures specified by Philippine law. These procedures are subject to administrative and bankruptcy law requirements. The resulting delays may last several years and lead to deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors have exposed, and may continue to expose, the Bank to legal liability while in possession of the collateral. These difficulties may significantly reduce the Bank's ability to realize the value of its collateral and therefore the effectiveness of taking security for the loans it makes. The Bank carries the value of the foreclosed properties at the lower of the appraised value and the loan balance plus accrued interest at the time of such foreclosures. While the Bank, at each statement of financial position date, accounts for its foreclosed properties in accordance with PFRS, it may incur further expenses to maintain such properties. In realizing cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realization. There can be no assurance that the Bank will be able to realize the full value, or any value, of any collateral on its loans.

The value of the Bank's collateral may decline in the future

A substantial portion of the Bank's secured loans is secured by real estate. While the Bank's collateral may have sufficient value to support the outstanding loans at the time the loans were disbursed by the Bank, the value of the collateral may decline over time. If the loan becomes non-performing and the value of the property has significantly decreased as compared to its value as of the date when the loan was disbursed, the Bank's loan loss provisions may be inadequate and require an increase in such provisions. Any increase in the Bank's provisions would adversely affect its capital adequacy ratio, its financial condition, and results of operations.

The Bank has suffered from inadequate levels of capital

As with other banks in the Philippines, the Bank is subject to capital adequacy guidelines which require it to maintain a minimum ratio of capital to risk-adjusted assets of 10.0% on both consolidated and non-consolidated basis.

In 2001, the Bank's total capital adequacy ratio ("CAR") of 8.2% fell below the minimum BSP requirement of 10%. Despite its failure to meet these minimum requirements, the Bank did not incur any penalty in this period because the BSP considered the Bank to be under rehabilitation. In order to improve its capital position and, in particular, its Tier 1 capital adequacy ratio, the Bank undertook a capital restructuring in 2001 and 2002.

As of 31 December 2018, Tier 1 CAR was 13.6% while total CAR was computed at 14.4%. As at 31 December 2017, the Bank's Tier 1 CAR was 14.6% and total CAR on a consolidated basis was 15.4% (as reported to the BSP). As at 31 December 2015 and 2016, the Tier 1 CAR of the Bank was 16.2% and 15.8%, respectively, and its total CAR was 19.2% and 16.7%, respectively.

While the Bank aims to maintain a two-percentage point buffer versus prudential requirements, there can be no assurance that the Bank will be able to maintain its capital at levels prescribed by BSP in the future. Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10%, the Monetary Board of the BSP (the Monetary Board) may impose monetary and non-monetary sanctions on the chief executive officer and/or the board of directors of the bank for non-reporting violations and may limit or prohibit the distribution of the net profits and require that part or all of the net profits be used to increase the capital accounts until the minimum requirement is met. The Monetary Board may also restrict or prohibit the making of new investments of any sort by the Bank, except for purchases of readily marketable evidences of indebtedness issued by the government and the BSP until the minimum CAR is restored. The Monetary Board will also prohibit opening of new branches whenever a bank's CAR falls below 12% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank does not have positive earnings, has Common Equity Tier 1 (CET1) of not more than 8.5% and has not complied with the 10% minimum CAR.

The Bank is effectively controlled by one shareholder group, with which it has extensive business connections

As of 31 December 2018, the LT Group, Inc. held indirect ownership of 59.8% of the Bank's shares through various holding companies. There can be no assurance that the companies and persons affiliated/associated with the LT Group or any of the shareholders of the Bank will not exercise its control and influence the Bank for their benefit.

The LT Group is one of the country's largest conglomerates with interests in banking and other financial services, aviation, beverages, chemicals, distillery, education, food, real estate development and tourism, among others. As of 31 December 2018, 0.01% of the Bank's receivables from customers were from LT Group. As of 31 December 2017, only 0.01% of the Bank's receivable from customers was extended to LT Group.

The Bank conducts all transactions with its related parties on an arm’s length basis and believes that these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. However, there can be no assurance that the interests of the LT Group will necessarily coincide with the interests of the Holders. In addition, there can be no assurance that deterioration in the financial condition of the LT Group or negative publicity regarding the LT Group will not adversely affect the Bank’s financial condition and business opportunities.

The Bank may be unable to engage in profitable lending and may, as a result, experience limited or negative future growth

The Bank's ability to increase its margins, revenues and profits depends principally on its ability to achieve growth in profitable lending given that interest income from loans and receivables has contributed an average of 65.7% of total recurring income. The Bank has experienced slow growth in its loan portfolio because of the Bank's focus on managing its NPLs in the past. However, as of 31 December 2017 and 2018, the Bank's loans and receivables, net of allowance for credit losses, experienced an increase in net carrying value, from ₱502.3 billion to ₱581.7 billion, respectively, constituting 60.1% and 59.1% of total assets. Due to the country's stable economic growth, the Bank had been able to expand its loans and receivables, net of allowance for credit losses. A slowdown in the economy's growth or intensified competition can curtail the growth of the Bank's loan portfolio and eventually its revenues, margins or profits. This could inhibit the Bank's future growth and adversely affect its financial condition and results of operations.

The Bank may not successfully introduce new products and services

As part of its strategy, the Bank intends to be a significant player across all product groups and services. It is likely to encounter significant competition from other banks which have bigger balance sheet and capitalization as well as from those protecting their market shares in the same products and services being introduced. There can be no assurance that the Bank will be able to compete effectively against such competing banks. Even if the Bank was able to promote existing products or introduce new products and services successfully, there can be no assurance that the Bank will be able to achieve its intended return on such investments.

The treasury and risk management functions of the Bank's subsidiaries and overseas branches, representative offices and remittance centers are decentralized and conducted separately from the Parent Company, thereby exposing the Bank and the Group to significant risks

Treasury functions, including trading and investment functions, and risk management functions, are decentralized and conducted separately at the Bank level and at each of its subsidiaries and overseas branches, representative offices and remittance centers. While (a) all overseas offices and subsidiaries are required to regularly submit a profile of their portfolio to the Treasury Sector of the head office and liquidity and interest rate gap reports (including maximum cumulative outflow positions and earnings- at-risk profiles) to the Risk Management Group of the head office for monitoring and supervision purposes, (b) proprietary foreign exchange trading is also centralized and controlled at the head office, and (c) investments are coordinated by the Treasury Sector of the head office, BSP regulations mandate that certain risk management functions and systems be managed and installed on an entity-by-entity basis. Accordingly, the Bank may not possess information that enables it to properly assess credit, market, foreign exchange and other operational risks applying to its subsidiaries or to the Group as a whole. This decentralized approach to risk management may result in the Bank and the Group being exposed to certain risks as earlier mentioned that the Bank is unable to identify or assess properly.

The Bank may incur significant losses from its trading and investment activities due to market fluctuations and volatility

While the percentage contribution to the Bank's operating income has been declining, gains generated by the Bank's treasury operations through the trading of securities and bonds issued by the Republic of the Philippines constitute an important portion of the Bank's income. Trading and investment securities gains accounted for 0.4%, 1.7% and 4.7% of the Bank's total operating income the year ended 31 December 2018, 2017, and 2016, respectively.

There can be no assurance that the Bank will be able to continue posting trading gains. The Bank's income from trading activities is subject to substantial volatility based on, among other things, changes in interest rates, foreign currency exchange rates and debt prices, as well as stock market fluctuations. For example, an increase in interest rates or downgrade of the credit ratings of some of the fixed income securities invested may have a substantial impact on the value of the Bank's investments in fixed income securities, which would negatively affect the Bank's results of operations. During the height of the 2008 US subprime crisis, the Bank carried substantial mark-to-market losses on its bond portfolio due to the sell-off in the global fixed income markets, and where Philippine financial assets were not spared from the consequences of the financial crisis. Almost all, if not all, Philippine banks suffered the same fate.

The Bank may have to comply with stricter regulations and guidelines issued by regulatory authorities in

the Philippines among which include the BSP, SEC, PDIC, AMLC, PSE, and the Bureau of Internal Revenue (the "BIR") as well as host country foreign regulators where the Bank has a presence and international bodies including the Financial Action Task Force (the "FATF")

The Bank is under the direct supervision principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation and other laws in effect in the Philippines. The Bank is cognizant of the continuing changes to the regulatory and legal framework governing the Bank as the Philippine economy and commercial and financial markets evolve

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted and reforms have been implemented which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities as well as regulations governing the capital adequacy of banks in the Philippines. Institutions that are subject to the Anti-Money Laundering Act (AMLA) are required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The BSP has also recently ordered universal, commercial and thrift banks to conduct Real Estate Stress Tests to determine whether their capital is sufficient to absorb a severe shock. The Real Estate Stress Test Limit ("REST Limit") combines a macroprudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. Should a bank fail to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. Should the same be found insufficient, the bank shall be required to submit an action plan to meet the REST Limits within a reasonable time frame.

In June 2016, the BSP implemented the Interest Rate Corridor ("IRC") which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the Special Deposit Account ("SDA") prior to the IRC, is now replaced by the Overnight Deposit Facility ("ODF") whose rate is now at 4.25%, and forms the lower bound of the IRC. Meanwhile, the rate for the Overnight Lending Facility ("OLF") has replaced the Repurchase Facility ("RP"). The rate for the OLF, which forms the upper bound of the IRC, is now at 5.25%. The BSP likewise introduced the Term Deposit Facility ("TDF") to serve as the main tool for absorbing liquidity through weekly TDF auctions, the frequency for which may be changed depending on the BSP's liquidity forecasts. According to the BSP, the changes from IRC are purely operational in nature to allow it to conduct monetary policy effectively.

The BIR has also promulgated rules on the submission of an Alphabetical List ("Alphalist") of portfolio investors receiving income payments and dividends. The BIR requires all withholding agents to submit an Alphalist of payees on income payments subject to creditable and withholding taxes and prohibit the lumping into a single amount and account of various income payments and taxes withheld. The Supreme Court, however, issued a temporary restraining order against the said BIR rule on 9 September 2014 with regard to the lumping into a single amount.

For the year 2017, 4% of the Bank's Gross Income was derived from its remittance services. As a substantial portion of the Bank's remittance business is from the United States, the Bank has been compliant, with the increasingly stringent anti-money laundering rules and regulations in the United States. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") and other regulations, financial services firms, including the Bank, must establish a compliance program that includes a compliance oversight structure, policies and procedures to detect and report suspicious transactions to the government as well as ensure adherence to existing and new laws. There are requirements to implement specialized employee training programs, designate a special compliance officer, implement robust transaction monitoring and conduct independent audits of the effectiveness of the compliance program. The U.S. regulations also impose requirements regarding client information and verification of that information. Financial services firms are required to verify the identity of the clients with whom they do business, determine the source of funds in a client's account and obtain information about a client's wealth as well as ensure there is economic reason for the transaction.

The Bank implemented an electronic anti-money laundering solution called the FIS GIFTSWEB Enhanced Due Diligence ("EDD") in 2005 which has undergone a series of upgrades and several major systems enhancements for the period 2007 up to 2016. This web-based anti-money laundering solution was developed and marketed by

Gifts Software, Inc., presently owned by Fidelity National Information Services (FIS), based in New York, USA and fulfills the strict and complex regulatory requirements for the detection, monitoring and reporting of suspected money laundering activities by financial institutions. The software solution provides the analytical tools needed to proactively detect and monitor possible suspicious transaction activity, respond to regulatory subpoenas and create a database for case management reports. The system facilitates the preparation of Currency Transactions Reports and Suspicious Activity Reports. FIS GIFTSWEB EDD has been found to adequately address Bank Secrecy Account, Know Your Customer-EDD, AMLA, Office of Foreign Assets Control, and US Patriot Act laws, rules, and regulations. It is currently used domestically by PNB Head Office and PNB Savings Bank as well as in PNB foreign offices to include PNB New York Branch, PNB RCI headquarters in Los Angeles, PNB Los Angeles Branch, PNB Guam, PNB Japan Branch, PNB Hong Kong Branch, PNB Singapore, PNB Europe PLC and PNB Paris. The Bank's Manila Head Office implemented the system in early August 2006. In 2010, the Bank created the Global Compliance Group with a dedicated Global AML Compliance Division primarily to provide AML transaction monitoring services for PNB New York and eventually to the other foreign branches and offices of the Bank. Furthermore, the Bank has invested in upgrading the FIS GIFTSWEB servers in line with the strategic direction of centralizing the administration of the FIS GIFTSWEB systems in Manila towards a standardized approach in the implementation of the Bank's enterprise AML Compliance Framework.

There is no assurance that the anti-money laundering solution implemented by the Bank will always perform at 100.0% accuracy and efficiency. By its nature, it is subject to same risks relating to other information and technology systems and processes, including vulnerability to damage or interruption by human error, misconduct, malfunction, natural disasters, power loss, sabotage, computer viruses or the interruption or loss of support services from third parties. Any disruption, outage, delay or other difficulties experienced by any of these information and technology systems could result in delays, disruptions, losses or errors that may affect the performance of the anti-money laundering solution put in place by the Bank. However, the Bank has in place contingency programs and preventive measures to address events that may cause disruptions. There are also home grown systems to generate critical reports to ensure regulatory compliance.

Further, there is no assurance that the BSP or other Philippine or international regulators will not issue stricter regulations aimed at preventing fraudulent transactions that may affect financial institutions in the Philippines, such as the cyber heist of the Bangladesh Bank in 2016. In the event of any changes to the existing guidelines or rules, or introduction of additional regulations, the Bank, as far as applicable, will have to comply with the same and may incur substantial compliance and monitoring costs. The Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines and in other relevant jurisdictions could have a material adverse effect on the Bank's business, financial condition and results of operations.

The Bank and its subsidiaries and overseas branches, representative offices and remittance centers have experienced incidents of fraud

The Bank has experienced some isolated incidents of employees engaging in fraudulent activities such as misappropriation of cash and fraudulently transferring or withdrawing customer funds. The failure by employees of the Bank to comply with required internal policies and controls contributed to this and other incidents of fraud. The Bank's and its subsidiaries' internal control systems rely heavily on the implementation of and compliance with the same by the employees and effectiveness of its Whistleblower Policy. Although the Bank and its subsidiaries are closely monitoring strict adherence to their internal control procedures, there can be no assurance that these efforts will prevent future fraudulent actions. Failure on the part of any member of the Bank and its subsidiaries to prevent future fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies and may also result in the suspension of, or other limits on, the Bank's banking and other business licenses. In addition, this may also result in a loss of confidence of current and potential deposit customers. Furthermore, as the Bank continues to invest in the automation and computerization of its various internal and control processes. The Bank is also expanding its internet banking operations while at the same time implementing enhanced system security controls primarily to protect itself from potential for fraud risks and information security problems arising from the exploitation of technological weaknesses attributed particularly on the growing cybercrime related cases. The Bank is committed to preserving the confidentiality, integrity, and availability (CIA) of information assets, by protecting the privacy of the personal information of its clientele and ensuring that adequate tools are necessary to prevent, detect, respond, and provide immediate remediation and response in case of a cyber security incident that may result in information and/or data breach. In 2015, the bank has created a Cybercrime and Investigation Unit to closely monitor and investigate cybercrime reports received internally and externally. In 2016, the Bank has identified the critical units exposed to cybercrime risks and has appointed a Senior Officer dedicated to have oversight on customer data privacy, information security, data protection and other related bank activities that may be vulnerable to cybercrime attacks.

In 2017, the Bank formed the Enterprise Information Security Group (EISG) and appointed a Senior Officer as the Data Protection Officer (DPO) and Chief Information Security Officer (CISO). Immediate initial compliance with the Data Privacy Act was pursued to meet the September 2017 National Privacy Commission (NPC) directive to register the DPO of the bank. The EISG focused on data privacy initiatives as a subset of the information security, which includes a series of talks regarding the risk of data breaches both domestic and overseas.

In 2018, the EISG initiated the building blocks of the Information Security Plan (ISP) covering the three areas of information security, namely: governance, technology, and people. EISG formulated various security frameworks, policies, and guidelines to ensure that the internal processes conform to best security practices to protect the CIA of information assets, including the adherence to minimum security baseline configuration and acceptable usage of information. Privacy impact assessment (PIA) was also conducted to assess the processes involving personal identifiable information (PII) life cycle and possible breach points for process improvement mitigation. Regular Vulnerability Assessment and Penetration Testing (VAPT) was thoroughly conducted as part of the cyber resiliency tests and compliance to regulatory requirements.

In the area of technology, EISG initiated the implementation of security monitoring tools that use machine learning and artificial intelligence for near real-time visibility of possible indicators of a compromise, security event, or incident. The group also engaged third party services for a Security Operations Center (SOC) aimed to provide correlation and triage of security events and subsequent escalation to incident responders for containment and remediation. Protection for denial-of-service was also put in place as an added layer for exposure to cyber security threats caused by the public usage of the internet and mobile banking services of the Bank.

Additionally, the culture of information security was aimed to be clearly communicated cascaded from the top to the bottom of the enterprise. This is done through the issuance of advisories and reminders in print and e-channels including regular reporting to management and the Board and continuous education, training, and awareness on information security and data privacy.

The Bank's failure to manage risks associated with its information and technology systems could adversely affect its business

The Bank is subject to risks relating to its information technology systems and processes. The hardware and software used by the Bank for its information technology infrastructure is vulnerable to damage or interruption by human error / misconduct, sabotage, device or application malfunction, natural disasters, power loss, computer viruses or disruptions of support services from third parties such as internet service providers and telecommunications companies. Any disruption, outage, delay or other difficulties affecting any of these information technology systems could result in banking transaction delays, disruptions, losses or errors that may result in loss of income and decreased consumer confidence to the Bank. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

With the increased in Bank customers' usage of its mobile apps and internet banking systems, cyber security threats can affect a customer's confidence level on the integrity and availability of information that are processed and stored in the Bank's information systems. Cyber security breaches can have an adversarial effect on the Bank's reputation that can impact business, operations and its financial condition. Thus, the Bank has implemented additional IT security measures and solutions such as firewalls, data encryption, and multifactor authentication to control and protect its computer systems and network infrastructure from cyber security threats. Although the probability for fraud and cyber security threats are likely to persist and there can be no assurance that these IT security measures will be adequate or successful in view of the dynamic and evolving transformation of cybercriminals, these IT security solutions are designed to minimize the risk of internal and external cyber security threats. The Bank has also strengthened its operational policies, guidelines and procedures to address and mitigate cyber security threats. In addition, the Bank has been engaging third-party cyber security partners to conduct vulnerability assessment and penetration testing (VAPT) and has been hiring skilled and experienced IT personnel.

The Bank is involved in litigation, which could result in financial losses or harm its business

The Bank is and may in the future be, implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the market place or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Furthermore, there can be no assurance that (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of such insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operation, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

The Bank may not be successful in implementing new business strategies.

The Bank's ability to grow its revenue will partly depend on its ability to successfully implement its business strategies, which may expose the Bank to a number of risks and challenges, including, among others, the following:

- new and expanded business activities may have less growth or profit potential than the Bank anticipates. There can be no assurance that new business activities will become profitable at the level the Bank desires or at all;
- the Bank's competitors may have substantially greater experience and resources for new and expanded business activities; and
- economic conditions, such as rising interest rates or inflation, could hinder the Bank's expansion, particularly in the consumer loan industry.

There can be no guarantee that the Bank's strategies will achieve success. This is due to several factors, including, increasing competition and changes in the macro-economic environment. In expanding its suite of products and services, the Bank expects to encounter significant competition from other banks already offering or are in the process of adding such products or services. There can be no assurance that the Bank will be able to compete effectively against such existing banks or that new products will be met with sufficient customer demand, which may lead to lower than expected return on investments for the Bank.

In addition, new business endeavors and acquisitions may require knowledge and expertise which differ from those used in the current business operations of the Bank, including different management skills, risk management procedures, guidelines and systems, credit risk evaluation, monitoring and recovery procedures. The Bank may not be successful in developing such knowledge and expertise.

The Bank's success in implementing new strategies also depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals.

The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could hinder the Bank's implementation of its strategies.

The Bank's inability to implement its business strategies could materially and adversely affect the Bank's business, financial condition and results of operations.

Changes in the regulatory regimes or guidelines may adversely affect the Bank's businesses, financial condition and results of operations.

The Bank has business interests in a number of highly regulated sectors, including banking, leasing, credit card business, real estate investments and insurance. Each of these businesses is subject to separate regulatory regimes and guidelines that are periodically subject to change. Failure to comply with relevant laws and regulations may result in financial penalties and/or administrative or legal proceedings against the Bank, including the revocation of the Bank's licenses, permits or certificates. Regulators of the Bank's businesses may alter current regulations or introduce new regulations to control a particular line of business. There can be no assurance that the guidelines issued by the regulatory authorities will not materially and adversely affect the Bank's business, financial condition or results of operations. For a discussion of the banking regulations governing the Bank, see "Banking Regulation and Supervision".

Increased exposure to consumer debt could result in increased delinquencies in the Bank's loan and credit card portfolios.

The Bank plans to continue to expand its consumer loan operations, including home mortgage loans, auto loans and credit card services. Such expansion plans will increase the Bank's exposure to consumer debt and vulnerability with respect to changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and a deterioration in the credit quality of the Bank's consumer loan and credit card portfolios. A rise in unemployment or an increase in interest rates, among others, could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults and reduce demand for consumer loans, which could materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank is subject to credit, market and liquidity risks which may have an adverse effect on its credit ratings and its cost of funds.

To the extent any of the instruments or strategies the Bank uses to manage its exposure to market or credit risks are not effective, the Bank may not be able to effectively mitigate its risk exposures. The Bank's trading revenues and interest rate risk exposure are dependent upon its ability to properly identify and mark to market the changes in the value of financial instruments caused by changes in market prices or rates. The Bank's earnings are dependent upon, among others, the effectiveness of its management of migrations in credit quality and risk concentrations, the accuracy of its valuation models and its critical accounting estimates and the adequacy of its allowances for credit losses. To the extent its assessments, assumptions or estimates prove inaccurate or not predictive of actual results, the Bank could suffer higher than anticipated losses. The successful management of credit, market and operational risks is an important consideration in managing its liquidity risk because it affects the evaluation of its credit ratings by rating agencies. A failure by the Bank to effectively manage its credit, market and liquidity risk could materially and adversely affect the Bank's business, financial condition and results of operations.

A downgrade of the Bank's credit rating could have a negative effect on its business, financial condition and results of operations.

The Bank has a credit rating of Baa2, with a stable outlook, for its bank deposits from Moody's. Fitch has given the Bank an issuer rating of BB+, with a stable outlook, for its long-term rating IDR. In the event of a downgrade of the Bank by one or more credit rating agencies, the Bank may have to accept terms that are not as favorable in its transactions with counterparties, including capital raising activities, or may be unable to enter into certain transactions. This could have a negative impact on the Bank's treasury operations and also adversely affect its financial condition and results of operations. Rating agencies may reduce or indicate their intention to reduce the ratings at any time. The rating agencies may also decide to withdraw their ratings altogether, which may have the same effect as a reduction in its ratings. Any reduction in the Bank's ratings (or withdrawal of ratings) may increase its borrowing costs, limit its access to capital markets and adversely affect its ability to sell or market its products, engage in business transactions, particularly longer-term and derivatives transactions, or retain its customers. This, in turn, could reduce the Bank's liquidity and materially and adversely affect the Bank's business, financial condition and results of operations.

The Bank relies on certain key personnel and the loss of any such key personnel or the inability to attract and retain other highly capable individuals may negatively affect its business.

The Bank's success depends upon, among other factors, the retention of its key management, senior executives and upon its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management, senior executives or an inability to attract or retain other key individuals could materially and adversely affect the Bank's business, financial condition and results of operations.

Considerations Relating to the Philippine Banking Industry

The Philippine banking industry is highly competitive and increasing competition may inhibit the implementation of the Bank's growth strategy

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which in some instances have greater financial and other capital resources, a larger market share and greater brand name recognition than the Bank.

The mergers and consolidations in the banking industry, as well as the liberalization of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the Monetary Board's lifting of the ban on granting of new licenses, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Group, Industrial Group of Korea, Shinhan Group, Yuanta Group and United Overseas Group being granted new licenses, and also equity investments by Group of Tokyo-Mitsubishi UFJ into Security Group, Cathay Life into Rizal Commercial Banking Corporation and Woori Group into Wealth Development Group. In addition, the establishment of the ASEAN Economic Community in 2015 facilitates cross border flows of financial services (in addition to goods, capital, and manpower) among member nations and potentially increase the level of competition both from Philippine banks and branches of international banks. This may impact the Philippine banks' operating margins, but this would also enhance the industry's overall efficiency, business and service delivery. As of 31 December 2018, according to data from the BSP, there were a total of 46 domestic and foreign universal and commercial banks operating in the Philippines.

In the future, the Bank may face increased competition from financial institutions offering a wider range of commercial banking services and products, larger lending limits, greater financial resources and stronger balance sheets than the Bank. Increased competition may arise from:

- Other large Philippine banks and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Full entry of foreign banks in the country through any of the following modes allowed under Republic Act No. 10641 (approved on 15 July 2014): (a) the acquisition, purchase or ownership of up to 100% of the voting stock of an existing bank; (b) investment of up to 100% of the voting stock in a new banking subsidiary incorporated under Philippine law; or (c) establishment of branches with full banking authority;
- Foreign banks, due to, among other things, relaxed standards which permitted large foreign banks to open branch offices;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases resulting in excess capital that can be leverages for asset growth and market share gains; and
- Continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions.

There can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, as well as cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

Philippine banks are generally exposed to higher credit risks and greater market volatility than banks in more developed countries.

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to:

- The greater uncertainty associated with the Philippine regulatory, political, legal and economic environment;
- The vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and OFW remittances;
- The large foreign debt of the Government and the corporate sector, relative to the gross domestic product ("GDP") of the Philippines; and
- Volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity and results of operations. According to data from the BSP, the average NPL ratios exclusive of interbank loans in the Philippine banking system for universal and commercial banks were 1.9%, 1.7%, 1.5% and 1.4% as of the years ended 31 December 2015, 2016, 2017 and as of the eleven months ended 30 November 2018, respectively.

The Philippine banking sector may face another downturn, which could materially and adversely affect the Bank.

The Philippine banking sector has generally recovered from the global economic crisis. According to data published by the BSP as of 31 January 2019, past due ratios in the Philippine universal and commercial banking system was at 2.07%, a decline from a 3% to 5% range reported from 2009-2011. Further, the NPL coverage ratio in the Philippine universal and commercial banking system reached 116.06% as of 31 January 2019, within the 96% to 126% range reported from 2009 to 2011, according to the BSP. The Bank has realized some benefits from this recovery, including increased liquidity levels in the Philippine market, lower levels of interest rates as well as lower levels of NPLs. However, the Philippine banking industry may face significant financial and operating challenges. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential or actual under-capitalization of the banking system. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, may cause the Philippine banking sector in general, and the Bank in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

Philippine banks' ability to assess, monitor and manage risks inherent in its business differs from the standards of its counterparts in more developed countries.

Philippine banks are exposed to a variety of risks, including credit risk, market risk, portfolio risk, foreign exchange risk and operational risk. The effectiveness of their risk management is limited by the quality and timeliness of available data in the Philippines in relation to factors such as the credit history of proposed borrowers and the loan exposure borrowers have with other financial institutions. In addition, the information generated by different groups within each bank, including the Bank, may be incomplete or obsolete. The Bank may have developed credit screening standards in response to such inadequacies in quality of credit information that are different from, or inferior to, the standards used by its international competitors. As a result, the Bank's ability to assess, monitor and manage risks inherent in its business would not meet the standards of its counterparts in more developed countries. If the Bank is unable to acquire or develop in the future the technology, skills set and systems available to meet such standards, it could have a material adverse effect on the Bank's ability to manage these risks and on the Bank's financial condition, liquidity and results of operations.

However, BSP's early adoption of Basel III on 1 January 2014 a year ahead of the Basel Committee on Banking Supervision's recommended implementation timeline as well as the imposition of higher limits and stricter minimum requirements for regulatory capital relative to international standards with no transition period are seen as efforts to boost the Philippine banking industry's resiliency and enhance its ability to absorb risks. In addition the BSP has been prudent and conservative in setting the minimum reserve requirement compared to other regulators in the region, with a minimum reserve requirement for Peso deposit balances of 18.0% to be held with the BSP (compared to, for example, Indonesia, where the minimum local currency reserve requirement is 6.5% of local currency deposit balances).

The Bank may experience difficulties due to the implementation of BASEL III in the Philippines.

The BSP has issued a series of regulations which require Philippine banks (including the Bank) to comply with the stringent and capital requirements (*e.g.*, minimum CAR of 10.0%, minimum Common Equity Tier ("CET") 1 ratio of 6.0%, and Liquidity Coverage Ratio ("LCR") of 100.0% beginning 1 January 2019). Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of Internal Capital Adequacy Assessment Process ("ICAAP") and BASEL III, may impact the Bank's ability to grow its business and may even require the Bank to withdraw from or to curtail some of its current business operations, which could materially and adversely affect the Bank's business, financial condition and results of operations. There can also be no assurance that the Bank will be able to raise adequate additional capital in the future at all or on terms favorable to it. In addition, the implementation of BASEL III may require the Bank to divest itself of certain non-allied undertakings. If the Bank is forced to sell all or a portion of certain subsidiaries or associates, its business, financial condition or results of operations could be adversely affected. There can be no assurance that the Bank will be able to meet the requirements of BASEL III as implemented by the BSP. In addition, the limitations or restrictions imposed by the BSP's implementation of BASEL III could materially and adversely affect the Bank's business, financial condition and results of operations.

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10.0%, the Monetary Board, may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit opening of new branches whenever a bank's risk-based CAR falls below 12.0% on a non-consolidated and consolidated basis. Likewise, it will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5% and 10% respectively.

As of 31 March 2018, according to the BSP and under the Revised Basel III standards (Memorandum No. M-2013-056), the Philippine universal and commercial banking industry's CAR was 15.07% on a consolidated basis and 14.48% on a nonconsolidated basis. As of 31 December 2018, the Group's consolidated Tier 1 capital adequacy ratio/CET1 ratio and total consolidated capital adequacy ratio were 13.6% and 14.4%, respectively, as reported to the BSP.

In addition, the BSP issued BSP Circular No. 855 (Series of 2014) regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under the new regulations, loans may be considered secured by collateral to the extent the estimated value of net proceeds at disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60.0% of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account gets distressed.

The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value (LTV) ratio limit. Even under the new rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20% under current industry practice). Under the enhanced guidelines of the BSP however, the bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market.

Stricter lending and prudential regulations may reduce the lending appetite of the Bank or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition and results of operations.

On 13 December 2018, the Monetary Board approved the adoption of the Countercyclical Capital Buffer

("CCyB") intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their Common Equity Tier 1 ("CET1") capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of zero percent, which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

Although intended to strengthen banks' capital positions and thwart potential asset bubbles, the new BSP and Monetary Board regulations will add pressure to local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position and results of operations may be adversely affected.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

Domestic interest rates have remained low since 2009, with the monetary policy directed towards stimulating the economy. In recent months, however, domestic interest rates started trekking upward following the BSP's staggered 150 basis point hike in policy rates to subdue inflationary pressures from higher taxes under TRAIN (implemented in January 2018), rising global oil prices, an acute rice shortage and a weaker peso.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity position of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn excess trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all).

Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, including holders of credit cards, which in turn may lead to a deterioration of the Bank's credit portfolio.

In addition, lower levels of liquidity in the system may lead to an increase in the cost of funding as banks actively compete for funds by raising the interest rates they charge on deposits. Banks with strong deposit franchise and large low-cost deposit base are better equipped amid tighter liquidity and increasing funding costs.

If the Bank were not to comply with FATCA, this may cause material and adverse impact on the Bank's business, financial conditions and results of operations.

FATCA is the Foreign Account Tax Compliance Act enacted into law in the U.S. on 18 March 2010 as part of the Hiring Incentives to Restore Employment Act. It is a new regime for finding income overseas as a response to a landmark court case in which a large international bank agreed to pay $780 million in fines for their role in assisting U.S. citizens in evading income taxes.

FATCA impacts a number of organizations and individuals. It first affects U.S. persons with income abroad. Secondly, foreign financial institutions ("FFIs") that invest in U.S. markets will be impacted as well as U.S. financial institutions that do business with FFIs. Additionally, local government and taxing authorities in each country will see the effects of the act as well. It also brought forth an expansion of tax reporting for non-resident aliens.

An FFI will have to set up a process to identify U.S. accounts as part of its on boarding procedures. Once that is in place, it will also have to identify any current accounts with U.S. indicia. Additionally, there is a need to set up a process to monitor account changes for indicia of U.S. status.

After the identification of impacted accounts, an FFI will have to collect documentation on each of these accounts to prove whether or not they are a U.S. person. If they are not a U.S. person and the FFI has the appropriate documentation, the FFI's obligations have been fulfilled. If they are a U.S. person, the FFI's next step will depend on the country that has jurisdiction over the FFI. By default, the Participating Foreign Financial Institutions ("PFFIs") in countries without an intergovernmental agreement will directly report to the US Internal Revenue Service ("IRS").

There is a requirement for PFFIs to withhold 30% of income from recalcitrant account holders in order to comply with FATCA. A recalcitrant account holder is one who fails to comply with reasonable requests pursuant to IRS mandated verification and due diligence procedures to identify U.S. accounts, to provide a name, address and TIN or fails to provide a bank secrecy waiver upon request.

Specific to the Bank's compliance with FATCA, the Bank and its subsidiaries registered on 16 January 2014 as an Expanded Affiliate Group i.e., Philippine National Bank (lead financial institution) and subsidiaries. The Bank subsequently updated its FATCA status and registered as a Reporting Financial Institution under a Model 1 Intergovernmental Agreement ("IGA"). The Bank's FATCA ID and Global Intermediary Identification Number is I9UIFP.00000.LE.608.

Under the IGA, the Secretary of Finance or Commissioner of Internal Revenue is the competent authority to receive FATCA information for reporting to the U.S. Internal Revenue Service. FATCA reporting will not take place until the PH-US FATCA IGA has been concurred by the Philippine Senate and has entered into force.

Philippine banks also face the threat of being assessed for documentary stamp tax upon their issue of passbooks for higher interest rate deposits. The Court of Tax Appeals has, in several cases against other Philippine banks, affirmed the BIR's position that passbooks for higher interest rate deposits having the essential features of a certificate of deposit are subject to the documentary stamp tax imposed on certificates of deposit. These proceedings are currently on appeal and if the BIR's position is upheld it could result in the Bank's taxation charge being increased.

In addition, new taxation regulations issued by the BIR may have an adverse effect on the Bank. If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position and results of operations.

Considerations Relating to the Philippines

Volatility in the value of the Peso against the U.S. dollar and other currencies as well as in the global financial and capital markets could adversely affect the Bank's businesses.

The Philippine economy has experienced volatility of the Peso and limited availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and the Peso declined from approximately ₱29.00 to one U.S. Dollar in July 1997 to ₱56.18 to one U.S. dollar by December 2004.

While the value of the Peso has not dropped to historic low levels yet, its valuation may be adversely affected by certain events and circumstances such as the strengthening of the U.S. economy, the further rise of the interest rates in the U.S. and consequent departure of foreign funds from emerging markets including the Philippines, the reversal of the country's current account to deficit position due to a larger trade gap resulting from a lackluster export growth versus increased capital goods and raw material imports (including oil) consistent with the country's economic expansion, and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. Dollar and other currencies. As of December 31, 2018, according to BSP data, the Peso has depreciated by 5.61% to ₱52.7240 per US$1 from ₱49.9230 per US$1 at the end of 2017.

Majority of the Bank's business operations and assets are based in the Philippines; a slowdown in economic growth in the Philippines could have a material adverse effect in its business

Substantially all of the Bank's business activities and assets are based in the Philippines, which exposes the Bank to risks associated with the country, including the performance of the Philippine economy. Historically, the Bank has derived substantially all of its revenues and operating profits from the Philippines and, as such, its businesses are highly dependent on the state or condition of the Philippine economy. Demand for banking services, residential real estate, automotives, electricity and insurance are all directly related to the strength of the Philippine economy (including its overall growth and income levels), the overall levels of business activity in the Philippines as well as the amount of remittances received from OFWs and overseas Filipinos. Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, the Southeast Asian region or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies;
- Government budget deficits
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- re-emergence of Middle East Respiratory Syndrome-Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

In December 2017, President Rodrigo Duterte signed into law Package One of the Tax Reform for Acceleration and Inclusion ("TRAIN") bill which seeks to help fund the government's massive infrastructure program through increased revenues from higher excise taxes on certain items (e.g., petroleum products, coal, automobiles, tobacco and sugar-sweetened beverages), as well as higher tax rates on interest income from deposits in expanded foreign currency system, capital gains, documentary stamps (for various transactions) and stock transactions. While personal income taxes were also lowered under TRAIN, the inflationary impact from the tax reform, along with the sustained rise in oil and food prices, especially rice, partly negated the benefits from lower personal income taxes. Meanwhile, Package Two of the tax reform package, also known as Tax Reform for Attracting Better and High-Quality Opportunities ("TRABAHO") or TRAIN 2), which was approved by the House of Representatives in its third and final reading on 10 September 2018, and which the Duterte administration hopes to be signed into law, involves lowering the corporate income tax and rationalizing fiscal incentives. The other tax reform packages that the government hopes to implement include the Passive Income and Financial Intermediary Taxation Act, as well as the bill imposing higher taxes on tobacco and alcohol and the. While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the Bank's business.

There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition and results of operations.

The slowing down of the global economy could adversely affect the Bank's business, financial condition and results of operations

The effects of the global financial crisis, including a tightening of credit conditions and large declines in asset prices are likely to lead to a marked slowdown in global economic growth. This year, the global economy growth is at risk due to recent events such as the global trade tensions resulting from US trade policies, the United Kingdom's exit from the European Union, and slowdown in China's economic growth. Global capital and equity markets also remain volatile due to these factors. Further volatility is expected if the United States' Federal Reserve decides to accelerate the rise in its policy rates this year. Although the Philippines still grew by 6.3% in the first three quarters of 2018, there could still be continuing negative spill-over effects. These spill-overs may result in a corresponding increase in personal and corporate financial difficulties, and have a material adverse effect on the Bank's retail and corporate customers. Declining customer demand for the Bank's products and services would lead to excess capacity in the Bank's operations, which could have a material impact on the Bank's business, financial condition and results of operations.

Any political instability in the future may have a negative effect on the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank and the Group

The Philippines has from time to time experienced political and military instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately-owned public utility or business. In the last few years, there were instances of political instability, including public and military protests arising from alleged misconduct by previous administrations.

The Philippine Presidential elections were held on 9 May 2016 and on 30 June 2016. President Rodrigo Duterte assumed the presidency with a mandate to advance his "Ten-Point Socio-Economic Agenda" focusing on policy continuity, tax reform, infrastructure spending and countryside development, among others. The Duterte government has initiated efforts to build peace with communist rebels and other separatists through continuing talks with these groups. The shift to the federal-parliamentary form of government is likewise targeted to be achieved in two years.

Last 23 May 2017, President Duterte issued Proclamation No. 216 declaring a state of martial law in the Mindanao group of islands for a period not exceeding sixty (60) days and suspending the privilege of the writ of habeas corpus in the aforesaid area during the duration of the martial law. The President issued this proclamation in response to the alleged attempt of a certain Maute terrorist group, which is said to have links to the Islamic State of Iraq and Syria (ISIS) terrorist group, to remove from the allegiance of the Philippine government the province of Marawi City in Lanao del Sur thereby depriving the President of his powers and prerogatives to enforce the laws of the land and maintain public order and safety in Mindanao. Currently, the same group continues to sow terror, cause death and damage to property in this part of Mindanao. Proclamation No. 216 was immediately met with criticism from different sectors of society because of Congress' refusal to convene to review the propriety of the declaration as required by Article VII, Section 18 of the 1987 Constitution. Moreover, anti-martial law groups are questioning the coverage of the proclamation as, according to them, the declaration is too expansive and not limited to the area of the actual conflict and that the presence of an actual rebellion is still questionable. The Congress has again recently approved the extension of the duration of the martial law in Mindanao.

No assurance can be given that the future political environment in the Philippines will be stable or that current or future Governments will adopt economic policies conducive to sustaining economic growth. Political instability in the Philippines could negatively affect the general economic conditions in the Philippines which could have a material impact on the financial results of the Bank.

Acts of terrorism, violent crimes and geo-political/territorial tensions could undermine the country's stability and adversely affect the Bank's business and financial condition.

The Philippines has been subject to a number of terrorist attacks since 2000. An increase in the number of terrorist activities or violent crimes in the Philippines could negatively affect the Philippine economy and, therefore, the Bank's financial condition and its business.

In recent years, the Philippine army has also been in conflict with the Abu Sayyaf organization, which has ties to the al-Qaeda terrorist network, and has been identified as being responsible for certain kidnapping incidents and other terrorist activities particularly in the southern part of the Philippines. In September 2015, Canadians John Ridsdel and Robert Hall, Norwegian Kjartan Sekkingstad and Filipina Marites Flor were kidnapped from a tourist resort on Samal Island in southern Philippines by the Abu Sayyaf which demanded ransom for the hostages' release. Hall and Ridsdel were later beheaded on separate occasions in April and June 2016, respectively, after the ransom demands were allegedly not met. Meanwhile, Sekkingstad and Flor were released from captivity separately by the Abu Sayyaf in September and June 2016. An increase in the frequency, severity or geographic reach of these terrorist acts could destabilize the Philippines, and adversely affect the country's economy.

Moreover, there were isolated bombings in the Philippines in recent years, including a bombing in Davao City, President Duterte's home city, on 2 September 2016. The explosion was caused by an improvised explosive device and occurred in a night market near Marco Polo Hotel which was said to be frequented by President Duterte. Soon after the incident, a spokesman for the militant group Abu Sayyaf claimed responsibility for the attack, which caused at least 15 deaths and 70 injuries.

The Government of the Philippines and the Armed Forces of the Philippines have clashed with members of several separatist groups seeking greater autonomy as well, including the MILF, the Moro National Liberation Front and the New People's Army.

In January 2015, a clash took place in Mamasapano in Maguindanao province between the SAF of the Philippine National Police and the Bangsamoro Islamic Freedom Fighters ("BIFF") and the MILF, which led to the deaths of 44 members of SAF, 18 from the MILF, five from the BIFF, and several civilians, including Zulkifli Abdhir, a Malaysian national included in the US Federal Bureau of Investigation's most wanted terrorists.

On May 23, 2017, a deadly firefight in Marawi, Lanao del Sur, erupted between government security forces and the ISIS affiliated-Maute group, following the government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society.

On 5 June 2017, opposition legislators filed a petition with the Supreme Court questioning the proclamation's constitutionality, alleging that such was factually baseless, and consequently, should be revoked. After conducting hearings on the petition, the Supreme Court upheld the constitutionality of Proclamation No. 216, by a vote of 11-3-1. In October 2017, the Government announced that the leaders of the Maute Group had been killed. Despite this, martial law has continually been extended over Mindanao, with the latest extension having been approved by Congress on 12 December 2018. Voting 235-28-1, Congress also extended the suspension of the writ of habeas corpus. Mindanao will thus be under martial law for a total of over two and a half years, or from 23 May 2017 to 31 December 2019.

There can be no assurance that the Philippines will not be subject to further acts of terrorism and violence in the future. Terrorist attacks have, in the past, had a material adverse effect on investment and confidence in, and the performance of, the Philippine economy and, in turn, the Bank's business. Though the Bank has a current insurance policy that covers terrorist attacks, any terrorist attack or violent acts arising from, and leading to, instability and unrest, could cause interruption to parts of the Bank's businesses and materially and adversely affect the Bank's financial conditions, results of operations and prospects.

Unresolved international disputes with neighboring countries may cause disruption and destabilization in the Philippines

Specifically, the Philippines is currently locked in an international dispute with China due to conflicting claims of sovereignty over the West Philippine Sea, including the Scarborough Shoal. China bases its claim on historical ownership, while the Philippines supports its claim by asserting that these territories are located within the 200-nautical mile exclusive economic zone (EEZ) and continental shelf of the Philippines under the United Nations Convention on the Law of the Sea. The Permanent Court of Arbitration in Hague has ruled in favor of the Philippines over territorial disputes in the West Philippine Sea in July 2016. However, the issue is far from being resolved as China refused to neither acknowledge nor accept the ruling on the basis that the tribunal has no jurisdiction over sovereign-related matters.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted, and the Bank's operations could be adversely affected as a result. In particular, further disputes between the Philippines and other countries may lead to reciprocal trade restrictions on the other's imports or suspension of visa-free access and/or overseas Filipinos permits. Any impact from these disputes in countries in which the Bank has operations could materially and adversely affect the Bank's business, financial condition and results of operations.

The sovereign credit ratings of the Philippines may adversely affect the Bank's business.

The sovereign credit ratings of the Philippines directly affect companies residing and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2013, the Philippines earned investment grade status from all three major credit ratings agencies — Fitch (BBB-), Standard and Poor's (BBB-) and Moody's (Baa3). In 2014, S&P and Moody's upgraded their ratings to "BBB" and "Baa2" in May and December, respectively, with both agencies affirming these ratings in 2015. In December 2017, Fitch upgraded the country's rating to BBB, with a stable outlook, on strong economic conditions and planned tax reform, while S&P raised its outlook to Positive from Stable last April 2018. All ratings are a notch above investment grade and the highest that the country has received so far from any credit ratings agency.

International credit rating agencies issue credit ratings for companies with reference to the country in which they reside. As a result, the sovereign credit ratings of the Philippines directly affect companies that reside in the Philippines, such as the Bank. There is no assurance that Fitch, Moody's, S&P or other international credit rating agencies will not downgrade the credit rating of the Philippines in the future. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Bank, to raise additional financing, and will increase borrowing and other costs.

Ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants.

The ongoing volatility experienced in the international capital markets have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. Companies located in countries in the emerging markets may be particularly susceptible to these disruptions and reductions in the availability of credit or increases in financing costs, which could result in them experiencing financial difficulty.

In addition, the availability of credit to entities operating within the emerging markets is significantly influenced by levels of investor confidence in such markets as a whole and so any factors that impact market confidence (for example, a decrease in credit ratings or state or central bank intervention in one market) could affect the price or availability of funding for entities within any of these markets.

An increase in interest rates could decrease the value of the Bank's securities portfolio and raise the Bank's funding costs.

At the Monetary Board meeting on 15 November 2018, the BSP raised its key policy rates by 25 basis points to 4.75% for overnight borrowing and 5.25% for overnight lending. In the succeeding Monetary Board meetings held on December 13, 2018 and February 7, 2019, the Monetary Board decided to keep the interest rate on the BSP's overnight borrowing at 4.75%. The interest rates on the overnight lending and deposit facilities also remain unchanged. Policy interest rates may be further increased in the future as price pressures build from domestic as well as external factors.

The Bank realizes income from the margin between income earned on its interest-earning assets and interest paid on its interest-bearing liabilities. As some of its assets and liabilities are re-priced at different times, the Bank is vulnerable to fluctuations in market interest rates and any changes in the liquidity of the Philippine market. As a result, volatility in interest rates could have a material adverse effect on the Bank's financial position, liquidity and results of operations.

An increase in interest rates could lead to a decline in the value of securities in the Bank's portfolio and the Bank's ability to earn trading gains as revenue. A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimize the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.

Public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition and results of operations.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for the MERS-CoV. She was quarantined, received medical treatment and later discharged and cleared of the disease by the Department of Health. All known contacts of the said nurse, including some passengers in the same flight that arrived from Saudi Arabia, were also cleared of the infection.

In March 2016, reports of an American woman who stayed in the Philippines for four weeks in January 2016, tested positive for the Zika virus upon returning home, indicating the local transmission of the disease through the Aedes aegypti mosquito. In May 2016, a South Korean national was reported to have acquired the infection while visiting the Philippines, following earlier reports of two other confirmed cases of the viral infection in the country. All of the patients had recovered, indicating that the Zika viral infection acquired in the country was self-limiting.

The outbreak of an infectious disease in the Philippines, Asia or elsewhere, together with any resulting restriction on travel and/or imposition of quarantines, could have a negative impact on the economy and business activities in the Philippines or Asia generally and could therefore materially and adversely affect the Bank's business, financial condition and results of operations.

Natural or other catastrophes, including severe weather conditions, may adversely affect the Bank's business, materially disrupt the Bank's operations and result in losses not covered by its insurance.

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Bank's operations. These factors, which are not within the Bank's control, could potentially have significant effects on the Bank's branches and operations. While the Bank carries insurance for certain catastrophic events, of types, in amounts and with deductibles that the Bank believes are in line with general industry practices in the Philippines, there are losses for which the Bank cannot obtain insurance at a reasonable cost or at all. The Bank also does not carry any business interruption insurance. Should an uninsured loss or a loss in excess of insured limits occur, the Bank could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Bank's business, financial condition and results of operations.

Corporate governance and disclosure standards in the Philippines may differ from those in more developed countries.

Although a principal objective of the Philippine securities laws and the PSE listing rules is to promote full and fair disclosure of material corporate information, there may be less publicly available information about Philippine public companies, such as the Bank, than is regularly made available by public companies in the U.S. and other countries. Furthermore, although the Bank complies with the requirements of the PSE with respect to corporate governance standards, these standards may differ from those applicable in other jurisdictions. For example, the Philippine Securities Regulation Code requires the Bank to have at least two independent directors or such number of independent directors as is equal to 20.0% of the Board, whichever is the lower number. Many other jurisdictions require significantly more independent directors. The Bank currently has five independent directors, representing 45.0% of the Board.

Furthermore, corporate governance standards may be different for public companies listed on the Philippine securities markets than for securities markets in developed countries. Rules and policies against self-dealing and regarding the preservation of shareholder interests may be less well-defined and enforced in the Philippines than elsewhere, putting shareholders at a potential disadvantage. Because of this, the directors of Philippine companies may be more likely to have interests that conflict with the interests of shareholders generally, which may result in them taking actions that are contrary to the interests of shareholders.

Considerations Relating to the Bonds

The Bonds may not be a suitable investment for all investors.

Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Investors may purchase Bonds as a way to manage risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Bonds unless it has the expertise (either alone or with a financial adviser) to evaluate how the Bonds will perform under changing conditions, the resulting effects on the value of the Bonds and the impact this investment will have on the potential investor's overall investment portfolio.

The priority of debt evidenced by a public instrument.

Under Philippine law, in the event of liquidation of a company, unsecured debt of the company (including guarantees of debt) which is evidenced by a public instrument as provided in Article 2244(14)(a) of the Civil Code of the Philippines will rank ahead of unsecured debt of the company which is not so evidenced. Under Philippine law, a debt becomes evidenced by a public instrument when it has been acknowledged before a notary or any person authorized to administer oaths in the Philippines. Although the position is not clear under Philippine law, it is possible that a jurat (which is a statement of the circumstances in which an affidavit was made) may be sufficient to constitute a debt evidenced by a public instrument. Any such debt evidenced by a public instrument may, by mandatory provision of law, rank ahead of the Bonds in the event of the liquidation of the Bank.

The Bonds may have limited liquidity.

The Bonds constitute a new issue of securities for which there is no existing market. The Selling Agents are not obligated to make a market in any Bonds. While a market maker has been appointed for the Bonds, any market-making activity with respect to such Bonds, if commenced, may be discontinued at any time without notice in its sole discretion.

No assurance can be given as to the liquidity of, or the development and continuation of an active trading market for the Bonds. If an active trading market for any Bonds does not develop or is not maintained, the market price and liquidity of such Bonds may be adversely affected. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, including:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political and economic developments in and affecting the Philippines;
- the market conditions for similar securities; and
- the financial condition and stability of the Philippine financial sector.

The Bank intends to list the Bonds on PDEx. However, there can be no assurance that the Bank will obtain or be able to maintain such a listing or that, if listed, a trading market will develop for the Bonds on the PDEx. The Bank does not intend to apply for listing of the Bonds on any securities exchange other than the PDEx. Lack of a liquid, active trading market for the Bonds may adversely affect the price of the Bonds or may otherwise impede a holder's ability to dispose of the Bonds.

The Bank may be unable to redeem the Bonds.

At maturity, the Bank will be required to redeem all of the Bonds. The Bank may not have sufficient cash in hand and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem the Bonds by the Bank would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Bank.

Transfers only through PDEx

While the Bonds are listed in the PDEx, all transfers of the Bonds must be made through the PDEx. Consequently, the parties to a transfer may be subject to the guidelines of the relevant PDEx trading participant and the payment to such trading participant and the Registrar of any reasonable fees. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

The Bonds are required to be listed on an established exchange. Investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines.

These rules and guidelines cover minimum trading lots and record dates. The secondary trading of Bonds in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. The PDEx rules and conventions are available in the PDEx website (www.pds.com.ph). An investor Frequently Asked Questions ("FAQ") discussion on the secondary market trading, settlement, documentation and estimated fees are also available in the PDEx website.

As with other fixed income securities, the Bonds trade at prices higher or lower than the initial offering price due to prevailing interest rates, the Bank's operations, and the overall market for debt securities, among others. It is possible that a selling Bondholder would receive sales proceeds lower than his initial investment should a Bondholder decide to sell his Bonds prior to maturity.

Issuance and Transfer Restrictions

The Bonds may not be issued or transferred to Prohibited Bondholders as defined in the Terms and Conditions.

The Registrar is authorized to refuse any transfer or transaction in the Registry which may be in violation of these restrictions. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions.

The credit ratings assigned to the Bank or the Bonds may not reflect all risks.

One or more independent credit rating agencies may assign credit ratings to the Bank, or Bonds. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

Taxation of the Bonds

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 30% final withholding tax.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment

U.S. Foreign Account Tax Compliance Act withholding may affect payments on the Bonds.

The U.S. "Foreign Account Tax Compliance Act" (or "FATCA") imposes a new reporting regime and, a 30% withholding tax with respect to (i) certain payments from sources within the United States, (ii) "foreign passthru payments" made to certain non-U.S. financial institutions that do not comply with this new reporting regime, and (iii) payments to certain investors that do not provide identification information with respect to interests issued by a participating non-U.S. financial institution. On 13 July 2015, the Intergovernmental Agreement ("IGA") Model 1 was signed and executed by the Philippines and the United States. As a Reporting Model 1 participating foreign financial institution ("PFFI") within Philippine jurisdiction, Under the said aforementioned IGA Model 1, the obligation to withhold tax under section 1471 or 1472 of the U.S. Internal Revenue Code with respect to an account held by a recalcitrant account holder is suspended subject to compliance by the Bank and the Bureau of Internal Revenue thereunder. This suspension, however, may possibly be lifted either by the U.S. IRS or the Philippine Competent Authority, specifically by the Bureau of Internal Revenue.

Whilst the Bonds are maintained in scripless form through the Registrar, and persons classified as U.S. persons under FATCA are considered Prohibited Bondholders, in all but the most remote circumstances, it is not expected that FATCA will affect the amount of any payment received by the Registrar. However, FATCA may affect payments made to custodians or intermediaries in the subsequent payment chain leading to the ultimate investor if any such custodian or intermediary is generally unable to receive payments free of FATCA withholding. It also may affect payment to any ultimate investor that is a financial institution not entitled to receive payments free of withholding under FATCA, or an ultimate investor that fails to provide its broker (or such other custodian or intermediary from which it receives payment) with any information, forms, other documentation or consents that may be necessary for the payments to be made free of FATCA withholding. Investors should choose the custodians or intermediaries with care (to ensure each is compliant with FATCA or such other laws or agreements related to FATCA) and provide each custodian or intermediary with any information, forms, other documentation or consents that may be necessary for such custodian or intermediary to make a payment free of FATCA withholding. The Issuer's obligations under the Bonds are discharged once it has paid the Paying Agent and the Issuer has therefore no responsibility for any amount thereafter transmitted through such custodians or intermediaries. There is no assurance that the secondary trading of the Bonds may not be affected by FATCA.

5 PURPOSE OF ISSUANCE

The purpose of the issuance is to extend the maturity profile of the Bank's liabilities and to diversify funding sources.

6 CAPITALIZATION

The table below sets forth the Bank's capitalization, including subordinated debt issued and total equity, based on the audited consolidated financial statements of the Bank as at 31 December 2018.

The following table should be read in conjunction with the audited consolidated financial statements as of December 31, 2018 included elsewhere in this Offering Circular.

(₱ millions)	**As at 31 December 2018**	
	Actual	**As Adjusted**
Liabilities		
Deposit liabilities[1]	733,301	733,301
Financial liabilities at fair value through profit or loss	471	471
Bonds Payable	15,661	15,661
Bills and acceptances payable	70,083	70,082
Accrued taxes, interest and other expenses	6,167	6,167
Income tax payable	901	901
Liabilities of a Disposal Group held for distribution	7,238	7,238
Other liabilities	21,267	21,267
Total liabilities	**855,089**	**855,089**
Equity		
Capital Stock	49,966	49,966
Reserves of a Disposal Group held for distribution	(22)	(22)
Capital paid in excess of par value	31,331	31,331
Surplus reserves	621	621
Surplus	46,613	46,613
Others[2]	(2,845)	(2,845)
	125,664	125,664
Non-controlling Interests	2,895	2,895
Total Equity	**128,559**	**128,559**
Total Liabilities and Equity	**983,648**	**983,648**

[1] *Demand, Savings, Time Deposits, Long Term Negotiable Certificates of Time Deposits*

[2] *Others include: Net Unrealized Loss on Financial Assets at FVOCI, Net Unrealized Loss on Available-for-Sale Investments, Remeasurement Losses on Retirement Plan, Accumulated Translation Adjustment, Other Equity Reserves, Shared in Aggregate Reserves on Life Insurance Policies, and Other Equity adjustment*

7 TERMS AND CONDITIONS OF THE BONDS

These Peso-Denominated Fixed Rate Bonds with a minimum principal amount of ₱5,000,000,000.00 are being issued by Philippine National Bank (the "Bank" or "Issuer") in favor of the Bondholders (as defined below) in accordance with the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks ("MORB"), BSP Circular No. 1010 series of 2018, and such other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time, and shall at all times be subject to and governed by these Terms and Conditions.

1	**DEFINITIONS**	In these Terms and Conditions and the Contracts (as hereinafter defined):
	"ADVERSE EFFECT"	means any material and adverse effect on: (a) the ability of the Bank to duly perform and observe its obligations and duties under the Bonds and the Contracts; (b) the condition (financial or otherwise), prospects, results of operations or general affairs of the Bank or the Group; or (c) the legality, validity and enforceability of the Contracts;
	AMLC	means the Anti-Money Laundering Council created to implement the Anti-Money Laundering Laws of the Philippines;
	"ANTI-MONEY LAUNDERING LAWS OF THE PHILIPPINES"	means Republic Act No. 9160, as amended by Republic Act No. 9194 and 10167, 10365, and 10927, Republic Act No. 10168, otherwise known as The Terrorism Financing Prevention and Suppression Act of 2012, and BSP Circular Nos. 251, 253, 279, 302, 495, 527, 564, 608, 612, 706, 794, 950, and 1022, and all other amendatory and implementing laws, regulations, jurisprudence, notices or orders of any Philippine governmental body relating thereto;
	"AUDITORS"	means SyCip, Gorres, Velayo & Company;
	"BANK"	means Philippine National Bank, the issuer of the Bonds;
	"BIR"	means the Philippine Bureau of Internal Revenue;
	"BOND CERTIFICATE"	means the certificate to be issued by the Bank evidencing and covering such amount corresponding to the Bonds;
	"BONDHOLDER(S)"	means a person who, at any relevant time, appears in the Registry as the registered owner of the Bonds;
	"BONDS"	means the bonds with a minimum aggregate principal amount of Five Billion Pesos (₱5,000,000,000.00) to be issued by the Bank in accordance with the terms and conditions set out in the Terms and Conditions and the corresponding Bond Certificate;
	"BSP"	means the Bangko Sentral ng Pilipinas;
	"BUSINESS DAY"	means any day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets in Metro Manila and Makati City are required or authorized to be open for business. All other days not otherwise specified in these Terms and Conditions shall mean calendar days;
	"CONTRACTS"	means: (a) the Issue Management and Placement Agreement between the Bank, the Sole Arranger and Bookrunner, and the Selling Agents dated on or about 12 April 2019; (b) the Registry and Paying Agency Agreement between the Bank and the Registrar and Paying Agent dated on or about 29 April 2019; (c) the Trust Agreement between the Bank and the Trustee dated on or about 16 April 2019; (d)

	the Terms and Conditions; and (e) such other separate letters or agreements covering conditions precedent, fees, expenses and other obligations of the parties, including amendments or accessions thereto;
"EVENT OF DEFAULT"	means an event specified as such under Condition 22 hereof;
"GOVERNING REGULATIONS"	means all the necessary rules and guidelines for the issuance of the Bonds, including, the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks, BSP Circular No. 1010 (Series of 2018), and any other circulars and regulations as may be relevant for the transaction, as these may be amended from time to time;
"GROUP"	means the Bank, its subsidiaries affiliates and entities controlled by the Bank, taken as a whole, and each of them being a member of the Group;
"*INTEREST*"	means for any Interest Period, the interest payable on the Bonds at the Interest Rate;
"INTEREST PAYMENT DATE"	August 8, November 8, February 8, and May 8 of each year up while the Bonds are outstanding to but excluding the Maturity Date. Interest shall be computed based on the outstanding balance of the Bonds. If any Interest Payment Date would otherwise fall on a day that is not a Business Day, payments will be made on the subsequent Business Day without adjustment of the amount due.
"INTEREST RATE"	means 6.30% per annum, payable in arrear on each Interest Payment Date. Interest on the Bonds shall be calculated on a 30/360 basis;
"ISSUE DATE"	means May 8, 2019;
"ISSUE MANAGEMENT AND PLACEMENT AGREEMENT"	means the Issue Management and Placement Agreement in the agreed form among the Bank, Sole Arranger and Bookrunner, and Selling Agents, as may be amended or supplemented from time to time;
"ISSUE PRICE"	at par or 100% of face value;
"*ISSUE SIZE*"	means a minimum aggregate principal amount of Five Billion Pesos (₱5,000,000,000.00).
"MAJORITY BONDHOLDER"	means the holders of more than fifty percent (50%) of the principal amount of the Bonds then outstanding;
"MATURITY DATE"	May 8, 2021;
"MATURITY VALUE"	means the Issue Price plus unpaid and accrued Interest, up to but excluding the Maturity Date;
"OFFERING CIRCULAR"	means the relevant offering circular (including, for the avoidance of doubt, the consolidated financial statements of the Bank included therein) in preliminary and final forms in respect of the Bonds (the final form being dated as of the Issue Date), and all amendments, supplements and addenda thereto;
"PDEx"	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with and licensed by the SEC to operate an exchange and trading market for fixed income securities and a member of the Philippine Dealing System Group of Companies;

"PDEX RULES" means the PDEx Rules for the Fixed Income Securities Market and all its amendments, effective at the relevant time;

"PDEX TRADING PARTICIPANT" means any person or legal entity qualified to trade on the PDEx Trading System pursuant to the PDEx Rules;

"PROHIBITED BONDHOLDER" means:

(1) the Issuer or any related party over which the Issuer exercises control or significant influence including subsidiaries and affiliates of the Issuer, as well as the subsidiaries and affiliates of the Issuer's subsidiaries and affiliates, and the wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates except for its trust departments or related trust entities, pursuant to BSP Circular No. 1010, except where the Issuer purchases and cancels the Bonds in the open market in accordance with Condition 14; or

(2) such persons who are otherwise not qualified under the Governing Regulations including any other person whose acquisition, holding or Transfer of the Bonds would violate any applicable law or regulation, including but not limited to the rules of the PDEx, BSP, AMLC, or other government regulation in any relevant jurisdiction; or

(3) persons classified as U.S. Persons under the Foreign Account Tax Compliance Act of the United States, as this may be amended from time to time ("FATCA"), which include: (a) a U.S. citizen (including a dual citizen who may have another citizenship besides having a U.S citizenship); (b) a U.S. resident alien for tax purposes, which includes a person who has substantial presence in the U.S. ("substantial presence" is defined as more than 31 days in the current calendar year or a total of 183 days over the previous three years from the current tax year); (c) a U.S. partnership, U.S. corporation, or U.S. entity; (d) a U.S. estate; (e) a U.S. trust if a court within the United States is able to exercise primary supervision over the administration of the trust, or one or more U.S. persons have the authority to control all substantial decisions of the trust; or (f) any other person that is not a non-US person under the FATCA; or

(4) persons classified as a Restricted Party;

For purposes of Part (1) of the definition of Prohibited Bondholders, a "***subsidiary***" means, at any particular time, a company which is then directly controlled, or more than fifty percent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned by the Bank and/or one or more of its subsidiaries or affiliates. An "***affiliate***" means, at any particular time, a company at least twenty percent (20%) but not more than fifty percent (50%) of whose issued voting equity share capital is then owned by the Bank. For a company to be "***controlled***" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

"PSE" means The Philippine Stock Exchange, Inc.;

"REGISTRAR" OR ***"PAYING AGENT"*** means the Philippine Depository & Trust Corp. ("PDTC"), a domestic corporation duly registered and licensed as a registrar and paying agent;

"REGISTRY" means the electronic registry book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold,

		including all Transfers thereof or any liens or encumbrances thereon;
	"REGISTRY CONFIRMATION"	means the written advice sent by the Registrar to the Bondholders, confirming the registration in the name of such Bondholder of the specified amount of Bonds issued to or purchased by a Bondholder, in the Registry, and setting forth the declarations required by the BSP;
	"RESTRICTED PARTY"	means a person that is: (i) listed on, or owned or controlled by a person listed on, or acting on behalf of a person listed on, any Sanctions List; (ii) located in, incorporated under the laws of, or owned or (directly or indirectly) controlled by, or acting on behalf of, a person located in or organized under the laws of a country or territory that is the target of country-wide or territory-wide Sanctions; or (iii) otherwise a target of Sanctions (target of Sanctions signifying a person with whom a US person or other national of a Sanctions Authority would be prohibited or restricted by law from engaging in trade, business or other activities);
	"SANCTIONS"	means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the Philippines; (ii) the United States government; (iii) the United Nations; (iv) the European Union (v) the United Kingdom; or (vi) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury (OFAC), the United States Department of State, and Her Majesty's Treasury (HMT) (together the "***Sanctions Authorities***");
	"SANCTIONS LIST"	means the "Specially Designated Nationals and Blocked Persons", "Consolidated Sanctions" and "Sanctions Programs and Country Information" lists maintained by OFAC, the Consolidated List of Financial Sanctions Targets and the Investment Ban List maintained by HMT, or any similar list maintained by, or public announcement of Sanctions designation made by, any of the Sanctions Authorities;
	"SEC"	means the Philippine Securities and Exchange Commission, including all its offices and departments, and its successor agency/ies;
	"SELLING AGENTS"	means Philippine National Bank and Standard Chartered Bank, Philippine Branch, and their respective successor entities, or the selling agent(s) in respect of the Bonds appointed from time to time under the Issue Management and Placement Agreement or an agreement supplemental to it;
	"SOLE ARRANGER AND BOOKRUNNER"	means Standard Chartered Bank, Philippine Branch;
	"TERMS AND CONDITIONS"	mean these terms and conditions pertaining to the Bonds as may be amended from time to time;
	"TRANSFER"	means the transfer, assignment, or any transaction resulting in change in ownership of, or title to, the Bonds; and
	"TRUSTEE"	means the Development Bank of the Philippines – Trust Banking Group, appointed by the Issuer as Trustee in accordance with the Trust Agreement and the Governing Regulations.
2	**PURPOSE OF ISSUANCE/USE OF PROCEEDS**	The net proceeds of the issue are intended to be used to support the Bank's lending activities and diversify funding sources.

3	**FORM**	The Bonds shall be issued in scripless form. A Bond Certificate representing the Bonds shall be issued to, deposited with, and registered in the name of the Trustee, on behalf of and in trust for the Bondholders, with a copy to be lodged with the Registrar.
4	**DENOMINATION**	The Bonds will be offered and sold in minimum principal amounts of ₱100,000, and in integral multiples of ₱50,000 in excess thereof. The Bonds will be traded in denominations of ₱50,000 on the secondary market.
5	**TITLE**	Title to the Bonds shall be indicated in the Registry to be maintained by the Registrar for the Bonds. Initial placement of the Bonds and subsequent Transfers of interests in the Bonds shall be subject to applicable Philippine selling restrictions prevailing at such time.
6	**SEC REGISTRATION AND LISTING**	The Bonds have not been and will not be registered with the SEC. Since the Bonds qualify as exempt securities under Section 9.1 (e) of the Philippine Securities Regulation Code, the Bonds may be sold and offered for sale or distribution in the Philippines without registration. The Bonds are intended to be listed for electronic trading and settlement on the PDEx on or about the Issue Date. Trading, Transfer, and/or settlement of the Bonds shall be performed in accordance with the PDEx Rules and the rules and procedures of the Registrar.
7	**ELIGIBLE BONDHOLDERS**	In general, the Bonds may be issued or transferred to any person of legal age, regardless of nationality or residency, any corporation, association, partnership, trust account, fund or entity, regardless of place of incorporation or domicile, except, in each case, to Prohibited Bondholders.
8	**QUALIFICATION DETERMINATION**	Each Selling Agent (in the case of initial issuances of the Bonds) or PDEx Trading Participant (in the case of Transfers of the Bonds) shall verify the identity and relevant details of each proposed Bondholder and ascertain that said prospective Bondholder is an Eligible Bondholder and is not a Prohibited Bondholder. For this purpose, prospective Bondholders shall be required to submit any and all information reasonably required by the Selling Agents or the PDEx Trading Participant, as the case may be. Any unresolved question on a prospective Bondholder's eligibility shall be referred to the Bank for its final determination.
9	**INTEREST ACCRUAL AND PAYMENT**	The Bonds will bear Interest on its principal from and including the Issue Date up to but excluding: (a) the Maturity Date (if not earlier redeemed under Conditions 27 or 28); or (b) the redemption date (if redeemed pursuant to Conditions 27 or 28). Interest shall be payable on each Interest Payment Date. The amount of Interest payable in respect of the Bonds shall be calculated by the Paying Agent on the basis of the number of days elapsed from (and including) the Issue Date (for the first interest period) or the last Interest Payment Date (for succeeding interest periods) to the next (but excluding) the next Interest Payment Date, using a 30/360 calendar-day count. The determination by the Paying Agent of the amount of Interest payable (in the absence of manifest error) is final and binding upon all parties.
10	**MANNER OF PAYMENT OF INTEREST AND PRINCIPAL**	On each Interest Payment Date and Maturity Date (as applicable), the Bank shall make available good and cleared funds to the Bank's designated Payment Account (as defined in the Registry and Paying Agency Agreement) for disbursement to the Bondholders as shown in the Registry to be maintained by the Registrar.
11	**PRINCIPAL REPAYMENT**	The Bonds shall be redeemed at their Maturity Value on Maturity Date. If the Maturity Date falls on a date that is not a Business Day, the Maturity Date shall be on the immediately succeeding Business Day, without adjustment to interest payable

		in respect of the Bonds.
12	**FINAL REDEMPTION**	All Bonds outstanding on Maturity Date will be redeemed at par or 100% face value.
13	**PRETERMINATION BY THE BONDHOLDER**	Presentation of the Bonds to the Bank for termination or redemption before the Maturity Date is not allowed, unless there occurs an event under "Events of Default" in these Terms and Conditions. Bondholders may, however, Transfer their Bonds to another holder who is not a Prohibited Bondholder. Such Transfer shall not be considered a pre-termination, subject to Condition 14.
14	**SECONDARY TRADING**	Unless otherwise prohibited under the PDEx Rules, the Bonds are freely transferable across tax categories. All Transfers of the Bonds shall be traded or coursed through a PDEx Trading Participant, in accordance with the PDEx rules. All trading in the secondary market should be in denominations of ₱50,000.00. The denominations for trading the Bonds on PDEx will be subject to the PDEx Rules. As a condition precedent for any Transfer of the Bonds, the transferee Bondholder must present to the Registrar, and in such forms as prescribed by the Registrar: (i) the Registry Confirmations of both the transferor and the transferee (if any); (ii) the Trade-Related Transfer Form or Non-Trade Related Transfer Form; (iii) the Investor Registration Form; (iv) Tax Exempt/Treaty Documents, if applicable; (v) written consent of the transferee Bondholder to be bound by the terms of the Bonds and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and (vi) such other documents as may be reasonably required by the Registrar. A service charge shall be imposed for any registration of Transfer of the Bonds, and the Registrar may require payment of a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any Transfer of the Bonds, each for the account of the Bondholder requesting the registration of Transfer of the Bonds. Subject to Conditions 15 and 17 and payment by the relevant Bondholder of the proper fees, if any, to PDEx and/or the Registrar, a Transfer of Bonds may generally be done at any time. The Bank may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase Bonds pro-rata from all Bondholders, and the Bondholders shall not be obligated to sell. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued. For the avoidance of doubt, the Bank may not directly or indirectly purchase the Bonds in any instance for the purpose of trading or market making.
15	**TRANSFERABILITY**	All Transfers of the Bonds shall be recorded in the Registry. Settlement in respect of such Transfer, including settlement of applicable taxes (subject to Condition 25), if any, arising from such Transfers, assignments or change in title, shall be for the account of the transferee and/or transferor Bondholder. Transfers of the Bonds made in violation of the restrictions on Transfer under these Terms and Conditions, shall be null and void and shall not be registered by the Registrar. Transfers across tax categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that Transfers from a Tax-Exempt Category to a Taxable Tax Category on a non-Interest Payment Date shall be allowed using the applicable tax-withheld series name on PDEx, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of

		the same tax category as its taxable counterpart for the interest period within which such Transfer occurred. For purposes hereof, "tax categories" refer to the four (4) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities, 25% tax-withheld entities, and 30% tax-withheld entities. This restriction shall be in force until a Non-Restricted Trading & Settlement Environment for Corporate Securities is implemented.
16	**PLACE OF REGISTRY AND COMPLIANCE WITH REGISTRY RULES**	The Registry shall be kept at the specified office of the Registrar. To the extent not inconsistent with or contrary to these Terms and Conditions, the registry rules of the Registrar (a copy of which shall be separately provided by the Registrar to the Bank and the Bondholders) shall be observed and complied with in the implementation of the functions of the Registrar, including, without limitation, Transfers of the Bonds.
17	**CLOSING OF REGISTRY**	The Registrar shall not register any Transfer of the Bonds for a period of two (2) Business Days preceding the due date for any payment of Interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds, or register the Transfer of any Bonds previously called for redemption or pre-termination ("**Closed Period**"). The Registrar will treat the person in whose name the Bonds is registered at the start of the Closed Period as the Bondholder for the purpose of receiving distributions pursuant to these Terms and Conditions and for all other purposes whatsoever, and the Registrar shall not be affected by any notice to the contrary.
18	**STATUS/RANKING**	The Bonds shall constitute the direct, unconditional, unsecured and unsubordinated obligations of the Bank and will at all times rank *pari passu* and ratably without any preference or priority among themselves and with all other present and future unsecured and unsubordinated obligations of the Bank, other than obligations preferred by the law.
19	**MANNER OF DISTRIBUTION**	Retail and Institutional Offering
20	**REPRESENTATIONS AND WARRANTIES**	The Bank hereby represents and warrants to the Bondholders, as follows: (a) each of the members of the Group is duly incorporated, validly existing and in good standing under the laws of its place of incorporation with full power and authority to conduct its business and is lawfully qualified to do business in those jurisdictions in which business is conducted by it; (b) the Issuer has legal title to all its property in each case free and clear of all liens, encumbrances and defects, except for the following: (i) any liens, encumbrances, restrictions, pledges or mortgages over its properties existing prior to the date of the Offering Circular or disclosed in its audited financial statements as of and for the period ended 31 December 2018; (ii) any lien over those properties which are acquired by the Issuer through any legal action or proceedings or which are conveyed to the Issuer via dacion en pago or other similar arrangement in the course of the ordinary business of the Issuer; (iii) liens arising in the ordinary course of its business, or imposed or arising solely by operation of law (other than any statutory preference or priority under Article 2244(14) of the Civil Code of the Philippines), such as carrier's, warehousemen's and mechanic's liens and other similar liens arising in the ordinary course of business; (iv) liens for taxes, assessments or governmental charges on properties or assets of the Issuer if the same shall not at the time be delinquent or thereafter can be paid without penalty; (v) liens arising from workmen's compensation laws, pensions and social security legislations; (vi) any lien which secures foreign currency and interest rate swap and derivative transactions undertaken by the Issuer in the ordinary course of its business; (vii) the Registrar and Paying Agent's lien or security right on the funds of the Issuer in relation to all fees, charges, and expenses, and any credit facility or

accommodation granted to the Issuer by the Registrar; and (viii) any extension, renewal or replenishment in whole or in part of the foregoing liens; and any real property and buildings held under lease by the Group are held by them under valid, subsisting and enforceable leases, except where such a failure would not result in an Adverse Effect;

(c) the Bank has the corporate power under the laws of the Republic of the Philippines and its constitutive documents: (i) to issue the Bonds and to enter into and perform its obligations under and to take all other actions and to do all other things provided for or contemplated in the Contracts and these Terms and Conditions; (ii) to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business; and (iii) to incur the indebtedness and other obligations provided for in the Bonds;

(d) the Bank (and, if applicable, any person on whose behalf it may act as agent or in a representative capacity) has and will continue to have full capacity and authority to enter into the Contracts and to carry out the transactions contemplated in the Contracts and has taken and will continue to take all action (including the obtaining of all necessary corporate approvals and governmental consents) to authorize the execution, delivery and performance of the Contracts;

(e) the Contracts have been duly authorised, executed and delivered by the Bank and constitute valid and legally binding obligations of the Bank;

(f) the Bonds have been duly authorised by the Bank and, when duly executed, authenticated, issued and delivered in accordance with the Contracts, will constitute valid and legally binding obligations of the Bank, enforceable in accordance with its terms;

(g) the Bonds constitute the direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, enforceable in accordance with these Terms and Conditions, and will at all times rank *pari passu* and ratably without any preference among themselves and at least *pari passu* with all other direct, unconditional, unsecured and unsubordinated Peso-denominated obligations of the Bank, present and future, other than obligations mandatorily preferred by law;

(h) all necessary actions and things required to be taken, fulfilled or done (including without limitation the obtaining of any consent, authorisation, order or license or the making of any filing or registration) for the issue of the Bonds, the carrying out of the other transactions contemplated by the Bonds and the Contracts or the compliance by the Bank with the terms of the Bonds and the Contracts, as the case may be, have been taken, fulfilled or done;

(i) the Bank shall comply with all other terms and conditions imposed by the BSP regarding the issuance of the Bonds while any portion of the Bonds remain outstanding;

(j) the Bank has complied with all qualifications and conditions of the Governing Regulations to issue, maintain, service, pay out, redeem, and cancel the Bonds, which qualifications and conditions continue to be complied with;

(k) the execution and delivery of the Contracts, the issue of the Bonds, the carrying out of the other transactions contemplated by the Contracts and these Terms and Conditions and compliance with their terms do not and will not: (i) conflict with or result in a breach of any of the terms or provisions of, or constitute a default under, the constitutive documents of the Bank, or any indenture, trust deed, mortgage or other agreement or instrument to which the Bank or any of the Bank's subsidiaries is a party or by which it or any of its properties is bound; or

(ii) infringe any existing applicable law, rule, regulation, judgment, order or decree of any government, governmental body or court, domestic or foreign, having jurisdiction over the Bank, any such subsidiary or any of their properties;

(l) the Offering Circular contains all information with respect to the Group and to the Bonds which is material in the context of the issue and offering of the Bonds (including, without limitation, all information required by the applicable laws and regulations of the Philippines and the information which, according to the particular nature of the Bank and of the Bonds, is necessary to enable potential Bondholders and their investment advisers to make an informed assessment of the assets and liabilities, financial position, profits and losses, and prospects of the Bank and of the rights attaching to the Bonds); (ii) the statements contained in the Offering Circular relating to the Bank and the Group are in every material respect true, accurate and not misleading; (iii) the opinions and intentions expressed in the Offering Circular with regard to the Bank and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Group or the Bonds the omission of which would, in the context of the issue and offering of the Bonds, make any statement in the Offering Circular misleading in any material respect; and (v) all reasonable inquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements;

(m) the Offering Circular accurately describes: (i) accounting policies which the Bank believes to be the most important in the portrayal of the Group's financial condition and results of operations (the "**Critical Accounting Policies**"); (ii) material judgments and uncertainties affecting the application of the Critical Accounting Policies; and (iii) an explanation of the likelihood that materially different amounts would be reported under different conditions or using different assumptions, and the Board of Directors and audit committee of the Bank have reviewed and agreed with the selection and disclosure of the Critical Accounting Policies in the Offering Circular and have consulted with their independent accountants with regards to such disclosure;

(n) each member of the Group maintains systems of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorisations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with financial reporting standards in the Philippines for banks and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorisation; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) each member of the Group has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with financial reporting standards in the Philippines for banks; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any other member of the Group has experienced any material difficulties with regard to (i) through (v) above;

(o) there are no outstanding guarantees or contingent payment obligations of the Bank in respect of indebtedness of third parties except as described in the Offering Circular; the Bank is in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular;

(p) the Offering Circular accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, that the Bank believes would materially affect liquidity and are reasonably likely to occur; and (ii) all material off-balance sheet transactions, arrangements, and obligations; and neither the Bank nor any other member of the Group has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other member of the Group, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or any other member of the Group or the availability thereof or the requirements of the Bank or any other member of the Group for capital resources;

(q) all information provided by the Bank to its Auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;

(r) the Auditors are independent public accountants with respect to the Group, as required by the Philippine Institute of Certified Public Accountants and the applicable rules and regulations thereof;

(s) save as disclosed in the Offering Circular, all transactions by the Bank with its directors, officers, management, shareholders, or any other person, including persons formerly holding such positions, are on terms that are available from other parties on an arm's-length basis;

(t) each of the Bank and the other members of the Group: (i) has all licenses, franchises, permits, authorisations, approvals, registrations and orders and other concessions that are necessary to own or lease its other properties and conduct its businesses as described in the Offering Circular; (ii) is conducting its business and operations in compliance with all applicable laws and regulations in each of the jurisdictions in which it conducts business and operations, including, without limitation, all regulations, guidelines and circulars of the BSP, the SEC, the PSE and the BIR; (iii) has complied with, corrected and successfully and effectively implemented, to the satisfaction of the BSP, all findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Bank; and (iv) is otherwise in compliance with all agreements and other instruments to which it is a party, except where any failure to be in compliance with any of which would not qualify as, or result in, an Adverse Effect;

(u) except as specifically described in the Offering Circular, the Bank and the other members of the Group own or possess (or can acquire on reasonable terms), all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, "**Intellectual Property**") necessary to carry on the business now operated by them; and neither the Bank nor any other member of the Group has received notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect the interests of the Bank or other members of the Group therein; and which infringement or conflict (if the subject of any unfavourable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect;

(v) except as specifically described in the Offering Circular, there are no pending actions, suits or proceedings against or affecting the Bank or any other member of the Group or any of their properties which, if determined adversely would individually or in the aggregate have an Adverse Effect, or affect the ability of the Bank to perform its obligations under the Contracts or the Bonds, or which are otherwise material in the context of the issue of the Bonds and, to the best of the Bank's knowledge, no such actions, suits or proceedings are threatened or contemplated;

(w) no event has occurred or circumstance arisen which (whether or not with the giving of notice and/or the passage of time and/or the fulfillment of any other requirement) constitutes an event described under "Events of Default" hereunder;

(x) The Bank and the other members of the Group are in compliance with the Anti-Money Laundering Laws of the Philippines in all material respects;

(y) The Bank is Solvent. As used in this paragraph, the term "**Solvent**" means, with respect to a particular date, that on such date: (i) the present fair market value (or present fair saleable value) of the assets of the Bank is not less than the total amount required to pay the liabilities of the Bank on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) the Bank is able to realise upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) the Bank is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) the Bank is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which the Bank is engaged; (v) the Bank will be able to meet its obligations under all its outstanding indebtedness as they fall due; and (vi) the Bank is not a defendant in any civil action that would result in a judgment that the Bank is or would become unable to satisfy; and

(z) The approval of PDEx for the listing of the Bonds when issued will be in full force and effect unless applicable laws no longer require listing of the Bonds with an exchange.

These representations and warranties are true and correct as of the date of the Offering Circular, Issue Date and shall be deemed repeated with reference to the facts and circumstances then existing on each Interest Payment Date.

21 COVENANTS

The Bank hereby covenants and agrees that, from Issue Date and until payment in full and performance of all its obligations under the Bonds:

(a) The Bank shall pay all amounts due under the Bonds at the times and in the manner specified in, and perform all its obligations, undertakings, and covenants under the Bonds;

(b) The Bank shall ensure that it will continue to have the legal and juridical personality to maintain the Bonds until Maturity Date or full payment of the claims under the Bonds, whichever is later;

(c) It shall, as soon as practicable, make available copies of its audited financial statements, consisting of the balance sheet of the Bank as of the end of its latest fiscal year and statements of income and retained earnings and of the source and application of funds of the Bank for such fiscal year, such audited financial statements being prepared in accordance with generally accepted accounting principles and practices in the Philippines consistently applied and being certified by an independent certified public accountant of recognized standing in the Philippines; and shall, as soon as practicable, upon written request from a Bondholder, furnish such requesting Bondholder such updates and information as may be reasonably requested by a Bondholder pertaining to the business, assets, condition, or operations of the Bank, or affecting the Bank's ability to duly perform and observe its obligations and duties under the Bonds and the Contracts;

(d) It shall, when so requested in writing, provide any and all information reasonably requested by PDEx and Paying Agent and/or Registrar, as the case may be, to enable them to respectively comply with their respective responsibilities and duties under the Governing Regulations, and the Contracts; *Provided,* that, in the event that the Bank cannot, for any reason, provide the required information, the Bank shall immediately advise the party requesting the same and shall perform such acts as may be necessary to provide for alternative information gathering;

(e) The Bank shall promptly advise the Bondholders through the Trustee of: (i) any request by any government agency for any information related to the Bonds; and (ii) the issuance by any governmental agency of any cease-and-desist order suspending the distribution or sale of the Bonds or the initiation of any proceedings for any such purpose and shall use its best efforts to obtain at its sole expense the withdrawal of any order suspending the transactions with respect to the Bonds at the earliest time possible;

(f) The Bank shall ensure that any documents related to the Bonds will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

(g) The Bank shall upon written request of a Bondholder execute and deliver to such Bondholders such reports, documents, and other information relating to the business, properties, condition, or operations, financial or otherwise, of the Bank as a Bondholder may from time to time reasonably require;

(h) The Bank shall, as soon as possible and in any event within five (5) Business Days after the occurrence of any default on any of the obligations of the Bank, or other event which, with the giving of any notice and/or with the lapse of time, would constitute a default under the material agreements of the Bank with any party, including, without limitation the Contracts, serve a written notice to the Bondholders through the Trustee, of the occurrence of any such default, specifying the details and the steps which the Bank is taking or proposes to take for the purpose of curing such default, including the Bank's estimate of the length of time to correct the same;

(i) It will duly and punctually comply with all reporting, filing and similar requirements imposed by the BSP, the SEC and the PSE or in accordance with any applicable Philippine law and regulations from time to time relating to the Bonds and the Contracts;

(j) The Bank shall maintain the services of the Auditors and in any event where the Auditors shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;

(k) It shall fully and promptly comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations and promptly and satisfactorily take all corrective measures that may be required under BSP audit reports;

(l) It shall use the net proceeds from the Bonds in accordance with the purpose of issuance provided in the Offering Circular;

(m) It shall ensure that there shall at all times be a Registrar and Paying Agent for the purposes of the Bonds, as provided in the Registry and Paying Agency Agreement; and

(n) It shall ensure that the Bonds are listed with PDEx unless applicable laws no longer require listing of Bonds with an exchange, and delisting is approved by the Bondholders through a meeting duly called for such purpose, in accordance with these Terms and Conditions.

These covenants of the Bank shall survive the issuance of the Bonds and shall be performed fully and faithfully by the Bank at all times while the Bonds or any portion thereof remain outstanding.

22 EVENTS OF DEFAULT

The Bank shall be considered in default under the Bonds in case any of the following events shall occur:

(a) The Bank fails to pay any principal and/or interest due on the Bonds within ten (10) calendar days of the due date of payment; provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date (a "**Payment Default**");

(b) Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect;

(c) The Bank fails to perform or violates its covenants under these Terms and Conditions (other than the payment obligation under paragraph (a) above) or the Contracts, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of thirty (30) calendar days from notice to the Bank;

(d) The Bank (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the Bonds) executed by the Bank with any bank, financial institution or other person, corporation or entity for the payment of borrowed money in an aggregate amount exceeding USD10,000,000.00 or its equivalent which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; or (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Bank within 30 days or is otherwise not contested by the Bank, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity;

(e) Any governmental consent, license, approval, authorization, declaration, filing or registration which is granted or required in connection with the Bonds expires or is terminated, revoked or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder;

(f) It becomes unlawful for the Bank to perform any of its material obligations under the Bonds;

(g) The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any material portion of its properties or assets;

(h) The Bank becomes insolvent or is unable to pay its debts when due or commits or permits any act of bankruptcy, including: (i) filing of a petition in any bankruptcy, reorganization, winding-up, suspension of payment, liquidation, or other analogous proceeding; (ii) appointment of a trustee or receiver of all or a substantial portion of its properties; (iii) making of an assignment for the benefit of its creditors of all or substantially all of its properties; (iv) admission in writing of its inability to pay its debts; or (v) entry of any order or judgment of any court, tribunal, or administrative agency or body confirming the insolvency of the Bank, or approving any reorganization, winding-up, liquidation, or appointment of trustee or receiver of the Bank or a substantial portion of its property or assets (each, an "**Insolvency Default**");

(i) Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of USD10,000,000.00 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) calendar days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement;

(j) Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, execution or similar process shall not be released, vacated, or fully bonded within thirty (30) calendar days after its issue or levy; and

(k) The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) calendar days ("**Closure Default**"), except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or *force majeure*, and, provided that, in any such event, there is no Adverse Effect.

23 EFFECTS OF EVENTS OF DEFAULT

The Trustee shall, within thirty (30) days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of Payment Default, as defined under the Events of Default in the Terms and Conditions of the Bonds, the Trustee shall immediately notify the Bondholders upon the occurrence of such Payment Default. The existence of a written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days (at the expense of the Bank), further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain an important notice regarding the Bonds at the principal office of the Trustee upon presentment of sufficient and acceptable identification.

If any one or more of the Events of Default shall have occurred and be continuing after any applicable cure period shall have lapsed without the Bank having cured the default, the Trustee, upon the written direction of the Majority Bondholders whose written instruction/consent/letter shall be verified by the Registrar and by written notice to the Bank, may declare the Bank in default in respect of the Bonds held by such Bondholders, stating the Event of Default relied upon, and require the principal amount of the Bonds held by such Bondholders, and all accrued interests (including default interest, if any) and other charges due thereon, to be immediately due and payable, and forthwith collect said outstanding principal, accrued interests (including

		default interest, if any) and other charges, without prejudice to any other remedies which such Bondholder or the other holders of the Bonds may be entitled. In case of a Payment Default, the Bank shall, in addition to the payment of the unpaid amount of principal and accrued interest, pay default interest at the rate of one percent (1%) per month, which shall accrue after the lapse of the curing period until the same is fully paid. Any money delivered to the Paying Agent by the Bank pursuant to an Event of Default shall be applied by the Paying Agent in the order of preference as follows: *first*, to the pro-rata payment to the Registrar and Paying Agent and to the Trustee of the costs, expenses, fees, and other charges of collection incurred by them respectively without gross negligence or bad faith; to the payment to the Registrar and Paying Agent and to the Trustee of their respective fees, and other outstanding charges due to them; *second*, to the pro-rata payment of all outstanding Interest owing to the Bondholders, including default interest, if any, as specified in this Condition 23, in the order of maturity of such interest; and *third*, to the pro-rata payment of the whole amount then due and unpaid on the Bonds for principal owing to the Bondholders.
24	**WAIVER OF DEFAULT BY THE BONDHOLDERS**	The Majority Bondholders may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee, or may, on behalf of the Bondholders waive any past default, except the events of default defined as a Payment Default, Insolvency Default, or Closure Default, and its consequences. In case of any such waiver, the Bank, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder; provided however that, no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate representing the Bonds.
25	**TAXATION**	Interest on the Bonds is subject to final withholding tax at a rate between 20% to 30%. Payments of principal and Interest will be made free and clear of any deductions or withholding for or on account of any present or future taxes, duties or charges imposed by or on behalf of Republic of the Philippines. If such taxes, duties or charges are imposed, the same shall be for the account of the Bank. *Provided, however*, that the Bank shall not be liable for: (a) any withholding tax on Interest earned on the Bonds as prescribed under Tax Code. A corporate and institutional investor who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents; (b) Gross Receipts Tax under Section 121 and 122 of the Tax Code; (c) taxes on the overall income of the Sole Arranger and Bookrunner, a Selling Agent or Bondholder, whether or not subject to withholding; and (d) Value Added Tax ("**VAT**") under Sections 106 to 108 of the Tax Code. Documentary stamp tax for the primary issue of the Bonds and the execution of the Contracts, if any, shall be for the Bank's account.
26	**CLAIM OF TAX-EXEMPT STATUS OR ENTITLEMENT TO**	Bondholders who are exempt from or not subject to final withholding tax, or who are entitled to preferential tax rate may avail of such exemption or preferential tax rate by submitting the necessary documents. Said Bondholder shall submit the following requirements, in form and substance prescribed by the Bank, to the

PREFERENTIAL TAX RATE	Registrar through the Selling Agent (together with their completed Application to Purchase) who shall then forward the same to the Registrar: (a) Proof of Tax Exemption or Entitlement to Preferential Tax Rates ▪ For (a) tax-exempt corporations under Section 30 of the Tax Code (except non-stock, non-profit educational institutions under Section 30(H) of the Tax Code); (b) cooperatives duly registered with the Cooperative Development Authority; and (c) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof; ▪ For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator; ▪ For all other tax-exempt entities (including, but not limited to, (a) non-stock, non-profit educational institutions; (b) government-owned or -controlled corporations; and (c) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax; ▪ For entities claiming tax treaty relief – (i) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under Revenue Memorandum Order No. 8-2017), and (ii) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and ▪ Any other document that the Bank or PDTC may require from time to time. In addition, upon the request of the Sole Arranger and Bookrunner, Selling Agent, the Bank or the Registrar, the Bondholder shall submit an updated Part II (A), (B), (C) and (D) of the CORTT Form. Only the originals should be submitted to the Sole Arranger and Bookrunner, Selling Agent, the Bank or the Registrar. (b) A duly notarized declaration (in the form attached to the Registry and Paying Agency Agreement) declaring and warranting that the same Bondholder named in the tax exemption certificate described in (a) above, is specifically exempt from the relevant tax or is specifically subject to a preferential tax rate for the relevant tax, and undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation or modification of its tax exemption or treaty privileges and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits and liabilities or any tax or charge arising from the non-withholding or reduced withholding of the required tax; and (c) Such other documentary requirements as may be reasonably required by the Bank or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities. Transfers taking place in the Register of Bondholders after the Bonds are listed on

		the PDEx may be allowed between taxable and tax-exempt entities and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit to the Registrar the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar. Income arising from gains on the sale or disposition of the Bonds will form part of the relevant Bondholders' income and may be subject to tax. Bondholders should consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability of any state, local or foreign tax laws. The BIR's tax treatment of the fixed rate bonds may vary from the tax treatment described herein. Any adverse tax consequences upon the Bondholder arising from any variance in tax treatment shall be for such Bondholder's sole risk and account. Moreover, the tax treatment of a Bondholder may vary depending upon such person's particular situation and certain Bondholders may be subject to special rules not discussed above. This summary does not purport to address all the aspects that may be important and/or relevant to a Bondholder. Bondholders are advised to consult their own tax advisers on the ownership and disposition of the Bonds, including the applicability and effect of any state, local or foreign tax laws.
27	**REDEMPTION FOR CHANGES IN TAX**	If after the Issue Date, payments under the Bonds become subject to additional or increased taxes other than the taxes and rates of such taxes prevailing on the Issue Date, as a result of changes in law, rule or regulation, or in the interpretation thereof, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank, the Bank may redeem the Bonds in whole, but not in part, (having given not more than sixty (60) nor less than fifteen (15) days' prior written notice to the Trustee) at par or 100% face value plus accrued Interest.
28	**REDEMPTION FOR CHANGES IN LAW OR CIRCUMSTANCE**	If any provision of the Trust Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations hereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part, or any law shall be introduced to prevent or restrain the performance by the parties hereto of their obligations under the Trust Agreement or any other related documents, such event shall be considered as change in law or circumstance ("**Change in Law**") in reference to the obligations of the Bank and to the rights and interests of the Bondholders under the Trust Agreement and the Bonds. In the event that the Bank shall invoke the foregoing as a Change in Law, the Bank shall provide the Trustee an opinion of legal counsel confirming the foregoing, such legal counsel being reasonably acceptable to the Trustee. Thereupon, the Trustee, upon notice to the Bank, shall declare the principal amount of the Bonds, including all accrued interest and other chargers thereon, if any, to be immediately due and payable, and upon such declaration, the same shall be immediately due and payable without any pre-payment penalty, notwithstanding anything in the Trust Agreement and other related documents to the contrary.
29	**REPLACEMENT REGISTRY CONFIRMATIONS**	In case any Registry Confirmation shall be mutilated, destroyed, lost or stolen, the Registrar upon receipt of a written request in the form specified by the Registrar, shall cause the reprinting and delivery of the Registry Confirmation to the relevant Bondholder, subject to applicable fees.

30	**CHANGE OF TRUSTEE BY THE BONDHOLDERS**	(a) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence under the provisions on Evidence Supporting the Action of the Bondholders in these Terms and Conditions of the Bonds. (b) Any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any provisions of the Trust Agreement shall become effective upon the earlier of: (i) acceptance of appointment by the successor Trustee as provided in the Trust Agreement; or (ii) effectivity of the resignation notice sent by the Trustee under the Trust Agreement; provided however that, until such successor trustee is qualified and appointed, the resigning Trustee shall continue to discharge its duties and responsibilities solely as custodian of records for turnover to the successor trustee promptly upon the appointment thereof by the Bank; provided finally that, such successor trustee possesses all the qualifications as required by pertinent laws.
31	**REPORTS TO THE BONDHOLDERS**	(a) The Trustee shall submit to the Bondholders on or before February 28 of each year from the relevant Issue Date until full payment of the Bonds (which may be through electronic mail) a brief report dated as of December 31 of the immediately preceding year with respect to: (1) the property and funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and (2) any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it. (b) The Trustee shall submit to the Bondholders (which may be through electronic mail) a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten percent (10.00%) of the aggregate outstanding principal amount of the Bonds at such time. (c) The following pertinent documents may be inspected during regular business hours on any Business Day at the principal office of the Trustee: (1) Trust Agreement (2) Issue Management and Placement Agreement (3) Registry and Paying Agency Agreement (4) Articles of Incorporation and By-Laws of the Bank (5) Copies of the Bank's most recent audited financial statements; and (6) A copy of the Offering Circular together with any supplement to the Offering Circular.
32	**MEETINGS OF THE BONDHOLDERS**	*A meeting of the Bondholders may be called at any time for the purpose of taking any actions authorized to be taken by or in behalf of the Bondholders of any specified aggregate principal amount of Bonds under any other provisions of the Trust Agreement or under the law and such other matters related to the rights and interests of the Bondholders under the Bonds. All meetings shall be held in Makati City.* (a) Notice of Meetings

The Trustee may at any time call a meeting of the Bondholders, or the holders of at least twenty five percent (25%) of the aggregate outstanding principal amount of Bonds may direct in writing the Trustee to call a meeting of the Bondholders, to take up any allowed action, to be held at such time and at such place as the Trustee shall determine. Notice of every meeting of the Bondholders, setting forth the time and the place of such meeting and the purpose of such meeting in reasonable detail, shall be sent by the Trustee to the Bank and to each of the registered Bondholders not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date fixed for the meeting. All reasonable costs and expenses, supported by proper documentation, incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

(b) Failure of the Trustee to Call a Meeting

In case at any time, the Bank, pursuant to a resolution of its board of directors or executive committee, or the holders of at least twenty-five percent (25%) of the aggregate outstanding principal amount of the Bonds shall have requested the Trustee to call a meeting of the Bondholders by written request setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have mailed and published, in accordance with the notice requirements, the notice of such meeting, then the Bank or the Bondholders in the amount above specified may determine the time and place for such meeting and may call such meeting by mailing and publishing notice thereof, and, should the failure be attributable to the neglect or fault of the Trustee, the costs thereof shall be chargeable to the Trustee.

(c) Quorum

The Trustee shall determine and record the presence of the Majority Bondholders, personally or by proxy. The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders.

(d) Procedure for Meetings

(7) The Trustee shall preside at all the meetings of the Bondholders, unless the meeting shall have been called by the Bank or by the Bondholders, in which case the Bank or the Bondholders calling the meeting, as the case may be, shall in like manner move for the election of the chairman and secretary of the meeting.

(8) Any meeting of the Bondholders duly called may be adjourned for a period or periods not to exceed in the aggregate of one (1) year from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) Voting Right

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of one or more Bonds or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. Bondholders shall be entitled to one (1) vote for every Fifty Thousand Pesos (₱50,000.00) interest. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

(f) Voting Requirement

Except as provided in Condition 34 (Amendments), all matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders present or

		represented in a meeting at which there is a quorum except as otherwise provided in the Trust Agreeement. Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous. (g) Role of the Trustee in Meetings of the Bondholders *Notwithstanding any other provisions of the Trust Agreement, the Trustee may make such reasonable regulations as it may deem advisable for any meeting of the Bondholders, in regard to proof of ownership of the Bonds, the appointment of proxies by registered holders of the Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit.*
33	**EVIDENCE SUPPORTING THE ACTION OF THE BONDHOLDERS**	*Wherever in the Trust Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of the Bonds may take any action (including the making of any demand or requests and the giving of any notice or consent or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage have joined therein may be evidenced by: (i) any instrument executed by the Bondholders in person or by the agent or proxy appointed in writing, or (ii) the duly authenticated record of voting in favor thereof at the meeting of the Bondholders duly called and held in accordance herewith, or (iii) a combination of such instrument and any such record of meeting of the Bondholders.*
34	**AMENDMENTS**	*The Bank and the Trustee may amend the Terms and Conditions of the Bonds with notice to every Bondholder following the written consent of the Majority Bondholders or a vote of the Majority Bondholders at a meeting called for the purpose. However, without the consent of each Bondholder affected thereby, an amendment may not:* (a) reduce the percentage of principal amount of Bonds outstanding that must consent to an amendment or waiver; (b) reduce the rate of or extend the time for payment of interest on the Bonds; (c) reduce the principal of or extend the Maturity Date; (d) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders; (e) reduce the amount payable upon the redemption or repurchase of the Bonds under the Terms and Conditions or change the time at which the Bonds may be redeemed; (f) make the Bonds payable in money other than that stated in the Bonds; (g) subordinate the Bonds to any other obligation of the Bank; (h) amend or modify the Payment, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or (i) make any change or waiver of this Condition. *Moreover, the Bank and the Trustee may amend or waive any provisions of the Contracts if such amendment or waiver is of a formal, minor, or technical nature or to correct a manifest error or inconsistency, without prior notice to or the consent of the Bondholders or other parties, provided in all cases that such amendment or waiver does not adversely affect the interests of the Bondholders and provided further that all Bondholders are notified after such amendment or waiver.* *It shall not be necessary for the consent of the Bondholders under this Condition to*

approve the particular form of any proposed amendment, but it shall be sufficient if such consent approves the substance thereof. After an amendment under this Condition becomes effective, the Bank shall send a notice briefly describing such amendment to the Bondholders.

Any amendment of these Terms and Conditions is subject to the Governing Regulations.

35 NOTICES

Any communication shall be given by letter, fax, electronic mail (e-mail) or telephone, and shall be given, in the case of notices to the Bank, to it at:

PHILIPPINE NATIONAL BANK
PNB Financial Center,
Pres. Diosdado Macapagal Blvd.,
Pasay City, Philippines

Telephone no.: 573 - 4417
Fax no.: 526 - 3032
E-mail: ramosmm@pnb.com.ph
Attention: Marilou M. Ramos
Senior Assistant Vice President
Treasury Services Center

And in the case of notices to the Registrar and Paying Agent to it at:

PHILIPPINE DEPOSITORY & TRUST CORP.
37th FloorTower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila
Philippines

Telephone no.: (632) 884-4439/884-4425
Fax no.: (632) 884-5099
E-mail: baby_delacruz@pds.com.ph
Attention: Josephine Dela Cruz
Director – Securities Services

Telephone no.: (632) 884-4413
Fax no.: (632) 884-5099
E-mail: peachy.garcia@pds.com.ph
Attention: Patricia Camille Garcia
Registry Officer

in the case of notices to the Trustee, to it at:

DEVELOPMENT BANK OF THE PHILIPPINES
- TRUST BANKING GROUP
4/F DBP Building, Sen Gil J. Puyat Avenue, Makati City

Telephone no.: 818-9511 local 3400
Fax no.: 893-0942
E-mail: mttatienza@dbp.ph
Attention: Ma. Teresa T. Atienza

in the case of notices to the Selling Agents, to them at:

PHILIPPINE NATIONAL BANK
PNB Financial Center,

Pres. Diosdado Macapagal Blvd.,
Pasay City, Philippines

Telephone no.: 558 - 6126
Fax no.: 526 - 3464
E-mail: malabagnc@pnb.com.ph
Attention: Noel C. Malabag
Senior Vice President
Treasury Sector – Officer in Charge

STANDARD CHARTERED BANK, PHILIPPINES BRANCH
8th Floor Sky Plaza Building
Ayala Avenue, Makati City
Philippines

Telephone no.: (632) 8782967
E-mail: Erwein-John.Catoto@sc.com
Attention: Erwein Catoto
Head of Capital Markets

and in the case of notices to the Sole Arranger and Bookrunner, to it at:

STANDARD CHARTERED BANK, PHILIPPINES BRANCH
8th Floor Sky Plaza Building
Ayala Avenue, Makati City
Philippines

Telephone no.: (632) 8782967
E-mail: Erwein-John.Catoto@sc.com
Attention: Erwein Catoto
Head of Capital Markets

And in the case of notices to the Bondholders, through publication in two (2) newspapers of general circulation in Metro Manila (one of which shall be the Philippine Daily Inquirer) once a week for two (2) consecutive weeks; or any other address to or mode of service by which written notice has been given to the parties in accordance with this Condition.

Such communications will take effect, in the case of a letter, when delivered or, in the case of fax, when dispatched, provided that any communication by fax shall not take effect until 10:00 a.m. on the immediately succeeding Business Day in the place of the recipient, if such communication is received after 5:00 p.m. on a Business Day or is otherwise received on a day which is not a Business Day. Communications not by letter shall be confirmed by letter but failure to send or receive the letter of confirmation shall not invalidate the original communication.

36	**GOVERNING LAW**	These Terms and Conditions shall be governed by and construed in accordance with the laws of the Republic of the Philippines.
37	**JURISDICTION**	The courts of Makati City are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Bonds and these Terms and Conditions and accordingly, any legal action or proceedings arising out of or in connection with the Bonds or these Terms and Conditions ("**Proceedings**") may be brought only in such courts. The Bank irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the

		ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.
38	**NON-WAIVER**	The failure of any party at any time or times to require the performance by the other of any provision of the Bonds or these Terms and Conditions shall not affect the right of such party to require the performance of that or any other provisions and the waiver by any party of a breach under these Terms and Conditions shall not be construed as a waiver of any continuing or succeeding breach of such provision, a waiver of the provision itself or a waiver of any right under these Terms and Conditions. The remedies herein provided are cumulative in nature and not exclusive of any remedies provided by law.
39	**ABILITY TO FILE SUIT**	Nothing herein shall be deemed to create a partnership or collective venture between the Bondholders. Each Bondholder shall be entitled, at its option, to take independent measures with respect to its obligations and rights and privileges under these Terms and Conditions, and it shall not be necessary for the other Bondholders to be joined as a party in any judicial or other proceeding for such purpose.
40	**SEVERABILITY**	If any provision hereunder becomes invalid, illegal or unenforceable under any law, the validity, legality and enforceability of the remaining provisions of these Terms and Conditions shall not be affected or impaired. The parties agree to replace any invalid provision which most closely approximate the intent and effect of the illegal, invalid or enforceable provision.
41	**PRESCRIPTION**	Any action upon the Bonds shall prescribe in ten (10) years from the time the right of action accrues.
42	**WAIVER OF PREFERENCE OR PRIORITY**	In the event that a primary obligation for payment shall arise out of the Contracts, such as to constitute any of the Contracts as a contract for the payment of an indebtedness or a loan, then it is understood and expressly agreed by the parties hereto that the obligation created under such Agreement shall not enjoy any priority, preference or special privileges whatsoever over any indebtedness or obligations of the Bank. Accordingly, whatever priorities or preferences that such Agreement may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced.

8 DESCRIPTION OF THE BANK

Overview

The Bank provides a full range of banking and other financial services to large corporate, middle- market, small to medium-sized enterprises ("SMEs") and retail customers, as well as to the Philippine Government, National Government agencies ("NGAs"), local government units ("LGUs") and government owned and controlled corporations ("GOCCs"). While the Bank's principal focus has historically been to serve the banking needs of Government-related entities and GOCCs, the Bank's focus since 2000 after the privatization has been to further develop its banking services for large corporates, middle-market, SMEs, retail customers and OFWs.

As of 31 December 2017, the Bank was the fourth largest privately-owned Philippine commercial bank in terms of total assets, with total assets of ₱836.4 billion. As of 31 December 2018, the Bank remained the fourth largest privately-owned Philippine commercial bank in terms of total assets, with total assets of ₱983.6 billion. The Bank is also the fourth largest local private commercial bank in the Philippines in terms of local branches. As of 31 December 2018, the Bank had 711 branches and offices and 1,473 ATMs located throughout the Philippines. The Bank has the largest overseas network among Philippine banks with 72 branches, representative offices, remittance centers and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia. As of 31 December 2018, the Bank also maintained correspondent relationships with 545 banks and financial institutions worldwide. As a result of this large geographic coverage, the Bank is one of the leading providers of remittance services to OFWs.

Through its subsidiaries and affiliate, the Bank engages in thrift banking; 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.

As of 31 December 2018, the Bank's consolidated Tier 1 capital adequacy ratio and total consolidated capital adequacy ratio under the Basel Committee on Banking Supervision's Revised International Convergence of Capital Management and Capital Standards ("BASEL III") as reported to the BSP was 13.55% and 14.35%, respectively. The Bank has been listed on the Philippine Stock Exchange ("PSE") since June 1989. The market capitalization of the Bank on 31 December 2018 (based on the closing price of the shares of the Bank on the PSE on that date of ₱42.75 per Share) was ₱53.4 billion.

History

The Bank was established in 1916 by the Philippine Government. At that time, in addition to engaging in the general commercial banking business, the Bank also served as the *de facto* central bank of the Philippines. The Bank acted as the sole depository of Philippine Government deposits, the clearing house for the Philippine banking system, the custodian of bank reserves and the issuer of Philippine bank notes and Government bonds, functions which the Bank performed until 1949, when the Central Bank of the Philippines, which has since been renamed the BSP was established.

Historically, as a bank which was then solely owned by the Government, the Bank played an important role in implementing the Government's financial policies. This included being a major provider of banking services to the Government as well as its agencies, LGUs and GOCCs, serving as a depository bank for working balances, providing fund transfers, disbursements, credits and import/export financing, administering trust funds, and acting as a channel for the sale of Government securities.

Following Proclamation No. 50, the Government embarked on the privatization of the Bank. In June 1989, the Government offered to the Philippine public 30.0% of the outstanding shares of the Bank for a total consideration of ₱1.1 billion. In April 1992, the Government disposed of a further 10.0% of the outstanding shares in the Bank to the Philippine public for a total consideration of ₱2.1 billion. In December 1995, the Government disposed of a further 7.2% of the outstanding shares of the Bank.

On 27 May 1996, it was incorporated with the SEC as a juridical entity. Its Articles of Incorporation and By-Laws were duly filed.

As a result of the Asian financial crisis, the Bank suffered a liquidity crisis for the five years ending on 31 December 2002, which necessitated significant levels of financial assistance from the BSP and the Philippine National Government (through the PDIC). The Bank had to undergo a rehabilitation program pursuant to a MOA signed by the Republic of the Philippines, the PDIC and the LT Group, Inc. (being a major shareholder of the Bank). The MOA, which was signed on 3 May 2002, stipulated the following financial conditions: conversion into equity of ₱7.8 billion of the ₱25.0 billion assistance extended by the BSP and the PDIC; settlement of the ₱10.0 billion obligation by way of *dacion en pago* through the assignment of government and government related receivables; and the conversion of ₱6.1 billion into a ten-year loan with interest equivalent to the 91-day T-Bill rate plus 1.0%.

In June 2007, the Bank settled its ₱6.1 billion loan to PDIC, four years ahead of maturity date.

In August 2007, the Bank successfully completed a Tier 1 Follow-On Equity Offering where it raised about ₱5.1 billion, net of issuance cost of ₱199.5 million, in Tier 1 Capital. Together with the sale of 89 million primary shares, 71.8 million secondary shares owned by the Government through PDIC and the Department of Finance ("DOF") were sold to the public paving the way for a complete exit of the Government from the Bank.

On 9 February 2013, the Bank concluded its planned merger with ABC as approved and confirmed by the Board of Directors of the Bank and of ABC on 22 January and 23 January 2013, respectively. The respective shareholders of the Bank and ABC, representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on 6 March 2012. The original Plan of Merger was approved on 24 June 2008 by the affirmative vote of ABC and the Bank's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks.

Last February 2014, the Bank successfully completed its Stock Rights Offering ("Offer") of 162,931,262 common shares ("Rights Shares") with a par value of ₱40.00 per share at a price of ₱71.00 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of 16 January 2014. The offer period was from 27 January 2014 to 3 February 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Bank. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Bank. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. The Offer strengthened the Bank's capital position under the BASEL III standards, which took effect on 1 January 2014.

On April 2015, the Bank successfully closed and signed a USD 150 million 3-year syndicated term loan facility with a large group of international and regional banks. The facility was launched at USD 150 million and attracted total commitments of USD 220 million at close of syndication, representing an oversubscription of about 1.5 times with lending commitments received from 10 regional and international banks. This marks PNB's return to the syndicated loan market after more than a decade, the last being in 1998. The diversity of the syndicate of lenders is an affirmation of the growing international market appetite for assets from the Philippines. The success of the transaction is a strong acknowledgment of the capital market's confidence in the credit strength of the Bank.

In April 2018, PNB successfully issued US$300 million worth of 5-Year Fixed Rate Senior Notes out of its US$1 billion Medium Term Note (MTN) Program in Singapore and Hong Kong. This marked the first time that PNB tapped the international bond market for medium term dollar funding. Orders for the offering reached approximately $1.2 billion at its peak, equivalent to 4X oversubscription. The high demand for the initial issue is a testament to the international investors' strong confidence in PNB.

Pending regulatory and other necessary approvals, PNB will fully integrate its wholly-owned thrift bank subsidiary, PNB Savings Bank (PNBSB), into the parent bank through the acquisition of its assets and by the assumption of its liabilities in exchange for cash. The PNB Board of Directors (BOD) approved of the integration last September 28, 2018 while the PNB Savings Bank BOD approved the same last October 10, 2018. Once the integration is fully rolled out, PNB would be able to deliver a more efficient banking experience and will be able to serve a wider customer base whereas customers of PNBSB will have access to PNB's diverse portfolio of financial solutions.. The consumer lending business, currently operated through PNBSB, will also benefit from PNB's ability to efficiently raise low cost of funds.

Recognizing the consistent improvement in PNB's credit profile, Fitch Ratings affirmed in November 2018 PNB's long-term Issuer Default Rating at BB+. Likewise, Moody's affirmed in December 2018 the Bank's foreign currency and local currency deposit ratings at Baa2/P-2, two notches above investment grade. The upgrade reflects the improvement in financial profile since PNB's merger with ABC.

In affirmation of the Bank's well-managed operations, PNB received awards from the BSP and other international award-giving bodies. In the 2017 BSP Stakeholders' Ceremony, PNB was recognized as the Outstanding PhilPass REMIT Participant. PNB was also recognized in a ceremony held last July 31, 2018 by the Institute of Corporate Directors (ICD) as amongst the top performing publicly-listed companies that ranked high under the ASEAN Corporate Governance Scorecard (ACGS). Out of 245 companies assessed, PNB is among the 21 publicly-listed companies that scored 90 points and above. PNB was also among the top five in the financial sector recognized for exemplary corporate governance practices

PNB received two awards from the Asian Banking & Finance Retail Banking Awards 2017, "Digital Banking Initiative of the Year" for the PNB Mobile Banking App and "New Consumer Lending Product of the Year" for PNBSB Smart Salary Loan Program. Last July 12, 2018, PNBSB received two awards from the Asian Banking & Finance Retail Banking Awards 2017. These are "Consumer Finance Product of the Year – Philippines" for its Smart Personal Loan with Double Coverage product and "Service Innovation of the Year – Philippines" for its Smart Auto Loan and Home Loan Plus (Value-added Services). On October 5, 2018, PNBSB's Smart Personal Loan won the Consumer Finance Product of the Year, from the Asian Banker Philippine Country Awards 2018.

Competitive Strengths

The Bank considers the following to be its principal competitive strengths relative to the banking sector:

Well-positioned franchises in robust Philippine banking sector

The Bank believes that it is well-positioned in the robust Philippine banking sector. The Philippines has one of the lowest banking penetrations in Asia, leaving significant headroom for growth. The banking sector has also stabilized over the years, with the gross NPL ratio steadily declining from 14.6% in 2002 to 1.83% as of 31 December 2018, according to data from the BSP.

The Bank's scale, reach, business mix, product offerings and brand recognition have made it among the leading financial institutions in the Philippines. According to BSP data, based on the Bank's published Statement of Condition as of 31 December 2018, the Bank is the Philippines' fourth largest private commercial bank in terms of total capital, assets, deposits, and net loans and receivables.

Extensive and strategically located distribution network

The Bank believes it has one of the most extensive branch networks among its competitors in the Philippines. As at 31 December 2018, the Bank had 711 domestic branches and offices and 1,473 ATMs. The Bank's branches and ATMs are strategically located to maximize market potential and cover areas where competitors are less present, making financial services accessible to untapped customers and investment opportunities. The Bank's extensive distribution network allows for a strong deposit gathering capability and the ability to sell and distribute fee-generating product lines such as bancassurance, trust, fixed-income securities and credit cards. Based on data obtained from the BSP, the 711 domestic branches and offices of the Bank comprised approximately 7.65% of the total number of branches of all private commercial and universal banks in the Philippines as at 31 December 2018. As of 31 December 2018, the 1,473 ATMs of the Bank represented about 7.12% of the total number of ATMs of commercial and universal banks.

Major Player in the OFW remittance business

The Bank's large-scale remittance business is supported by the Bank's extensive overseas network. It has the widest international footprint among Philippine banks, spanning 16 countries in Asia, Europe, the Middle East and North America, with its 72 branches, representative offices and remittance centers. As of 31 December 2018, the Bank also maintained correspondent relationships with 545 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to a diversified customer base including government entities, large corporate, middle-market, SMEs and retail customers. As at 31 December 2018, the Bank's clientele included approximately 5.0 million private and government depositors, and at least 67,000 private corporations, government entities and individual borrowers. As at 31 December 2018, the Bank's receivables from customers were well-diversified across the large corporate, Government, SMEs and retail segments, amounting to ₱458.6 billion, ₱6.9 billion, ₱22.9 billion and ₱35.7 billion, respectively, respectively, at the parent company or PNB's level. As at 31 December 2018, PNB's receivables from large corporate, Government, SMEs, and retail segments, as a percentage of PNB's total receivables, were 87.5%, 1.3%, 4.3%, and 6.9%,, respectively.

Solid capitalization, improving asset quality and stable financial performance

The Bank believes its capital position is strong, with a consolidated Tier 1 ratio of 13.55% and consolidated CAR of 14.35% as of 31 December 2018 as reported to the BSP. The Bank's strong capital position gives it the flexibility to expand its business, invest in new products and services, information technology and other infrastructure required for the execution of its growth strategy. Moreover, the Bank has been committed to prudent credit approval and risk management processes, which have resulted in improving asset quality. As of 31 December 2018, the Bank recorded a net NPL ratio of 0.34%, a net NPA ratio of 2.21% and an NPL coverage ratio of 156.87% as reported to the BSP.

Strong shareholder group and experienced management

As a member of the LT Group Inc. and other affiliated companies ("the LT Group"), the Bank believes that it will continue to benefit from being part of one of the largest and most diversified conglomerates in the Philippines, with interests ranging from beverages, airlines, tobacco, property development, education and others. The Bank believes that it has been able to achieve significant synergies with the LT Group and its member companies, such as partnering with Philippine Airlines, Inc. to introduce one of the most popular mileage rewards credit cards in the Philippine market, providing collection facilities through its nationwide branches for sellers of Philip Morris Fortune Tobacco Corporation, Inc.'s products and for other affiliated companies and facilitating guarantees for ticketing agents of Philippine Airlines.

The Bank has also assembled a strong management team, led by Dr. Lucio C. Tan, the founder of the LT Group. Mr. Tan and the Bank's senior executive officers (consisting of those officers at the executive vice-president level and above) have, on average, over 37 years of experience in the banking sector.

As of 31 December 2018, the Bank has several banking industry leaders on its Board of Directors, including Ms. Florencia G. Tarriela, Mr. Felix Enrico R. Alfiler, and Mr. Florido P. Casuela, while its other top executives have a proven track record in banking, finance and in other industries given their experience with leading Philippine corporations. In addition, the Board of Directors has a strong independent element, with five of its 15 members (including the chairman and vice-chairman of the Board) being independent Directors. The Bank believes that the extensive experience and financial acumen of its management provide it with a significant competitive advantage.

Business Strategies

The Bank aims to fortify its position as one of the leading banks in the Philippines, delivering high profitability supported by a solid balance sheet. To achieve this corporate goal, the Bank will focus on the following priority initiatives and strategies:

(1) Increase core business:

- Lending:

  The Bank's lending strategy will entail a shift in marketing focus from large institutional accounts to Commercial/SMEs and individuals to ensure that the lending activities will contribute a substantial portion to the revenues. This shift in lending strategy by increasing the number of smaller accounts is intended to help the Bank in achieving higher lending margins as smaller accounts are less sensitive to changes in interest rates. The planned integration of PNB Savings Bank to the Parent Bank is expected to strengthen the Bank's foothold on the retail and consumer segment. Likewise, the Bank intends to leverage on its extensive customer base of OFWs to expand its consumer lending business.

- Deposits:

  The Bank will leverage on the strength of its nationwide branch network to generate low-cost deposits from its existing and growing customer base. In particular, deposit build up will be done by assigning all branch personnel to handle specific accounts with the branch managers taking care of the top 200 accounts. This scheme will be complemented by the implementation of a "Complete Customer" strategy to ensure deposits will stay longer with the Bank. Through the Bank's ecosystem of co-branded cash management and credit product offerings, deposits on operating accounts are expected to increase. In support of the expansion in total assets, the Bank will also keep an acceptable level of high-cost deposits to complement the low-cost deposit base.

- Fee-Based & Other Income:

  As part of the strategy to improve its profitability and at the same time minimize dependence on any specific revenue source, the Bank will continue to take steps to increase fee-based income. Along this line, the Bank intends to further leverage on its strong franchise and increase fee-based income by intensifying its cross-selling efforts to its existing customers, including its OFW customers. Specifically, marketing efforts will be focused on offering cash management solutions, bancassurance products, electronic-remittance channels and trust banking products. Income from foreign exchange conversion will also be beefed up with increased presence of foreign exchange counters in provincial branches. Likewise, the Bank intends to go beyond merely providing OFWs with remittance services by offering them a more diverse menu of financial services.

(2) Rationalize PNB's subsidiaries

The Bank will undertake a proactive approach in closely monitoring its subsidiaries to ensure that the return on its equity investments from these subsidiaries will be maximized. Along this line, the Bank's subsidiaries will implement strategic initiatives that will ensure achievement of business targets aligned with the Bank's goal. The Bank is committed in providing strong support to its subsidiaries while at the same time allowing the independence of its subsidiaries in implementing their businesses. The subsidiaries will capitalize on the Bank's network and resources in order to complement and enhance the product offerings of the Bank.

(3) Enhance efficiency:

The Bank will continue to undertake process improvements and automation that will lead to operational efficiency and cost savings. Cost efficiency improvements will also be realized through branch re-engineering, economies of scale, systems integration, realignment of front offices and optimization of back office processing and support functions.

(4) Manpower management

The Bank will undertake the following initiatives for its human resource:

a. Scale up institutional strengthening and organizational integration

   The Human Resource Group (HRG) shall scale up programs designed to strengthen an organizational culture that will drive the strategic directions of the Bank. These include programs that promote cross-functional synergy and teamwork, cross posting of talents, and organizational review and restructuring to strengthen core functions and services. The Bank shall also accelerate its "build" strategy in talent management, focusing on growing talents from within

b. Implement Project Retool

   The Project Retool shall equip existing employees with the necessary skill-set to undertake the Bank's aggressive growth strategy.

c. Increase employee engagement and cultivate high performance culture

   The Banks shall expand engagement programs to sustain and improve retention of talents through various comprehensive programs such as a Total Rewards Program. At the same time, efforts will be exerted to cultivate high-performance culture. Along this line, the HRG will reinforce the performance-based reward system as performance evaluation will use a standard scorecard to determine promotion, salary increase and bonus payout.

(5) Digitization

PNB will advance its technological capabilities that will support the goal to grow the business across multiple channels. The Bank will also utilize digital technology as a major tool to be a market disruptor, than a reactive fund transfer, deposit, and payments and cash management portals. The Bank will move its products and services to a digital platform (e.g. UITF on mobile, buy/sell forex) as well as convert its customers to digital banking.

The following table sets out selected key financial ratios for PNB for the periods indicated.

	For the year ended 31 December		
	2016	**2017**	**2018**
Return on average assets[(1)]	1.0%	1.0%	1.1%
Return on average equity[(2)]	6.7%	7.1%	7.7%
Net interest margin on average earning assets[(3)]	2.8%	3.1%	3.3%
Operating expenses (excluding provision for impairment, credit and other losses)	19,682	21,025	23,724
Total operating expenses	22,895	21,929	25,464
Provision for impairment, credit and other losses	3,213	904	1,740
Total operating income	29,236	32,330	38,904
Efficiency ratio[(4)]	67.3%	65.0%	61.0%
Receivable from customers, gross	416,398	482,300	574,477
Total deposit liabilities	570,503	637,920	733,301
Receivables from customers to deposit liabilities[(5)]	73.0%	75.6%	78.3%
Tier 1 capital ratio[(6)]	15.8%	14.6%	13.6%
Total capital ratio[(7)]	16.7%	15.4%	14.4%
Total equity	109,961	119,738	128,559
Total assets	753,982	836,357	983,648
Total capital funds to total assets[(8)]	14.6%	14.3%	13.1%
NPLs (net of NPLs fully covered by allowance for credit losses)	701	1,176	1,831
NPLs, gross	8,772	9,026	9,450
Specific allowance for credit losses of NPLs	8,069	7,850	7,619
Total loans	381,561	452,272	535,439
NPL ratio[(9)]	0.2%	0.3%	0.3%
Allowance for credit losses (loans)	8,374	8,496	10,260
Allowance for credit losses (loans) to total receivable from customers[(10)]	2.0%	1.8%	1.8%
Allowance for credit loan losses (loans) to total nonperforming loans[(11)]	135.2%	130.6%	156.9%
Basic/Diluted Earnings per share attributable to equity holders of the Bank[(12)]	₱5.70	₱6.53	₱7.58

Average balances, as referred to below, are determined as the sum of the beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two

[1]*Net income divided by average total assets for the period indicated.*

[2]*Net income divided by average total equity for the period indicated.*

[3]*Net interest income divided by average interest-earning assets.*

[4]*Total operating expenses (excluding provision for impairment, credit and other losses) divided by total operating income for the period indicated.*

[5]*Receivable from customers, gross of unearned and other deferred income, divided by total deposit liabilities*

[6]*Tier 1 capital divided by total risk-weighted assets, as reported to the BSP.*

[7]*Total capital divided by total risk-weighted assets, as reported to the BSP.*

[8] *Total equity divided by total assets.*

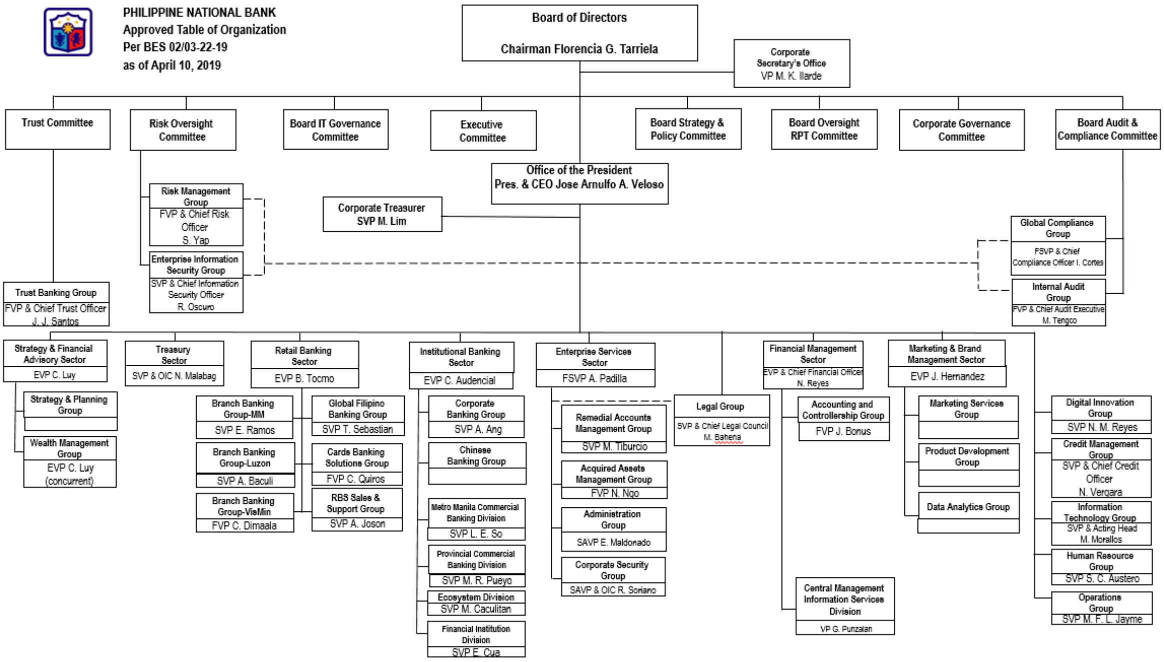
[9]*NPLs (net of NPLs fully covered by allowance for credit losses) divided by total loans (receivable from customers, interbank loans and securities under agreements to re-sell) of the Parent Company.*

[10]*Total allowance for credit losses pertaining to receivable from customers divided by receivable from customers, gross of unearned and other deferred income*

[11]*Total allowance for credit losses based on RAP divided by total NPLs, gross of NPLs fully covered by allowance for credit losses and consists of the Parent Company only.*

[12]*Net income attributable to equity holders of the Parent Company divided by weighted average number of common shares.*

Organizational Structure



Banking Activities

The Bank's banking activities are undertaken through different groups within the Bank, including the Institutional Banking, Retail Banking, Consumer Finance, Treasury, Global Filipino Banking and Trust Banking Group.

Institutional Banking Sector

The Bank's Institutional Banking Sector ("IBS") is responsible for credit relationships with large corporate, middle-market and SME customers as well as with Government and Government Owned & Controlled Corporation ("GOCC") and financial institutions.

IBS is subdivided into four distinct business divisions, namely, Corporate Banking Group ("CBG"), Commercial Banking Group ("ComBG") (comprising the Metro Manila Commercial Banking Division ("MMCBD") and the Provincial Commercial Banking Division (the "PCBD")), Financial Institutions Division ("FID"), and PNB Connect.

Below are historical loan levels of each IBS business division for the periods indicated.

	As at 31 December			
	2015	**2016**	**2017**	**2018**
		(in ₱ millions)		
Corporate	198,968	224,411	239,354	276,864
Commercial	96,163	120,200	152,256	185,961
Metro Manila	52,705	60,615	75,687	90,852
Provincial	43,458	59,585	76,569	95,109
Financial Institution	3,177	5,733	11,144	14,657
Total	**298,308**	**350,345**	**402,754**[a]	**477,483**[b]

Note: Excludes accounts not properly tagged
[a] Others: ₱452 million
[b] Others: ₱38 million

PNB's ecosystem strategy (PNB Connect) aims to promote long-term partnerships by creating a cohesive network between and among the Bank's stakeholders and counterparties. This means that through the Bank's key corporate clients, PNB shall be serving the needs of SMEs and the retail market that these key corporate relationships serve which may include the under-banked segment.

Corporate Banking Group

CBG manages banking relationships with the country's top conglomerates, large and emerging corporates, government and government-related entities like national government agencies, LGUs (comprising of cities, municipalities and provinces), water districts, electric cooperatives, and GOCCs.

The Group provides a range of traditional banking products and services, including term loans, short-term loans, foreign currency loans, and trade finance. It also offers a suite of cash management solutions such as disbursement, collection and liquidity management facilities.

CBG also possesses leading financing and loan packaging capabilities, engaging in complex deal structuring with corporate finance and project finance accounts to support industries geared towards nation building e.g., power, infrastructure, telecommunications, and manufacturing, among others. In the past two years, CBG has grown proficient at aviation financing, expanding its portfolio to include leading players in the industry and cementing the Bank's presence in the global market.

Commercial Banking Group

Metro Manila Commercial Banking Division

The MMCBD offers a wide array of loan, trade, and other credit products and services mainly to small entrepreneurs and mid-sized businesses primarily based in Metro Manila.

Provincial Commercial Banking Division

The PCBD provides an extensive range of loan products and services to its large corporate customers, middle-market customers and small entrepreneurs that are located outside of Metro Manila. The products and services offered by the PCBD are similar to the MMCBD, with the main difference being in their geographical target markets, with the former's customers, in particular SMEs, located outside Metro Manila being the focus. In addition, the centers are the main platform for promoting and developing the Bank's agricultural loan portfolio. Currently, PCBD's capabilities have been bolstered by offering structured finance solutions targeting regional conglomerates diversifying into value-added businesses.

Deal Execution Team (DET)
DET was created in 2015 in line with IBS's strategy to bring sophisticated deal structuring to middle market accounts and increase PNB's footprint in the banking industry. By maintaining a tangible presence in the commercial market, DET enables PNB to be at the forefront of tapping emerging corporates. Since inception, DET has expanded Commercial Banking accounts to service Metro Manila accounts from a previously all-Provincial client base.

Financial Institutions Division

The FID is responsible for the relationships with correspondent banks and non-bank financial institutions such as insurance companies, pre-need companies, government financial institutions, investment houses and asset management companies.

There are five general functions and responsibilities of the FID, namely:

- handling the relationship with banks and non-bank financial institutions;
- setting-up of credit facilities for financial institutions;
- establishing remittance tie-up with local and foreign banks;
- marketing and cross-selling of various products and services of the Bank; and
- mobilizing the utilization of the rediscounting or specialized lending facilities of the BSP, Developmental Bank of the Philippines, Land Bank of the Philippines and other specialized lending institutions.

As of December 31, 2018, the Bank had 545 correspondent banks located in various regions, namely Asia, Australia, Europe, the Middle East, Africa, the USA, Canada and Latin America. These correspondent banks generally receive and process trade and payments for the Bank in foreign jurisdictions, as well as handle OFW remittances for the Bank. With these correspondent banks in place, the Bank is able to service customers in these regions more effectively.

PNB Connect

PNB Connect was established in 2016 to keep the Bank attuned to its customers' fast changing and evolving banking needs, characterized by the continuous development of virtual, highly mobile, technology – based financial products introduced by non-bank financial institutions and non-traditional competitors. PNB Connect is also part of the Bank's financial inclusion initiative and thrust to expand its customer network to include micro, small and medium enterprises ("MSMEs")

PNB Connect's strategy aims to create long-term partnerships by providing a comprehensive network of traditional bank products, and innovative tech-based solutions to capture the end-to-end financial needs of entire value chains of the Bank's clientele. Each specialized product is a package of corporate services and solutions that may be calibrated to the specific needs of clients, but remain adaptable in order to seamlessly integrate to the wider web of PNB's portfolio of relationships. Through synergies with key departments of the Bank, PNB Connect embeds a culture of cross-sell that enables PNB to maintain a stronghold in a constantly changing landscape.

PNB Connects complements specialized credit programs with the Bank's corporate cash management products, creating integrated packages of corporate services that promote PNB as a centralized financial intermediary between institutional clients and counterparties, such as employees, customers, and the government.

Retail Banking Sector

The Retail Banking Group ("RBS") principally focuses on retail deposit products (i.e., current accounts, savings accounts and High Cost accounts) and services. While the focal point is the generation of lower cost funding for the Bank's operations, the RBG also concentrates on the cross- selling of consumer finance products, trust products, fixed income products, credit cards and bancassurance products to existing customers and referred customers by transforming its domestic branch distribution channels into a sales-focused organization. The Bank's bancassurance product, which provides it with additional fee income, is a BSP-approved service allowing banks such as the Bank to sell life and non-life insurance products to the bank's client base and through their branch network. The Bank offers its non-life insurance and life-insurance products through its partners PNB General Insurers Co., Inc. ("PNB Gen"), a wholly-owned subsidiary, and Allianz PNB Life Insurance, Inc. ("PNB Life"), respectively.

Deposits

The Bank offers a full range of deposit products, including current accounts (both interest-earning and non-interest bearing demand deposits), savings accounts and time deposits in Pesos, U.S. dollars and other foreign currencies. These are being provided to its customers that include individuals, private businesses, NGAs, LGUs and GOCCs. Of the former group, the Bank is targeting in particular the OFW and OFW beneficiaries deposit segment.

To generate more deposits, the Bank continues to implement measures that will enhance existing products and services and optimize the use of latest technology to deliver more responsive banking services to its clients, reduce costs and improve productivity. Likewise, new products and promotions were introduced, such as a time deposit-backed credit card to keep customer deposits with the Bank for longer periods of time.

As of 31 December 2018, the Bank's total deposit liabilities amounted to ₱733.3 billion compared to ₱637.9 billion and ₱570.5 billion as of 31 December 2017 and 2016, respectively. As of 31 December 2018, 84.4% of total deposit liabilities were denominated in Pesos while 15.6% where denominated in foreign currency, principally in U.S. dollars. As of 31 December 2017 and 2016, 81.8% and 81.6%, respectively, of total deposit liabilities were denominated in Pesos while 18.2% and 18.4%, respectively, were denominated in foreign currency, principally in U.S. dollars. The ratio of CASA (checking account/savings account) to high cost deposit as of 31 December 2018 was 54:46 compared to 57:43 and 67:33, as of 31 December 2017 and 2016, respectively. By sector, as of 31 December 2018, approximately 98.1% of the Bank's total deposits were generated from the private sector, while the remaining 1.7% were accounted for by NGAs, LGUs, and GOCCs. As of 31 December 2017 and 2016, the private sector accounted for 97.9% and 97%, respectively, of total deposits while the balance of 2.1% and 3% had been from the government sector.

In terms of customer base, the Bank had approximately 4.92 million deposit accounts as of 31 December 2018 compared to 4.41 million deposit accounts as of 31 December 2017.

Branch Banking

As of 31 December 2018, the combined domestic branch network consisted of 711 branches and offices. Approximately 38% of the Bank's branches and offices are located in Metro Manila while the rest are strategically located in the countryside. Such a distribution system allows the Bank to cover places which are not covered by its competitors, which also tend to be the places where many beneficiaries of OFWs reside, giving the Bank direct access to OFWs and their beneficiaries.

To further strengthen its retail banking franchise, the Bank is opening new branches in growth areas; rationalizing the location of some branches to improve accessibility; and at the same time embarking on a rebranding program to improve customer experience and convenience. Between 2015 to 2018, PNB & PNBSB opened 53 new branches in Metro Manila and the countryside. Significant investments were also poured into the renovation of 213 branches during the same period for the Parent Bank and its thrift bank, thus transforming the majority of its branch network into modern sales and service hubs providing greater comfort and convenience to its clientele. In 2019, the Bank targets to open 15 additional branches in Metro Manila and the countryside, primarily branch lite units.

As of 31 December 2018, the Bank operated a network of 1,473 ATMs at its branch premises and off-site locations. PNB has installed 230 new ATMs in 2018.

The following table sets out the Bank's branches and ATM information in the Philippines:

	As of 31 December			
	2015	**2016**	**2017**	**2018**
Number of Branches				
Metro Manila	253	253	262	270
Rest of Luzon	221	230	236	238
Visayas	98	100	100	106
Mindanao	94	92	94	97
ATMs	927	1,049	1,243	1,473
Total	**1,593**	**1,724**	**1,935**	**2,184**

The Bank's branch heads are responsible for the performance and profitability of their branches. The Bank regularly monitors the progress of each of its branches and keeps the relevant branch head informed of such progress via a monthly dashboard. Although the Bank annually plans to expand its branch network to locations not currently served by the Bank, such expansion is subject to prior approval of the Monetary Board. The Bank has also been rationalizing its branch network and adjusting the size of certain branches in order to maximize operating efficiency.

The Bank is a member of BancNet, a consortium of ATMs in the Philippines. BancNet comprises 122 banks whose ATMs have been pooled for the common use of their respective customers. As of 31 December 2018, the Bank's customers had access to approximately 25,032 ATMs through the BancNet system.

Security is an important consideration in the Philippine banking industry. All of the Bank's branches are equipped with time delay lock devices, closed circuit television and alarm systems to prevent robberies. In addition, the Bank generally employs two security guards at each of its branches. These security services are provided by independent contractors to the Bank.

The Bank has also established a 24-hour customer care center, which handles all inbound inquiries for deposit accounts, as well as ATM, remittance and e-banking services offered by the Bank.

Consumer Finance

The Bank's consumer financing business is seen to be a major contributor to its revenue stream in the medium term. PNB Savings Bank ("PNBSB") serves as the primary consumer arm of PNB. In 28, September 2018, the Bank's Board of Directors approved and confirmed the full integration of the Bank's wholly-owned thrift bank subsidiary, PNB Savings Bank, through acquisition of its assets, and assumption of its liabilities in exchange for cash, subject to regulatory and other necessary approvals. Strategic initiatives have been undertaken to put in place the proper infrastructure to support PNBSB's business growth. In 2015, PNBSB aligned its consumer loan products: Smart Auto Loans, Smart Home Loans, Smart Business Loans, and Smart Salary Loans. To further propel consumer loans growth, a number of marketing campaigns, aimed at generating business and increasing product awareness, were initiated. As of 31 December 2016 and 2017, consumer loan levels were at ₱46.7 billion and ₱57.7 billion, respectively. As of 31 December 2018, consumer loan levels reached ₱54.1 billion.

In 2017, PNBSB introduced various product innovations such as the Power Saver Account, a tiered, high interest earning savings account that is bundled with free telemedicine services and life and accidental death insurance coverage. The additional services are available for Power Saver accounts with a minimum average daily balance (ADB) of PhP25,000. The free telemedicine services give customers instant access to Philippine-based licensed doctors for consultations, diagnosis and treatment of non-emergency related illnesses. The free life and accidental death insurance offers up to 5 times the account's previous month's average daily balance. PNBSB is the first in the industry to provide these benefits.

PNBSB also launched Smart Auto Loan and Home Loan Plus, which are value-added services extended by the Bank to its auto loan and home loan clients. For a minimal cost, PNBSB takes care of the loan-related hassles for its clients, such as processing of required paper work upon maturity of auto loans, cancellation of chattel mortgage, cancellation of real-estate mortgage, or payment of annual real property taxes.

Additionally, PNBSB launched the Smart Personal Loan, a loan facility that can be used for various purposes such as medical expenses, education, home renovation, purchase of appliances, furniture and other household needs, vacation trips, and other personal needs. This product is also enhanced with free double insurance coverage and telemedicine services. The double insurance coverage provides free life and accidental death insurance coverage for the borrower that is twice the principal amount of the loan, up to a maximum of ₱1 million. In case of accidental death, the double insurance coverage may also serve as payment to cover the remaining balance of the borrower while the excess insurance net of the remaining loan balance will also be awarded to the immediate beneficiary.

One of the major highlights, in terms of operations, is the Bank's successful migration to its new core banking system. The migration paved the way for the Bank to introduce and implement advanced systems in the market to more efficiently serve its clients, aside from enhancing the Bank's client information database and accounting requirements.

Smart Home Loans

Home Mortgage Loan is extended to both property buyers and owners in the Philippines who intend to have their acquisition or construction of residential homes financed by the bank, refinance their current home loans or mortgage their property to generate funds for personal investment. Interest rates are set at fixed rates for the loan term chosen. At present, the Bank offers competitively priced one-year, three year, five-year, ten-year, fifteen year and up twenty-year rate-fixing for home mortgages. The Bank even offers an Own a Philippine Home Loan program for immigrants or non-Filipino Citizens who wish to buy a property in the country.

As of 31 December 2017, home mortgage loan portfolio was ₱26.6 billion and accounted for 46.1% of the total consumer loan portfolio. As of 31 December 2018, the home mortgage loan portfolio reached ₱28.3 billion, accounting for 52.31% of the total consumer loan portfolio.

Credit Cards

The Credit Card Group continued to grow, with total cards in force reaching 393,640 as of 31 December 2018, a 17.5% increase from the 334,895 level as of 31 December 2017. Credit Card Receivables surged to ₱13.4 billion as of 31 December 2018 which is a 32.2% increase from its 31 December 2017 level of ₱10.1 billion. Billings reached ₱49.75 billion as of December 31, 2018, a 26.6% growth against the ₱39.3 billion level recorded as of 31 December 2017.

On March 20, 2018, PNB Credit Cards launched the newest credit card that would fit every millennial's need – the PNB-PAL Mabuhay Miles Now Mastercard. The card offers free annual fee for three (3) years, free

1,000 PAL Mabuhay Miles upon card activation, 5% discount on select PAL international flights for online bookings and double points during Fridays for shopping, dining and travel spend. The NOW Mastercard is packed with exclusive perks perfect for a millennial style as it offers a card with features fit for the travel savvy young professionals.

The "Experience More First" advertising campaign of the Cards Banking Solutions Group won in the category for PR Programs on a Sustained Basis in the annual 53rd Anvil Awards held last June 2018 at Shangri-la at the Fort. The campaign featured many of life's best experiences that customers can have using their PNB Cards. The Anvil Awards is presented annually by the Public Relations Society of the Philippines (PRSP) and is a symbol of excellence in Public Relations.

In July 2018, credit card functionalities were launched in the PNB Mobile App and Internet Banking System (IBS). Cardholders were able to enroll or register using their credit cards and they can now view balances of their credit card transactions (total, minimum, unbilled and billed transactions), view payments as well as pay bills using credit cards.

To further increase business volumes, the Bank continued to offer competitive usage, loyalty and retention programs. Major push and increase in merchant partners for Free First Month Free Installment and Zero% installment app Plus programs were done. There was also targeted communication to selected cardholders for Balance Transfer and Convert to Cash programs with special rate offers. Continuous partnerships with merchants under the travel, dining, wellness and shopping categories were done to further increase visibility among cardholders. To attract new card users, the Bank also intensified the marketing of its card products through improved incentive programs via its branch network, its major distribution channel.

As of 31 December 2017 and 2018, total credit card portfolio stood at ₱10.1 billion and ₱13.4 billion, respectively.

Smart Auto Loans

The Bank offers Sure Wheels Auto Loans which provide consumers with an easy way to acquire the vehicles of their choice. Sure Wheels Auto Loan finances as much as 80.0% of the purchase price of brand new vehicles. Its competitive rates and flexible payment terms translate to affordable monthly amortizations for the borrowers. Depending on the vehicle financed, payment terms can be from 12 to 60 months. New and second hand sedans, sport utility vehicles, action utility vehicles or light commercial vehicles are eligible for financing.

As of 31 December 2017 and 2018, the Bank has a total auto loan portfolio of ₱9.2 billion and ₱11.7 billion, respectively.

Smart Business Loans and Smart Salary Loans

Personal and salary loans are made available to permanent officers and employees of private companies and government agencies. This is availed of either over-the-counter where the client applies on his own or coursed through the company where they are employed provided that the company is accredited under the program. The accreditation process defines the repayment of loan to be made via salary deduction.

As of 31 December 2017 and 2018, the Bank's Multi-Purpose Personal loans portfolio stood at ₱650.9 million and ₱789.5 million, respectively. The Bank sees the growth of this portfolio to come from salary-deduction type arrangements from existing and new corporate relationships as well as expanding the distribution to cover OFWs and other Filipinos overseas.

Treasury Sector

The Treasury Sector primarily manages the liquidity and regulatory reserves of the Bank and risk positions on interest rates and foreign exchange borne out from the daily inherent operations in deposit taking and lending and from proprietary trading. This includes an oversight on risk positions of its foreign branches and subsidiaries. The Bank's Treasury Sector is divided into five divisions:

- The Asset and Liability Management Division ("ALMD") is responsible for managing the overall liquidity of the Bank's Regular Banking Unit ("RBU") and Foreign Currency Deposit Unit ("FCDU") books. It ensures that the requirements of all units of the Bank are efficiently served in terms of deposit withdrawals, loan drawdowns, remittances, and other related activities. This includes management and strict compliance to the required regulatory reserves on deposits and other mandatory liquidity ratios by the BSP. ALMD is also responsible for managing the investment portfolio of the bank. It invests in Philippine government securities and issues of Philippine corporates as well as securities issued by other governments and foreign corporations. ALMD also exercises oversight functions on liquidity management of foreign branches and finance-related subsidiaries. ALMD coordinates with the Risk Management Group and the Corporate Planning Group in managing the Bank's overall asset/liability mix to ensure compliance with internal interest rate and liquidity risk limits and to help maximize the Bank's interest margins.

- The Trading Division is responsible for managing the proprietary trading activities of the bank. It is composed of the following: 1) International Bond and Foreign Exchange Markets Trading Department which handles trading of foreign currency denominated fixed income securities and manages the proprietary trading in foreign currencies, substantially in the USD/PhP spot market; 2) Domestic Fixed Income and Equities Markets Trading Department which handles trading of peso denominated fixed income securities and the equities trading books. These trading departments also oversee the management of the fixed income securities and foreign exchange risk positions of the local and overseas branches of the Bank.

- The Treasury Sales and Distribution Division ("TSDD") distributes and makes markets on treasury products of the Bank to its client investor base. TSDD mainly distributes: 1) ₱ and USD denominated fixed income securities issued by the Republic of the Philippines and Philippine corporate registered fixed income securities, 2) Spot and Forward foreign currency contracts, and 3) Long-term debt papers issued by the Bank, local financial institutions and Corporates. Further, TSDD is responsible in generating relatively high-cost deposits or bought-money for the Bank's temporary liquidity requirements of the Bank. As the main driver in the distribution of the treasury products, TSDD distributes: 1) directly to institutional, commercial and high net-worth individuals, and, 2) indirectly, through the branches of the Bank located nationwide. The Branches are being developed as a strong marketing arm for the distribution of treasury related products.

- Corporate FX and Derivatives Sales Division ("CFXD") specifically caters to the foreign exchange requirement of the medium to large corporate accounts of the Bank. These are mainly Spot and Forward foreign exchange contracts. CFXD also enters into peso Interest Rate Swaps and USD/₱ Cross Currency Swaps ("CCS") with clients, within the BSP rules on sale of derivative products to clients, qualified corporate accounts of the bank for their hedge requirements.

- Product Engineering Division ("PED") is responsible for managing the proprietary trading of derivative products where the bank is allowed and licensed by BSP and in providing the hedging requirement of the bank's qualified corporate clients through the CFXD. It will continue to be involved in securing the derivatives license from the BSP for other products that the bank may want to get into. The PED is also responsible for taking advantage of any arbitrage opportunities and looking into yield enhancement products for the investment portfolio of the Bank.

Global Filipino Banking Group

PNB is one of the leading remittance service providers in the market and holds a 15% market share as of 31 December 2018. It has the largest overseas network among Philippine banks, with 73 branches, representative offices, remittance centers and subsidiaries in the United States, Canada, Europe, the Middle East and Asia. The Bank also has 159 overseas agents and tie-up partners, and maintains correspondent relationships with 545 banks and financial institutions worldwide.

Remitters can send money through various channels – over-the-counter at PNB branches, remittance centers, agents and tie-ups, and electronically via phone and web.

Beneficiaries in the Philippines can receive remittances through various payout modes, including online credit to a PNB account, credit to other banks, cash delivery, and cash pick-up in any of the 644 PNB domestic branches and in over 12,000 payout partner locations nationwide.

The range of remittance products and services available to overseas Filipinos also includes:

- *Overseas Bills Payment* – a service that allows overseas Filipinos to make payments to various institutions in the Philippines. Accredited billers include government agencies such as SSS and PAGIBIG, real estate companies, insurance and financial institutions, schools, online shopping companies, among others. For food remittance, Jollibee is the fulfilment partner. With this, remitters can order food packages for their beneficiaries in the Philippines.

- *Global Filipino Card* – a reloadable prepaid card with the following features:
    a) No deposit requirement and maintaining balance
    b) Can be used to purchase online and at point of sale terminals accepting Bancnet and Mastercard
    c) 24/7 ATM access nationwide through Bancnet and overseas through Mastercard
    d) Beneficiaries receive text alerts when funds are loaded in the card
    e) Maximum withdrawal limit of P100,000 per day

In addition to providing remittance services, overseas branches also offer the following:

- PNB Pangarap Loan – an all-purpose loan available in Singapore and Hong Kong secured by a hold-out on existing deposits maintained in the domestic branches of PNB.

- Own-a-Philippine-Home Loan – a housing loan extended to overseas Filipinos and non-Filipinos for the acquisition of real estate properties in the Philippines.

- Account Opening Facilitation – a service provided for those who are overseas who wish to open an account in the Philippines.

PNB will continue to be the trusted partner of Filipinos globally by providing products and services that can help fulfill their dreams.

Trust Banking Group

The Bank, through its Trust Banking arm provides a full range of Trust, Agency, and Fiduciary products and services designed to serve a broad spectrum of market segments. Its 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.

PNB TBG manages thirteen Philippine Peso- and US dollar-denominated Unit Investment Trust Funds (“UITFs”). These include money market funds, bond funds, balanced funds, and equity funds. TBG has a UITF variant called Global Filipino Funds offered exclusively to Overseas Filipinos and their beneficiaries.

Revenue from the trust business is generated through trust fees from the management of UITFs and corporate and personal trust products and services, as well as from other agency services. As of 31 December 2018, the total assets under management by PNB TBG stood at ₱87.75 billion from ₱88.0 billion as of 31 December 2017.

PNB TBG intends to support the business by leveraging on unique UITF products and the UITF Online Facility, the only end-to-end facility of its kind in the market today. Likewise, it continues to grow its high net worth individual client base through its comprehensive wealth management suite of services, beginning from fund management, tax planning, retirement planning, to comprehensive estate planning services. It builds its corporate trust market base through the customizable PNB Employee Enrichment Solutions program that features a built-in corporate social responsibility module and add-on features such as an employee loan administration. Moving forward, PNB Trust Banking Group will continue to offer a broad-range and highly diversified set of investment options.

Funding

Sources of funding

Deposit liabilities, bills and acceptances payable, subordinated debt and capital funds, which consist of capital stock and capital paid in excess of par value are the main sources of funding for the Bank. The Bank's deposit liabilities consist of demand, savings and time deposits. Majority of the deposits consisted of savings accounts.

As of 31 December 2018, customer deposits accounted for 81.4%, from 83.6% as of 31 December 2017, of total funding sources. The Bank traditionally has most of its deposit liabilities in the form of deposits under savings accounts, reflecting the relative strength of the Bank in the retail segment of the banking market. Although the majority of the Bank's customer deposits are classified under CASA, the Bank's depositors typically roll over their deposits at maturity, effectively providing the Bank with longer term funding. As of 31 December 2016 and 2017, the Bank had total deposit liabilities amounting to ₱570.5 billion, and ₱637.9 billion, respectively. As of 31 December 2018, deposit liabilities had grown to ₱733.3 billion.

As of 31 December 2018, the Bank had total bills and acceptances payables amounting to ₱70.1 billion from ₱43.9 billion and ₱35.9 billion as of 31 December 2017 and 2016, respectively.

As of 31 December 2017 and 2016, the Bank had total equity (including non-controlling interest) of ₱119.7 billion and ₱110.0 billion, respectively. By 31 December 2018, total equity stood at ₱128.6 billion.

For the years ended 31 December 2015, 2016, and 2017 the Bank's average cost of funding for deposits was 0.6%, 0.7%, and 0.8%, respectively. As of 31 December 2018, the Bank's average cost of funding for deposits was 1.1%.

The following table sets forth an analysis of the Bank's main sources of funding and the average cost of each funding source:

	As of 31 December					
	2016		2017		2018	
(₱ millions, except percentages)	**Volume**	**Ave Cost of Funding[1]**	**Volume**	**Ave Cost of Funding[1]**	**Volume**	**Ave Cost of Funding[1]**
Deposits by type:						
Demand	117,329	0.1%	**125,582**	0.1%	153,065	0.1%
Savings	368,798	0.6%	**351,422**	0.5%	401,622	0.9%
Time	84,376	2.2%	**160,916**	2.2%	178,614	2.7%
Total	**570,503**	**0.7%**	**637,920**	**0.8%**	**733,301**	1.1%

(₱ millions, except percentages)	As of 31 December		
	2016	**2017**	**2018**
Deposits by currency:			
Peso	462,980	521,964	618,828
Foreign	107,523	115,956	114,473
Total	**570,503**	**637,920**	**733,301**
Deposits by classification:			
Low Cost	319,518	364,175	392,667
Term	250,985	273,745	340,634
Total	**570,503**	**637,920**	**733,301**
Bonds Payable:	-	-	15,661
Bills and Acceptances Payable:			
Peso	32	112	16,407
Foreign	35,854	43,805	53,675
Total	**35,886**	**43,917**	**70,083**
Unsecured Subordinated Debt			
	3,498	-	-
Capital Funds			
Capital stock	49,966	49,966	49,966
Capital paid in excess of par value	31,331	31,331	31,331
Total	**81,297**	**81,297**	**81,297**
TOTAL	**691,184**	**763,134**	**900,342**

[1] *Average cost of funding represents total interest expense for the year, divided by the simple average liability for the respective period, expressed as a percentage.*

Deposits

Deposits continue to be the Bank's main funding source. Demand and savings deposits can be withdrawn on request and without any prior notice from the customer. As such, they represent funding of the shortest term available to the Bank. Time deposits, on the other hand, can be withdrawn, together with interest earned on said deposits, by the customer after the expiry of the time deposit period, typically between six months and three years. Customers may demand the withdrawal of their time deposits prior to maturity upon the giving of a short notice, but they will forfeit the interest payable on such deposits.

As of 31 December 2016, 2017 and 2018, the Bank had total deposits amounting to ₱570.5 billion, ₱637.9 billion and ₱733.3 billion, respectively.

As a proportion of the Bank's total main sources of funding, deposits accounted for 82.5%, 83.6% and 81.4% as of 31 December 2016, 2017 and 2018, respectively.

In terms of currency, the Bank's deposits are primarily denominated in Pesos, reflecting the general profile of its customer base. As of 31 December 2016, 2017 and 2018, 81.2%, 81.8% and 84.4%, respectively, of the Bank's deposits were denominated in Pesos.

According to type of deposits, on the other hand, approximately 85.2% and 74.8% and 75.6% of the Bank's outstanding deposits as of 31 December 2016, 2017 and 2018, respectively, comprised of demand and savings deposits. The following table presents a more detailed maturity analysis of the deposit base of the Bank as of the dates indicated:

	As of 31 December		
(in ₱ millions)	**2016**	**2017**	**2018**
Deposit by Type			
Demand	117,329	125,582	153,065
Savings	368,798	351,422	401,622
Time	84,376	160,916	178,614
30 – 90 days	28,395	61,880	76,861
91 – 180 days	8,177	8,826	16,720
181 days and longer	47,804	90,210	85,033
Total	**570,503**	**637,920**	**733,301**

Bills and acceptances payable

As of 31 December 2016, 2017 and 2018, bills and acceptances payables amounted to ₱35.9 billion, ₱43.9 billion and ₱70.1 billion, respectively.

As of December 31 2016, 2017 and 2018, approximately 0.1%, 0.3% and 23.4%, respectively of the Bank's bills and acceptances payables had been denominated in Pesos.

The following table sets forth an analysis of the maturities of the bills and acceptances payable by contractual maturity dates of the Bank, as of the specified dates:

	As of 31 December		
(in ₱ millions)	**2016**	**2017**	**2018**
Bills Payables			
Due within one year	23,407	7,105	59,440
Due beyond one year	10,820	34,580	8,877
Total Bills Payables	34,227	41,685	68,317
Acceptances	1,659	2,232	1,766
Total	**35,886**	**43,917**	**70,083**

Bonds Payable

In April 2018, the Bank issued US$ 300 million in Fixed Rate Senior Notes under the Bank's Medium Term Note Programme ("MTN"). This is the debut drawdown under the MTN,

Capital funds

As of 31 December 2016 and 2017, the Bank's capital stock of ₱50.0 billion, consisted of 1.2 billion common shares with par value of ₱40 each. As of 31 December 2018, the figures remained unchanged.

Liquidity

The Bank's liquidity management initiatives seek to ensure that the Bank has available funds to meet its present and future financial obligations and to capitalize on business opportunities as they arise. Financial obligations arise from withdrawals of deposits, extensions of loans or other forms of credit, repayments on maturity of borrowed funds and operational needs. The Bank seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, the securing of ample money market lines and the maintenance of repurchase facilities to pre-empt any unexpected liquidity situations. The Bank regularly monitors the maturity mismatch between assets and funding sources to ensure that it is kept at manageable levels.

Under relevant Philippines laws, Peso deposits and deposit substitute liabilities are subject to a unified, 20.0% statutory, legal and liquidity reserve requirement. Peso government deposits are subject to 0% liquidity floor requirement, inclusive of the 18% unified reserve requirement.

The Bank has complied with the legal and liquidity reserves set by the BSP for both the peso and foreign currency books. As of 31 December 2016 and 2017 and 31 December 2018, the Bank's liquid assets amounted to ₱264.3 billion, ₱270.1 billion and ₱333.5 billion, respectively, representing 35.0%, 32.3% and 33.9%, respectively, of the Bank's total assets as of those dates. For the year ended 31 December 2017, the Bank's unified reserves on the Peso book stood at 19.1% of total Peso liabilities while the Bank's liquid asset cover stood at 30.8% of total FCDU liabilities. As of 31 December 2018, the Bank's unified reserves on the Peso book stood at 17.3% of total Peso liabilities while the Bank's liquid asset cover stood at 44.9% of total FCDU liabilities.

Liquid assets include cash and other cash items, amounts due from the BSP, amounts due from other banks, interbank loans receivables, securities held under agreements to resell, financial assets at fair value through profit or loss, available-for-sale investments and held-to-maturity investments.

The following table sets forth information with respect to the Bank's liquidity position as of the dates indicated:

	As of 31 December		
(₱ millions, except percentages)	**2016**	**2017**	**2018**
Liquid Assets	264,255	270,145	333,467
Cash and Other Cash Items	11,015	12,391	16,825
Due from BSP	127,338	108,744	102,723
Due from Other Banks	22,710	22,025	20,525
Interbank Loans Receivable	7,791	12,838	11,249
Securities Held Under Agreements to Resell	1,972	14,622	20,700
Financial Assets at Fair Value Through P/L	1,914	2,883	9,999
Financial Assets at Fair Value Through Other Comprehensive Income	–	–	51,674
Financial Assets at Amortized Cost	–	–	99,773
Available-for-Sale Investments	67,341	69,837	–
Held-to-Maturity Investments	24,174	26,805	–
Total Assets	**753,982**	**836,357**	**983,648**
Total Deposits	**570,503**	**637,920**	**733,301**
Net Loans*	**406,534**	**472,453**	**563,237**
Financial Ratios			
Liquid Assets to Total Assets	35.0%	32.3%	33.9%
Liquid Assets to Total Deposits	46.3%	42.3%	45.5%
Net Loans to Total Deposits	71.3%	74.1	76.8%

** Receivable from customers, net of unearned and other deferred income and allowance for t t losses*

Loan Portfolio

Overview

As of 31 December 2016, 2017 and 2018, the Bank's gross loan portfolio (receivable from customers, unquoted debt securities, other receivables, interbank loans and securities under agreements to re-sell) amounted to ₱454.4 billion, ₱546.9 billion and ₱629.7 billion, respectively, representing 60.3%, 65.4% and 64.0% of total assets as of those dates.

The Bank has implemented different lending limits to be complied with by its credit committees to provide greater control in the Bank's lending operations. Depending on the credit size, credit applications exceeding certain limits must be approved by the Executive Committee and/or the Board of Directors of the Bank for credit approvals. The Bank has also adopted a strategy of selective lending by focusing on industries such as power and other infrastructure, rice/corn trading, and food processing, in which the Bank believes growth prospects remain stable and in which the ratio of NPLs is relatively low. At the same time, the Bank is reducing its exposure to industries with high NPL ratios.

Industry concentration

The following table sets forth an analysis of the Bank's receivable from customers by economic activity, as defined and categorized by the BSP:

	As of 31 December					
(₱ millions, except percentages)	**2016**		**2017**		**2018**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Financial intermediaries	64,806	15.6	72,758	15.1	96,278	16.8
Wholesale and retail trade	61,414	14.7	74,280	15.4	87,989	15.3
Real estate, renting and business activities	59,701	14.3	78,824	16.3	84,433	14.7
Electricity, gas and water	49,815	12.0	64,922	13.5	75,194	13.1
Manufacturing (various)	36,543	8.8	33,119	6.9	51,157	8.9
Transport, storage and communication	39,940	9.6	40,566	8.4	44,402	7.8
Construction	16,819	4.1	19,264	4.0	27,489	4.8
Public administration and defense	24,677	5.9	22,998	4.8	18,034	3.1
Agriculture, fishing and forestry	5,491	1.3	7,023	1.5	8,073	1.4
Others	57,192	13.7	68,547	14.1	81,428	14.1
Total	**416,398**	**100.0**	**482,300**	**100.0**	**574,477**	**100.0**

The financial intermediaries, wholesale and retail trade, real estate, renting and business activities, electricity, gas and water, and, represent the largest sectors of the Bank's loan portfolio. As of 31 December 2018, these sectors represented 16.8%,15.3%,14.7% and 13.1%, respectively of the Bank's receivable from customers vs. 15.1%, 15.4%, 16.3%, and 13.5%, respectively, as of 31 December 2017.

Under guidelines established by the BSP, the BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.0% of the total loan portfolio. The Bank maintains a flexible policy toward its exposure to the Philippine economy, in principle avoiding exposure of more than 10.0% to a particular industrial sub-sector of the economy. The distribution of the Bank's loan portfolio by industry is also subject to seasonal fluctuations. In addition, the Bank monitors its exposure to specific sectors of the economy to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must comply with legal requirements to make loans available to the agricultural sector. Mandatory credit allocation laws require all Philippine banks to make available 25.0% of their "loanable funds" to the agricultural sector in general, with 10.0% of such funds being made available exclusively to agrarian reform beneficiaries.

Maturity

The following table sets forth an analysis of the Bank's receivable from customers by maturity:

(₱ millions, except percentages)	As of 31 December					
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
Due within one year	164,952	39.6	175,807	36.4	**217,868**	**37.9**
Due beyond one year	251,446	60.4	306,493	63.5	**356,609**	**62.1**
Total	416,398	100.0	482,300	100.0	**574,477**	**100.0**

** Amounts are gross of allowance and discounts*

Loans due within one year primarily consist of loans to corporations for working capital and loans to consumers for general use. Loans with a maturity of between one and five years consist primarily of term loans to corporations and businesses. Loans with a maturity of over five years consist primarily of mortgage loan for property purchases.

Currency

The following table shows an analysis of the Bank's receivable from customers by currency:

(₱ millions, except percentages	As of 31 December					
	2016		2017		2018	
	Amount	%	Amount	%	Amount	%
Philippine Peso	367,271	88.2	417,818	86.6	497,629	86.6
Foreign Currency	49,127	11.8	64,480	13.4	76,848	13.4
Total	**416,398**	**100.0**	**482,300**	**100.0**	574,477	100.0

As of 31 December 2018, 86.6% of the Bank's receivables from customers was Peso-denominated and 13.4% was in foreign currency. As of 31 December 2017, 86.6% of the Bank's receivable from customers had been denominated in Pesos with 13.4% being denominated in foreign currency, most of which consisted of U.S. dollars.

The Bank adopted a policy with respect to foreign currency lending pursuant to which foreign currency-denominated loans can only be granted to companies with at least 50.0% of revenues in foreign currency and to importers who have authorization from the BSP to purchase foreign currency to service their foreign currency-denominated obligations.

Interest rates

Interest rates on loans are generally set on the basis of the Bank's average or marginal cost of funds which in turn is largely determined by the interest rate on PDST-R1/R2 (Philippine Dealing System Treasury – Reference Rates) plus a spread. The PDST-R1/R2 reflects the secondary trading levels of the benchmark government securities, which are partially affected by the monetary policies of the BSP. On 29 October 2018, the PHP Bloomberg Valuation Service (PHP BVAL) Reference Rates were launched to replace the current set of PDST-R1/R2.

As of 31 December 2018, ₱368.2 billion or 64.1% of the Bank's ₱574.5 billion receivables from customers was subject to re-pricing compared to ₱380.1 billion or 78.8% of the ₱482.3 billion receivables from customers as of 31 December 2017.A majority of the Bank's rate-sensitive assets and liabilities re-price every 30 to 90 days which limits the Bank's exposure to fluctuations in domestic interest rates.

Size and concentration of loans

The following table sets forth a breakdown of Bank's receivable from customers by principal amount as 31 December 2018:

Principal Amount	Percentage
Less than 1,000,000	0.6
1,000,000 to 2,500,000	1.5
2,500,000 to 5,000,000	2.8
5,000,000 to 10,000,000	4.1
10,000,000 to 50,000,000	15.8
50,000,000 to 100,000,000	8.4
More than 100,000,000	66.8
Total	100.0

The BSP currently imposes a limit on the size of the Bank's financial exposure to any single person or entity or group of connected persons or entities to 25.0% of the Bank's net worth. As of 31 December 2018, the Bank has complied with the single borrower's limit for all of its loans.

As of 31 December 2018, the Bank's single largest corporate borrower is a GOCC accounting for ₱21 billion, or 3.6% of the Bank's outstanding receivable from customers.

As of 31 December 2018, the Bank's 10 largest borrowers in the aggregate accounted for ₱104.1 billion, or 18.1%, of the Bank's outstanding receivable from customers.

Secured and unsecured loans

The following table sets forth the Bank's secured and unsecured loans according to type of collateral:

	As of 31 December					
(₱ millions, except percentages)	**2016**		**2017**		**2018**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Secured						
Real Estate Mortgage	62,258	15.0	69,798	14.5	90,847	15.8
Bank Deposit Hold-Out	14,035	3.4	14,600	3.0	22,786	4.0
Shares of Stock	1,681	0.4	1,412	0.3	-	0.0
Chattels	33,532	8.0	28,160	5.8	28,854	5.0
Others	38,700	9.3	75,308	15.6	81,551	14.2
Unsecured	266,192	63.9	293,022	60.8	350,439	61.0
Total	**416,398**	**100.0**	**482,300**	**100.0**	**574,477**	**100.0**

The Bank principally focuses on cash flows in assessing the creditworthiness of borrowers. However, it will seek to minimize credit risk in support of a loan by requiring borrowers to pledge or mortgage collateral to secure the payment of loans. As of 31 December 2017, 39.2% of total loans was extended on a secured basis, of which 14.5% was backed by real estate mortgages. On the other hand, as of 31 December 2018, 39.0% of total loans was secured, of which 15.8% was backed by real estate mortgages.

The Bank's general policy in the acceptance of support or security arrangements for loans provides for the guidelines on acceptable and unacceptable forms of collateral. The Bank's maximum loan value for real estate collateral is 60.0% of its appraised value, except for housing loans which have a maximum loan value of up to 80.0% of a home's appraised value.

Credit approvals

Credit policies

One of the basic credit risk management infrastructures of the Bank is the adoption of effective credit policies to govern its various lending operations. These policies are directed towards the following institutional objectives: (i) to maintain a sound and prudent lending portfolio; (ii) to be responsive to market changes; (iii) to maintain the liquidity of its risk asset portfolio; and (iv) to attain profitability commensurate to risks taken.

All credit policies adopted by the Bank are approved by the Bank's Board of Directors and any amendments or revisions require prior approval of the Board unless expressly delegated to the President and other committees.

These policies reflect the Bank's credit risk tolerance which are communicated constantly to all lending units and support offices. Limits are imposed to manage credit concentration risks and provide more control of the Bank's lending operations. The Bank has also put in place pro-active monitoring systems to ensure compliance with statutory and internal limits. Approvals on deviations to credit policies are based on the Bank's Manual on Signing Authority ("MSA") for credit matters.

Credit approval process

Loan recommendations are submitted to the different levels of credit committees or to designated approving officers within the Bank. The aggregate amount of the credit facility, generally, will determine the approving body which will approve the transaction. However, loan recommendations requiring Board approval needs the endorsement of the Senior Management Credit Committee ("SMCC") and the Executive Committee ("EXCOM").

Before the Bank approves any extension of credit, the Bank identifies the needs of the prospective borrower, analyzes the appropriateness of the exposure and evaluates any inherent risks. The Bank assigns an account officer to every prospective borrower to start the credit approval process. The account officer identifies the borrowing requirements of the client and obtains the loan application form from client together with the required documents. The account officer further determines if exposure can be covered by collateral. In cases where a property appraisal is warranted, this is undertaken by the Bank's appraisal unit or by an accredited external appraiser. The account officer conducts credit evaluation on the prospective borrower with the assistance of the credit support units, as needed. For borrowers from the middle- market segments, the account officer will validate the borrower's financial position from different information sources. For transactional lending, the account officer may focus more on the size and quality of cash flows from the transaction, but also continues to consider the financial position of the borrower itself.

Lending centers credit committees have authority to approve aggregate credits and trade transactions of not more than ₱20.0 million. Requests for secured credit accommodations and trade transactions aggregating up to ₱50.0 million are approved by the Institutional Banking Group Sector Credit Committee while those up to ₱100.0 million are for approval of the SMCC. Any request for approval of credit accommodations and trade transactions of over ₱100.0 million are approved by the EXCOM. Specific transactions which are beyond the authority of the EXCOM shall require Board approval.

The decision on whether or not to extend the credit is determined by a combination of internal policies and guidelines and the regulatory policies of the BSP. The internal credit policies are continuously reviewed and updated by the Credit Policies Division.

Except as may be otherwise approved by the, the Bank generally cannot grant to a single borrower a loan equivalent to more than 25.0% of the Bank's net worth. This can be increased by 10.0% provided these are secured by trust receipts, shipping documents or other documents transferring title to readily marketable non-perishable goods covered by insurance. In determining whether the Bank meets the single borrower's limit of the BSP, the Bank includes exposure to related accounts (i.e., exposure to subsidiaries and parent companies of the borrower including guarantees by the borrower or its related companies or its principal officers) but excludes, amongst others, loans and other credit accommodations guaranteed by the BSP or the Philippine Government and Government corporations, loans secured by hold- outs/margin deposits maintained in the Bank and other loans and credit accommodation classified as non-risk by the

Monetary Board.

Additionally, exposure to specific sectors of the economy is subject to internally approved limits or ceilings which are regularly monitored. There are however certain sectors which are already subject to specific pre-determined lending requirements as imposed by law on all banks, specifically in the area of lending to small and medium scale industries, to the agricultural/agrarian sector and to the real estate industry.

The Bank also follows guidelines of the BSP in the grant of loans to its directors, officers, stockholders and other related interests (i.e., certain relatives, affiliates, subsidiaries and parent companies thereof). Grants of these facilities require the approval of the Bank's Board of Directors and compliance with individual and aggregate ceilings as well as the BSP reporting requirements.

For control purposes, implementation of credit approvals is subject to review at least once a year by the Internal Audit Group. This audit is designed to determine the efficiency of the internal control system in place as well as the quality of lending operations. Additionally, the Board Audit and Compliance Committee monitors the past due level and status of past due accounts. Risk Management Group also does this via the Credit Dashboard reported to the Risk Oversight Committee.

In compliance with BSP requirements, the Bank has an Internal Credit Risk Rating System ("ICRRS") for corporate accounts and credit scoring for consumer and small loans to standardize the assessment of its credit portfolio in terms of risk profile. The ICRRS grades new and existing corporate loan borrowers with total assets of more than ₱15.0 million, regardless of the total credit facilities. Existing or prospective loan borrowers with asset size of ₱15.0 million and below are rated using the respective credit scoring system for small and medium enterprises as well as consumer loan borrowers.

Credit monitoring and review process

Pursuant to the BSP's Manual of Regulations for Banks (the "MORB"), the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets and of evaluating credit policies with regard to prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the Bank has established credit support units under its credit risk management group to review and monitor individual accounts within a particular portfolio to identify existing and potential areas of deterioration and assess the risks involved. In addition, the credit support units evaluate the degree to which a particular lending unit is complying with existing credit management policies.

The evaluation of the individual loan accounts culminates in the classification of the account. The classification indicates the degree or gravity of the perceived problems of the account reviewed. The reviewed loan accounts are classified in accordance with the standard classifications set forth in the Manual.

The review and recommended classification of a loan account are initiated by the assigned account officer and approved per the MSA.

DOSRI

The Bank and its subsidiaries will, from time to time and in the ordinary course of business, enter into loans with directors, officers, shareholders and/or related interests ("DOSRI"). All such loans are on commercial, arm's-length terms. BSP regulations require that the aggregate amount of such DOSRI loans should generally not exceed 100.0% of the Bank's net worth or 15.0% of the Bank's total loan portfolio, whichever is lower, but in no case shall the total unsecured loans, other credit accommodations and guarantees to said DOSRI exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.. The amount of any loan to a DOSRI of the Bank, of which 70.0% must be secured, may not exceed the aggregate amount of their unencumbered deposits with the Bank and the book value of their paid-in capital investments in the Bank. The Bank is required to report the level of DOSRI loans to the BSP on a weekly basis. The Bank is required to submit to BSP a copy of the approval within 20 days from the date of approval. DOSRI loans accounted for ₱11.9 billion or 2.9% of the Bank's total receivables from customers as of 31 December 2016. As of 31 December 2017, DOSRI loans accounted for ₱8.2 billion or 1.7% of PNB's receivables from customers. On the other hand, as of 31 December 2018, DOSRI loans accounted for ₱7.9 billion or 1.4% of PNB's receivables from customers.

Loan Loss Management and Provisioning

Overview

The Bank has successfully managed to reduce its NPL ratio from 51.6% in 2002 to 4.5% in 2010 and further to 0.34% as of 31 December 2018. The Bank's NPLs, as defined by BSP Circular No. 772 dated 16 October 2012, amounted to ₱9.0 billion as of 31 December 2017, as compared to ₱8.8 billion as at 31 December 2016. The Bank's NPL ratio was slightly higher at 0.34% as of 31 December 2018 due to a slight increase in NPL level by ₱424 million. According to the data from the BSP, net NPL ratios for local banks in the Philippine banking system were 0.9%, 0.8% and 0.6% as of 31 December 2018, 31 December 2017 and 31 December 2016, respectively.

For the period ended 31 December 2018, the Bank's provision for credit losses was ₱1.8 billion, representing 5.0% of the Bank's gross interest income for the period. For the year ended 31 December 2017, the Bank's provision for credit losses for loans and receivables was ₱813.0 million, representing 2.9% of the Bank's gross interest income for the same period. For the year ended 31 December 2016, the Bank's provision for credit losses was ₱2.7 billion, which represented 11.1% of the Bank's gross interest income for the same period. Loan loss coverage for NPLs of the Bank stood at 156.9%, 130.6% and 132.8% as of 31 December 2018, 2017 and 2016, respectively.

Volatile economic conditions may adversely affect the ability of the Bank's borrowers to repay their indebtedness and, as a result, the Bank may experience an increase in NPLs and provisions for probable losses.

Remedial Management Group

The Remedial Management Group is focused on reducing the level of the Bank's NPLs.

Loan loss classification

For the purpose of regulatory reporting in the Philippines, current BSP regulations require that Philippine banks classify NPLs based on four different categories corresponding to levels of risk: "especially mentioned", "substandard", "doubtful" and "loss". This classification depends on management's evaluation of the collectability of the loan, after consideration of prevailing and anticipated economic conditions, collection and credit experience with the specific account, fair market value of collateral, and financial capabilities of any guarantors. Based on these considerations, loans are classified and mandated levels of provisions are taken based on such classifications.

For the purpose of preparing its financial statements in accordance with PFRS, the introduction of new accounting standards in the Philippines has required the Bank to introduce new methodologies for calculating loan loss provisions and asset impairment which has resulted in it recognizing higher levels of impairment losses in respect of its loans and other receivables. In August 2018, the BSP issued Circular No. 1011 which formally adopts PFRS 9 in its prudential loan loss provisioning policy, with certain modifications and calibrations. The Bank has adopted the said circular at its effectivity date and is reflected in the financial statements to the extent applicable and consistent with PFRS 9.

BSP classification

At the date of this Offering Circular, for the purpose of reporting to the BSP, the Bank classifies its borrowers and assesses its asset quality based on its self-assessment procedures developed in accordance with current guidelines published by the BSP.

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses, for the years ended 31 December 2015, 2016 and 2017 are on the basis of BSP guidelines and do not reflect the new accounting standards referred to above.

The Bank performs self-assessment at least annually. The self-assessment process involves classifying borrowers based on their financial condition and then categorizing claims against borrowers in order of collection risk. Based on these classifications, the Bank establishes allowances and discloses its problem loans using criteria required under BSP regulations and these allowances are subject to BSP review and confirmation.

In categorizing its loan portfolio, the Bank follows the BSP's categorization of risk assets according to their risk profile. All risk assets, in particular the Bank's loan portfolio, are either classified or unclassified. Those loans which do not have a greater than normal risk, and for which no loss on ultimate collection is anticipated, are unclassified. All other loan accounts, comprising those loan accounts which have a greater than normal risk, are classified as "especially mentioned", "substandard", "doubtful" or "loss" assets, and the appropriate loan loss allowance (in accordance with BSP guidelines) is made as follows:

BSP Risk Classification	**Loan loss allowance % of principal amount of loan**
Pass	0 - 6
Especially mentioned	12
Substandard	15
Secured	15
Unsecured	25
Doubtful	
Secured	50
Unsecured	75
Loss	
Secured	100
Unsecured	100

The Bank adopts a qualitative analysis of its loan portfolio for the purposes of this risk classification, which is not solely dependent on the number of days the relevant loan is overdue. The Bank's review of its risk assets is conducted quarterly or when adverse developments are noted in accordance with the Bank's prescribed policy guidelines based on BSP categorization. The Bank's guidelines classify "pass" those loans and other credit accommodations which do not have greater-than-normal risk while "especially mentioned" assets are loans and other credit accommodations that have potential weaknesses that deserve close attention and if left uncorrected, may affect the repayment of the loan. The Bank's guidelines classify "substandard" assets are loans and other credit accommodations that have a well-defined weakness or weaknesses that may jeopardize their repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower. "Especially mentioned" and "substandard" classifications may apply to current loans in accordance with BSP regulations. "Doubtful" assets are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets. Assets which are considered impossible to collect or worthless are characterized as "loss" assets. Once a loan is classified in a particular category, the Bank records a loan loss allowance against such loan.

The following is a summary of the risk classification of the receivable from customers (as a percentage of total outstanding loans) and allowance for credit losses of the Bank as of the dates indicated below:

	As of 31 December					
(₱ millions, except percentages)	**2016**		**2017**		**2018**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Risk Classifications						
Especially Mentioned	3,751	0.9	4,242	0.9	1,522	0.3
Substandard						
Secured	986	0.2	977	0.2	321	0.2
Unsecured	700	0.2	652	0.1	1,357	0.2
Doubtful	638	0.2	974	0.2	964	0.2
Loss	6,904	1.7	5,467	1.1	7,340	1.3
Total Classified	12,979	3.1	12,312	2.6	11,503	2.3
Unclassified	403,419	96.9	469,980	97.4	562,974	97.7
Total	**416,398**	**100.0**	**482,300**	**100.0**	**574,477**	**100.0**

Allowance for credit losses	**8,374**	**8,496**	**10,260**

Loans classified as "loss" assets are generally written off by the Bank. The write-offs are done in accordance with BSP guidelines. The guidelines allow banks, upon approval by their board of directors, to write off loans, other credit accommodations, advances and other assets, regardless of amount, against allowance for impairment losses (valuation reserves) or current operations as soon as they are satisfied that such loans, other credit accommodations, advances and other assets are of no value. However, prior approval of the Monetary Board is required to write off loans and advances to DOSRI.

In addition to making specific allowances for impairment losses based on the risk classification of its loan portfolio, the Bank's allowances for impairment losses also included general allowances and the substantial majority of classified loans are also recognized as NPLs by the Bank.

As at 31 December 2018, the Bank's allowance for credit losses on loans on a consolidated basis was ₱10.3 billion. As a percentage of the Bank's NPL portfolio, such allowance for credit losses was 125% as at 31 December 2018.

Non-performing loans

Unless otherwise stated, the presentation of the Bank's classification of its loan portfolio and related ratios in this section, including impairment losses and allowance for probable losses are on the basis of BSP guidelines.

Under the new BSP guidelines issued in 2017, the general rule is that an account that does not pay on contractual due date is deemed past due the following day. However, banks are allowed to provide for a cure period policy (not exceeding 30 days) on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered as past due, provided that the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays. On the other hand, an account or exposure is considered non-performing, even without any missed contractual payments, when it is deemed impaired under existing applicable 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, in the case of secured accounts. All other accounts, even if not considered impaired, shall be considered non-performing if any contractual principal and/or interest are past due for more than 90 days, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Loans which have been foreclosed or have been transferred to the Bank's ROPA account are not classified as non-performing loans.

The table below sets forth details of the NPLs, non-accruing loans, ROPA, NPAs (as described below), restructured loans and write-offs for loan losses as of the three years ended 31 December 2016, 2017 and 2018:

	As of 31 December		
(₱ millions, except percentages)	**2016**	**2017**	**2018**
Non-performing loans (NPLs), gross[1]	8,772	9,026	9,450
Non-performing loans (NPLs), net[2]	701	1,176	1,831
Adjusted loan portfolio[3]	379,676	448,145	536,711
Total non-performing loans to adjusted loan portfolio [4]	2.3%	2.0%	1.8%
Non-accruing loans	8,369	14,861	11,063
Receivable from customers	416,398	482,300	574,477
Non-accruing loans to receivable from customers	2.0%	3.1%	1.9%
ROPA, Gross	21,372	20,339	18,605
ROPA, Net	16,341	15,594	13,489
Total assets	753,982	836,357	983,648
Non-performing assets (NPAs)	30,144	29,365	28,055
NPAs to total assets	4.0%	3.5%	2.9%
Allowance for impairment and credit losses (total)[5]	20,064	20,592	23,565
Allowance for credit losses (loans) [4]	11,645	8,253	10,037
Allowance for impairment losses (ROPA)[5]	3,296	3,019	3,283
Allowance for credit losses (loans)[3] to total non-performing loans, gross	132.8%	130.6%	156.9%
Allowance for impairment and credit losses (total) to total non-performing assets	67.4%	70.1%	70.4%
Total restructured loans	1,537	2,070	2,095
Restructured loans to receivable from customers	0.4%	0.4%	0.4%
Loans - written off[6]	330	178	395

[1] *Figures pertain to Parent Company only*
[2] *Net of NPLs covered by allowance for credit losses and consists of Parent Company balances only*
[3] *Including Interbank Loans Receivable and Securities Held Under Agreements to Resell, net of NPLs fully covered by allowance for credit losses and transferred account*
[4] *Based on BSP computation and is based on Parent Company balances only*
[5] *Amounts are based on PFRS*
[6] *Amounts presented are loans written off from Parent Company Receivables from Customers*

The Group's NPLs (gross of allowance for impairment losses) is at ₱9.4 billion as of 31 December 2018 from ₱9.0 billion as of 31 December 2017. However, NPL ratios of the Bank based on BSP guidelines, net of valuation reserves is the same at 0.3% as at December 31, 2018 and 2017. PNB's Net NPL ratio of 0.3% is better than the industry (universal and commercial banks) average Net NPL ratio of 0.9% as of 31 December 2018. Gross NPL ratio was at 1.76% as of 31 December 2018 from 2.01% at end 2017 and 2.31% at end of 2016.

In order to manage its loan portfolio and reduce its exposure to NPLs, the Bank's practice is to restructure those classified loans which it considers suitable for restructuring. The Bank restructures loans on a case-by-case basis. Restructuring methods used by the Bank have included extending the maturity of loans beyond their original maturity date and providing for rescheduled payments of principal consistent with the expected cash flows on the borrower in question. The Bank will also consider, in certain circumstances, receiving partial repayments of principal in respect of restructured loans. The Bank has also agreed to debt-for-equity swaps but it rarely uses this as a restructuring solution.

In accordance with BSP guidelines, in general, NPLs which are successfully restructured are considered current and no longer non-performing following three consecutive payments of the required amortization of principal and/or interest. As of 31 December 2018 and 2017, the Bank had approximately ₱2.1 billion of restructured loans which were treated as current.

In accordance with BSP guidelines, loans and other assets in litigation are classified as NPAs. The Bank's NPAs principally comprise ROPA and NPLs. The Bank has established the Special Asset Management Group to actively manage and, where appropriate, sell its ROPA. The Bank has sold approximately ₱1.1 billion and ₱2.1 billion of ROPA for the years ended 31 December 2017 and 2016, respectively. As of 31 December 2018, the Bank has sold approximately ₱2.6 billion of ROPA. These ROPAs were resolved through direct sales and joint ventures.

Sectoral analysis of non-performing loans

The following table sets forth, as of the dates indicated, the Parent Company's gross NPLs by the respective borrowers' industry or economic activity and as a percentage of the Parent Company's gross NPLs:

	As of 31 December					
(₱ millions, except percentages)	**2016**		**2017**		**2018**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Manufacturing (various)	3,098	35.3	3,096	34.3	3,679	38.9
Real estate, renting and business activities	3,448	39.3	2,520	27.9	444	4.7
Wholesale and retail trade	1,044	11.9	1,331	14.8	1,875	19.8
Community, social and personal activities	581	6.6	920	10.2	1,508	16.0
Agriculture, fishing and forestry	117	1.3	225	2.5	219	2.3
Transport, storage and communication	17	0.2	44	0.5	164	1.7
Utilities	11	0.1	-	-	130	1.4
Financial intermediaries	14	0.2	-	-	-	-
Construction	82	0.9	148	1.6	794	8.4
Public administration and defense	131	1.5	121	1.3	121	1.3
Others	229	2.7	621	6.9	516	5.5
Total	**8,772**	**100.0**	**9,026**	**100.0**	**9,450**	**100.0**

Top 10 non-performing loans

As of 31 December 2018, the Bank's exposure from its 10 largest NPLs range from ₱142.3 million to ₱1.8 billion, and amounted to approximately ₱6.4 billion in aggregate. These 10 largest NPLs accounted for 1.2% of the Bank's total gross loans and 68.2% of its gross NPLs to customers.

Acquired Assets Management Group

The Acquired Assets Management Group ("AAMG"), formerly Special Assets Management Group, is responsible for the management and disposal of all of the Bank's ROPA. It operates based on Management overall directions/plans and strategies. Its sales performance has a great impact on the financial aspect of the Bank.

As of 31 December 2018, AAMG was able to systematically manage and dispose the 169 properties, which has an aggregate market value of ₱7.27 billion. These properties are classified into:

Classification	**Number of Items**	**Aggregate Market Value (in ₱ billion)**
Commercial	10	5.40
Residential	95	1.56
Industrial	5	0.04
Others	59	0.27

For the past three (3) years, AAMG has generated an average annual ROPA disposal of ₱5.08 billion, which yielded a weighted average of 61% premium to book value. AAMG expects to end the year 2018 with total sales of ₱6.92 billion.

As part of its strategy in effective marketing and disposal, The Bank's ROPA are categorized into five pool assets:

Pools	Focus
1	Distribution Channels
2	Amnesty Program
3	Joint Ventures
4	Compromise Settlement
5	Agricultural

The Bank’s major strategy in the disposal of its ROPA for 2019 and onwards shall be the following:

- Focused selling on high value foreclosed properties
- Enhance value of properties through effective property management activities such as consolidation, physical possession, among others
- Increased/ sustained efforts to generate income for the bank in leasing income, CARP income, and interest income.

Risk Management

A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the Board and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen the enterprise risk management of PNB, while positioning PNB Group to manage the changing regulatory environment in an effective and efficient manner.

Strong independent oversight has been established at all levels within the group. The bank’s Board of Directors has delegated specific responsibilities to various board committees which are integral to the 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.

The approach to managing risk is outlined in the bank’s Enterprise Risk Management Framework (“ERM Framework”) which creates the context for setting policies and standards, and establishing the right practices throughout the 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.

Since 2006 the ERM Framework, with regular reviews and updates, has served PNB well and has been resilient through economic cycles. The organization has placed a strong reliance on this risk governance framework and the three lines-of-defense model, which are fundamental to PNB’s aspiration to be world-class at managing risk.

While the first line of defense in risk management lies primarily on the bank’s risk taking units as well as the bank’s support units, the Risk Management Group is primarily responsible for the monitoring of risk management functions to ensure that a robust risk-oriented organization is maintained.

The risk management framework of the Bank is under the direct oversight of the Chief Risk Officer (“CRO”) who reports directly to the Risk Oversight Committee. The CRO is supported by Division Heads with specialized risk management functions to ensure that a robust organization is maintained. The Risk Management Group is independent from the business lines and organized into the following divisions: Credit Risk Division, BASEL and ICAAP Implementation Division, Market & ALM Division, Operational Risk Division, Information Security / Technology Risk Management, Trust and Fiduciary Risk Division and Business Intelligence & Warehouse Division.

Each division monitors the implementation of the processes and procedures that support the policies for risk management applicable to the organization. These board approved policies, clearly define the kinds of risks to be managed, set forth the organizational structure and provide appropriate training necessary to manage and control risks.

The bank’s governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. RMG also functions as the Secretariat to the Risk Oversight Committee which meets monthly to discuss the immediate previous month’s total risk profile according to the material risks defined by the bank in its ICAAP document.

Further, each risk division engages with all levels of the organization among its business and support groups. This ensures that the risk management and monitoring is embedded at the moment of origination.

The risk management system and the directors’ criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the Business Units and presented to the Risk Oversight Committee for endorsement for final Board Approval.

In line with the integration of the BSP required ICAAP (internal capital adequacy assessment process) and risk management processes, PNB currently monitors 9 Material Risks (three for Pillar 1 and six for Pillar 2). These material risks are as follows:

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

Pillar 1 Risk Weighted Assets are computed based on the guidelines set forth in BSP Circular No. 538 using the Standard Approach for Credit and Market Risks and Basic Indicator Approach for Operational Risks. Discussions that follow below are for Pillar 1 Risks with specific discussions relating to Pillar 2 risks mentioned above:

Risk Categories and Definitions

We broadly classify and define risks into the following categories, and manage the risks according to their characteristics. These are monitored accordingly under the enterprise ICAAP 2016 program:

Risk Category	**Risk Definition**	**Risk Monitoring Process**	**Risk Management Tools**
Credit Risk (including Credit Concentration Risks and Counterparty Risks)	Credit risk is the risk to earnings or capital that arises from an obligor/s, customer/s or counterparty's failure to perform and meet the terms of its contract. Credit Concentration Risk is part of credit risk that measures the risk concentration to any single customer or group of closely-related customers with the potential threat of losses which are substantial enough to affect the financial soundness of a financial institution (*BSP Circular 414)*	Loan Portfolio Analysis Credit Dashboards Credit Review Credit Model Validation	▪ Trend Analysis (Portfolio / Past Due and NPL Levels ▪ Regulatory and Internal Limits ▪ Stress Testing ▪ Rapid Portfolio Review ▪ CRR Migration ▪ Movement of Portfolio ▪ Concentrations and Demographics Review ▪ Large Exposure Report ▪ Counterparty Limits Monitoring ▪ Adequacy of Loan Loss Reserves Review ▪ Specialized Credit Monitoring (Power, Real Estate)
Market Risk	Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of financial instruments, products and transactions in an institution's overall portfolio, both on or off balance sheet and contingent financial contracts. Market risk arises from market-making, dealing and position taking in interest rate, foreign exchange, equity, and commodities market.	▪ Value at Risk Utilization ▪ Results of Marking to Market ▪ Risks Sensitivity/Duration Report ▪ Exposure to Derivative/Structured Products	▪ VAR Limits ▪ Stop Loss Limits ▪ Management Triggers ▪ Duration Report ▪ ROP Exposure Limit ▪ Limit to Structured Products ▪ 30-day AFS Holding Period ▪ Exception Report on Traders' Limit ▪ Exception Report on Rate Tolerance
Liquidity Risk	Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from an FI's inability to meet its obligations when they come due.	▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ MCO ▪ Liquidity Gap	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
		Analysis ▪ Liquid Assets Analysis	
Interest Rate Risk in the Banking Books (IRBB)	Interest rate risk is the current and prospective risk to earnings or capital arising from movements in interest rates. The amount at risk is a function of the magnitude and direction of interest rate changes and the size and maturity structure of the mismatch position. (BSP Circ 510, dated 03 Feb 2006)	▪ Interest Rate Gap Analysis ▪ Earnings at Risk Measurement ▪ Duration based Economic Value of Equity	▪ EAR Limits ▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. *(BSP Circular 900)*	▪ Risk Identification ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: Risk Identification – Risk Maps Risk Measurement and Analysis – ICAAP Risk Assessment	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk) Including Social Media Risk and AML Risk	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet client's expectation in delivering the Bank's products and services. Risks in social media include susceptibility to account takeover, malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories: 1. Terrorist financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by AMLC – Ant-Money Laundering Council	▪ Risk Identification ▪ Risk Measurement ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: ▪ Risk Identification – Risk Maps ▪ Risk Measurement and Analysis – ICAAP Risk Assessment Major Factors considered: ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators)	▪ Account Closures Report ▪ Service Desk Customer Issues Report/Customer Complaints Monitoring Report ▪ Mystery Caller/Shopper ▪ Evaluation/ Risk Mitigation of negative media coverage ▪ Public Relations Campaign ▪ Review of Stock Price performance ▪ Fraud Management Program ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ AML Compliance Review / Monitoring ▪ Enhanced Due Diligence Program for Customers
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of		▪ Management Profitability Reports – Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	decisions, or lack of responsiveness to industry changes.		▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk /	Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the bank's digital footprint through (not limited to) the following: • Breaches in data security • Sabotage on online (web-based) activities (Ransomware, DDOS, etc) • Common threats (spam, phishing, malware, spoofing viruses, spoofing, etc) • Scams and Frauds (Social engineering, identify thefts, email scams, etc)		▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous infosec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and inbound digital traffic
Information Security / Data Privacy	Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators – phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others. Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.		• Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterprise–wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements • Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk result from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the Bank's business and may prevent compliance with regulations, impact profitability, and damage your company's reputation in the marketplace. Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.	▪ Risk Identification ▪ Risk Measurement ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or Mitigate Risk)	▪ Risk Asset Register ▪ Risk Awareness Campaigns ▪ IT Risk Assessments ▪ Formal Project management Program adoption ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ Vendor Management Process Monitoring

Asset and Liability Committee

An Asset and Liability Committee ("ALCO") chaired by the President of the Bank meets every other week. The committee's function is to assist the BOD by assessing the adequacy and monitoring the implementation of the Bank's Asset/Liability Management Policy (the "ALM Policy") and related procedures. The ALM Policy includes specific policies and procedures relating to (i) interest rate risk, (ii) market/ investment risk, (iii) liquidity risk, (iv) credit risk limited to investments, and (v) capital risk.

Maturity (liquidity) risk management

The Bank's policy is to manage its operations with the objective of ensuring that funds available are adequate to meet credit demands of its customers and to enable deposits to be repaid on maturity.

To provide flexibility in meeting these liquidity needs, the Bank maintains diversified liquidity sources. The primary source of liquidity is deposits of retail clients, denominated in both Pesos and U.S. Dollars, generated by the Bank's network of domestic branches. The deposit base of the Bank is short-term in nature which is comparable to the nature of the business in the Philippines banking industry. The bank differentiates itself by having a strong deposit base in terms of the number of depositor base which reflects that the majority of the deposits are widely held by retail and middle market accounts which are not sensitive to interest rate movements. Further, due to the profile of the deposit account base and its structure for the past years, the bank has confidently classified majority of the deposit as core deposits, i.e. type of funds that remains and is said to remain in the bank for the long-term. As of 31 December 2017 and 31 December 2018, 5.3% and 9.8%, or approximately ₱33.6 billion and ₱66.7 billion, respectively, of outstanding deposits of the Parent Company had a maturity period of one month or less.

Other sources of funds include short-term borrowings in the interbank market in the Philippines and abroad, borrowings through the Bank's FCDU to fund its foreign currency-denominated assets, funds from maturing assets and profits from operations.

The Bank's policy is to maintain what it believes is an adequate portion of its portfolio in short-term assets. As of 31 December 2017 and 31 December 2018, of the loans and receivables from customers of the Bank, 36.6% and 41.4%, respectively, were represented by loans with remaining maturities of less than one year and the receivables from customers represented 65.2% and 61.5%, respectively, of the total financial assets. In addition to maintaining a significant portion of its asset portfolio in loans, the Bank's trading and investment account includes securities issued by sovereign issuers (mostly Government Treasury Bills, Floating Rate Treasury Notes and Fixed Rate Treasury Notes).

Of the Bank's ₱72.7 billion portfolio of gross trading and investment securities as of 31 December 2017, ₱6.7 billion, or 9.3%, was invested in securities with remaining maturities of one year or less. The gross trading and investment securities account amounted to 8.7% of the Bank's total assets at that time. As of 31 December 2018, the Bank's gross trading and investment securities portfolio amounted to ₱160.1 billion (gross of elimination and adjustments), bulk of which was invested in investment securities with maturity greater than one year.

Assets of the Bank also include funds due from BSP and other banks as well as interbank loans receivables, which (on a net basis) accounted for 15.8% and 1.9%, respectively, of the Bank's total assets as of 31 December 2018. Deposits with banks are made on a short-term basis, 100% of which is available on demand or within one month from 31 December 2018. Loans to banks with remaining maturities of a month or less accounted for 37.6% of the Bank's total lending to banks as of 31 December 2018.

The Bank's Liquidity Management Plan involves maintaining sufficient and diverse funding capacity to accommodate fluctuations in asset and liability levels despite due to changes in the Bank's business operations or unanticipated events created by customer behavior or capital market conditions. The Bank also seeks to ensure sufficient liquidity through a combination of active management of liabilities, a liquid asset portfolio comprising substantial deposits in primary and secondary reserves, securing of money market lines and the maintenance of repurchase facilities to pre-empt any unexpected liquidity situations.

Although the Bank adopts what it believes to be a prudent policy on managing liquidity risks, a maturity gap exists between the Bank's Long term assets and short term liabilities. This is attributable to the Bank's policy of taking advantage of higher yields of long term assets which is being financed by the lower yields of short term liabilities. Such strategy generally leads to the average maturity of its financial assets exceeding that of its liabilities. This liquidity risk arising from the mismatch is monitored and controlled by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow report ("MCO") which is reported monthly to the Risk Oversight Committee ("ROC"). The interest rate risk arising from the volatilities of the maturing/amortizing interest rate gaps are reflected in the Earnings at Risk ("EAR") report, which is likewise discussed in both ALCO and the ROC. Further, regular stress tests exercises and simulation of the Contingency Funding Plan are conducted, results of which are subsequently reported to the ROC to determine the impact of scenarios on the Bank's liquidity profile.

Interest rate risk management

The Bank's policy on managing its assets and liabilities is to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. In its lending activities, the Bank, as much as possible, tries to match the terms and interest rate of its loans and investments with those of its fund sources. A large portion of the Bank's funds is in the form of short-term deposit instruments on which it pays rates prevailing in the market. These funds are predominantly short-term in view of the relatively high volatility of domestic interest rates. This volatility is due largely to the fact that Government debt security issues are used extensively by the BSP, particularly in recent years, as instruments of monetary policy.

While domestic interest rates have been deregulated since the early 1980s, the BSP policy influences the interest rate commercial banks charges for Peso-denominated borrowings. Peso Treasury Bills auctioned every other week by the Bureau of Treasury set the trend in domestic interest rates. Peso time deposits offered by commercial banks are usually priced at par or up to two percentage points below the Treasury Bills of the same term.

As of 31 December 2018, 41.9% of the Bank's receivable from customers subject to repricing is for a term of less than one year, and 17.2% is for a term of more than one year. A majority of the interest rates in the floating rate loan portfolio is reset at 90-day intervals.

Interest rates on loans are usually set on the basis of the Bank's average or marginal costs of funds which in turn, are largely determined by the movement in the rates of Treasury Bills plus a spread. A majority of the Bank's rate sensitive assets and liabilities is on a 30 to 90-day interest rate resetting which minimizes exposure to fluctuations in domestic interest rates.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "re-pricing gap" analysis using the re-pricing characteristics of its statement of financial position and 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 the same time band.

The difference in the amount of assets and liabilities maturing or being re-priced over a one year period would then give the Bank 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. A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, 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, which may restrain the growth of its net income or result in a decline in net interest income.

The interest rate risk arising from the volatilities of the maturing / amortizing interest rate gaps are reflected in the Earnings at Risk ("EAR") report, which is likewise discussed in both ALCO and the ROC. The Bank's Board of Directors sets a limit on the level of EAR exposure acceptable to the Bank. Compliance with the EAR limit is monitored monthly by the Risk Management Group.

For risk management purposes, the re-pricing 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 following table sets forth the Bank's repricing gap position as of 31 December 2017:

(in ₱ millions)	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	24,660.2	2,121.1	728.0	185.8	4,589.6	32,284.7
Interbank loans receivable	19,961.8	7,327.0	170.4	—	—	27,459.2
Receivable from customers and other receivables – gross**	133,507.2	75,007.9	17,508.9	23,249.4	89,053.8	338,327.2
Total financial assets	178,129.2	84,456.0	18,407.3	23,435.2	93,643.4	398,071.1
Financial Liabilities*						
Deposit liabilities						
Savings	75,793.6	22,624.5	12,265.3	17,354.8	223,384.3	351,422.5
Time	59,937.3	25,560.3	10,090.7	10,242.9	23,720.9	129552.1
Bills and acceptances payable	22,795.4	15,546.8	752.6	884.6	3,937.3	43,916.7
Total Financial liabilities	158,526.3	63,731.6	23,108.6	28,482.3	251,042.5	524,891.1
Repricing gap	19,603.0	20,724.5	(4,701.4)	(5,046.9)	(157,399.0)	(126,819.8)
Cumulative gap	19,603.0	40,327.5	35,626.2	30,579.2	(126,819.8)	

* Financial instruments that are not subject to repricing/roll forward were excluded
** Receivable from customers excludes residual value of leased assets

The following table sets forth the Bank's repricing gap position as of 31 December 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	₱17,188.8	₱2,226.8	₱358.6	₱114.0	₱103,360.2	₱123,248.6
Interbank loans receivable and securities held under agreements to resell	27,252.1	4,293.4	–	403.0	–	31,948.5
Receivables from customers and other receivables - gross**	133,599.2	49,477.3	14,250.2	10,655.0	85,551.8	293,533.6
Total financial assets	₱178,040.1	₱55,997.5	₱14,608.8	₱11,172.0	₱188,912.0	₱448,730.7
Financial Liabilities*						
Deposit liabilities:						
Savings	₱103,372.3	₱51,010.3	₱17,409.7	₱9,855.4	₱219,974.3	₱401,622.4
Time***	54,243.1	29,114.9	12,695.2	7,290.5	43,867.0	147,210.7
Bonds payable	–	–	–	–	15,661.4	15,661.4
Bills and acceptances payable	26,010.0	29,625.7	9,334.2	438.4	4,675.0	70,082.8
Total financial liabilities	₱183,625.4	₱109,750.9	₱39,439.1	₱17,584.3	₱284,177.7	₱634,577.3
Repricing gap	(₱5,585.2)	(₱53,753.3)	(₱24,830.2)	(₱6,4123)	(₱95,265.6)	₱(185,364.8)
Cumulative gap	(5,585.2)	(59,338.5)	(84,168.7)	(90,581.0)	(185,846.6)	185,846.6

* Financial instruments that are not subject to repricing/roll forward were excluded
** Receivable from customers excludes residual value of leased assets
*** Excludes LTNCD

Another measure of the Bank's non-consolidated exposure to fluctuations in interest rates examines the impact of interest rate movements of various magnitudes on its net income. The following table sets forth, as of and for the period indicated, the impact of changes in interest rates on the Bank's non-consolidated net interest income:

(₱ millions)	As of 31 December						As of 31 December	
	2015		2016		2017		2018	
	Statement of Income	Equity	Statement of Income	Equity	Statement of Income	Equity	Statement of Income	Equity
+50 bps	358	358	410	410	50	50	294	294
-50 bps	(358)	(358)	(410)	(410)	(50)	(50)	(294)	(294)
+100 bps	716	716	820	820	99	99	588	588
-100 bps	(716)	(716)	(820)	(820)	(99)	(99)	(588)	(588)

Given the re-pricing position of the assets and liabilities of the Bank as of 31 December 2018, the Bank would expect annualized non-consolidated net interest income to increase by ₱588 million if interest rates increased by 100 basis points. If interest rates decreased by 100 basis points, the annualized non- consolidated net interest income would decrease by ₱588 million. The EAR computation is accomplished monthly, with a quarterly stress test.

The bank 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.

Foreign currency risk management

Foreign currency liabilities generally consist of foreign currency-denominated deposits made in the Philippines (or which are generated from remittances to the Philippines by expatriates and contract workers who retain for their own benefit, or for the benefit of a third party, foreign currency deposit accounts with the Bank) and foreign currency-denominated borrowings of the Bank. Foreign currency-denominated liabilities are generally used to fund the Bank's foreign currency-denominated loan portfolio. The Bank is currently a net holder of foreign currency, as foreign currency-denominated assets exceed foreign currency-denominated liabilities.

The Bank's policy is to maintain foreign currency exposure within exposure limits approved by the Bank's Board of Directors and within existing regulatory guidelines.

Trading and investment securities

The Bank engages in fixed income securities trading. As of 31 December 2018, the Bank's gross trading and investment securities (which consist of financial assets at fair value through profit or loss or FVTPL, financial assets at fair value through other comprehensive income or OCI and financial assets at amortized costs) amounted to ₱161.4 billion or 16.4% of total assets. As of the same period, approximately 61.7% of trading and investment portfolio are in Government securities while the balance is in privately issued securities. As of 31 December 2018, financial assets at FVTPL amounted to ₱10.0 billion or 1% of the Bank's total assets.

Derivatives

The Bank trades in financial instruments where it either takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in currencies and interest rates or for hedging open risk positions. The Bank places trading and risk limits (including Value-At-Risk limits) on the exposure that can be taken at any point in time.

The Bank engages in derivatives for hedging and proprietary trades. Under BSP Circular 594, the Bank is authorized, as a Dealer, to enter into "Generally Authorized Derivatives Activities" which covers foreign exchange forwards, foreign exchange swaps, currency swaps, interest rate swaps and forward rate agreements. Furthermore, under the "Generally Authorized Derivatives Activities", the Bank is also authorized, as an End-User, to enter into principal-protected foreign currency structured products and plain vanilla credit linked notes referencing the Republic of the Philippines. These derivatives transactions are covered by Bank policies on trading limits on the exposure that can be taken in relation to at any point in time. The Bank has also obtained from the BSP a Type 2 Limited Dealer Authority to engage as a Dealer in non-deliverable foreign exchange forwards and interest rate swaps, which are mainly used for the servicing of client requirements and for hedging purposes.

Subsidiaries

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking-related companies or “allied undertakings”. Financial allied undertakings include leasing companies, banks, and investment houses, financing companies, credit card operations and financial institutions catering to small and medium-scale businesses.

Publicly listed universal banks may acquire up to 100.0% of the voting stock of one other commercial or universal bank, up to 100.0% of the voting stock of thrift banks and rural banks, up to 100.0% of other financial allied undertakings and up to 100.0% of non-financial undertakings. Prior Monetary Board approval is required for investments in financial allied undertakings and investments of more than 40.0% in non-financial undertakings.

The Bank’s subsidiaries include the following (the financial information of the subsidiaries presented herein was derived from their separate audited financial statements):

Domestic subsidiaries

- **PNB Capital and Investment Corporation** (“PNB Capital”), an investment house with a non-bank, non-quasi-banking license, was incorporated on 30 July 1997 and commenced operations on 8 October 1997. It is a wholly-owned subsidiary of the Bank. As at 31 December 2018, it had an authorised capital stock of ₱1.0 billion and paid-up capital of ₱850.0 million or 10,000,000 shares and 8,500,000 shares at ₱100.0 par value, respectively. Its principal business is providing investment banking services, namely: debt underwriting (bonds, commercial papers), equity underwriting, private placements, loan syndications and financial advisory services. PNB Capital is authorized to buy and sell, for its own account, securities issued by private corporations and the government of the Philippines. As of 31 December 2018, total assets and capital of PNB Capital were ₱1.6 billion and ₱1.5 billion, respectively. For the year ended 31 December 2018, net income was ₱91.3 million.

- **PNB Holdings Corporation** (“PHC”), a wholly-owned subsidiary of the Bank, was established on May 20, 1920 as Philippine Exchange Co., Inc. The SEC approved the extension of the corporate life of PHC for another fifty (50) years effective 20 May 1970. In 1991, it was converted into a holding company and was used as a vehicle for the Bank to go into the insurance business. As of 31 December 2018, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. As of 31 December 2018, total paid-up capital of PHC was ₱255.1 million while additional paid-in capital was ₱3.6 million, while total assets and total capital were ₱402.5 million and ₱402.1 million, respectively.

- **PNB General Insurers Co., Inc.** (“PNB Gen”), a subsidiary of the Bank, was established in 1991. It is a non-life insurance company that offers fire and allied perils, marine, motor car, aviation, surety, casualty, engineering, accident insurance and other specialized lines. PNB has 65.75% direct ownership in the company, while PNB Holdings Corporation, a wholly owned subsidiary of the Bank owns the remaining 34.25%. As of 31 December 2018, total assets and total capital of PNB Gen was at ₱8.2 billion and ₱985.0 million, respectively. As of the same period, its net loss stood at ₱226.3 million.

- **PNB Securities, Inc.** (“PNBSI”), a wholly-owned subsidiary of the Bank, was incorporated on 18 January 1991 with an authorized capital of ₱200.0 million or 2,000,000 shares at ₱100 par value per share. As of 31 December 2018, total paid-up capital was at ₱100.0 million. PNBSI is a member of Philippine Stock Exchange, Inc. and is engaged in the stockbrokerage business that deals in the trading of shares of stocks listed at the stock exchange either for account of clients as “Stockbroker” and for its own house account as “Dealer”. As of 31 December 2018, total assets and total capital were ₱258.8 million and ₱152.0 million, respectively. Net loss for the year ended 31 December 2018 was ₱9.0 million. As of said period, PNBSI ranked 35th among 131 active Trading Participants at the Exchange with 0.42% market share and total value turn-over of ₱14.4 billion.

- **PNB-IBJL Leasing and Finance Corporation** (“PNB-IBJL Leasing”) was formerly PF Leasing and Finance Corporation (“PF Leasing”) and was incorporated in 24 April 1996 under the auspices of the Provident Fund of the Bank. PF Leasing was largely inactive until it was used as the vehicle for the joint venture between the Bank (60.0%), IBJ Leasing Co. Ltd., Tokyo (20.0%), Industrial Bank of Japan, now called Mizuho Corporate Bank (5.0%) and Mitsubishi Trust Banking Corporation (15.0%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation ("JPNB Leasing") and the joint venture company commenced operations as such in February 1998. In 2001, IBJ Leasing Co., increased its stake to 35.0% as it acquired the 15.0% share of Mitsubishi Trust Banking Corporation. The Bank and Mizuho Corporate Bank, Ltd. maintained their shares at 60% and 5%, respectively. Its major activities are financial leasing, chattel mortgage loans and installment note discounting. All the leasing and lending activities of the company are in the domestic market. In 2008, PNB-IBJL Equipment Rentals Corp., a 100%-owned subsidiary, was incorporated to engage in the business of renting or leasing all kinds of real and personal properties.

Effective 31 January 2011, the Bank increased its equity interest in JPNB Leasing from 60.0% to 90.0%. The Bank's additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank which divested their 25.0% and 5.0% equity interest, respectively. IBJL remains an active joint venture partner with a 10.0% equity interest.

In 2015, IBJL increased its stake to 25.0% as it acquired additional 15.0% from the Bank. On 25 February 2015, JPNB Leasing changed its name to PNB-IBJL Leasing and Finance Corporation. PNB-IBJL Leasing is now 75.0% owned by the Bank and 25.0% owned by IBJL.

As of 31 December 2018, PNB-IBJL Leasing had an authorized capital of ₱1.0 billion, represented by 10,000,000 shares with a par value of ₱100 per share, and total paid-up capital was at ₱1.0 billion. As of 31 December 2018, PNB-IBJL Leasing's total consolidated assets and total consolidated capital stood at ₱5.6 billion and ₱704.6 million, respectively. Its consolidated net income for the year ended 31 December 2018 was ₱36.0 million.

- **PNB Savings Bank** ("PNBSB") traces its roots from First Malayan Development Bank which ABC bought in 1986 to reinforce its presence in the countryside. In 17 January 1996, it was renamed First Allied Savings Bank following the grant of license to operate as a savings bank. It was in the same year that the Monetary Board of the BSP granted a foreign currency deposit license. In 1998, First Allied Savings Bank changed its name to Allied Savings Bank to further establish its association with the parent ABC. With the merger of PNB and ABC in 2013, Allied Savings Bank became a wholly owned subsidiary of PNB. In November 2014, the SEC approved the change of name of Allied Savings Bank to PNB Savings Bank.

For the year ended 31 December 2017, PNBSB had a net income of ₱520.8 million in 2017, an increase of 70.8% compared to ₱305.0 million in 2016. Net interest income for the year ended 31 December 2017 reached ₱2.0 billion, compared to ₱1.4 billion for the year ended 31 December 2016, while pre-tax profits for the year ended 31 December 2017 recorded ₱722.5 million, compared to ₱446.9 million for the year ended 31 December 2016. Return-on-equity reached 4.5% in 2017, compared to 2.6% for 2016. Meanwhile, total resources and total deposits were ₱51.4 billion and ₱37.3 billion in 2017, respectively, compared to ₱37.0 billion and ₱24.2 billion in 2016, respectively.

As of 31 December 2018, PNBSB posted a net income of ₱334 million, lower by ₱125 million or 27% in net income in the same period last year. Its net interest income of ₱2.5 billion was up year-on-year by 27% while pre-tax profits reduced by 15% to close at ₱568 million. The reduction in net income was mainly due to the increase in operating expenses. Return-on-equity stood at 2.95%, reduced from the 4.0% in the same period of the previous year.

The Bank's loan portfolio registered at ₱52.0 billion as of 31 December 2018, an improvement by 19% from the ₱43.6 billion level as of the same period last year. Of the total loan portfolio, 78.2% comprised of consumer loans, consistent with the mandate of PNBSB to be the lending arm of PNB, the parent bank, for consumer loans.

Notwithstanding the significant increase of loan portfolio, bank asset quality was maintained, with the NPL ratio tallying at 4.1% and 4.7% on net and gross basis, respectively. These levels compare favourably against industry average of 3.5%% and 5.2%, respectively.

Deposits with PNBSB consisted primarily of high-cost funds maintained in 'Angat Savings', a special savings account, and 'Power Earner 5+1', a long-term deposit account. The Bank believes that PNBSB's products continue to attract new customers and fresh funds given their competitive pricing compared with other banks' equivalent product lines. PNBSB also offers cash card for segments of the market demanding no maintenance balance on their accounts as they relate to bank services such as payroll, transfer of funds for allowances and remittances.

The strong network of partner developers and dealers of PNBSB proved to be instrumental in the growth of housing loan referrals in 2017. The network of branches of the Bank and PNBSB branches served as the second major source of growth for both housing and auto loans. This channel also makes housing and auto loans easily available to customers even in remote areas.

PNBSB continues to forge partnerships with real estate organizations to augment its presence in the real estate industry.

As of 31 December 2018, PNBSB had 67 branches strategically located across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao.

On 28 September 2018, the Bank's Board of Directors approved the full integration of the Bank's wholly-owned thrift bank subsidiary, PNBSB, through acquisition of its assets, and assumption of its liabilities in exchange for cash, subject to regulatory and other necessary approvals.

- **Allianz PNB Life Insurance, Inc.** ("PNB Life"), used to be a majority owned (80%) domestic subsidiary of the Philippine National Bank, prior to the transaction between Allianz SE and PNB. PNB Life traces its roots from New York Life Insurance Philippines, Inc. ("NYLIP") as a Philippine subsidiary of US-based New York Life International, LLC and commenced operations in August 2001. In February 2003, ABC took a minority interest in NYLIP, opening bancassurance to the bank's branches nationwide. In 2007, New York Life International, LLC divested its interest in NYLIP in favor of ABC and its principals, making the company a majority-owned subsidiary of ABC.

  In May 2008, the company changed its corporate name to PNB Life Insurance, Inc., reflecting the change in ownership and in expectation of the impending merger of ABC and the Bank and signifying the company's deeper appreciation of the Philippine market and the dynamism of the Filipino consumer. In October 2009, the Bank acquired a minority stake in PNB Life paving the way for the expansion of its bancassurance market.

  With the Philippine National Bank as the surviving entity, the merger of ABC and the Philippine National Bank in February 2013 further strengthened the bancassurance partnership with PNB Life, which benefited from the resulting synergy and increased operational efficiency. This development set the stage for the introduction of competitive investment-linked insurance products to bank clients, designed to meet their changing needs for complete financial solutions.

  On 21 December 2015, the Bank entered into a 15-year exclusive partnership with Allianz SE under the following arrangements:

  - Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of PNB LII and will have management control over the new joint venture company;
  - The new joint venture company will operate under the name of "Allianz PNB Life Insurance, Inc.";
  - A 15-year distribution agreement which will provide Allianz an exclusive access to the nationwide branches of the Bank.

  On 6 June 2016, the Bank sold 12,750 shares in PNB Life to Allianz. The change of the company's name to "Allianz PNB Life Insurance, Inc." was approved by the Philippine SEC on 21 September 2016.

  As PNB Life expands its reach to more Filipino families, the company has set up regional business centers in Northern Luzon (San Fernando, La Union), Central Luzon (San Fernando, Pampanga), Southern Luzon (Naga City, Camarines Sur), Western Mindanao (Zamboanga City); Eastern Mindanao (Davao City), Eastern Visayas (Cebu City), and Western Visayas (Iloilo City). In Metro Manila, PNB Life has its business centers in Binondo City, Manila for West Metro Manila, while the offices in Quezon City Circle and Cubao seek to serve North and East Metro Manila, respectively.

  PNB Life offers innovative financial solutions through a variety of platforms through its bancassurance with the Bank and alternative distribution channels. It is ranked among the top life insurance companies in the country in terms of premium income and is a leading provider of variable life products. As of 31

December 2018, total assets and total capital (net worth) of PNB Life were ₱29.6 billion and ₱2.0 billion, respectively. For the year ended 31 December 2018, net income was at ₱115.2 million.

Foreign branches and subsidiaries

To expand its international footprint and gain access to more Filipino customers worldwide, the Bank has established a number of branches, remittance offices and other business presences in various foreign jurisdictions. As of 31 December 2018, the Bank had more than 73 business presences in 16 jurisdictions. Its foreign subsidiaries include the following:

- **PNB International Investment Corporation** ("PNB IIC"), formerly Century Bank Holding Corporation, a wholly-owned subsidiary of the Bank, is a U.S. non-bank holding company incorporated in California on 21 December 1979. It changed its name to PNB International Investment Corporation on 16 November 1999.

  PNB IIC owns PNB Remittance Center, Inc. ("PNB RCI") which was incorporated in California on 19 October 1990. PNB RCI is a company engaged in the business of transmitting money to the Philippines. As of 31 December 2018, PNB RCI has 17 branches in 6 states of the United States of America. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on 18 August 1999 and PNB Remittance Company, Nevada ("PNBRCN") which was incorporated in Nevada on 12 June 2009. PNBRCN was a licensed money transmitter also engaged in the transmission of money to the Philippines. On 1 November 2018, PNB RCI took over the business of PNB RCN and operated it as a branch under PNB RCI's money transmitter license in Nevada. PNB RCI Holding Company, Ltd. is the holding company for PNB Remittance Company Canada (PNB RCC). PNB RCC is also a money transfer company incorporated in Canada on 26 April 2000. PNB RCC has 7 branches and 1 sub-branch as of year-end 2018.

  PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Business Oversight of the State of California and other state regulators of licensed money transmitters. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada.

  PNB IIC does not actively compete for business, being a holding company only. PNB RCI and PNB RCC have numerous competitors which include U.S. banks, Philippine bank affiliates doing business in North America, as well as other money transfer companies like Western Union, Money Gram, RIA, Xoom, Transfast, Lucky Money and LBC.

- **PNB Global Remittance & Financial Company (HK) Limited** ("PNB Global"), a wholly-owned subsidiary of the Bank, is registered with the Registrar of Companies in Hong Kong. On 1 July 2010, PNB Global took over the remittance business of PNB Remittance Center Limited with the former as the surviving entity. It now operates as a lending and remittance company. As of 31 December 2018, it maintains seven (7) offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department of Hong Kong.

- **Philippine National Bank (Europe) PLC** ("PNBE") was originally set up as a PNB London Branch in 1976. In 1997, it was converted into Philippine National Bank (Europe) Plc, a wholly-owned subsidiary of the Bank, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 19 member states of the European Economic Area ("EEA"). In 2007, PNBE opened its branch in Paris, France but recently ceased the branch's operations as part of its revised long-term strategy for the whole of Europe resulting from the aftermath of the U.K.'s vote to leave the European Union. PNBE is regulated by the Financial Conduct Authority and authorised and regulated by the Prudential Regulation Authority. In April 2014, PNBE was merged with Allied Bank Philippines (UK) Plc.

- **Allied Commercial Bank**, a 99.04% owned subsidiary of the Bank and formerly known as Xiamen Commercial Bank, was established in Xiamen in September 1993 as a foreign owned bank. It obtained its commercial banking license in July 1993 and opened for business in October 1993. Allied Commercial Bank maintains its head office in Xiamen, in Fujian Province, a southeastern commercial city of China. A branch in the southwestern city of Chongqing was established in 2003.

On 16 January 2017, the Fujian Administration for Industry and Commerce (FAIC) issued a Business License to Allied Commercial Bank to engage in foreign currency-denominated business servicing all types of clients and in CNY-denominated business servicing all clients except Chinese resident citizens.

ACB formally launched CNY business on 12 April 2017.

- **Allied Banking Corporation (Hong Kong) Limited ("ABCHKL")**, a private limited company incorporated in Hong Kong in 1978, and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. By virtue of the merger between PNB and ABC in February 2013, PNB now owns 51% of ABCHKL. The registered office address is 1402 World-Wide House, 19 Des Voeux Road, Central HK SAR.

  ABCHKL provides a full range of commercial banking services predominantly in Hong Kong, which include lending and trade financing, documentary credits, participation in loans syndications and other risks, deposit taking, money market and foreign exchange operations, money exchange, investment and corporate services.

ABCHKL has one branch license and a wholly owned subsidiary. The subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong, which provides non-banking general services to its customers.

Information Technology

The Bank's strategy is to increase the use of information technology (IT) in its business functions, including its front- and back-office operations, in order to enhance its business capabilities, products and services. The Bank is focused on tapping the rapidly changing IT landscape to provide better customer experience, to increase employee productivity, to improve its service delivery, to achieve operational efficiencies between its business divisions, and to ensure competitiveness in the market. The Bank is committed to ensuring security and regulatory compliance in its IT systems across its domestic and foreign monetary entities. The Bank maintains an off-site disaster recovery (DR) facility for its domestic operations and global off-site DR centers to ensure its business continuity in the event of disasters and conducts annual business continuity exercises.

Core banking system

In February 2013, Philippine National Bank (PNB) merged with Allied Banking Corporation (ABC). In addressing the expected growth in transaction volume and a greater need for operational stability and reliability because of the merger, the merged Bank converted and migrated PNB's Flexcube and ABC's Systematics GN26 to the latest version of Systematics (212) running on an IBM System Z13 mainframe with a processing power of 1,695 MIPS (millions of instructions per second). One of the factors in selecting Systematics as the Bank's core banking system was its US installations such as Citibank, Bank of America. This three-year project, code named Core Banking Integration Project, started in 2Q 2014 and was implemented using two (2) phases. The first phase went live on March 27, 2017 with 285 ABC branches that were running on Systematics GN26. The second phase went live on August 14, 2017 that added 345 Flexcube branches. This brought the total branches to 630. The overseas branches were likewise migrated to SI212 as follows: United States, May 31, 2018; Hongkong and Singapore, June 29, 2018; and Japan and United Kingdom, June 30, 2018. In addition, PNB Savings Bank, which is a subsidiary of PNB, was also migrated to SI212 on July 26, 2017.

Anti-money laundering systems

To improve its systems for money laundering monitoring, the Bank implemented an electronic anti- money laundering solution called the GIFTSWEB Enhanced Due Diligence ("EDD") in 2005 which has undergone two major systems enhancements in 2007 and recently in 2010. This web-based anti- money laundering solution was developed and marketed by Gifts Software, Inc. based in New York, United States and fulfills the strict and complex regulatory requirements for the detection, monitoring and reporting of suspected money laundering activities by financial institutions. The software solution provides the analytical tools needed to proactively detect and monitor possible suspicious transaction activity, respond to regulatory subpoenas and create a database for case management reports. The system facilitates the preparation of Currency Transactions Reports and Suspicious Activity Reports. GIFTSWEB EDD has been found to adequately address Bank Secrecy Account, Know Your Customer- EDD, AMLA, Office of Foreign Assets

Control, and USA Patriot Act laws, rules and regulations. It is currently used in PNB New York Branch, PNB RCI headquarters in Angeles, PNB Los Angeles Branch, PNB Tokyo Branch, PNB Hong Kong Branch, PNB Singapore and PNB (Europe) Plc.'s Manila Head Office implemented the system in early August 2006. In 2010, PNB created the Global Compliance Unit primarily to provide AML transaction monitoring services for PNB New York and eventually to the other foreign branches and offices of the Bank by 2011. Furthermore, the Bank has invested in upgrading the GIFTSWEB servers in line with the strategic direction of centralizing the administration of the GIFTSWEB systems in Manila towards a standardized approach in the implementation of the Bank's AML policy guidelines.

Capital Expenditure

The Bank's capital expenditures or acquisitions of property and equipment for the three years ended 31 December 2016, 2017 and 2018 are:

(₱ millions)	**As of 31 December**		
	2016	**2017**	**2018**
Capital Expenditure	2,430	3,093	3,564

Insurance

The Bank's has insured its material properties against fire and other usual risks. The Bank also maintains insurance for operational risks such as the loss of cash or securities through loss or theft by obtaining insurance from third party providers. The Bank does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The Bank believes that its insurance coverage is appropriate for its business and operations and its peers in the industry.

Properties

The Bank's head office is located at Philippine National Bank Financial Center, Pres. Diosdado Macapagal Boulevard, Pasay City. The Bank owns the premises occupied by its head office, including most of its branches. The following table provides a geographic breakdown of the Philippine branch network owned by the Bank:

Location	**Number of Owned Branches**	
	As of 31 December 2017	As of 31 December 2018
Rest of Metro Manila	47	48
Luzon	71	69
Visayas	42	42
Mindanao	43	42
Total	203	201

The Bank leases premises for remaining branches. Generally, The Bank's lease contracts for its branches are for periods ranging from three to five years and are renewable under certain terms and conditions.

The following table provides a geographic breakdown of the Bank's Philippine branches that occupy leased premises:

Location	**Number of Leased Branches**	
	As of 31 December 2017	As of 31 December 2018
Rest of Metro Manila	191	217
Luzon	133	112
Visayas	59	61
Mindanao	49	53
Total	432	443

Intellectual Property

The Bank has applied for, and received, intellectual property protection for its brand names “Philippine National Bank” and “PNB” with the IPO in Makati City and with appropriate agencies in Canada and the European Community. Specifically, these cover its corporate logo, financial, investment banking and various remittance services. The Bank has not been the subject of any disputes relating to its intellectual property rights.

Legal Proceedings

The Bank is a party in legal proceedings which arise in the ordinary course of its business activities. Subject to the above qualifications, none of such legal proceedings arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank or its consolidated financial condition.

Competition

The Bank faces competition in all its principal areas of business, from both Philippine and foreign banks, as well as finance companies, mutual funds and investment banks. The Bank believes that offering diverse products and services, investing in technology, leveraging synergies within the LT Group and with its Government customers, as well as building on relationships with the Bank’s other key customers, have allowed it maintain its market position in the industry. The Bank believes its principal competitors are BDO Unibank, Inc., BPI, Metropolitan Bank and Trust Company and Rizal Commercial Banking Corporation.

Employees and Labor Relations

As of 31 December 2018, the Bank had a total of 8,266 employees wherein 4,011 are Bank officers and 4,255 are rank and file employees. The average age of employees (i.e., officers and rank and file employees) is 37 years and the average tenure with the Bank is 12 years.

The Bank’s regular rank & file employees are represented by two (2) existing Unions under the merged Bank, as follows:

Name	Membership	Total Membership as of 31 December 2018	Effectivity
Philippine National Bank Employee Union (PNBEU)	PNB Makati (original Allied Bank employees; absorbed under the Bank)	774, or 18%, of the non-officer population are members of PNBEU	1 July 2017 to 30 June 2020
Philnabank Employees Association (PEMA)	PNB Pasay (original PNB employees and new hires under the Bank from 9 February 2013 onwards)	2,664, or 63% of the non-officer population are members of PEMA	1 July 2017 to 30 June 2020

The Bank has not suffered any strikes, and the Management of the Bank considers its relations with its employees and the Union as harmonious and mutually beneficial.

Corporate Social Responsibility

The Bank manifests and demonstrates its responsibility to society in various ways. In aspiring to be a world-class company, impact to society and the environment is an important element in the way the Bank conducts its business.

Operational and Management Support

The Bank provides operational support to all of its subsidiaries. The support provided includes information technology, controllership, legal, operations and human resource services.

9 MANAGEMENT, EMPLOYEES AND SHAREHOLDERS

Management

The overall management and supervision of the Bank is undertaken by its Board of Directors. The Board of Directors is empowered to direct, manage and supervise, under its collective responsibility, the affairs of the Bank. The Executive Officers, subject to control and supervision of the Board, have direct charge of the business activities of the Bank. They are responsible for the implementation of the policies set by the Board in their respective business units. Under the Bank's Amended By-Laws, the Board of Directors consists of 15 members. There should be at least two Independent Directors or such number of directors that constitutes twenty percent (20%) of the members of the Board, whichever is higher, but in no case less than two.

The following is a list of the Bank's Directors as of 31 December 2018:

Name	Position	Citizenship	Age
Florencia G. Tarriela............	Chairperson and Independent Director	Filipino	71
Felix Enrico R. Alfiler	Vice Chairman and Independent Director	Filipino	69
Florido P. Casuela.................	Director	Filipino	77
Leonilo G. Coronel	Director	Filipino	72
Edgar A. Cua.........................	Independent Director	Filipino	63
Estelito P. Mendoza	Director	Filipino	88
Christopher J. Nelson............	Director	British	59
Federico C. Pascual..............	Independent Director	American	76
Cecilio K. Pedro....................	Independent Director	Filipino	65
Carmen K. Tan......................	Director	Filipino	77
Lucio C. Tan	Director	Filipino	84
Lucio K. Tan, Jr.	Director	Filipino	52
Michael G. Tan	Director	Filipino	52
Vivienne K. Tan....................	Director	Filipino	50
Jose Arnulfo A. Veloso	Director	Filipino	52
Board appointees:			
Manuel T. Gonzales..............	Board Advisor	Filipino	80
William T. Lim	Board Advisor	Filipino	77
Reynaldo A. Maclang	Board Advisor	Filipino	80
Harry C. Tan	Board Advisor	Filipino	71

The following is a brief description of the business experience of each of the Directors (**as of March 15, 2019**):

Name	**FLORENCIA G. TARRIELA**
Age	72
Nationality	Filipino
Education	* Bachelor of Science in Business Administration degree, Major in Economics, University of the Philippines * Masters in Economics degree from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination
Current Position in the Bank Date of First Appointment	* Chairman of the Board/Independent Director * May 29, 2001 (as Director) * May 24, 2005 (as Chairman of the Board) * May 30, 2006 (as 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-IBJL Leasing and Finance Corporation, and PNB-IBJL 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 and FINEX, where she is also a Director * Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc.
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 the first Filipina Vice President of Citibank N. A. * President, Bank Administration Institute of the Philippines
Awards/Citations	* 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement

Name	**FELIX ENRICO R. ALFILER**
Age	69
Nationality	Filipino
Education	* Bachelor of Science and Masters in Statistics from the 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-IBJL 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

Name		**FLORIDO P. CASUELA**
Age		77
Nationality		Filipino

Education

* Bachelor of Science in Business Administration, Major in Accounting from the University of the Philippines
* Masters in Business Administration from the University of the Philippines
* Advanced Management Program for Overseas Bankers from the 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, 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, BSP
* Audit Staff of Joaquin Cunanan, CPAs (Isla Lipana & Co.)

Awards/Citations

* One of the ten (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

Name	**LEONILO G. CORONEL**
Age	72
Nationality	Filipino
Education	* Bachelor of Arts degree, Major in Economics from the Ateneo de Manila University * Advance Management Program of the 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-IBJL Leasing and Finance Corporation and PNB-IBJL 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 twenty (20) years, occupying various positions
Awards/Citations	* Fellow of the Australian Institute of Company Directors in 2002

Name	**EDGAR A. CUA**
Age	63
Nationality	Filipino
Education	* Bachelor of Arts in Economics degree (Honors Program) from the Ateneo de Manila University * Masters of Arts in Economics degree from the University of Southern California * Masters of Planning Urban and Regional Environment degree from the University of Southern California * Advanced Chinese from the 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 Asian Development Bank (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, SGV & Co.

Name	**ESTELITO P. MENDOZA**
Age	89
Nationality	Filipino
Education	* Bachelor of Laws (cum laude) from the University of the Philippines * Master of Laws from 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. * Director of Philippine Airlines, Inc. * Practicing lawyer for more than sixty (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"

Name	**CHRISTOPHER J. NELSON**
Age	59
Nationality	British
Education	* Bachelor of Arts and Masters of Arts in History from the Emmanuel College, Cambridge University, U.K. * Diploma in Marketing from the 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	* Chairman of Lux Et Sal Corporation * Director of the Philippine Band of Mercy, the Federation of Philippine Industries and Greenlands Community * Trustee of the Bellagio 3 Condominium Association, Inc * Vice President/Member of the Board of Trustees of the American Chamber Foundation Philippines, Inc. and British Chamber of Commerce of the Philippines, where he is also the Executive Chairman * 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

Name	**FEDERICO C. PASCUAL**
Age	76
Nationality	Filipino
Education	* Bachelor of Arts from the Ateneo de Manila University * Bachelor of Laws (Member, Law Honors Society) from the University of the Philippines * Master of Laws from the 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-IBJL 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 Branch
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 twenty (20) years in various positions, 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

Name	**CECILIO K. PEDRO**
Age	65
Nationality	Filipino
Education	* Bachelor of Science in Business Management from the Ateneo de Manila University * Honorary Doctorate of Philosophy in Technological Management from the Technological University of the Philippines
Current Position in the Bank	* Independent Director
Date of First Appointment	* February 28, 2014
Directorship in Other Listed Companies	* None
Other Current Positions	* Independent Director of PNB Savings Bank * Chief Executive Officer (CEO)/President of Lamoiyan Corporation * Chairman and CEO of Pneumatic Equipment Corporation and Action Container, Inc. * Director of CATS Motors, Manila Doctors Hospital and Philippine Business for Social Progress * Chairman of the Asian Theological Seminary, Deaf Evangelistic Alliance Foundation, Inc. and Legazpi Hope Christian School * Member of the Board of Trustees of GT Foundation * Vice President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc.
Other Previous Positions	* CEO/President of Aluminum Container, Inc.
Awards/Citations	* Recipient of the Ten Outstanding Young Men in the field of Business Entrepreneurship, Aurelio Periquet Award on Business Leadership, Ateneo Sports Hall of Fame, CEO Excel Award, Ozanam Award for Service, Entrepreneur of the Year for Social Responsibility, Ten Outstanding Manileños, PLDT SME Nation and Go Negosyo's Grand MVP Bossing Award, and ASEAN Business Advisory Council (BAC) Social Entrepreneur Award * Recognized by the House of Representatives for his Exemplary Accomplishment in the Promotion of the Welfare of the Deaf Community on October 16, 2012

Name	**CARMEN K. TAN**	
Age	77	
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	*	Director of Asia Brewery, Tanduay Distillers, Inc., The Charter House, Inc., Dominium Realty and Construction Corporation, Eton City, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., PAL Express, Fortune Tobacco Corporation, Himmel Industries, Inc., Lucky Travel Corporation, Manufacturing Services & Trade Corp., Progressive Farms, Inc., PMFTC, Inc., Shareholdings Inc., Sipalay Trading Corp., Trustmark Holdings Corp., Zuma Holdings and Management Corp., Tangent Holdings Corp., Cosmic Holdings Corp., Grandspan Development Corp., Basic Holdings Corp., Saturn Holdings, Inc., Paramount Land Equities, Inc., Interbev Philippines, Inc., Waterich Resources Corp., REM Development Corp., Fortune Tobacco International Corp. and Buona Sorte Holdings, Inc.
Major Affiliations	*	Director of Tan Yan Kee Foundation
	*	Member of Tzu Chi Foundation

Name	**LUCIO C. TAN**
Age	84
Nationality	Filipino
Education	* Bachelor of Science in Chemical Engineering degree from Far Eastern University * Doctor of Philosophy, Major in Commerce, from 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/President of Tangent Holdings Corporation and Lucky Travel Corporation * Chairman of Air Philippines Corporation, Eton Properties Philippines, Inc., Eton City, Inc. Belton Communities, Inc., Asia Brewery, Inc., Tanduay Distillers, Inc., Tanduay Brands International, Inc., Asian Alcohol Corporation, Absolut Distillers, Inc., The Charter House, Inc., PMFTC, Inc., Fortune Tobacco Corporation, PNB Holdings Corporation, PNB Savings Bank, Allianz PNB Life Insurance, Inc., Alliedbankers Insurance Corporation, Allied Commercial Bank, Allied Banking Corporation (HK) Ltd., 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. * Founder of 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

Name	**LUCIO K. TAN, JR.**
Age	52
Nationality	Filipino
Education	* Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the 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, Allied Bankers 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, Incorporated, Himmel Industries, Incorporated * 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

Name	**MICHAEL G. TAN**
Age	52
Nationality	Filipino
Education	∗ Bachelor of Applied Science in Civil Engineering, Major in Structural Engineering, from the 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 PAL Holdings, Inc. and Victorias Milling Company, Inc.
Other Current Positions	∗ Director of PNB Management and Development Corporation, PNB Savings Bank, Allied Commercial Bank, PNB Global Remittance and Financial Company (HK) Ltd. and Allied Banking Corp. (Hong Kong) Limited ∗ Chief Operating Officer of Asia Brewery, Inc. ∗ Director of the following companies: 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 the merger of Allied Banking Corporation with PNB on February 9, 2013

Name	**VIVIENNE K. TAN**
Age	50
Nationality	Filipino
Education	* Bachelor of Science - Double Degree in Mathematics and Computer Science from the University of San Francisco, U.S.A * Diploma in Fashion Design and Manufacturing Management from the 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	* None
Other Current Positions	* Director of PNB Management and Development Corporation and Eton Properties Philippines, Inc. * Board Advisor of LT Group, Inc. * 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	* 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 Entreprenuer 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)

Name	**JOSE ARNULFO A. VELOSO**
Age	52
Nationality	Filipino
Education	* BSC Marketing Management from the De La Salle University
Current Position in the Bank	* President and CEO of the Bank
Date of First Appointment	* November 16, 2018
Directorship in Other Listed Companies	* None
Other Current Positions	* Director of PNB Global Remittance and Financial Co. (HK) Ltd., Allianz-PNB Life Insurance, Inc. * Director of Philippine Dealing & Exchange Corporation, Philippine Securities Settlement Corporation, Asian Bankers Association, and Bancnet, Inc.
Other Previous Positions	* President and CEO of HSBC Philippines * Chairman and Director of HSBC Insurance Brokers (Philippines), Inc. * Chairman and Director of HSBC Savings Bank (Philippines), Inc. * 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 * Management Trainee and Supervisor of Urban Bank

Board of Advisors:

Name	**MANUEL T. GONZALES**
Age	81
Nationality	Filipino
Education	* Bachelor of Science in Commerce from the De La Salle University * Masters of Arts in Economics from 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. * Director of Allied Bankers Insurance Corporation * Board Advisor of PNB-IBJL Leasing and Finance Corporation * Board Advisor of PNB-IBJL Equipment Rentals Corporation
Other Previous Positions	* Director of Allied Banking Corporation and Allied Leasing and Finance Corporation * Member, Management Association of the Philippines (MAP) * Member, Financial Executives of the Philippines (FINEX) * Member, European Chamber of Commerce of the Philippines (ECCP) * Member, Bankers Institute of the Philippines

Name	**WILLIAM T. LIM**
Age	78
Nationality	Filipino
Education	* Bachelor of Science in Chemistry from 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, 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

Name	**REYNALDO A. MACLANG**
Age	80
Nationality	Filipino
Education	* Bachelor of Laws from the Ateneo de Manila University
Current Position in the Bank	* Board Advisor
Date of First Appointment	* February 9, 2013 (as Director) * May 27, 2014 (as President) * November 16, 2018 (as Board Advisor)
Directorship in Other Listed Companies	* None
Other Current Positions	* Director of Philippine Payments Management Inc.,
Other Previous Positions	* President of Philippine National Bank * President of Allied Savings Bank from 1986 to 2001 * President of Allied Banking Corporation (ABC) from 2001 to 2009 * Director of PNB Savings Bank, Bulawan Mining Corporation, Asian Bankers Association, LGU Guarantee Corporation and Bancnet, Inc., Allied Banking Corporation, Allied Leasing & Finance Corporation, PNB Life Insurance, Inc., PNB Italy SpA, PNB International Investments Corporation, PNB Holdings Corporation, PNB Securities, Inc., PNB Forex, Inc., Eton Properties Philippines, Inc., Bankers Association of the Philippines, PNB-IBJL Leasing and Finance Corporation, PNB-IBJL Equipment Rentals Corporation, PNB Global Remittance and Financial Co., (HK) Ltd., and PNB Management & Development Corporation

Name	**HARRY C. TAN**
Age	72
Nationality	Filipino
Education	* Bachelor of Science in Chemical Engineering from the 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 various private firms which include 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

The following is the list of the Bank's Executive Officers and Group Heads as of 31 December 2018

Position	Name	Age	Citizenship
President	Jose Arnulfo A. Veloso	52	Filipino
Executive Vice President & Head of Institutional Banking Sector	Cenon C. Audencial, Jr.	60	Filipino
Executive Vice President & Chief Financial Officer & Head of Financial Management Sector	Nelson C. Reyes	54	Filipino
Executive Vice President & Head of Retail Banking Sector	Bernardo H. Tocmo	57	Filipino
First Senior Vice President & Head of Enterprise Services Sector	Aida M. Padilla	69	Filipino
Senior Vice President & Head of Treasury Sector	Ponciano C. Bautista Jr.	57	Filipino
First Senior Vice President & Chief Compliance Officer & Head of the Compliance Group	Alice Z. Cordero	61	Filipino
Senior Vice President, Chief Credit Officer and Head of the Credit Management Group	Nanette O. Vergara	58	Filipino
Senior Vice President, Head of Operations Group	Marie Fe Liza S. Jayme	56	Filipino
Senior Vice President, Head of the Global Filipino Banking Group	Teresita U. Sebastian	58	Filipino
Senior Vice President, Head of the Remedial Accounts Management Group	Mariza L. Tiburcio	47	Filipino
First Senior Vice President Chief Risk Officer and Head of the Risk Management Group	Carmela Leticia A. Pama	62	Filipino
First Vice President, Head of the Acquired Assets Group	Nixon S. Ngo	49	Filipino
Senior Vice President, Head of the Corporate and Government Banking Group	Allan L. Ang	44	Filipino
Senior Vice President, Chief Legal Counsel and Head of Legal Group	Manuel C. Bahena, Jr.	57	Filipino
Senior Vice President, Head of the Human Resource Group.	Schubert Caesar C. Austero	54	Filipino
Senior Vice President, Head of the Corporate Planning and Research Division	Emeline C. Centeno	60	Filipino
Senior Vice President, Head RBS Sales and Support Group	Ma. Adelia A. Joson	64	Filipino
First Vice President, Chief Audit Executive & Head of the Internal Audit Group	Martin G. Tengco Jr.	53	Filipino
Senior Vice President, Corporate Treasurer	Maria Paz D. Lim	57	Filipino
Senior Vice President, Chief Marketing Officer & Head of the Marketing and Product Development Group	Norman Martin C. Reyes	53	Filipino
First Vice President, Head of Cards Banking Solutions Group	Christian Eugene S. Quiros	42	Filipino
Senior Assistant Vice President, Officer in Charge of Facilities Administration Group	Edgardo S. Maldonado	64	Filipino
First Vice President, Chief Trust Officer and Head of Trust Banking Group	Joy Jasmin R. Santos	45	Filipino
First Vice President, Head of Information Technology Group	Horatio S. Aycardo	62	Filipino
Vice President, Corporate Secretary	Maila Katrina Y. Ilarde	35	Filipino
Senior Assistant Vice President, Officer in Charge of the Subsidiaries and Affiliates Division	Ma. Corazon Cresencia L. Contreras	48	Filipino
First Vice President, Head of Pinnacle Priority Banking Division	Candice T. Lim	48	Filipino
Senior Assistant Vice President, Head of Security Group	Roderick R. Soriano	48	Filipino
Senior Vice President, Head Branch Banking Group – Metro Manila	Edilberto S. Ramos	56	Filipino
Senior Vice President, Head Branch Banking Group – Luzon	Antonio T. Baculi	55	Filipino
Vice President, Head Branch Banking Group – Visayas and Mindanao	Carlo S. Dimaala	51	Filipino
Senior Vice President, Chief Information Security Officer, Data Privacy Officer, Head of Enterprise IS/IT Security Group	Roland V. Oscuro	55	Filipino

The following table shows the total direct and indirect shareholdings of each Director in the Bank as of 31 December 2018:

Name of Director	No. of Shares	% of Total Shares
Florencia G. Tarriela	2	0
Felix Enrico R. Alfiler	10,215	0
Florido P. Casuela	133	0
Leonilo G. Coronel	1	0
Edgar A. Cua	100	0
Estelito P. Mendoza	1,150	0
Christopher J. Nelson	100	0
Federico C. Pascual	39	0
Cecilio K. Pedro	5,000	0
Vivienne K. Tan	10	0
Carmen K. Tan	5,000	0
Lucio C. Tan	14,843,119	1.19
Lucio K. Tan, Jr.	2,300	0
Michael G. Tan	250	0
Jose Arnulfo A. Veloso	131,001	0.01

The aggregate compensation paid by the Bank to its Directors, executive officers and all other officers for the year ended 31 December 2017 was ₱4.6 billion and for the year ended 31 December 2018 was ₱4.7 billion.

As of 31 December 2017 and 31 December 2018, loans from the Bank to DOSRI totaled ₱8.2 billion and ₱7.9 billion, respectively. All DOSRI loans are made at arm's length and based on commercial terms.

INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the members of the Company's Board or its executive officers has been convicted in any criminal, bankruptcy or insolvency investigations or proceedings for the past five years and up to the date of this Offering Circular.

Principal shareholders

There are 36,940 shareholders as of 31 December 2018, 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		No. of Shares		Percentage
1. PCD Nominee Corp. (Filipino)	-	120,508,187	-	9.6472947840
2. Key Landmark Investments, Ltd.	-	109,115,864	-	8.7352812437
3. PCD Nominee Corp. (Non-Filipino)	-	96,016,381	-	7.6866008414
4. Solar Holdings Corporation	-	67,148,224	-	5.3755576884
5. Caravan Holdings Corporation	-	67,148,224	-	5.3755576884
6. True Success Profits Ltd.	-	67,148,224	-	5.3755576884
7. Prima Equities & Investments Corp.	-	58,754,696	-	4.7036129774
8. Leadway Holdings, Inc.	-	53,470,262	-	4.2805670928
9. Infinity Equities, Inc.	-	50,361,168	-	4.0316682663
10. Pioneer Holdings Equities, Inc.	-	28,044,239	-	2.2450843163
11. Multiple Star Holdings Corp.	-	25,214,730	-	2.0185676946
12. Donfar Management Ltd.	-	25,173,588	-	2.0152740677
13. Uttermost Success, Ltd.	-	24,752,272	-	1.9815455738
14. Mavelstone Int'l. Ltd.	-	24,213,463	-	1.9384111662
15. Kenrock Holdings Corp.	-	21,301,405	-	1.7052860761
16. Fil-Care Holdings, Inc.	-	20,836,937	-	1.6681030446
17. Fairlink Holdings Corp.	-	20,637,854	-	1.6521654354
18. Purple Crystal Holdings, Inc.	-	19,980,373	-	1.5995307292
19. Kentron Holdings & Equities Corp.	-	19,944,760	-	1.5966797270
20. Fragile Touch Investments, Ltd.	-	18,581,537	-	1.4875467754

10 PHILIPPINE BANKING INDUSTRY

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The cited regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

The banking industry in the Philippines is composed of universal banks, commercial banks, savings banks, savings and mortgage banks, private development banks, stock savings and loan associations, rural banks and cooperative banks.

According to BSP's report on the Physical Network of the Philippine Banking System, as of 28 February 2019, the commercial banking sector, comprising universal and commercial banks, consisted of 46 banks, of which 21 were universal banks and 25 were commercial banks. Of the 21 universal banks, 12 were private domestic banks, three were government banks and six were branches of foreign banks. Of the 25 commercial banks, five were private domestic banks, two were subsidiaries of foreign banks and 18 were branches of foreign banks.

Commercial banks have all the general powers incident to corporations and all powers that may be necessary to carry on the business of commercial banking, such as the power to accept drafts and to issue letters of credit, to discount and negotiate promissory notes, drafts, bills of exchange and other evidences of indebtedness, accept or create demand deposits, receive deposits and deposit substitutes, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, invest in the equity of business not related to banking and own up to 100.0% of the equity in a thrift bank, a rural bank or financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with their capital, in secured or unsecured loans, or in financing for home building and home development, in readily marketable debt securities, in commercial paper and accounts receivable, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, housing and other financial and allied services for its chosen market and constituencies, especially for small and medium-sized enterprises and individuals. As of 30 September 2018, there were 54 thrift banks in the Philippines.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. As at 28 February 2019, there were 470 rural and cooperative banks.

Specialized Government banks are organized to serve a particular purpose. The existing specialized banks include Development Bank of the Philippines ("DBP"), Land Bank of the Philippines ("Land Bank"), and Al-Amanah Islamic Investment Bank of the Philippines ("AAIIB"). DBP was organized primarily to provide banking services catering to the medium and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for small- and medium-sized enterprises. Land Bank primarily provides financial support in all phases of the Philippines' agrarian reform program. In addition to their special functions, DBP and Land Bank are allowed to operate as universal banks. AAIIB was organized to promote and accelerate the socio- economic development of the Autonomous Region of Muslim Mindanao through banking, financing and investment operations and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends - the liberalization of the industry, and mergers and consolidation.

The entry of foreign banks in the industry was liberalized in 1994, enabling foreign banks to invest in up to 60.0% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of 10 new foreign bank branches in 1995. The General

Banking Law further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100.0% of the voting stock of one domestic bank within seven years from the effectivity of said law on 13 June 2000 or until 13 June 2007. Within the same period, the Monetary Board could authorize a foreign bank, which had availed of the privilege of acquiring up to 60.0% of the voting stock of a domestic bank prior to 13 June 2000 to further acquire voting shares of such bank to the extent necessary for it to own 100.0% of the voting stock thereof.

On 15 July 2014, President Benigno S. Aquino III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721." Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to one hundred percent (100%) of the voting stock of an existing bank; (b) by investing in up to one hundred percent (100%) of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least sixty percent (60%) of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos. A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five (5) sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

The liberalization of foreign ownership regulations in banks has allowed the emergence of foreign and local banks with foreign ownership in the market. This has led to the granting of new licenses to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea, Shinhan Bank, Yuanta Bank and United Overseas Bank and the allowance of equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation and Woori Bank into Wealth Development Bank. As of 30 September 2018, there were 22 foreign banks with branches and two foreign banks with subsidiaries in the Philippines.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been at least 102 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalization, and consistent with the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks. As provided in the Circular "the suspension of the grant of new banking licenses or the establishment of new banks under the MORB is lifted under a two-phased approach. Under Phase 1 of the liberalization, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized starting 1 January 2018."

On 29 October 2014, the BSP issued Circular No. 854 which increased the minimum capital requirement for all bank categories, namely, universal, commercial, thrift, rural, and cooperative banks to strengthen the banking system. Below are the amended minimum capital requirements for banks.

Bank Category/Network Size	Existing Minimum Capitalization	Reviewed Minimum Capitalization
Universal Banks	₱ 4.95 billion**	
Head Office only		₱ 3.00 billion
Up to 10 branches *		6.00 billion
11 to 100 branches*		15.00 billion
More than 100 branches*		20.00 billion
Commercial Banks	2.40 billion**	
Head Office only		2.00 billion
Up to 10 branches*		4.00 billion
11 to 100 branches*		10.00 billion
More than 100 branches*		15.00 billion
Thrift Banks		
Head Office in:		
Metro Manila	1.00 billion**	
Cebu and Davao cities	500 million**	
Other Areas	250 million**	
Head Office in the National Capital Region (NCR)		
Head Office only		500 million
Up to 10 branches*		750 million
11 to 50 branches*		1.00 billion
More than 50 branches*		2.00 billion
Head Office in All Other Areas Outside NCR		
Head Office only		200 million
Up to 10 branches*		300 million
11 to 50 branches*		400 million
More than 50 branches*		800 million
Rural and Cooperative Banks		
Head Office in:		
Metro Manila	100 million**	
Cebu and Davao cities	50 million**	
Other cities	25 million**	
1st to 4th class municipalities	10 million**	
5th to 6th class municipalities	5 million**	
Head Office in NCR		
Head Office only		50 million
Up to 10 branches*		75 million
11 to 50 branches*		100 million
More than 50 branches*		200 million
Head Office in All Other Areas Outside NCR (All Cities up to 3rd Class Municipalities)		
Head Office only		20 million
Up to 10 branches*		30 million
11 to 50 branches*		40 million
More than 50 branches*		80 million
Head Office in All Other Areas Outside NCR (4th to 6th Class Municipalities)		
Head Office only		10 million
Up to 10 branches*		15 million
11 to 50 branches*		20 million
More than 50 branches*		40 million

* Inclusive of Head Office
** With no distinction for network size

Competition

The Bank faces competition from both domestic and foreign banks, in part as a result of the liberalization of the banking industry by the National Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licenses to operate in the Philippines. Such foreign banks have generally focused their operations on the larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets.

As of 31 December 2018, based on banks' SEC 17-Q reports to the Philippine Stock Exchange, the Bank ranks fourth in terms of total assets among the five leading private domestic commercial banks in the Philippines. The following table sets out a comparison, based on public disclosures, of the five leading private domestic Philippine banks as of 31 December 2018. The Bank's data is presented on consolidated basis.

(₱ millions)	**As of 31 December 2018**			
Consolidated	**Total Assets**	**Total Capital**	**Total Loans & Receivables**	**Total Deposits**
BDO Unibank, Inc.	3,022,247	328,149	2,071,834	2,419,965
Metropolitan Bank and Trust Co.	2,243,693	290,704	1,391,034	1,556,753
Bank of the Philippine Islands	2,085,228	251,538	1,354,896	1,585,746
Philippine National Bank	983,648	128,559	581,696	733,301
Security Bank Corp	766,861	109,482	416,318	488,890

**Source: SEC17-Q Disclosures with the Philippine Stock Exchange*

11 BANKING REGULATION AND SUPERVISION

The following description is a summary of certain sector specific laws and regulations in the Philippines which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The cited regulations may not be exhaustive, and are intended to provide a general background and information to the investors, and are not intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.

Banking Regulation and Supervision

The New Central Bank Act of 1993 (Republic Act No. 7653) and the General Banking Law of 2000 (Republic Act No. 8791) vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, cooperative banks as well as branches and agencies of foreign banks in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities, while not considered banking institutions, are also subject to regulation by the Monetary Board. Subsidiaries and affiliates of banks may likewise be subjected to examination by the BSP.

The BSP's MORB is the principal source of rules and regulations that must be complied with by banks in the Philippines. The MORB contains regulations applicable to universal banks, commercial banks, thrift banks, rural banks and non-bank financial intermediaries performing quasi-banking functions. These regulations include those relating to the organization, management and administration, deposit and borrowing operations, loans, investments and special financing program, and trust and other fiduciary functions of the relevant financial intermediary. Supplementing the MORB are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The MORB and other BSP rules and regulations issued through circulars and memoranda are principally implemented by the Supervision and Examination Sector (the "SES") of the BSP. The SES is responsible for monitoring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions).

Permitted Activities

A universal bank, such as the Bank, in addition to the general powers incidental to corporations, has the authority to exercise (i) the powers of a regular commercial bank, (ii) the powers of an investment house and (iii) the power to invest in non-allied enterprises. In addition, a universal bank may own up to 100% of the equity in a thrift bank, a rural bank or a financial allied enterprise. A publicly listed universal or commercial bank may own up to 100.0% of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100.0% of the equity in a non-financial allied enterprise.

In addition to those functions specifically authorized by the General Banking Law and the MORB, banking institutions in general (other than building and loan associations) are allowed to (i) receive in custody funds, documents and valuable objects, (ii) rent out safety deposit boxes, (iii) act as financial agents and buy and sell, by order of and for the account of their customers, shares, evidences of indebtedness and all types of securities and (iv) make collections and payments for the account of others and perform such other services for their customers as are not incompatible with banking business. Subject to existing regulations, financial intermediaries are also allowed to a certain extent to invest in allied (both financial and non-financial) or non-allied undertakings, or both.

Financial allied undertakings include leasing companies, banks, investment houses, financial companies, credit card companies, and financial institutions catering to small-and medium scale industries, including venture capital companies, companies engaged in stock brokerage, securities dealership and brokerage and companies engaged in foreign exchange dealership/brokerage.

The total equity investments of a universal bank in all enterprises, whether allied or non-allied, are not permitted to exceed 50.0% of its net worth. Its equity investment in any one enterprise, whether allied or non-allied, is not permitted to exceed 25.0% of the net worth of the bank.

Regulations

The MORB and various BSP regulations impose the following restrictions on universal, commercial and thrift banks.

Minimum capitalization

Under the MORB, universal banks, such as the Bank, are required to have capital accounts of at least ₱3 billion (for Head Office only); ₱6 billion (for up to 10 branches); ₱15 billion (for 11 to 100 branches); and ₱20 billion (for more than 100 branches). Commercial banks are required to have capital accounts of at least ₱2 billion (for Head Office only); ₱4 billion (for up to 10 branches); ₱10 billion (for 11 to 100 branches); and ₱15 billion (for more than 100 branches). Thrift banks with a Head Office in the National Capital Region (NCR) are required to have capital accounts of at least ₱500 million (for Head Office only); ₱750 million (for up to 10 branches); ₱1 billion (for 11 to 50 branches); and ₱2 billion (for more than 50 branches). Thrift Banks with Head Office in all other areas outside area are required to have capital accounts of at least ₱200 million (for Head Office only); ₱300 million (for up to 10 branches); ₱400 million (for 11 to 50 branches); and ₱800 million (for more than 50 branches).

Capital Adequacy Requirements

In July 2001, the Philippines adopted the capital adequacy framework of the Basel Committee on Banking Supervision. The MORB provides that the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, must not be less than 10.0%. The ratio is required to be maintained daily on both a solo basis (head office plus branches) and a consolidated basis (Parent Company plus subsidiary financial allied undertakings, but excluding insurance companies). The qualifying capital refers to the sum of Tier 1 or core capital and Tier 2 or supplementary capital of the bank, less deductions of the value of certain assets. The risk-weighted assets, on the other hand, are determined by assigning risk weights to amounts of on-balance sheet assets and to credit equivalent amounts of off-balance sheet items (inclusive of derivative contracts), subject to the deduction of the following items: (a) general loan loss provision (in excess of the amount permitted to be included in upper Tier 2 capital) and (b) unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board of the BSP. Any asset deducted in computing for the qualifying capital must not be included in the risk-weighted assets in computing the denominator of the ratio. The risk-weighted amount shall be the product of the book value of assets multiplied by the risk weight associated with that asset. The following assets are classified as zero risk weight: (a) cash on hand; (b) claims on, or portions of claims guaranteed by or collateralized by, securities issued by (x) the Government or the BSP, or (y) central governments and central banks of foreign countries with the highest credit quality; (c) claims on or portions of claims guaranteed by or collateralized by securities issued by multilateral development banks; (d) loans to the extent covered by hold-outs on, or assignment of, deposits/deposit substitutes maintained with the lending bank; (e) loans or acceptances under LCs to the extent covered by margin deposits; (f) portions of special time deposit loans covered by Industrial Guarantee and Loan Fund guarantees; (g) real estate mortgage loans to the extent guaranteed by the Home Guaranty Corporation; (h) loans to the extent guaranteed by the Trade and Investment Development Corporation of the Philippines; (i) loans to exporters to the extent guaranteed by the Guarantee Fund for Small and Medium Enterprises; (j) foreign currency notes and coins on hand acceptable as international reserves; and (k) gold bullion held either in its own vaults, or in another's vault on an allocated basis, to the extent offset by gold bullion activities.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under BASEL III starting 1 January 2014.

On January 2013, the BSP issued Circular No. 781 entitled the BASEL III Implementing Guidelines on Minimum Capital Requirements, which took effect last 1 January 2014, which prescribed the new capital adequacy standards in accordance with BASEL III. Notable amendments include the following:

- Keeping minimum CAR at 10%, subject to following minimum capital ratios:
    - Common Equity Tier 1 ("CET1") ratio of 6.0%;
    - Tier 1 ratio of 7.50%; and

    - Capital conservation buffer of 2.50%.
- Adopting a new categorization of capital.
- As applicable, allowing the BSP to adopt regulatory deductions in BASEL III.
- Removing existing limits on eligible Tier 1 and Total Tier 2 capital.
- By 1 January 2014, rendering ineligible existing capital instruments as of 31 December 2010 that do not meet eligibility criteria for capital instruments under the revised capital framework.
- By 1 January 2016, rendering ineligible regulatory capital instruments issued under BSP Circular No. 709 and BSP Circular No. 716 before the revised capital framework became effective.
- By subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 14 February 2014, the BSP issued Circular No. 826 which provides for amendments to the risk disclosure requirements on loss absorbency features of capital instruments. The said circular requires the following from banks or quasi-banks when marketing, selling and/or distributing Additional Tier 1 and Tier 2 instruments eligible as capital under BASEL III framework in the Philippines:

- The banks/quasi-banks must subject investors to a client suitability test to determine their understanding of the specific risks related to these investments and their ability to absorb risks arising from these instruments;
- The banks/quasi-banks must provide appropriate Risk Disclosure Statement for the issuance of Additional Tier 1 and Tier 2 capital instruments;
- The banks/quasi-banks must secure a written certification from each investor stating that:
    - The investor has been provided a Risk Disclosure Statement which, among others, explains the concept of loss absorbency for Additional Tier 1 and Tier 2 capital instruments as well as the resulting processes should the case triggers be breached;
    - The investor has read and understood the terms and conditions of the issuance;
    - The investor is aware of the risks associated with the capital instruments; and
    - Said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount;
- The banks/quasi-banks must make available to the BSP, as may be required, the:
    - Risk Disclosure Statement;
    - Certificate from the investor; and
    - Client Suitability Test of the Investor.

For offshore issuances of Additional Tier 1 and Tier 2 capital instruments, the risk disclosure requirements will be governed by the rules and regulations of the country where these instruments are issued. The subsequent sale and/or distribution of Additional Tier 1 and Tier 2 capital instruments in the Philippines, originally issued overseas, shall comply with all the risk disclosure requirements for issuance in the Philippines.

BSP Circular No. 856 series of 2014 provided the implementing guidelines on the framework for dealing with Domestic Systematically Important Banks ("DSIBs") in accordance with reform packages proposed by the Basel Committee on Banking Supervision. Meanwhile, BSP Circular No. 904 series of 2016 provides the guidelines on recovery plan that is required to be submitted by DSIBs, which forms an integral part of the ICAAP process document required to be submitted every 31 March of each year.

Moreover, the BSP adopted the BASEL III leverage ratio framework under BSP Circular No. 881 series of 2015. The leverage ratio of universal and commercial banks as well as their subsidiary banks and quasi-banks, which is computed as the level of a bank's Tier 1 capital against its total on-book and off-book exposures, must not be less than 5.0%. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5.0% minimum but covered institutions are required to submit periodic reports.

Banks also face new liquidity requirements under BASEL III's new liquidity framework, namely, the Liquidity Coverage Ratio ("LCR") and the Net Stable Funding Ratio ("NSFR"). The LCR requires banks to hold sufficient level of high-quality liquid assets to enable them to withstand a 30 day-liquidity stress scenario. Beginning 1 January 2018, the LCR threshold that banks will be required to meet will be 90.0% which will then be increased to 100.0% beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. The BSP adopted BASEL III's LCR under BSP Circular No. 905 series of 2016, which initially covers universal and commercial banks, prescribes: (i) that under a normal situation, the value of the liquidity ratio shall be no lower than 100.0% on a daily basis and (ii) an observation period from 1 July 2016 to the end of 2017, during which period the banks are required to submit quarterly reports to the BSP. Under the BSP Circular No. 1035 series of 2019, the observation period has been extended to 31 December 2019 for the subsidiary banks and quasi-banks of universal and commercial banks. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. BSP Circular No. 1007 issued on 23 May 2018 contains the implementing guidelines on the adoption of the BASEL III Framework on Liquidity Standards – NSFR. The implementation of the minimum NSFR shall be phased in to help ensure that the covered banks/QBs can meet the standard. It shall undergo an observation period from July to December 2018 before the minimum 100.0% NSFR becomes a requirement in January 2019. BSP Circular No. 1034, issued on 15 March 2019, likewise extended the observation period for the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR) for subsidiary banks/quasi-banks of universal and commercial banks to 31 December 2019.

Reserve Requirements

Under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to the BSP on the amount of any deficiency.

Under BSP Circular No. 1004 series of 2018, universal and commercial banks (including the Bank) are required to maintain regular reserves of 18.0% against demand deposits, "NOW" accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under Due to foreign banks and peso deposits lodged under Due to Head Office/Branches/Agencies Abroad, 4.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 304 series of 2001, 7.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 824 series of 2014, 0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds.

Regulations on Minimum Leverage Ratio Requirement

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines, which provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports.

In January 2018, the Monetary Board approved the adoption of a minimum leverage ratio requirement for universal banks, commercial banks and their subsidiary banks and quasi-banks. Beginning on 1 July 2018, covered institutions must maintain a leverage ratio of no lower than 5.0%. The leverage ratio is a non-risk based measure, which serves as a backstop to the CAR.

Loan Limit to a Single Borrower

Under the General Banking Law and its implementing regulations, the total amount of loans, credit accommodations and guarantees that may be extended by a bank to any borrower shall at no time exceed 20.0% of the net worth of such bank (or 30.0% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board of the BSP from time to time. Under BSP Circular No. 425, the applicable ceiling is increased to 25.0% (or 35.0% of the net worth of the bank in the event that certain types and levels of security are provided). Circular No. 654 issued by the BSP in May 2009 amended the ceiling on loans to subsidiaries and affiliates. This allowed a bank's subsidiaries and affiliates, engaged in energy and power generation, to a separate individual limit of 25.0% of bank's net worth while the unsecured amount to not exceed 12.5% of the said net worth.

Pursuant to the General Banking Law, the basis for determining compliance with the single borrower's limit is the total credit commitment of the bank to or on behalf of the borrower, which includes outstanding loans and other credit accommodations, deferred LCs less margin deposits, and guarantees. Except as specifically provided in the MORB, total credit commitment is determined on a credit risk-weighted basis in accordance with existing regulations.

Other credit accommodations refer to credit and specific market risk exposures of banks arising from accommodations other than loans such as receivables (sales contract receivables, accounts receivables and other receivables), and debt securities booked as investments. Among the items excluded from determining the loan limit are: (a) loans and other credit accommodations secured by obligations of the BSP or of the Government, (b) loans and other credit accommodations fully guaranteed by the Government as to payment of principal and interest, (c) loans and other credit accommodations secured by U.S. treasury securities and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies, (d) loans and other credit accommodations to the extent covered by hold-out on or assignment of deposits maintained in the lending bank and held in the Philippines, (e) loans, credit accommodations and acceptances under LCs to the extent covered by margin deposits and (f) other loans or credit accommodations which the Monetary Board of the BSP may from time to time specify as non-risk items.

The BSP also issued amendments to the Regulations on Single Borrower's Limit. The amendment allowed for increases (on top of the 25.0% as already mentioned) on the amount of loans, credit accommodations and guarantees that a bank may issue out to a borrower. The following are the allowed increases given certain conditions: (a) an additional 10.0% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be full covered by insurance, (b) an additional 25.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Philippine Government's Public-Private Partnership (PPP) Program; that these additional liabilities should not exceed 25.0% and will be allowed for a period of six years from 28 December 2010, (c) an additional 15.0% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation until 3 March 2014, and (d) an additional 25.0% of the net worth of the bank provided that additional loans, credit accommodations and guarantees are granted to entities, which act as a value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain for 3 years and which will only apply to non- DOSRI/RPT loans.

Trust Regulations

The MORB contains the regulations governing the grant of authority to and the management, administration and conduct of trust, other fiduciary business and investment management activities of trust corporations and financial institutions allowed by law to perform such operations. Trust corporations, banks and investment houses may engage in trust and other fiduciary business after complying with the requirements imposed by the MORB. The Bank may, under its Articles of Incorporation, accept and manage trust funds and properties and carry on the business of a trust corporation.

Regulations on Competition

Republic Act No. 10667 (the Philippine Competition Act) was signed into law on 21 July 2015 and took effect on 8 August 2015. This Act aims to codify anti-trust laws in the Philippines and it provides the competition framework in the country. The Philippine Competition Act was enacted to provide free and fair competition in trade, industry, and all commercial economic activities.

To implement its objectives, the Philippine Competition Act provides for the creation of a Philippine Competition Commission (the PCC), an independent quasi-judicial agency to be composed of five commissioners. Among the PCC's powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, the PCC must apply for a warrant with the relevant court.

The Philippine Competition Act prohibits anti-competitive agreements between or among competitions, and mergers and acquisitions which have the object or effect of substantially preventing, restricting, or lessening competition. It also prohibits practices which involve abuse of dominant position, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to exceptions.

The Philippine Competition Act also introduces the pre-notification regime for mergers and acquisitions, which requires covered transactions to be notified to the PCC for its approval.

On 3 June 2016, the PCC issued the implementing rules and regulations of the Philippine Competition Act (IRR). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the

Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1.0 billion; (Size of Party) and (b) the value of the transaction exceeds ₱1.0 billion, as determined in the IRR (Size of Transaction); while Parties to a joint venture transaction shall also be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1.0 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1.0 billion.

The PCC also has released its "Guidelines on the Computation of Merger Notification Thresholds", providing the method for calculation of the aggregate value of assets and gross revenues from sales for the purposes of determining whether a proposed merger or acquisition is notifiable to the PCC.

On 20 March 2018, PCC issued Policy Statement 18-01, which increased the Size of Transaction and Size of Party Thresholds to ₱2.0 billion and ₱5.0 billion, respectively. It further provides that beginning 1 March 2019, the notification thresholds will be indexed based on the official estimates of the Philippine Statistics Authority of the nominal Gross Domestic Product of the previous calendar Year. Under PCC Advisory 2019-001, effective 1 March 2019, the thresholds have been increased to P2.2 billion and P5.6 billion, respectively.

Violations of the Philippine Competition Act and its IRR carry administrative and criminal penalties. A transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1 to 5% of the value of the transaction. Criminal penalties for entities that enter into these defined anti-competitive agreements include: (i) a fine of not less than ₱50.0 million but not more than ₱250.0 million; and (ii) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100.0 million to ₱250.0 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (Rules) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 9 November 2017, the PCC issued its Rules on Merger Procedure. These Rules provide the procedure for the review or investigation of mergers and acquisitions by the PCC pursuant to the Philippine Competion Act.

Regulations Governing the Derivatives Activities of Banks

In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority.

In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2017 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements.

Foreign Currency Deposit System

A FCDU is a unit of a local bank or of a local branch of a foreign bank authorized by the BSP to engage in foreign currency-denominated transactions. In general, FCDUs of such banks may, in any acceptable foreign currency (a) accept deposits and trust accounts from residents and non-residents; (b) deposit with foreign banks abroad, offshore banking units ("OBUs") and other FCDUs; (c) invest in short-term, readily marketable foreign currency-denominated debt instruments; (d) grant foreign currency loans as may be allowed by the BSP; (e) borrow, on short-term maturity, from other FCDUs, from non-residents and OBUs, subject to existing rules on foreign borrowings; and (f) engage in foreign currency to foreign currency swaps with the BSP, OBUs and FCDUs. In addition to the foregoing, commercial banks and universal banks authorized to operate under the expanded FCDU system may: (a) engage in foreign exchange trading and, with prior BSP approval, engage in financial futures and options trading; (b) on request/instruction from its foreign correspondent banks and provided that the foreign correspondent banks deposit sufficient foreign exchange with the FCDU: (i) issue letters of credit ("LCs") for a non-resident importer in favor of a non-resident exporter, (ii) pay, accept, or negotiate drafts/bills of exchange drawn under the letter of credit and (iii) make payment to the order of the non-resident exporter; and (iv) engage in securities lending activities subject to certain conditions. FCDUs are required to maintain a 100.0% cover for their foreign currency liabilities, except for US$ denominated repurchase agreements with the BSP. Furthermore, effective 1 January 2018, the liquid asset cover requirement for FCDU/EFCDU shall be 0.0% for universal/commercial banks.

Lending Policies: Secured and Unsecured Lending

Banks are generally required to ascertain the purpose of a proposed loan. Under existing regulations, commercial and universal banks are generally prohibited from extending loans and other credit accommodations against real estate in an amount exceeding 60.0% of the appraised value of the real estate security, plus 60.0% of the appraisal value of the insured improvements, except for residential loans in an amount not exceeding ₱3.5 million; and housing loans extended by or guaranteed under the Government's "National Shelter Program", both of which shall be allowed a maximum value of 70.0% of the appraisal value of the insured improvements. Similarly, loans and other credit accommodations on security of chattels and intangible properties shall not exceed 75.0% of the appraisal value of the security. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial condition and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any lending should be only for a time period essential for completion of the operations to be financed.

The MORB states that total real estate loans are not to exceed 20.0% of a commercial and universal bank's total loan portfolio, net of interbank loans. Excluded from this, however, are loans granted to individual households to finance the associated land acquisition, construction, and/or improvement, loans extended to land developers of socialized and low-cost residential properties, loans to the extent guaranteed by Home Guarantee Corporation, and loans to the extent collateralized by non- risk assets under existing regulations.

Under BSP Circular No. 855 series of 2014 on the Guidelines on Sound Credit Risk Management Practices, the BSP will evaluate the bank's credit risk management not only at the level of the individual legal entities but also across the subsidiaries within the consolidated banking organization. The board of directors is responsible for the approval and regular review of credit risk strategy and credit policy, as well as the oversight of the implementation of a comprehensive and effective credit risk management system appropriate for the size, complexity and scope of operations of a bank. Meanwhile, the senior management is responsible for ensuring that the credit risk-taking activities of a bank are aligned with the credit risk strategy approved by the board of directors. Senior management or an appropriate level of management is mandated to implement a board-approved credit risk management structure that clearly delineates lines of authority, establish accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process. Banks are required to have in place a sound, comprehensive and clearly defined credit policies, processes and procedures consistent with prudent standards, practices, and relevant regulatory requirements adequate for the size, complexity and scope of their operations.

Limitation on Exposure to Real Estate

Under BSP Circular No. 855, the maximum recognized collateral value ("CV") of a loan that is secured by real estate is 60% of the appraised value of the property. Banks will still be allowed to lend more than 60% of the CV. However, the portion above 60% will be considered unsecured, thus requiring banks to adjust their loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value ("LV"), which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value ("LTV") ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new regulation, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures (REEs) to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialized and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further on 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo Real Estate Stress Test ("REST") while setting prudential limits for banks' REEs to ensure that they have adequate capital to absorb potential losses to the property sector. Universal and commercial banks as well as thrift banks must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, UKBs and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly report of their real estate exposures, in line with the new REST capital requirements.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

Priority Lending Requirements

The Agri-Agra Reform Credit Act of 2009 or Republic Act No. 10000 mandates that all banks shall set aside 25.0% of their total loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0% shall be made available for agrarian reform beneficiaries. In the alternative, banks can buy government and debt securities whose proceeds shall be used for lending to the agriculture and agrarian reform sectors, subscription to shares of stock of accredited rural financial institutions (preferred shares only), Quedan and Rural Credit Guarantee Corporation and the Philippine Crop Insurance Corporation; open special deposit accounts with accredited rural financial institutions, provide rediscounting on eligible agriculture, fisheries and agrarian credits, and provide lending for construction and upgrading of infrastructure including farm-to-market roads. The BSP shall impose administrative sanctions and penalties of 0.5% of the total amount of its non-compliance and under- compliance.

BSP regulations also provide that, for a period of ten years from 17 June 2008 to 16 June 2018, banks are required to set aside at least 8.0% for micro and small-sized and 2.0% for medium-sized enterprises, of their total loan portfolio based on their balance sheet as of the end of the previous quarter for lending to such enterprises. Investments in government securities other than the instruments offered by the government-controlled Small Business Corporation will not satisfy such obligation.

Banks may be allowed to report compliance on a group-wide basis (i.e. on a parent-subsidiary consolidated basis), so that excess compliance of any bank in the group can be used as compliance for any deficient bank in the group, provided that the subsidiary bank(s) is at least majority-owned by the parent bank, and provided further that the parent bank shall be held responsible for the compliance of the group.

Qualifications of Directors and Officers

Under the MORB, bank directors and officers must meet certain minimum qualifications. For instance, directors must be at least 25 years old, have a college degree or have at least five years' business experience, while officers must be at least 21 years old, have a college degree, or have at least five years' banking or trust experience or related activities or in a field related to his position and responsibilities, and be fit and proper for the position he is being proposed/appointed to.

Certain persons are permanently disqualified from acting as bank directors, including (a) persons who have been convicted by final judgment of a court (i) for an offense involving dishonesty or breach of trust such as, but not limited to, estafa, embezzlement, extortion, forgery, malversation, swindling, theft, robbery, falsification, bribery, violation of Batas Pambansa Blg. 22 (which penalizes the issuance of checks that are not sufficiently funded), violation of Anti-Graft and Corrupt Practices Act and prohibited acts and transactions under Section 7 of Republic Act No. 6713 (Code of Conduct and Ethical Standards for Public Officials and Employees), (ii) sentencing them to serve a maximum term of imprisonment of more than six years, (iii) for violation of banking laws, rules and regulations; (b) persons who have been judicially declared insolvent or incapacitated; (c) directors, officers or employees of closed banks who were found to be culpable for such institution's closure as determined by the Monetary Board; (d) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board has become final and executory; and (e) directors and officers of banks or any person found by the Monetary Board to be unfit for the position of directors or officers because they were found administratively liable by another government agency for violation of banking laws, rules and regulations or any offense/violation involving dishonesty or breach of trust, and which finding of said government agency has become final and executory.

Meanwhile, certain persons are temporarily disqualified from holding a director position including (a) persons who refuse to fully disclose the extent of their business interests or any material information to the appropriate department of the SES when required pursuant to a provision of law or of a circular, memorandum, rule or regulation of the BSP; (b) directors who have been absent for more than half of directors' meetings during their incumbency and directors who failed to physically attend 25% of all board meetings in any year; (c) persons who are delinquent in the payment of their obligations with the bank where he/she is a director or officer or at least two obligations with other banks or financial institutions under different credit lines or loan contracts are past due; (d) directors and officers of closed banks pending their clearance by the Monetary Board; (e) directors disqualified for failure to observe their duties and responsibilities prescribed under existing regulations; (f) directors who failed to attend the required special seminar for board of directors; (g) persons who have been dismissed/terminated from employment for cause; (h) those under preventive suspension; (i) persons with derogatory records as certified by, or on official files of, the judiciary, National Bureau of Investigation, Philippine National Police, quasi-judicial bodies, other government agencies, international police, monetary authorities and similar agencies or authorities; (j) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of removal from office is imposed, and which finding of the Monetary Board is pending appeal before the appellate court, unless execution or enforcement thereof is restrained by court; and (k) directors and officers of banks found by the Monetary Board as administratively liable for violation of banking laws, rules and regulations where a penalty of suspension from office or fine is imposed.

When the ground for disqualification ceases to exist, the director or officer concerned may subsequently become a director or officer of institutions regulated by the BSP only upon approval of the Governor of the BSP. In addition, except as may be permitted by the Monetary Board of the BSP, directors or officers of banks are also generally prohibited from simultaneously serving as directors or officers of other banks or non-bank financial intermediaries. The same prohibition applies to persons appointed to such positions as representatives of the government or government-owned or controlled entities holding voting shares of stock of banks/quasi-banks/nonbank financial institutions/trust corporations unless otherwise provided under existing laws (see BSP Circular No. 953 dated March 27, 2017).

Under BSP Circular No. 969, independent directors shall have the additional qualifications that he or she: (a) is not or has not been an officer or employee of the bank, its subsidiaries or affiliates within three years from his election; (b) is not a director or officer of the bank's majority stockholder and of its related companies within three years from his election; (c) is not an owner of more than 2% of the outstanding shares or a stockholder of the bank with shares of stock sufficient to elect one seat in the board of directors of the institution, or in any of its related companies or of its majority corporate shareholders; (d) is not a close family member (spouse, parent, child, brother, sister, parent-in-law, son-/daughter-in-law, and brother-/sister-in-law) of any director, officer or a shareholder holding shares of stock sufficient to elect one seat in the board of the bank or any of its related companies, or any of its substantial shareholders; (e) is not acting as a nominee or representative of any director or substantial shareholder or any of its related companies; and (f) is not retained as a professional adviser, consultant or counsel of the bank, any of its related companies or any of its substantial shareholders, either in his personal capacity or through his firm; (g) is independent of the management and free from any business or other relationship; and (h) was not appointed in the bank, its subsidiaries, affiliates, or related interests as Chairman "Emeritus," "Ex-Officio," Directors/Officers or Members of any Advisory Board, or otherwise appointed in a capacity to assist the board of directors in the performance of its duties and responsibilities during the past 3 years from the date of appointment; (i) is not affiliated with any non-profit organization that receives significant funding from the bank or any of its related companies or substantial shareholders; and (j) is not employed as an executive officer of another company where any of the bank's executives serve as directors.

Loans to DOSRI

In general, dealings of a bank with any of its DOSRI should be in the regular course of business and on terms not less favorable to the bank than those offered to others. The amount of individual outstanding loans, other credit accommodations and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and book value of their paid-in capital contribution in the bank. In the aggregate, outstanding loans, other credit accommodations and guarantees to DOSRI generally should not exceed 100.0% of the bank's net worth or 15.0% of the total loan portfolio of the bank, whichever is lower. In no case shall the total unsecured loans, other credit accommodations and guarantees to DOSRI exceed 30.0% of the aggregate ceiling of the outstanding loans, other credit accommodations and guarantees, whichever is lower. For the purpose of determining compliance with the aggregate ceiling on unsecured credit accommodations and guarantees, banks shall be allowed to average their ceiling on unsecured loans, other credit accommodations and guarantees every week.

The credit card operations of banks shall not be subject to these regulations where the credit cardholders are the bank's directors, officers, stockholders and their related interests, subject to certain conditions.

On 31 January 2007, the BSP issued Circular No. 560, which provides that total outstanding loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.0% of the net worth of the bank and the unsecured loans, other credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 5.0% of the bank's net worth. In the aggregate, outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.0% of the net worth of the bank. BSP Circular No. 560 further provides that these subsidiaries and affiliates should not be a related interest of any of the directors, officers and/or stockholders of the lending institution, except where such director, officer, or stockholder sits in the board of directors or is appointed as an officer of such corporation as representative of the bank. However, loans, other credit accommodations and guarantees secured by assets considered as non-risk under existing BSP regulations as well as interbank call loans shall be excluded in determining compliance with these prescribed ceilings.

On 23 June 2016, the BSP issued Circular No. 914 which provides that loans, other credit accommodations and guarantees granted by a bank to its subsidiaries and affiliates engaged in, or for the purpose of undertaking infrastructure, energy and power generation, and other priority programs and projects, including those under the Public-Private Partnership Program of the government shall be subject to a separate individual limit of 25% of the net worth of the lending bank. The unsecured portion thereof shall not exceed 12.5% of such net worth.

Valuation Reserves for Credit Losses Against Loans

Prior to the issuance of BSP Circular No. 940 on 20 January 2017, banking regulations define past due accounts of a bank as referring to all accounts in a bank's loan portfolio, all receivable components of trading account securities, and other receivables that are not paid at maturity. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Minimum number of installments in arrears
Monthly	3
Quarterly	1
Semestral	1
Annually	1

When the total amount of arrears reaches 20.0% of the total outstanding balance of the loan or receivable, the total outstanding balance of the loan or receivable is considered past due notwithstanding the number of installments in arrears. For modes of payment other than those listed above (e.g., daily, weekly or semi-monthly), the entire outstanding balance of the loan/receivable are considered as past due when the total amount of arrearages reaches ten percent (10%) of the total loan/receivable balance.

However, under BSP Circular No. 940 issued on 20 January 2017, an account that does not pay on contractual date is deemed past due the following day. However, BSP supervised financial institutions ("BFSIs") are allowed to provide for a cure period policy on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered past due as long as the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays. In the case of loans or receivables payable in installments, banking regulations consider the total outstanding obligation past due in accordance with the following schedule:

Mode of Payment	Past Due
Monthly/Quarterly/Semestral/Annually	1 day after due date excluding cure period, if any
Daily/Weekly/Semi-monthly/Microfinance	1 day after contractual due date; 11th day if with cure period

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

Policies for writing off problem credits must be approved by the board of directors in accordance with defined policies, and incorporate, at minimum, well-defined criteria (*i.e*., circumstances, conditions and historical write-off experience) under which credit exposures may be written off. Procedures must explicitly narrate and document the necessary operational steps and processes to execute the policies.

BSP regulations allow loans and advances to be written off as bad debts only if they can be justified to be uncollectible. The board of directors of a bank has discretion as to the frequency of write-off provided that these are made against provisions for credit losses or against current operations. The prior approval of the Monetary Board is required to write off loans to bank's directors, officers, stockholders and their related interests.

On 26 January 2003, the SPV Act came into force. The SPV Act provides the legal framework for the creation of private management companies that will acquire NPLs, real estate and other assets from financial institutions in order to encourage new lending to support economic growth. The Congress of the Philippines passed the SPV Act's implementing rules and regulations on 19 March 2003, which came into force on 12 April 2003. Under the SPV Act, the original deadline for the creation of asset management companies entitled to tax breaks was 19 September 2004. On 24 April 2006, the Philippine president signed into law an amendment to the SPV Act extending the deadline for the creation of asset management companies entitled to tax breaks to 18 months after 14 May 2006, the date the amended SPV took effect, or on 14 November 2007.

Guidelines on General Reserves

Under existing BSP regulations, a general provision for loan losses shall also be set up as follows: (i) 5.0% of the outstanding balance of unclassified restructured loans less the outstanding balance of restructured loans which are considered non-risk under existing laws and regulations; and (ii) 1.0% of the outstanding balance of individually and collectively assessed loans for which no specific provisions are made and/or for which the estimated loan losses are less than one percent, less loans which are considered non-risk under existing laws and regulations.

Restrictions on Branch Openings

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision of law allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 provides various minimum capitalization requirements for branches of banks, depending on the number of branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks).

Subject to compliance with the requirements provided in BSP Circular No. 624, issued 13 October 2008, the Bank may apply to the BSP for the establishment of branches outside its principal or head office. Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Once approved, a branch should be opened within six months from the date of approval (extendible for another six-month period, upon the presentation of justification therefore). Pursuant to BSP Circular 505, issued on 22 December 2005, banks shall be allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Parañaque, Pasay, Pasig and Quezon, and in the municipality of San Juan, Metro Manila. However, branches of microfinance-oriented banks, microfinance-oriented branches of regular banks and branches that will cater primarily to the credit needs of BMBEs duly registered under Republic Act No. 9178 may be established anywhere upon the fulfillment of certain conditions.

On 23 June 2011, the BSP issued a circular approving the phased lifting of branching restrictions in the eight restricted cities in Metro Manila which are Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig, Quezon, and San Juan. The BSP will implement a two-phased liberalization. For the first phase, only private domestically incorporated universal and commercial banks and thrift banks (with less than 200 branches in the restricted areas) will be allowed to establish branches in the said areas until 30 June 2014. The second phase allows all banks except rural banks and cooperative banks to establish branches in the said areas. Banks will be allowed to establish as many branches as their qualifying capital can support subject to the final adjustment determined by the Monetary Board on the optimal number to be approved. Based on this, banks will be given a pro-rata share on the total number of branches they applied for.

BSP Circular No. 847 series of 2014 imposed licensing fees on relocation of head offices, branches and other banking offices, approved but unopened branches and other banking offices to restricted areas.

Foreign Ownership in Domestic Banks

There are separate provisions in the MORB regarding foreign ownership in domestic banks depending on whether the acquirer is a foreign bank, individual or non-bank corporation. For a qualified foreign bank, it can purchase or own up to 100.0% of the voting stock of an existing domestic bank (which include banks under receivership or liquidation, provided no final court liquidation order has been issued). These foreign banks will be subject to the following criteria to be reviewed by the Monetary Board: geographic representation and complementation, strategic trade and investment relationships between the Philippines and the foreign bank's country of incorporation, relationship between the foreign bank and the Philippines, demonstrated capacity and global reputation for financial innovations, reciprocity rights enjoyed by Philippine banks in the foreign bank's country and willingness to fully share technology.

For foreign individuals and non-bank corporations, they can purchase or own up to an aggregate of 40.0% of the voting stock of a domestic bank.

Electronic Banking

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of the bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a mobile/non-mobile phone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Private domestic banks with BSP-approved electronic banking facility may accept payment of fees and other charges of similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of the said government entities.

Anti-Money Laundering Law

The AMLA, as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. The revised implementing rules and regulations were published on 23 December and 24 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the MORB in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one banking day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- there is no underlying legal or trade obligation, purpose or economic justification;
- the customer or client is not properly identified;
- the amount involved is not commensurate with the business or financial capacity of the client;
- the transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- there is a deviation from the client's profile or past transaction;
- the transaction is related to an unlawful activity or offence under the AMLA;
- similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six months to one year imprisonment and/or fine of ₱500,000.00

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

1. transacts said monetary instrument or property;
2. converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;
3. conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
4. attempts or conspires to commit money laundering offenses referred to in paragraphs (1), (2) or (3);
5. aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (1), (2) or (3) above; and
6. performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (1), (2) or (3) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under the AMLA to be reported to the Anti-Money Laundering Council, fails to do so.

Liberalization of Entry of Foreign Banks

On 15 July 2014, President Aquino III signed into law Republic Act No. 10641 or "An Act Allowing the Full Entry of Foreign Banks in the Philippines, Amending for the Purpose Republic Act No. 7721." Under RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system though any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100.0% of the voting stock of an existing bank; (b) by investing in up to 100.0% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin.

Under RA 10641, in the exercise of the authority to approve entry applications, the Monetary Board shall adopt such measures as may be necessary to ensure that control of at least 60.0% of the resources or assets of the entire banking system is held by domestic banks which are majority-owned by Filipinos.

A foreign bank branch authorized to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorized to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category.

Under RA 10641, the Monetary Board was authorized to issue such rules and regulations as may be needed to implement the provisions of RA 10641. In 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641, and pursuant to such resolution, the BSP issued Circular No. 858 amending the relevant provisions in the MORB to implement Republic Act No. 10641.

Related Party Transactions

On 1 December 2015, the BSP announced that it approved guidelines strengthening oversight and control standards for managing related party transactions. This was further strengthened through the issuance of BSP Circular No. 969. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher degree of standards should be applied to protect the interest of all stakeholders. It is emphasized that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the MORB, a universal or commercial bank which is part of a conglomerate shall constitute a Related Party Transactions Committee ("RPT Committee"), composed of at least three members of the Board of Directors, two of whom must be independent directors, including the chairperson. The committee may not contain non-executive directors, and independent directors must always comprise a majority of the Committee. The RPT Committee has the duty to ensure that all related parties are continuously identified, related party transactions are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice-versa) are captured. It is also responsible for evaluating all material related party transactions to ensure that these are not undertaken on more favorable economic terms, and for ensuring that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the institution's related party transaction exposures. The RPT Committee must also prepare a report to the board on a regular basis, on the status and aggregate exposures to each related party, as well as to all related parties. Lastly, they are tasked with overseeing the implementation of the system for identifying, monitoring, measuring, controlling, and reporting related party transactions, including the periodic review of related party transaction policies and procedures.

Data Privacy

The Data Privacy Act was signed into law on 15 August 2012 to govern the processing of all types of personal information (*i.e.*, personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System ("ICT"), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognizes the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of "personal information", which is defined as "any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual." The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on "personal information controllers" and "personal information processors". It also provides for penal and monetary sanctions for violations of its provisions.

On 24 August 2016, the National Privacy Commission issued the Implementing Rules and Regulations of the Data Privacy Act.

Recent Regulations

On 20 January 2017, the BSP issued Circular No. 940 prescribing the Guidelines on Deposit and Cash Servicing Outside of Bank premises where the BSP allowed banks to (1) solicit and accept deposits outside of their premises through their employees subject to certain conditions, and (2) accredit third party service providers, which may be authorized by customers to perform cash/check pick-up and cash delivery services, or contract third party service entities as cash agents to accept and disburse cash on behalf of the banks in order to promote operational efficiency, improve their service delivery channel and for greater customer convenience.

On 20 January 2017, the BSP also issued Circular No. 941 amending the regulations on past due and non-performing loans, which includes the amendment of the definitions of past due and non-performing exposures, including restructured loans. Under the new definition, the general rule is that an account that does not pay on contractual due date is deemed past due the following day. However, BSFIs are allowed to provide for a cure period policy on a credit product-specific basis within which clients may be allowed to catch up on a late payment without being considered as past due, provided that the cure period policy is based on actual collection experience and reasonable judgment that support tolerance of occasional payment delays.

Meanwhile, an account or exposure is considered non-performing, even without any missed contractual payments, when it is deemed impaired under existing applicable 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, in the case of secured accounts. All other accounts, even if not considered impaired, shall be considered non-performing if any contractual principal and/or interest are past due for more than 90 days, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

BSFIs are given until 31 December 2017 to make the necessary revisions in their management information and reporting systems relating to their past due and non-performing exposures. Effective 1 January 2018, past due and non-performing exposures shall be mandatorily reported in accordance with the requirements of the revised policy.

On 26 January 2017, the BSP issued Circular No. 943, which set out the one-year extension of the BASEL III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017.

On 6 February 2017, the BSP issued Circular No. 944 prescribing the Guidelines for Virtual Currency Exchanges *i.e.,* entities that offer services or engages in activities that provide facility for the conversion or exchange of fiat currency (or the government-issued currency that is designated as legal tender in its country of issuance through government decree, regulation or law) to virtual currency, which is any type of digital unit that is used as a medium of exchange or a form of digitally stored value created by agreement within the community of virtual currency users.

On 17 February 2017, the BSP issued Circular No. 946 prescribing the liquidity floor reserve requirement effective 1 January 2018 as follows:

	Required liquidity floor
Universal banks/ Commercial Banks	0% Government deposits and government deposit substitutes shall continue to be subject to the reserve requirements provided under Section X253.
Thrift banks/ Cooperative banks	50% Inclusive of the required reserves against deposits and/or deposit substitutes

On 15 March 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the MORB and the Manual of Regulations for Non-Bank Financial Institutions.

On 20 March 2017, the BSP issued Circular No. 951, prescribing the Guidelines on Business Continuity Management ("BCM"), which requires the BSFIs to adopt a cyclical, process-oriented BCM framework, which at a minimum, should include five phases, namely: business impact analysis and risk assessment, strategy formulation, plan development, plan testing, and personnel training and plan maintenance.

On 17 April 2017, the BSP issued Circular No. 956, requiring banks to submit its Annual Report and Annual Report Assessment Checklist within 180 calendar days after the close of the calendar or fiscal year adopted by the banks. The Annual Report must include a discussion and/or analysis of the following minimum information: corporate policy; financial summary/financial highlights; financial condition and results of operations; risk management framework; corporate governance; corporate information; and audited financial statements. A copy of the latest Annual Report must be posted/displayed in a conspicuous place in the head office, all branches and other offices of the banks, and published in the website of the banks.

On 27 June 2017, the BSP issued Circular No. 964 prescribing revisions to the banks' rediscounting availments. The amendment seeks to reflect the termination of the sunset provision in favor of thrift banks, rural banks, and cooperative banks resulting in a unified rediscount window for all types of banks. The maturities of BSP rediscounts are now as follows:

Type of Credit	**Maturity Date**
a. Commercial Credits	180 days from date of rediscount but shall not go beyond the maturity date of the credit instrument
(1) Export Packing	
(2) Trading	
(3) Transport	
(4) Quedan	
(5) Export Bills (EBs)	
At Sight	15 days from date of purchase
Usance EB	Term of draft but not to exceed 60 days from shipment date
b. Production Credits	180 days from date of rediscount but shall not go beyond the maturity date of the promissory note (PN). Renewable not to exceed 190 days
c. Other Credits	180 days from date of rediscount but shall not go beyond the maturity date of the PN. (Renewable depending on the type of credit).

BSP Circular No. 964 also provides that the rediscount rates for peso shall now be as follows:

Rediscount Maturities	**Rediscount Rates**
	BSP overnight (O/N) lending rate plus term premium:
1-90 days	BSP O/N lending rate +0.0625
91-180 days	BSP O/N lending rate +0.1250

On 5 July 2017, the BSP issued Circular No. 965, approving the guidelines on the exclusion from the Single Borrower's Limit (SBL) of banks' and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.

On 22 August 2017, the BSP issued Circular No. 971, prescribing the Guidelines on Risk Governance for BSFIs, and requiring the appointment of a Chief Risk Officer ("CRO") to head the risk management function. The appointment, dismissal and other changes to the CRO must have prior approval of the board of directors. In cases when the CRO will be replaced, the BSFI must report the same to the BSP within five days from the time it has been approved by the board of directors.

On 22 August 2017, the BSP also issued Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer ("CCO") who shall serve on a full-time basis, functionally report to the board of directors or board-level committee. The CCO will oversee the identification and management of the BFSI's compliance risk and supervise the compliance function staff.

On 9 August 2018, the Monetary Board issued BSP Circular No. 1010 which approved the enhanced rules for the issuance of bonds and commercial papers ("CPs") in line with the thrust of the BSP to contribute to the development of the domestic capital market. The new rules set out the eligibility criteria for universal and commercial banks and quasi-banks to issue said instruments and require enrolment of the bonds in a market that is organized in accordance with the SEC rules and regulations. The issuance of bonds/CPs does not need prior approval of the BSP; it only requires the submission of a certification of compliance with the prudential criteria and other supporting documents reflecting that the debt issuance has undergone the required process of approval by the board of directors and that it has been considered in the overall funding plan of the institution. In addition, the issuer should submit a written undertaking to enroll and/or trade the bonds in a market which is organized in accordance with the SEC rules and regulations. Similar to the BSP's requirement on the issuance of Long-term Negotiable Certificates of Time Deposits, the BSP prohibits the issuer, including its related parties, except its trust departments or trust entities, from holding and acting as a market maker of the listed bonds or CPs to prevent possible undue price influence and backdoor pre-termination. Likewise, the registry bank, including the underwriter/arranger of the issuance, is required to be an independent third party.

On 14 August 2018, the Monetary Board issued BSP Circular No. 1011 which sets out the guidelines on the adoption of Philippine Financial Reporting Standards (PFRS) 9 - Financial Instruments for BSFIs. The policy sets out the supervisory expectations in classifying and measuring financial instruments and in recognizing impairment to promote prudence and transparency in financial reporting. The guidelines provide the overarching governance overlay on the adoption of the standard. In particular, the board of directors is required to assess the impact of PFRS 9 on business strategies and risk management systems to be able to adopt appropriate policies and control measures that will ensure integrity of the reporting process. The BSP also expects BSFIs to exercise sound professional judgment in implementing the provisions of the standards considering that these are largely principles-based.

On 6 December 2018, the Monetary Board issued BSP Circular No. 1024 which approved the adoption of the Countercyclical Capital Buffer (CCyB) intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their Common Equity Tier 1 (CET1) capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue.

On 7 February 2019, the BSP issued BSP Circular No. 1031 which provided additional guidelines on the grant of specific type of licenses to the permissible activities of BSFIs, as enumerated therein.

12 PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the laws, regulations, and administrative rulings in force as of the date of this Offering Circular. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective Bondholders.

The tax treatment of a prospective Bondholder may vary depending on such Bondholder's particular situation and certain prospective Bondholders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective Bondholder.

This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the Bonds and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the Bonds under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the Bonds in such other jurisdictions.

EACH PROSPECTIVE BONDHOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH BONDHOLDER OF PURCHASING, OWNING AND DISPOSING OF THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.

Taxation of Interest Income

The Philippine National Internal Revenue Code, as amended by Republic Act No. 10963, or the Tax Reform for Acceleration and Inclusion ("TRAIN") (the "Tax Code, as amended") provides that interest income on interest-bearing obligations of Philippine residents, such as the Bonds, are Philippine-sourced income subject to Philippine income tax.

The Tax Code defines "deposit substitutes" as an alternative form of obtaining funds from the public, other deposits, through the issuance endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of relending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer. Obtaining funds from the "public" in this instance means borrowing from twenty (20) or more individual or corporate lenders at any one time.

The Bonds may be considered as deposit substitutes issued by Philippine residents. As such, interest income arising from the Bonds are considered as Philippine sourced income subject to final withholding tax at the following rates:

Philippine citizens and resident alien individuals –	20%
Non-Resident aliens doing business in the Philippines –	20%
Non-resident aliens not doing business in the Philippines –	25%
Domestic corporations –	20%
Resident foreign corporations –	20%
Non-resident foreign corporation –	30%

The aforementioned final withholding tax rates may be reduced by applicable provisions of tax treaties in force between the Philippines and the tax residence country of the non-resident Bondholder. Many tax treaties to which the Philippines is a party provide for a preferential reduced rate of 15% where Philippine sourced interest income is paid to a resident of the other contracting state. However, tax treaties generally provide that the preferential rate will not apply if the recipient carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected to such permanent establishment.

TAX EXEMPT STATUS

Bondholders who are exempt from, are not subject to final withholding tax, or are subject to a lower rate of final withholding tax on interest income, may avail of such exemption or preferential withholding tax rate by submitting the necessary documents. Said Bondholder shall submit (i) the following tax documents, in form and substance prescribed by the Issuer, to the Registrar or Selling Agents (together with their completed Application to Purchase) who shall then forward the same to the Registrar:

(a) For (1) tax-exempt corporations under Section 30 of the Tax Code (except non- stock, non-profit educational institutions under Section 30(H) of the Tax Code); (2) cooperatives duly registered with the Cooperative Development Authority; and (3) BIR-approved pension fund and retirement plan – certified true copy of valid, current and subsisting tax exemption certificate, ruling or opinion issued by the BIR. For this purpose, a tax exemption certificate or ruling shall be deemed "valid, current and subsisting" if it has not been more than 3 years since the date of issuance thereof;

(b) For Tax-Exempt Personal Equity Retirement Account established pursuant to PERA Act of 2008 – certified true copy of the Bondholder's current, valid and subsisting Certificate of Accreditation as PERA Administrator;

(c) For all other tax-exempt entities (including, but not limited to, (1) non-stock, non-profit educational institutions; (2) government-owned or -controlled corporations; and (3) foreign governments, financing institutions owned, controlled or enjoying refinancing from foreign governments, and international or regional financial institutions established by foreign governments) – certified true copy of tax exemption certificate, ruling or opinion issued by the BIR expressly stating that their income is exempt from income tax and, consequently, withholding tax;

(d) With respect to tax treaty relief, (1) certificate of tax residence issued for the current year (whether using the form prescribed in their country of residence, or using Part I (D) of the Certificate of Tax Residence for Tax Treaty Relief ("CORTT") Form prescribed under Revenue Memorandum Order No. 8-2017), and (2) duly accomplished CORTT Form (particularly Part I (A), (B) and (C), and Part II (A), (B), (C) and (D)); and

(e) Any other document that the Issuer or PDTC may require from time to time;

(ii) a duly notarized declaration and undertaking, in prescribed form, executed by (ii.a) the Corporate Secretary or any authorized representative, who has personal knowledge of the exemption based on his official functions, if the Applicant purchases the Bonds for its account, or (ii.b) the Trust Officer, if the Applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting that the same Bondholder named in the tax exemption certificate described in (i) above, is specifically exempt from the relevant tax or is subject to a preferential tax rate for the relevant tax, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of the tax exemption certificates or preferential rate entitlement, and agreeing to indemnify and hold the Issuer and Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities, or any tax or charge arising from the non-withholding of the required tax; and

(iii) if applicable, such other documentary requirements as may be reasonably required by the Issuer or the Registrar or Paying Agent, or as may be required under applicable regulations of the relevant taxing or other authorities; provided further that, all sums payable by the Issuer to tax- exempt entities shall be paid in full without deductions for Taxes, duties, assessments, or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of reasonable evidence of such exemption to the Registrar and Paying Agent.

Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEx may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under, and are in accordance with the relevant rules, conventions and guidelines of PDEx and PDTC. A selling or purchasing Bondholder claiming tax-exempt status is required to submit the following documents to the Registrar, together with the supporting documents specified under Registry and Paying Agency Agreement upon submission of Account Opening Documents to the Registrar: (i) a written notification of the sale or purchase, including the tax status of the transferor or transferee, as appropriate; and (ii) an indemnity agreement wherein the new Bondholder undertakes to indemnify the Issuer for any tax that may later on be assessed on the Issuer on account of such transfer.

Documentary Stamp Taxes

Under the Tax Code, the original issuance of the Bonds will be subject to documentary stamp taxes at the rate of ₱1.50 for every ₱200.00 of the issue value of the Bonds. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the Bonds. No documentary stamp tax is imposed on the secondary transfer of the Bonds.

Taxation on Gains upon the Sale or Other Disposition of the Bonds

If the Bonds are considered ordinary assets of individual Bondholders, gains from the sale or disposition of such Bonds are included in the computation of taxable income, which is subject to the following graduated tax rates for Philippine citizens (whether residents or non-residents), or resident foreign individuals or non-resident aliens engaged in trade or business in the Philippines effective January 1, 2018 until December 31, 2022:

Not over ₱ 250,000	0%
Over ₱ 250,000 but not over ₱ 400,000	20% of the excess over ₱ 250,000
Over ₱ 400,000 but not over ₱ 800,000	₱ 30,000 + 25% of the excess over ₱ 400,000
Over ₱ 800,000 but not over ₱ 2,000,000	₱ 130,000 + 30% of the excess over ₱ 800,000
Over ₱ 2,000,000 but not over ₱ 8,000,000	₱ 490,000 + 32% of the excess over ₱ 2,000,000
Over ₱ 8,000,000	₱ 2,410,000 + 35% of the excess over ₱ 8,000,000

For non-resident aliens not engaged in trade or business, the gain shall be subject to the 25% final withholding tax.

If the Bonds are considered as capital assets of individual Bondholders, gains from the sale or disposition of the Bonds shall be subject to the same rates of income tax as if the Bonds were held as ordinary assets, except that if the gain is realized by an individual who held the Bonds for a period of more than twelve months prior to the sale, only 50% of the gain will be recognized and included in the computation of taxable income. If the Bonds were held by an individual for a period of 12 months or less, 100% of the gain will be included in the computation of the taxable income.

Gains derived by domestic or resident foreign corporations on the sale or other disposition of the Bonds are included in the computation of taxable income which is subject to a 30% income tax. Gains derived by non-resident foreign corporations on the sale or other disposition of the Bonds shall form part of their gross income which is subject to a 30% final withholding tax unless a preferential rate is allowed under a tax treaty subject to such other documentary requirements as may be reasonably required under the applicable regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Any gains realized by non-residents on the sale of the Bonds may be exempt from Philippine income tax under an applicable tax treaty subject to such other documentary requirements as may be reasonably required under the rules and regulations of the relevant taxing or other authorities for purposes of claiming tax treaty relief.

Value-Added Tax and Gross Receipts Tax

The gross income from the sale or transfer of the Bonds in the Philippines by dealers in securities is subject to VAT at the rate of 12.0%. The term "dealer in securities" means a merchant of stock or securities, whether an individual, partnership or corporation, with an established place of business, regularly engaged in the purchase of securities and their resale to customers.

Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax at the following rates:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%

(b) On dividends and equity shares and net income of subsidiaries — 0%

(c) On royalties, rentals of property, real or personal, profits, from exchange and all other items treated as gross income under the Tax Code — 7%

(d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments — 7%

Other non-bank financial intermediaries are subject to gross receipts tax at the following rates:

(a) On interest, commissions, discounts and all other items treated as gross income under the Tax Code — 5%

(b) On interests, commissions and discounts from lending activities, as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is 5 years or less — 5%
Maturity period is more than 5 years — 1%.

Estate and Donor's Tax

Beginning 1 January 2018, the transfer of Bonds upon the death of an individual Bondholder to his or her heirs by way of succession, whether such holder was a citizen of the Philippines or an alien and regardless of residence, is subject to Philippine estate tax at the rate of 6% based on the value of the decedent's net estate.

Moreover, beginning 1 January 2018, individual and corporate Bondholders, whether or not citizens or residents of the Philippines, who transfer the Bonds by way of gift or donation are liable to pay Philippine donors' tax on such transfer at the rate of 6% computed on the basis of the total gifts in excess of P 250,000.00 made during the calendar year.

The estate tax as well as the donor's tax in respect of the Bonds shall not be collected (a) if the deceased at the time of his death or the donor at the time of his donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country, or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may, unless made in the ordinary course of business (i.e., a transaction which is bona fide, at arms' length, and free from any donative intent), be deemed a gift and may be subject to donor's taxes.

Taxation Outside the Philippines

The tax treatment of non-resident Bondholders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such Bondholder's particular situation. This Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines

13 SUMMARY OF OFFER PROCEDURE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular and the Agreements regarding the issuance, maintenance, servicing, trading, and settlement of the Bonds. Prospective investors should read this entire Offering Circular and the Agreements fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular or the Agreements, then the more detailed portions and/or the Agreements, as the case may be, shall at all times prevail.

OFFERING PERIOD PROCEDURE

Pursuant to the Issue Management and Placement Agreement and the Registry and Paying Agency Agreement dated as of [•], entered into by the Issuer with the relevant counterparties, the Bonds shall be offered for sale through the Selling Agents during the Offer Period.

The Offer Period

During the relevant Offer Period, the Issuer, the Sole Arranger and Bookrunner and the Selling Agents shall solicit subscriptions for the Bonds. There shall be no limitation on the amount of Bonds that an Applicant may apply for. Each interested investor (an "Applicant") will be required to execute an Application to Purchase in three copies and return the completed Applications to Purchase to the Issuer or the relevant Selling Agent, as the case may be (with one duplicate to be provided to the Applicant).

Applications to Purchase must be accompanied by payment of the purchase price of the Bonds applied for. Payment may be in the form of cash, checks made out to the order of "**[•]**", debit instructions or other instructions acceptable to the relevant Selling Agent, and must cover the entire purchase price. The Issuer and the Selling Agents shall determine their own settlement procedures for their respective Applicants. Each of the Issuer and the Selling Agents shall hold the purchase price received from their respective Applicants as deposit for the purchase of the Bonds.

Each of the Issuer and the Selling Agents shall prepare a Schedule of Applications to Purchase (the "Applications Schedule"), which sets out the aggregate amount of Bonds applied for by its Applicants and summarizes the details of the latter. Each of the Issuer and the Selling Agents shall deliver its Applications Schedule (together with a copy of each of the completed Applications to Purchase) to the Sole Arranger and Bookrunner no later than 5:00 p.m. of the last day of the Offer Period.

Allocation Period

Based on the aggregate amount of Bonds applied for, the Issuer and the Sole Arranger and Bookrunner shall consult with each other and agree on the total size of the issue.

Each of the Sole Arranger and Bookrunner, and Selling Agents may, at its discretion, reject any Application to Purchase. In addition, if the Bonds are insufficient to accommodate all Applications to Purchase (or in any other case where the Issuer and the Sole Arranger and Bookrunner agree that a reduction in size is warranted), the Sole Arranger and Bookrunner may, in consultation with the Issuer, allocate the Bonds among the Selling Agents by accepting or reducing the aggregate amount of Bonds covered by each Selling Agent's Applications Schedule. The Sole Arranger and Bookrunner shall prepare a report which details the final issue size, the total amount of the Bonds for purchase and the final allocation of the Bonds among the Selling Agents and certain types of investors (the "Allocation Report") and provide the Issuer and the Selling Agents with a copy thereof by 5:00 p.m. on the second Banking Day following the end of the Offer Period.

Each of Selling Agents shall implement the allocation set out in the Allocation Report. In implementing the Allocation Report, the Issuer and each Selling Agent shall allocate the Bonds among their respective Applicants in accordance with their own policies and procedures and may, at their discretion, accept or reject, in whole or in part, any Application to Purchase submitted by their respective Applicants. The Selling Agents shall then accept the corresponding Applications to Purchase (the "Final Sales Report") which summarizes the allocations made among the various Applicants. The Issuer and Selling Agents shall: (a) deliver the Final Sales Report to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue

Date; and (b) deliver the executed Application to Purchase to the Registry and Paying Agent no later than 5:00 p.m. of the third Banking Day immediately preceding the Issue Date.

Issue Date

On the Issue Date, the Issuer shall issue the Bonds with the aggregate Issue Price set out in the Allocation Report and complete and execute the Bond Certificate (indicating therein the relevant Issue Date and Interest Rate), and deliver such executed Bond Certificate to the Trustee

The Registrar and Paying Agent shall record the initial issuance of the Bonds in the Registry Book and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the Final Sales Report issued by the Issuer and the Selling Agents.

The Issuer and Selling Agents shall refund any payments made by Applicants whose Applications were rejected or scaled down, in full (in case of rejection) or in a proportionate sum (in case of scale down), in each case, without interest.

13 DISTRIBUTION AND SALE

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information found elsewhere in this Offering Circular, the Terms and Conditions included herein, and the related Contracts regarding the offer, maintenance, trade and settlement of the Bonds. Prospective Bond Holders should read this entire Offering Circular, the Terms and Conditions, and the related Contracts fully and carefully. In case of any inconsistency between this summary and the more detailed information in this Offering Circular, then the more detailed portions and/or Terms and Conditions, and/or the Contracts, as the case may be, shall at all times prevail.

Method of Distribution

The Bonds are being issued pursuant to BSP Circular No. 1010 (Series of 2018) and other related circulars and issuances of the BSP (the "BSP Rules"). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law.

The Bonds are being issued by the Issuer with SCB as Sole Arranger, Bookrunner and Selling Agent, the Bank as Selling Agent, and Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Issuer, the Sole Arrangers or the Selling Agents in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

The Sole Arranger and the Selling Agents are required to comply with all laws, BSP rules and directives as may be applicable in the Philippines, including without limitation any BSP rules issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Sole Arranger and the Selling Agents in connection therewith. Each of the Sole Arranger and the Selling Agents is a third-party in relation to Bank, such that, (i) it has no subsidiary/affiliate relationship with Bank; (ii) it is not related in any manner to Bank as would undermine the objective conduct of due diligence on Bank. The Registrar and Paying Agent and Trustee are likewise third-parties in relation to Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; (ii) they are not related in any manner to Bank as would undermine their independence.

The Bonds are newly issued securities for which there currently is no market. Standard Chartered Bank (a "Market Maker") has committed to provide live bids good for the minimum denomination under the Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEx Trading Rules, Conventions, and Guidelines. The Market Maker is not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds.

The Sole Arranger, the Selling Agents or their respective affiliates may purchase the Bonds for their own account or enter into secondary market transactions or derivative transactions relating to the Bonds, including, without limitation, purchase, sale (or facilitation thereof), stock borrowing or credit or equity-linked derivatives such as asset swaps, repackagings and credit default swaps, at the same time as the offering of the Bonds. Such transactions may be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be a purchaser of the Bonds). As a result of such transactions, the Sole Arranger, the Selling Agents or their respective affiliates may hold long or short positions relating to the Bonds. The Sole Arranger, the Selling Agents or their respective affiliates may also engage in investment or commercial banking and other dealings in the ordinary course of business with the Issuer or its affiliates from time to time and may receive fees and commissions for these transactions. In addition to the transactions noted above, each of the Sole Arranger, the Selling Agents or their respective affiliates may, from time to time after completion of the offering of the Bonds, engage in other transactions with, and perform services for, the Issuer or its affiliates in the ordinary course of their business. The Sole Arranger, the Selling Agents or their respective affiliates may also purchase Bonds for asset management and/or proprietary purposes but not with a view to distribution or may hold Bonds on behalf of clients or in the capacity of investment advisors. While the Sole Arranger, the Selling Agents and their respective affiliates have policies and procedures to deal with conflicts of interests, any such transactions may cause the Sole Arranger, the Selling Agents or their respective or their clients or counterparties to have economic interests and incentives which may conflict with those of an investor in the Bonds. The Sole Arranger or the Selling Agents may receive returns on such transactions and has no obligation to take, refrain from taking or cease taking any action with respect to any such transactions based on the potential effect on a prospective investor in the Bonds.

Applications to Purchase the Bonds during the Offer Period

Applicants may purchase the Bonds during the Offer Period by submitting fully and duly accomplished Applications to Purchase the Bonds, in quadruplicate together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 5:00 p.m. of the last day of the Offer Period. Applications received after said date or without the required attachments will be rejected. The Issuer and Sole Arranger and Bookrunner reserve the right to adjust the Offer Period as needed.

If the Applicant is an individual, the following documents must also be submitted:

a. A clear copy of at least one (1) valid photo-bearing identification document issued by an official authority in accordance with BSP Circular No. 608 (2008) as may be amended from time to time, and documents as may be required by to the Registrar and/or Selling Agent concerned;

b. Two (2) fully executed signature cards in the form attached to the application; and

c. For aliens residing in the Philippines or non-residents engaged in trade or business in the Philippines, consularized proof of tax domicile issued by the relevant tax authority of the Applicant.

If the Applicant is a corporation, partnership, trust, association or institution, the following documents must also be submitted:

a. SEC-certified or Corporate Secretary-certified true copy of the SEC Certificate of Registration, Articles of Incorporation and By-Laws or such other relevant organizational or charter documents;

b. Original or Corporate Secretary-certified true copy of the duly notarized certificate confirming the resolution of the Board of Directors and/or committees or bodies authorizing the purchase of the Bonds and specifying the authorized signatories; and

c. Two (2) fully executed signature cards duly authenticated by the Corporate Secretary, in the form attached to the application.

Corporate applicants who are claiming tax exemption must also submit the following:

a. Certified true copy of a tax exemption certificate, ruling or opinion issued by the Bureau of Internal Revenue no more than one year prior to the date of submission of the same to the Selling Agents or Limited Selling Agents;

b. Original of the duly notarized undertaking, in the prescribed form, declaring and warranting its tax-exempt status, undertaking to immediately notify the Issuer and the Registrar and Paying Agent of any suspension or revocation of its tax-exempt status and agreeing to indemnify and hold the Issuer and the Registrar and Paying Agent free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding of the required tax; and

c. Such other documentary requirements as may be required by the Registrar as proof of the Applicant's tax-exempt status.

Allocation and Issue of the Bonds

Applications to Purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Issuer. The Sole Arranger and Bookrunner, in consultation with the Issuer, reserves the right to accept, reject, scale down or reallocate any Application to purchase the Bonds applied for.

In the event that payment supporting any Application is returned by the drawee bank for any reason whatsoever, the Application shall be automatically cancelled and any prior acceptance of the Application shall be deemed revoked. If any Application is rejected or accepted in part only, the application money or the appropriate portion thereof will be returned without interest by the relevant Selling Agent.

On the New Issue Date, the Selling Agents shall, on behalf of the Issuer, accept the relevant Applications to Purchase. The acceptance of the Application to Purchase shall *ipso facto* convert such Application to Purchase into a purchase agreement between the Issuer and the relevant Bondholder.

Upon confirmation by the Issuer of acceptance of the relevant Applications and the respective amount of Bonds, the Registrar and Paying Agent shall issue the relevant registry confirmation (the "Registry

Confirmation") to successful applicants confirming the acceptance of their purchase of the Bonds and consequent ownership thereof and stating the pertinent details including the amount accepted, with copies to the Issuer.

The Registrar shall be entitled to rely solely on the Final Sales Reports submitted by the Selling Agents to the Registrar. Where PDTC discovers, after Issue Date, any inconsistency between the Final Sales Report and the Application to Purchase submitted by the Bondholder, PDTC reserves the right to rely subsidiarily on the Applications to Purchase, to the extent that the information in the Final Sales Report is noted to be inconsistent with the Application to Purchase. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Bondholders in the mode elected by the Bondholder as indicated in the Application to Purchase.

Transactions in the Secondary Market

All secondary trading of the Bonds shall be coursed the trading facilities of PDEx, as applicable, subject to the payment by the Bondholder of fees to the connection with trading on PDEx, and the Registrar. Transfers shall be subject to the procedures of the BSP, the Registrar and PDEx, including but not limited to the guidelines on minimum trading lots, minimum holding denominations, and record dates.

The Bank shall list the Bonds in PDEx for secondary market trading. Upon listing of the Bonds with PDEx, investors shall course their secondary market trades through the trading participants of PDEx for execution in the PDEx Trading Platform in accordance with the PDEx Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (DvP) basis in accordance with PDEx Settlement Rules and Guidelines. The secondary trading of the Bonds in PDEx may be subject to such fees and charges of PDEx, the trading participants of PDEx, and other providers necessary for the completion of such trades. Transactions on the Bonds on PDEx will be subject to the duly approved and relevant rules of the exchange, including guidelines on minimum trading lots and other guidelines for holding and trading of the Bonds as may be prescribed by the BSP.

For the avoidance of doubt, the minimum denomination for the Bonds as prescribed by the BSP must be kept at all times. Consequently, no negotiation or secondary trading will be allowed if the result is that a remaining Bondholder of the Bonds will hold less than the minimum denomination as prescribed or approved by the BSP.

No transfers will be effected for a period of two (2) Business Days preceding the due date for any payment of interest on the Bonds, or during the period of two (2) Business Days preceding the due date for the payment of the principal amount of the Bonds.

The Registrar shall register any transfer of the Bonds upon presentation to it of the following documents in form and substance acceptable to it:

- The relevant Trade- Related Transfer Form or Non-Trade Transfer Form as the case may be, duly accomplished by the transferor Bondholder and endorsed by the PDEx Trading Participant;
- the relevant Purchase Advice of the buyer/transferee (with the information provided therein duly set forth in typewritten form);
- duly accomplished Investor Registration Form of the buyer/transferee as prescribed by the Registrar as well as all supporting documents described for the original issuance of the Bonds as described above (in case of a new holder);
- proof of the qualified tax-exempt status of the transferee, if applicable, and the covering Affidavit of Undertaking;
- the original duly endorsed signature cards of the buyer/transferee and such other original or certified true copies of other documents submitted by the buyer/transferee in support of the transfer or assignment of the Bonds in its favor;
- the appropriate secretary's certificate attesting to the board resolutions authorizing the transfers and acceptances as well as designating the authorized signatories, together with specimen signature cards duly signed by the parties, and duly authenticated by each party's corporate secretary; and
- such other documents that may be required by the Registrar, including those for Non-Trade Transactions.

Transfers of the Bonds made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

Interest and Principal Payment

On the relevant Payment Date, the Registrar shall, upon receipt of the corresponding funds from the Issuer, make available to the Bondholders the amounts due under the Bonds, net of taxes and fees (if any), by way of credits to the bank accounts identified by the Bondholders in the Applications to Purchase.

14 INDEX TO THE FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

1

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF DECEMBER 31, 2017 AND 2016 AND FOR THE YEARS ENDED DECEMBER 31, 2017, 2016, AND 2015

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank
Philippine National Bank Financial Center
President Diosdado Macapagal Boulevard
Pasay City

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, 2017 and 2016 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, 2017, 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, 2017 and 2016, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2017 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

Adequacy of Allowance for Credit Losses on Loans and Receivables

The Group and the Parent Company's loans and receivables are significant as they represent 60.05% and 56.69% of the total assets of the Group and the Parent Company, respectively, as of December 31, 2017. The carrying amount of loans and receivables as of December 31, 2017 is net of allowance for credit losses amounting to ₱15.76 billion and ₱14.51 billion for the Group and the Parent Company, respectively. The Group determines the allowance for credit losses on loans and receivables on an individual basis for individually significant loans and receivables, and collectively, for loans and receivables that are not individually significant such as consumer loans and credit card receivables. We considered the measurement of impairment of loans and receivables as a key audit matter because it involves significant management judgment in determining the allowance for credit losses. The determination of the allowance for credit losses involves various assumptions such as timing of expected future cash flows, probability of collections, observable market prices and expected net selling prices of the collateral.

The disclosures related to allowance for credit losses on loans and receivables are included in Notes 3 and 16 of the financial statements.

Audit Response

For loans and receivables subjected to specific impairment, we selected samples of individually impaired loans and receivables and obtained an understanding of the borrower's business and financial capacity. This was done by inquiring on the latest developments about the borrower and checking the payment history of the borrower. We tested the assumptions underlying the impairment identification and quantification of the allowance for credit losses by assessing whether the forecasted cash flows are based on the latest developments about the borrower's financial condition and where applicable, inspecting recent appraisal reports to determine the fair value of collateral held. We also checked whether the discount rates used are based on the original effective interest rate or the last repriced rate of the loans and re-performed the impairment calculation.

For loans and receivables subjected to collective impairment, we tested the underlying models and the inputs to those models such as the historical loss rates and net flow rates. This was done by agreeing the details of the loan information used in the calculation of the loss rates and net flow rates to the Group's records and subsidiary ledgers, validating the delinquency age buckets of the loans and loan groupings and re-performing the calculation of the provision for credit losses.

Impairment Testing of Goodwill

As at December 31, 2017, the Group and the Parent Company has goodwill amounting to ₱13.38 billion as a result of the acquisition of Allied Banking Corporation (ABC) in 2013. Under PFRS, the Group is required to annually test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and treasury. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because significant judgment and estimates are involved in the determination of the value in use of the CGUs. The assumptions used in the calculation of the value in use are sensitive to estimates of future cash flows from the business, interest margin, discount rate and long-term growth rate used to project cash flows.

The disclosures related to goodwill impairment are included in Notes 3 and 14 of the financial statements.

Audit Response

We involved our internal specialist to evaluate the assumptions and methodology used by the Group. These assumptions include estimates of future cash flows from the 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. We also compared long-term growth rate to economic and industry forecasts. We assessed the discount rate applied in determining the value in use whether this represent current market assessment of risk associated with the future cash flows.

Valuation of Retirement Benefit Liability

As at December 31, 2017, the present value of pension obligation of the Group and the Parent Company amounted to ₱6.77 billion and ₱6.54 billion, respectively, while the fair value of plan assets amounted to ₱5.25 billion and ₱5.06 billion, respectively. Accumulated remeasurement losses amounted to ₱2.11 billion which accounts for 1.76% and 1.80% of the Group and Parent Company's total equity, respectively, as at December 31, 2017. The Parent Company also provides certain post-employee benefit through a guarantee of a specified return on contributions in its employee investment plan. The valuation of the retirement benefit liability and post-employment benefit requires the assistance of an external actuary due to the complexities involved in the calculation and the use of certain assumptions such as prospective salary and employee turnover rate, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter.

The disclosures related to retirement liability are included in Note 29 of the financial statements.

Audit response

We involved our internal specialist in the review of the scope, bases, methodology and results of the work of the Group's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rate against the Group's human resources data, and the discount rate and mortality rate against available market data. We inquired from management about the basis of the salary rate increase and compared it against the Group's forecast. We compared the fair value of the retirement plan assets to market price information.

Migration to New Core Banking System

In 2017, the Parent Company and PNB Savings Bank (collectively, the "Banks") implemented their new core banking system supporting the loans, deposits, and financial reporting processes. The migration to the new core banking system represents a financial reporting risk as there might be a breakdown in internal controls during the transition and an increased risk of inaccurate or incomplete migration of financial data. We therefore considered the testing of the migration of data from the old system to the new core banking system and the changes in IT application controls as a key audit matter.

Audit Response

We involved our internal specialist in obtaining an understanding of the processes, testing and evaluation of controls over data migration. We also performed substantive testing on the data migrated from the old system to the new core banking system by reviewing the reconciliations performed by the Banks of the balances between the two systems. We evaluated the related IT application controls of the relevant business processes affected by the migration to the new core banking system. Where necessary, we performed procedures to evaluate the controls design and test the operation of compensating controls. We evaluated and considered the results of the testing of controls in the design and extent of our substantive audit procedures.

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, 2017, 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, 2017 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

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 40 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue 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
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 6621305, January 9, 2018, Makati City

February 23, 2018

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated			Parent Company		
	December 31		January 1	December 31		January 1
	2017	2016 (As Restated – Note 2)	2016 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2016 (As Restated – Note 2)
ASSETS						
Cash and Other Cash Items	**₱12,391,139**	₱11,014,663	₱15,220,536	**₱11,671,952**	₱10,626,525	₱12,598,715
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from Other Banks (Note 34)	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank Loans Receivable (Notes 8 and 34)	**12,837,721**	7,791,108	5,800,383	**11,083,515**	7,907,366	5,958,526
Securities Held Under Agreements to Resell (Note 8)	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**2,882,395**	1,913,864	4,510,545	**2,829,877**	1,880,071	4,492,864
Available-for-Sale Investments (Note 9)	**69,837,416**	67,340,739	68,341,024	**67,677,952**	65,819,735	66,734,752
Held-to-Maturity Investments (Note 9)	**26,805,131**	24,174,479	23,231,997	**26,680,483**	24,074,898	23,137,643
Loans and Receivables (Notes 10 and 34)	**502,116,517**	428,215,501	366,071,767	**441,513,305**	378,198,738	328,300,238
Property and Equipment (Note 11)	**18,664,357**	18,097,355	22,128,464	**16,894,236**	16,505,047	19,144,198
Investments in Subsidiaries and an Associate (Note 12)	**2,363,757**	2,556,738	–	**28,407,414**	28,379,668	26,537,953
Investment Properties (Notes 13)	**15,594,385**	16,341,252	13,230,005	**15,318,408**	15,975,130	14,666,831
Deferred Tax Assets (Note 31)	**1,695,295**	1,482,029	1,173,581	**987,332**	1,014,308	936,492
Intangible Assets (Note 14)	**3,322,857**	2,562,369	2,442,878	**3,163,243**	2,471,451	2,346,246
Goodwill (Note 14)	**13,375,407**	13,375,407	13,375,407	**13,515,765**	13,515,765	13,515,765
Assets of Disposal Group Classified as Held for Sale (Note 37)	**–**	–	23,526,757	**–**	–	1,172,963
Other Assets (Note 15)	**8,877,314**	7,096,156	6,780,204	**8,152,615**	6,552,874	5,417,287
TOTAL ASSETS	**₱836,154,481**	₱753,981,636	₱680,034,300	**₱778,770,299**	₱711,525,352	₱630,164,994
LIABILITIES AND EQUITY						
LIABILITIES						
Deposit Liabilities (Notes 17 and 34)						
Demand	**₱125,581,889**	₱117,329,019	₱110,029,680	**₱123,396,962**	₱115,391,610	₱108,667,550
Savings	**351,422,377**	341,008,603	292,093,306	**345,279,463**	336,277,279	287,828,768
Time	**129,552,035**	87,783,621	64,799,968	**96,364,657**	66,139,590	54,983,843
Long Term Negotiable Certificates	**31,363,956**	24,382,144	19,014,227	**31,363,956**	24,382,144	19,014,227
	637,920,257	570,503,387	485,937,181	**596,405,038**	542,190,623	470,494,388
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**343,522**	232,832	135,193	**343,416**	231,977	135,009
Bills and Acceptances Payable (Notes 19, 34 and 36)	**43,916,687**	35,885,948	25,752,222	**41,400,804**	33,986,698	24,629,887
Accrued Taxes, Interest and Other Expenses (Note 20)	**5,323,487**	4,943,626	5,875,228	**4,673,545**	4,231,615	5,371,733
Subordinated Debt (Note 21)	**–**	3,497,798	9,986,427	**–**	3,497,798	9,986,427
Income Tax Payable	**993,245**	195,240	134,720	**833,708**	60,898	55,180
Liabilities of Disposal Group Classified as Held for Sale (Note 37)	**–**	–	21,452,621	**–**	–	–
Other Liabilities (Note 22)	**27,919,334**	28,762,102	25,964,626	**18,034,343**	20,027,960	17,669,131
	716,416,532	644,020,933	575,238,218	**661,690,854**	604,227,569	528,341,755
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY						
Capital Stock (Note 25)	**49,965,587**	49,965,587	49,965,587	**49,965,587**	49,965,587	49,965,587
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	31,331,251	**31,331,251**	31,331,251	31,331,251
Surplus Reserves (Notes 25 and 33)	**597,605**	573,658	554,263	**597,605**	573,658	554,263
Surplus (Note 25)	**38,831,522**	30,694,899	24,839,480	**38,831,716**	30,695,100	24,839,579
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**(3,040,507)**	(3,469,939)	(3,030,588)	**(3,040,507)**	(3,469,939)	(3,030,588)
Remeasurement Losses on Retirement Plan (Note 29)	**(2,106,586)**	(2,821,853)	(2,364,215)	**(2,106,586)**	(2,821,853)	(2,364,215)
Accumulated Translation Adjustment (Note 25)	**1,417,884**	915,222	612,468	**1,417,884**	915,222	612,468
Other Equity Reserves (Note 25)	**70,215**	105,670	–	**70,215**	105,670	–
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	**12,280**	3,087	–	**12,280**	3,087	–
Other Equity Adjustment (Note 12)	**13,959**	13,959	13,959	**–**	–	–
Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 37)	**–**	–	(133,500)	**–**	–	(85,106)
Parent Company Shares Held by a Subsidiary (Note 25)	**–**	–	(9,945)	**–**	–	–
	117,093,210	107,311,541	101,778,760	**117,079,445**	107,297,783	101,823,239
NON-CONTROLLING INTERESTS (Note 12)	**2,644,739**	2,649,162	3,017,322	**–**	–	–
	119,737,949	109,960,703	104,796,082	**117,079,445**	107,297,783	101,823,239
TOTAL LIABILITIES AND EQUITY	**₱836,154,481**	₱753,981,636	₱680,034,300	**₱778,770,299**	₱711,525,352	₱630,164,994

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF INCOME
(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	December 31			December 31		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 34)	**₱22,669,476**	₱19,686,409	₱17,137,657	**₱19,245,810**	₱16,923,864	₱15,151,263
Trading and investment securities (Note 9)	**3,138,719**	3,266,456	3,595,059	**3,072,652**	3,215,544	3,558,161
Deposits with banks and others (Notes 7 and 34)	**1,330,144**	597,500	785,414	**1,053,354**	440,664	596,592
Interbank loans receivable (Note 8)	**480,021**	794,000	183,723	**446,134**	794,312	183,293
	27,618,360	24,344,365	21,701,853	**23,817,950**	21,374,384	19,489,309
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 34)	**4,794,227**	3,780,242	2,980,019	**4,104,798**	3,356,866	2,773,720
Bills payable and other borrowings (Notes 19, 21 and 34)	**747,481**	997,621	1,029,995	**650,724**	959,609	1,003,173
	5,541,708	4,777,863	4,010,014	**4,755,522**	4,316,475	3,776,893
NET INTEREST INCOME	**22,076,652**	19,566,502	17,691,839	**19,062,428**	17,057,909	15,712,416
Service fees and commission income (Notes 26 and 34)	**4,180,861**	3,569,958	4,312,898	**3,130,783**	2,731,258	3,355,972
Service fees and commission expense (Note 34)	**1,087,498**	914,527	716,849	**592,427**	480,549	292,724
NET SERVICE FEES AND COMMISSION INCOME	**3,093,363**	2,655,431	3,596,049	**2,538,356**	2,250,709	3,063,248
Net insurance premiums (Note 27)	**656,329**	624,927	541,924	–	–	–
Net insurance benefits and claims (Note 27)	**322,244**	295,015	420,550	–	–	–
NET INSURANCE PREMIUM	**334,085**	329,912	121,374	–	–	–
OTHER INCOME						
Net gains on sale or exchange of assets (Note 13)	**3,921,136**	2,510,361	1,595,518	**3,862,341**	2,517,861	1,581,385
Foreign exchange gains - net (Note 23)	**1,674,370**	1,487,740	1,207,840	**1,675,985**	926,529	973,680
Trading and investment securities gains net (Note 9)	**559,758**	1,378,321	574,321	**556,429**	1,369,514	569,778
Equity in net earnings of subsidiaries and an associate (Note 12)	**59,215**	70,220	–	**498,254**	231,780	269,709
Miscellaneous (Note 28)	**893,517**	1,542,367	1,719,759	**592,041**	1,194,947	1,499,673
TOTAL OPERATING INCOME	**32,612,096**	29,540,854	26,506,700	**28,785,834**	25,549,249	23,669,889
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 29 and 34)	**9,108,837**	8,569,994	8,234,957	**7,754,566**	7,370,977	7,173,327
Taxes and licenses	**2,492,392**	2,172,042	1,910,735	**2,222,755**	1,952,291	1,723,421
Depreciation and amortization (Note 11)	**1,684,391**	1,554,645	1,452,221	**1,385,357**	1,343,583	1,305,779
Occupancy and equipment-related costs (Note 30)	**1,596,066**	1,473,342	1,430,048	**1,343,021**	1,262,952	1,219,156
Provision for impairment, credit and other losses (Note 16)	**884,133**	3,212,694	568,180	**161,877**	1,707,494	94,435
Miscellaneous (Note 28)	**6,367,519**	6,142,744	5,319,544	**5,634,019**	5,604,188	4,911,986
TOTAL OPERATING EXPENSES	**22,133,338**	23,125,461	18,915,685	**18,501,595**	19,241,485	16,428,104
INCOME BEFORE INCOME TAX	**10,478,758**	6,415,393	7,591,015	**10,284,239**	6,307,764	7,241,785
PROVISION FOR INCOME TAX (Note 31)	**2,322,213**	1,517,221	1,619,494	**2,123,676**	1,228,372	1,110,321
NET INCOME FROM CONTINUING OPERATIONS	**8,156,545**	4,898,172	5,971,521	**8,160,563**	5,079,392	6,131,464
NET INCOME FROM DISCONTINUED OPERATIONS NET OF TAX (Notes 12 and 37)	–	2,263,902	357,931	–	2,044,662	–
NET INCOME	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464

(Forward)

	Consolidated			Parent Company		
	December 31			December 31		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 32)	**₱8,160,570**	₱7,123,952	₱6,131,365			
Non-controlling Interests	**(4,025)**	38,122	198,087			
	₱8,156,545	₱7,162,074	₱6,329,452			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱6.53**	₱5.70	₱4.91			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 32)	**₱6.53**	₱3.89	₱4.62			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	December 31			December 31		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
NET INCOME	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized gain (loss) on available-for-sale investments (Note 9)	**454,188**	(193,484)	(824,011)	**468,861**	(185,603)	(822,826)
Income tax effect (Note 31)	**–**	286	2,887	**–**	–	2,887
Share in changes in net unrealized gains (losses) on available for sale investments of subsidiaries and an associate (Note 12)	**(24,756)**	(245,867)	–	**(39,429)**	(253,748)	51,906
	429,432	(439,065)	(821,124)	**429,432**	(439,351)	(768,033)
Accumulated translation adjustment	**504,736**	420,381	823,525	**(5,932)**	282,600	86,110
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**508,594**	20,154	586,212
	934,168	(18,684)	2,401	**932,094**	(136,597)	(95,711)
Items that do not recycle to profit or loss in subsequent periods:						
Share in aggregate reserves on life insurance policies (Note 2)	**9,193**	3,087	–	**9,193**	3,087	–
Remeasurement losses on retirement plan (Note 29)	**952,143**	(458,740)	(94,267)	**973,728**	(464,207)	(90,249)
Income tax effect (Note 31)	**554**	2,204	2,277	**–**	–	2,277
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**(236,632)**	1,208	–	**(258,461)**	6,569	5,071
	725,258	(452,241)	(91,990)	**724,460**	(454,551)	(82,901)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**1,659,426**	(470,925)	(89,589)	**1,656,554**	(591,148)	(178,612)
TOTAL COMPREHENSIVE INCOME	**₱9,815,971**	₱6,691,149	₱6,239,863	**₱9,817,117**	₱6,532,906	₱5,952,852
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱9,817,124**	₱6,532,804	₱5,904,359			
Non-controlling interests	**(1,153)**	158,345	335,504			
	₱9,815,971	₱6,691,149	₱6,239,863			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated														
	Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Notes 25 and 33)	Surplus (Note 25)	Net Unrealized Loss on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan (Note 29)	Accumulated Translation Adjustment (Note 25)	Other Equity Reserves (Note 25)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Reserves of a Disposal Group Classified as Held for Sale (Note 37)	Other Equity Adjustment (Note 12)	Parent Company Shares Held by a Subsidiary (Note 25)	Total	Non-controlling Interest (Note 12)	Total Equity
Balance at January 1, 2017 as previously reported	₱49,965,587	₱31,331,251	₱573,658	₱30,702,322	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱–	₱–	₱13,959	₱–	₱107,315,877	₱2,649,162	₱109,965,039
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	(7,423)	–	–	–	–	3,087	–	–	–	(4,336)	–	(4,336)
Balance at January 1, 2017, as restated	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
Other equity reserves (Note 25)	–	–	–	–	–	–	–	(35,455)	–	–	–	–	(35,455)	–	(35,455)
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,270)	(3,270)
Transfer to surplus reserves (Note 33)	–	–	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
Balance at January 1, 2016 as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,258	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱–	(₱133,500)	₱13,959	(₱9,945)	₱101,738,538	₱3,017,322	₱104,755,860
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	40,222	–	–	–	–	–	–	–	–	40,222	–	40,222
Balance at January 1, 2016, as restated	49,965,587	31,331,251	554,263	24,839,480	(3,030,588)	(2,364,215)	612,468	–	–	(133,500)	13,959	(9,945)	101,778,760	3,017,322	104,796,082
Total comprehensive income (loss) for the year	–	–	–	7,123,952	(439,351)	(457,638)	302,754	–	3,087	–	–	–	6,532,804	158,345	6,691,149
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	133,500	–	–	133,500	(483,296)	(349,796)
Disposal of Parent Company shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	9,945	9,945	–	9,945
Cash dividends declared (Note 25)	–	–	–	(1,249,138)	–	–	–	–	–	–	–	–	(1,249,138)	–	(1,249,138)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	105,670	–	–	–	–	105,670	–	105,670
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(43,209)	(43,209)
Transfer to surplus reserves (Note 33)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2016	₱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

(Forward)

	Consolidated														
	Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 33)	**Surplus** (Note 25)	**Net Unrealized Loss on Available-for-Sale Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Other Equity Reserves** (Note 25)	**Share in Aggregate Reserves on Life Insurance Policies** (Note 12)	**Reserves of a Disposal Group Classified as Held for Sale** (Note 37)	**Other Equity Adjustment** (Note 12)	**Parent Company Shares Held by a Subsidiary** (Note 25)	**Total**	**Non-controlling Interest** (Note 12)	**Total Equity**
Balance at January 1, 2015, as previously reported	₱49,965,587	₱31,331,251	₱537,620	₱18,702,394	(₱2,336,142)	(₱2,292,833)	(₱59,854)	₱–	₱–	₱–	₱–	₱–	₱95,848,023	₱3,212,859	₱99,060,882
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	22,364	–	–	–	–	–	–	–	–	22,364	–	22,364
Balance at January 1, 2015, as restated	49,965,587	31,331,251	537,620	18,724,758	(2,336,142)	(2,292,833)	(59,854)	–	–	–	–	–	95,870,387	3,212,859	99,083,246
Total comprehensive income (loss) for the year	–	–	–	6,131,365	(809,876)	(89,452)	672,322	–	–	–	–	–	5,904,359	335,504	6,239,863
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	(543)	–	(543)	103,166	102,623
Acquisition of non-controlling interest (Note 12)	–	–	–	–	–	–	–	–	–	–	14,502	–	14,502	(616,274)	(601,772)
Acquisition of Parent Company Shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(9,945)	(9,945)	–	(9,945)
Reserves of a disposal group classified as held for sale	–	–	–	–	115,430	18,070	–	–	–	(133,500)	–	–	–	–	–
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	(17,933)	(17,933)
Transfer to surplus reserves (Note 33)	–	–	16,643	(16,643)	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2015	₱49,965,587	₱31,331,251	₱554,263	₱24,839,480	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱–	(₱133,500)	₱13,959	(₱9,945)	₱101,778,760	₱3,017,322	₱104,796,082

	Parent Company										
	Capital Stock (Note 25)	**Capital Paid in Excess of Par Value** (Note 25)	**Surplus Reserves** (Notes 25 and 33)	**Surplus** (Note 25)	**Reserves of a Disposal Group Classified as Held for Sale** (Note 37)	**Other Equity Reserves** (Note 25)	**Net Unrealized Loss on AFS Investments** (Note 9)	**Remeasurement Losses on Retirement Plan** (Note 29)	**Accumulated Translation Adjustment** (Note 25)	**Share in Aggregate Reserves** (Note 12)	**Total Equity**
Balance at January 1, 2017, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱573,658**	**₱30,678,390**	**₱–**	**₱105,670**	**(₱3,469,939)**	**(₱2,821,853)**	**₱915,222**	**₱–**	**₱107,277,986**
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	**16,710**	–	–	–	–	–	**3,087**	**19,797**
Balance at January 1, 2017, as restated	**49,965,587**	**31,331,251**	**573,658**	**30,695,100**	–	**105,670**	**(3,469,939)**	**(2,821,853)**	**915,222**	**3,087**	**107,297,783**
Total comprehensive income (loss) for the year	–	–	–	**8,160,563**	–	–	**429,432**	**715,267**	**502,662**	**9,193**	**9,817,117**
Transfer to surplus reserves (Note 33)	–	–	**23,947**	**(23,947)**	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	**(35,455)**	–	–	–	–	**(35,455)**
Balance at December 31, 2017	**₱49,965,587**	**₱31,331,251**	**₱597,605**	**₱38,831,716**	**₱–**	**₱70,215**	**(₱3,040,507)**	**(₱2,106,586)**	**₱1,417,884**	**₱12,280**	**₱117,079,445**
Balance at January 1, 2016, as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,357	(₱85,106)	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱101,783,017
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	40,222	–	–	–	–	–	–	40,222
Balance at January 1, 2016, as restated	49,965,587	31,331,251	554,263	24,839,579	(85,106)	–	(3,030,588)	(2,364,215)	612,468	–	101,823,239
Total comprehensive income (loss) for the year	–	–	–	7,124,054	–	–	(439,351)	(457,638)	302,754	3,087	6,532,906
Declaration of Cash Dividends	–	–	–	(1,249,138)	–	–	–	–	–	–	(1,249,138)
Transfer to surplus reserves (Note 33)	–	–	19,395	(19,395)	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	105,670	–	–	–	–	105,670
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	85,106	–	–	–	–	–	85,106
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	₱105,670	(₱3,469,939)	(₱2,821,853)	₱915,222	₱3,087	₱107,297,783
Balance at January 1, 2015, as previously reported	₱49,965,587	₱31,331,251	₱537,620	₱18,702,394	₱–	–	(₱2,336,142)	(₱2,292,833)	(₱59,854)	–	₱95,848,023
Effect of change in valuation of insurance reserves (Note 2)	–	–	–	22,364	–	–	–	–	–	–	22,364
Balance at January 1, 2015, as restated	49,965,587	31,331,251	537,620	18,724,758	–	–	(2,336,142)	(2,292,833)	(59,854)	–	95,870,387
Total comprehensive income (loss) for the year	–	–	–	6,131,464	–	–	(768,033)	(82,901)	672,322	–	5,952,852
Transfer to surplus reserves (Note 33)	–	–	16,643	(16,643)	–	–	–	–	–	–	–
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	(85,106)	–	73,587	11,519	–	–	–
Balance at December 31, 2015	₱49,965,587	₱31,331,251	₱554,263	₱24,839,579	(₱85,106)	–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	₱101,823,239

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱10,478,758**	₱6,415,393	₱7,591,015	**₱10,284,239**	₱6,307,764	₱7,241,785
Income before income tax from discontinued operations (Note 37)	–	2,470,400	402,236	–	2,325,568	–
Income before income tax	**10,478,758**	8,885,793	7,993,251	**10,284,239**	8,633,332	7,241,785
Adjustments for:						
Net gain on sale or exchange of assets (Note 13)	**(3,921,136)**	(2,510,361)	(1,595,518)	**(3,862,341)**	(2,517,861)	(1,581,385)
Depreciation and amortization (Notes 11 and 37)	**1,684,391**	1,554,645	1,462,925	**1,385,357**	1,343,583	1,305,797
Amortization of premium (discount) on investment securities	**1,383,338**	1,144,317	(911,967)	**1,375,100**	1,137,513	(872,123)
Provision for impairment, credit and other losses (Notes 16 and 37)	**884,133**	3,212,694	600,945	**161,877**	1,707,494	94,435
Loss (gain) on mark-to-market of derivatives (Note 23)	**(128,417)**	698,071	583,375	**(124,679)**	698,071	583,358
Realized trading loss (gain) on available-for-sale investments (Notes 9 and 37)	**(506,238)**	(1,362,477)	(782,065)	**(506,238)**	(1,350,468)	(756,777)
Amortization of transaction costs (Note 17)	**60,239**	36,640	33,836	**60,239**	36,640	33,836
Equity in net earnings of subsidiaries and an associate (Note 12)	**(59,215)**	(70,220)	–	**(498,254)**	(231,780)	(269,709)
Gain on remeasurement of a previously held interest (Note 12)	–	(1,644,339)	–	–	(1,644,339)	–
Loss (gain) from sale of previously held interest (Note 12)	–	(681,228)	–	–	(681,228)	13,247
Recoveries on receivable from special purpose vehicle (Note 28)	–	(500,000)	(353,000)	–	(500,000)	(353,000)
Amortization of fair values of HTM reclassified to AFS (Note 9)	**141,802**	145,727	139,372	141,802	140,332	126,531
Loss on mark-to-market of held for trading securities (Note 9)	**94,480**	88,436	314,836	94,480	88,436	314,846
Amortization of fair value adjustments	**4,692**	21,137	63,519	4,692	21,137	63,519
Gain on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (Notes 9 and 18)	**(3,328)**	3,202	(210)	–	–	–
Loss on write-off of software cost (Note 14)	–	894	–	–	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(798,815)**	(547,222)	178,898	**(828,073)**	(508,224)	132,596
Financial assets at fair value through profit or loss	**(820,576)**	1,904,611	(1,691,607)	**(808,168)**	1,923,254	1,304,882
Loans and receivables	**(75,945,021)**	(66,333,237)	(49,881,768)	**(63,393,954)**	(52,436,762)	(38,729,690)
Other assets	**(1,132,198)**	(1,643,068)	238,354	**(2,202,588)**	(743,644)	666,991
Increase (decrease) in amounts of:						
Financial liabilities at fair value through profit or loss	–	–	2,998,489	–	–	90,745
Deposit liabilities	**67,387,302**	84,510,588	38,196,138	**54,189,539**	71,640,617	37,950,439
Accrued taxes, interest and other expenses	**379,861**	729,486	595,696	**441,930**	520,970	336,577
Other liabilities	**(187,797)**	1,248,917	520,856	**(1,348,046)**	651,403	(294,584)
Net cash generated from (used in) operations	**(1,003,745)**	28,893,006	(1,295,645)	**(5,433,086)**	27,928,476	7,402,316
Income taxes paid	**(1,524,208)**	(784,682)	(718,496)	**(1,350,866)**	(715,203)	(516,503)
Net cash provided by (used in) operating activities	**(2,527,953)**	28,108,324	(2,014,141)	**(6,783,952)**	27,213,273	6,885,813

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2017	2016 (As Restated – Note 2)	2015	**2017**	2016 (As Restated – Note 2)	2015
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of or maturities from:						
Available-for-sale investments	**₱199,856,642**	₱83,143,335	₱88,196,318	**₱199,690,619**	₱81,843,119	₱81,944,894
Held-to-maturity investments	–	–	115,397	–	–	–
Investment properties	**5,570,269**	2,387,170	4,050,406	**5,119,922**	2,255,377	3,918,919
Property and equipment (Note 11)	**235,015**	142,129	499,529	**383,206**	418,869	432,451
Disposal group classified as held for sale/Investment in shares of a subsidiary (Notes 12 and 37)	–	3,230,966	–	–	3,230,966	102,623
Collection of receivables from special purpose vehicle	–	500,000	353,000	–	500,000	353,000
Share in dividends from subsidiaries (Note 12)	–	–	–	**1,333,350**	66,125	180,000
Acquisitions of:						
Available-for-sale investments	**(202,587,314)**	(83,486,942)	(100,599,843)	**(201,794,860)**	(82,272,241)	(92,903,772)
Property and equipment (Note 11)	**(1,930,786)**	(2,028,339)	(1,907,386)	**(1,658,985)**	(1,740,338)	(1,577,147)
Software cost (Note 14)	**(1,162,121)**	(406,053)	(571,768)	**(979,650)**	(404,837)	(558,372)
Held-to-maturity investments	**(2,801,983)**	–	(976,403)	**(2,726,786)**	–	(892,200)
Additional investments in subsidiaries (Note 12)	–	–	–	**(700,000)**	(292,416)	(601,772)
Closure of subsidiaries (Note 12)	–	–	–	**50,000**	–	–
Net cash provided by(used in) investing activities	**(2,820,278)**	3,482,266	(10,840,750)	**(1,283,184)**	3,604,624	(9,601,376)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of Bills and acceptances payable	**164,866,720**	180,747,610	116,889,829	**159,025,830**	175,375,030	112,249,710
Proceeds from sale of non-controlling interest in subsidiaries (Note 12)	–	–	102,623	–	–	–
Settlement of:						
Bills and acceptances payable	**(157,020,131)**	(169,839,126)	(111,139,760)	**(151,794,765)**	(165,576,107)	(107,605,128)
Subordinated debt	**(3,500,000)**	(6,500,000)	–	**(3,500,000)**	(6,500,000)	–
Cash dividends declared and paid	–	(1,249,139)	–	–	(1,249,139)	–
Acquisition of non-controlling interest in subsidiaries (Note 12)	–	(292,416)	(601,772)	–	–	–
Dividends paid to non-controlling interest	**(3,270)**	(43,209)	(17,933)	–	–	–
Payments for transaction cost of issuance of shares	–	–	–	–	–	–
Net cash provided by (used in) financing activities	**4,343,319**	2,823,720	5,232,987	**3,731,065**	2,049,784	4,644,582
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(1,004,912)**	34,414,310	(7,621,904)	**(4,336,071)**	32,867,681	1,929,019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**11,014,663**	15,863,080	14,628,489	**10,626,525**	12,598,715	13,865,078
Due from Bangko Sentral ng Pilipinas	**127,337,861**	81,363,444	105,773,685	**123,799,952**	79,203,948	95,415,467
Due from other banks	**22,709,805**	18,287,308	15,591,406	**12,831,514**	11,450,573	5,013,357
Interbank loans receivable	**7,243,886**	5,800,383	7,492,539	**7,352,840**	5,912,224	7,492,539
Securities held under agreements to resell	**1,972,310**	14,550,000	–	**1,972,310**	14,550,000	–
	170,278,525	135,864,215	143,486,119	**156,583,141**	123,715,460	121,786,441
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**12,391,139**	11,014,663	15,863,080	**11,671,952**	10,626,525	12,598,715
Due from Bangko Sentral ng Pilipinas	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from other banks	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank loans receivable (Note 8)	**11,491,684**	7,243,886	5,800,383	**9,700,916**	7,352,840	5,912,224
Securities held under agreements to resell	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
	₱169,273,613	₱170,278,525	₱135,864,215	**₱152,247,070**	₱156,583,141	₱123,715,460
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱5,317,161**	₱4,620,623	₱3,881,864	**₱4,617,444**	₱4,254,991	₱3,628,149
Interest received	**28,559,267**	22,279,734	20,208,489	**25,320,173**	20,653,077	17,952,107
Dividends received	**3,270**	17,593	2,409	**32,417**	80,841	198,338

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

(Amounts in Thousand Pesos except When Otherwise Indicated)

1. **Corporate Information**

Philippine National Bank (the Parent Company) is a universal bank established in the Philippines in 1916 and started commercial operations that same year. The Philippine Securities and Exchange Commission (SEC) approved the renewal of its corporate registration on May 27, 1996, with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila. As of December 31, 2017 and 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.33% of the Parent Company's shares were held by Philippine Central Depository (PCD) Nominee Corporation. The remaining 22.84% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares. The Parent Company's shares were listed with the Philippine Stock Exchange (PSE) on June 21, 1989.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/ remittance servicing and a full range of retail banking and trust services through its 692 and 675 domestic branches as of December 31, 2017 and 2016, respectively.

The Parent Company has the largest overseas network among Philippine banks with 72 branches and 73 branches, representative offices, remittance centers and subsidiaries as of December 31, 2017 and 2016, respectively, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, life and nonlife insurance, banking, leasing, stock brokerage, foreign exchange trading and/or related services.

Merger with Allied Banking Corporation

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger, which involved a share-for-share exchange, was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company 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 Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 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 of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share (Note 14). The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On April 26, 2013, the Parent Company filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation 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). The Parent Company received BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction. The Parent Company received the final confirmation ruling on March 2, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVPTL) and available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented in Note 12.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented 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. Financial assets and financial liabilities are offset and the net amount is reported in the statements of financial position only when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expense are not offset in the statements of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies. This is not generally the case with master netting agreements, where the related assets and liabilities are presented gross amounts in the statement of financial position.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (Note 12).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption, and when the Group has less than a 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, including:

- Contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Group and the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity as 'Other equity adjustment'. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Subsequent to acquisition (See Accounting Policy on Business Combinations and Goodwill), non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the date of business combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the amendments and improvements to Philippine Financial Reporting Standards (PFRS) which are effective beginning on or after January 1, 2017. The Changes in the accounting policies that have or did not have any significant impact on the financial position or performance of the Group are discussed under Summary of Significant Accounting Principles of the audited financial statements of the group.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*

The Insurance Commission issued new regulations in 2016 which provide, among others, for changes in valuation standards for both life and non-life insurance policy reserves. The new valuation standards, which took effect beginning January 1, 2017, are to be adopted retrospectively. The impact to prior years are presented as follows (amounts in millions):

	Consolidated								
	December 31, 2016			December 31, 2015			January 1, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Financial Position									
Loans and receivables	₱428,027	₱188	₱428,215	₱365,725	₱347	₱366,072	₱–	₱–	₱–
Investments in subsidiaries and an associate	2,533	24	2,557	–	–	–	–	–	–
Other assets	7,091	5	7,096	6,780	–	6,780	5,159	(27)	5,186
Other liabilities	28,565	197	28,762	25,658	306	25,964	33,333	4	33,3
Surplus	30,678	17	30,695	24,799	40	24,839	13,344	(22)	13,362
Share in aggregate reserves on life insurance policies	–	3	3	–	–	–	–	–	–

The effect of DTA is immaterial.

	Consolidated					
	December 31, 2016			December 31, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income						
Equity in net earnings of subsidiaries and an associate	₱49	₱21	₱70	₱–	₱–	₱–
Net insurance premiums	630	(5)	625	540	1	541
Net insurance benefits and claims	256	39	295	437	(16)	421
Provision for income tax	1,517	–	1,517	1,620	–	1,620
Net income	7,186	(24)	7,162	6,312	18	6,330
Share in aggregate reserves on life insurance policies	–	3	3	–	–	–

	Parent Company								
	December 31, 2016			December 31, 2015			January 1, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Financial Position									
Investments in subsidiaries and an associate	₱28,360	₱20	₱28,380	₱26,498	₱40	₱26,538	₱18,702	₱22	₱18,724
Surplus	30,678	17	30,695	24,799	40	24,839	26,555	(22)	26,533
Share in aggregate reserves on life insurance policies	–	3	3	–	–	–	–	–	–

	Parent Company					
	December 31, 2016			December 31, 2015		
	As previously reported	Effect of restatement	As restated	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income						
Equity in net earnings of subsidiaries and an associate	₱255	(₱24)	₱231	₱252	₱18	₱270
Net income	7,148	(24)	7,124	6,114	18	6,132
Share in aggregate reserves on life insurance policies	–	3	3	–	–	–

Significant Accounting Policies

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group, as an acquirer, shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PAS 39, *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PAS 39, it is measured in accordance with the appropriate PFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the non-controlling interest, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

<u>Non-current Assets and Disposal Group Held for Sale and Discontinued Operations</u>
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 amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity 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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Refer to Note 37 for the detailed disclosure on discontinued operations. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Foreign Currency Translation

The financial statements are presented in PHP, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in Php while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances

As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and for foreign currency-denominated income and expenses at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined.

FCDU and overseas subsidiaries

As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. 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.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. 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.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from 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 requirements.

Fair Value Measurement
The Group measures financial instruments such as financial assets and liabilities at FVPTL and AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes 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 fair value of an asset or a liability is measured 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 a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the 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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Group. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized 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 FVPTL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPTL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVPL and other financial liabilities at amortized cost.

Derivatives recorded at FVPTL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These contracts are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Financial assets or financial liabilities held-for-trading

Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVPTL' or 'Financial Liabilities at FVPTL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVPTL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPTL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized as 'Foreign exchange gains-net' in the statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'.

These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVPTL or designated as AFS investments.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC) and Allied Leasing and Finance Corporation (ALFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from impairment are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as 'Financial Assets at FVPL', 'HTM Investments' or 'Loans and Receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net change in unrealized gain (loss) on AFS investments' in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. Losses arising from impairment of such investments are recognized as 'Provision for impairment, credit and other losses' in the statement of income.

Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPTL, are classified as 'Deposit Liabilities', 'Bills and Acceptances Payable', 'Subordinated Debt' and other appropriate financial liability accounts, where the substance of the contractual arrangement 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.

After initial measurement, other financial liabilities not qualified as and not designated at FVPTL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Reclassification of financial assets

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS investments category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

<u>Derecognition of Financial Assets and Liabilities</u>

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized 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 asset is recognized to the extent of the Group's 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 liability

A financial liability is derecognized 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, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

<u>Repurchase and Reverse Repurchase Agreements</u>

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities Held Under Agreements to Resell', and is considered 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.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is 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 indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of 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. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under 'Provision for impairment, credit and other losses' in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies 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 gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates 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. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income.

Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Financial Guarantees
In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is taken to the statement of income in 'Miscellaneous expenses'. Any financial guarantee liability remaining is recognized in the statement of income in 'Service fees and commission income', when the guarantee is discharged, cancelled or has expired.

Nonlife Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated 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 liability is not discounted for the time value of money and includes provision for claims IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract, is discharged or cancelled and has expired.

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 is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The 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. Further provisions are made 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.

Investments in Subsidiaries
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company separate financial statements, investments in subsidiaries are accounted for under equity method of accounting similar to investment in an associate.

Investments in an Associate and Joint Ventures
Associates pertain to all entities over which the Group has significant influence. Significant influence 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. Investment in an associate are accounted for under equity method of accounting.

Under the equity method, the investments in an associate and joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associates and joint ventures. The statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. When there has been a change recognized in the investee's other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the statement of comprehensive income. Profits and losses arising from transactions between the Group and the associates are eliminated to the extent of the interest in the associates and joint ventures.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Revenue Recognition

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. 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:

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as FVPL and AFS investments, interest income is recorded 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. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), 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 adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Service fees and commission income

The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*

   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*

   Non-refundable access fees are recognized 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.

c) *Fee income from providing transaction services*

   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 - are recognized on completion of the underlying transaction.

   Fees or components of fees that are linked to a certain performance are recognized 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. Loan syndication fees are recognized in the statement of income 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.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income 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. Consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed. The deferred balance is included under 'Other Liabilities' in the statement of financial position.

Commissions earned on credit cards
Commissions earned are taken up as income 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.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and Receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Commission earned on reinsurance
Reinsurance commissions are recognized 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 months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method 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.

Premiums revenue
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. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums and presented as part of 'Other Liabilities' in the consolidated statement of financial position. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums shown as part of 'Other Assets' in the consolidated statement of financial position. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and when the collectability of the sales price is reasonably assured.

<u>Expenses</u>
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when 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.

<u>Reinsurance</u>
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 'Accounts receivable'.

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 which is presented as 'Other Liabilities' in the consolidated statement of financial position will be withheld and recognized as Funds held for reinsurers and included as part of the 'Other Liabilities' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (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 24^{th}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. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the consolidated statement of financial position.

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.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated 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.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. 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 an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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) is included in the statement of income in the period the asset is derecognized.

Investment Properties
Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be reliably measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'.

Foreclosed properties are classified under 'Investment Properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and any impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Transfers are made 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. Transfers are made from 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.

Other Properties Acquired
Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs
Software costs, included in 'Intangible Assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles
Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value 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, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets
Property and equipment, investment properties, intangible assets and other properties acquired
At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, 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.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted 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.

An impairment loss is charged against operations in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount 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. Such reversal is recognized in the statement of income. After such reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investments in subsidiaries and an associate
The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Goodwill
Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where 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), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. 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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and Equipment' account with the corresponding liability to the lessor included in 'Other Liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and Receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases
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.

Retirement Benefits
Defined benefit plan
The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling, if any. 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 plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is 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. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

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) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified 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. Plan assets 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 fair value of plan assets is estimated 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's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement
Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Accrued Taxes, Interest and Other Expenses' in the statement of financial position.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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 reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined 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 increase in the provision due to the passage of time is recognized as an interest expense.

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
Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax
Deferred tax is provided, 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.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized 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. Deferred tax, however, is not recognized 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.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized 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 carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured 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.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset 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.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per Share
Basic earnings per share (EPS) is computed 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 stock dividends declared and stock rights exercised during the period, if any. Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

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 cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognized in "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.

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs

Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method calculated in accordance with PAS 39 that the Group incurs in connection with borrowing of funds.

Events after the Reporting Date

Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves

The reserves recorded in equity in the statement of financial position include:

'Remeasurement Losses on Retirement Plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated Translation Adjustment' which is 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 Loss on Available-for-Sale Investments' reserve which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective.
Effective beginning on or after January 1, 2018

PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions* (Amendments)
The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

The Group is assessing the potential effect of the amendments on its financial statements.

PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4* (Amendments)
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the forthcoming insurance contracts standard. They allow entities to choose between the overlay approach and the deferral approach to deal with the transitional challenges. The overlay approach gives all entities that issue insurance contracts the option to recognize in other comprehensive income, rather than profit or loss, the volatility that could arise when PFRS 9 is applied before the new insurance contracts standard is issued. On the other hand, the deferral approach gives entities whose activities are predominantly connected with insurance an optional temporary exemption from applying PFRS 9 until the earlier of application of the forthcoming insurance contracts standard or January 1, 2021.

The Group is assessing the potential effect of adopting this standard.

PFRS 9, *Financial Instruments*
PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after January 1, 2018.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group will not restate prior period comparative consolidated financial statements when the Group adopts the requirements of the new standard. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 will be recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets and on the recognition of expected credit losses will have an impact on the Group's and Parent Company's financial statements. The 2018 opening balances of surplus and OCI in the Group's and Parent Company's statement of financial position are expected to change as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Group's and the Parent Company's application of its business models and its assessment of the financial assets' cash flow characteristics. The balances of surplus and OCI in the Group's and Parent Company's statement of financial position as of January 1, 2018, the initial adoption date, are also expected to change as a result of applying PFRS 9's requirements on the recognition of expected credit losses. This change depends on whether there have been significant increases in the credit risk of the Group's and Parent Company's financial assets since initial recognition and on the Group's and Parent Company's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions. During 2018, PFRS 9's requirements will have an impact on the Group's and Parent Company's financial statements depending on certain factors such as the financial assets' corresponding business models, cash flow characteristics, and changes in credit risks. The Group is still completing its assessment of the impact of PFRS 9.

In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial liabilities and on the application of hedge accounting are not expected to have an impact on the Group's and Parent Company's financial statements. The key changes to the Group's accounting policies resulting from the adoption of PFRS 9 are described below.

Classification and measurement
The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as at fair value through profit or loss (FVTPL). The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured at FVTPL. Subsequent measurement of instruments classified as FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "held for trading" or "fair value" basis will be classified as at FVTPL. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as at fair value through OCI (FVOCI) for debt. Debt instruments that are managed on a "hold to collect" basis will be classified as at amortized cost. Subsequent measurement of instruments classified as at FVOCI and amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as at FVOCI or amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives will continue to be measured at FVTPL under PFRS 9.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Expected Credit Loss Methodology
The application of ECL will significantly change the Group's credit loss methodology and models. ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12 months of ECL. In contrast to stage 1 and stage 2, inherent within the incurred loss methodology under PAS 39, allowances are provided for non-impaired financial instruments for credit losses that are incurred but not yet identified.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the current requirements under PAS 39 for impaired financial instruments.

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018. The Group plans to adopt the modified retrospective method.

The Group is currently assessing the impact of adopting this standard.

PAS 28, *Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* (Amendments)
The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent. The amendments should be applied retrospectively, with earlier application permitted.

PAS 40, *Investment Property, Transfers of Investment Property* (Amendments)
The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation may be applied on a fully retrospective basis. Entities may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities

in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

Entities may early adopt PFRS 16 but only if they have also adopted PFRS 15. When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Deferred effectivity

PFRS 10 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, *Business Combinations*. 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.

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 of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) Leases

Operating leases

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases
Group as lessor
The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, 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) *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 35).

(d) *Functional currency*
PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

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.

(e) *Assessment of control over entities for consolidation*
Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls Oceanic Holding (BVI) Ltd. (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.

(f) *Assessment of joint control*
The Parent Company has certain joint arrangements with real estate companies for the development of its investment properties into residential/condominium units. In assessing joint

control over these investees, the Parent Company assesses whether all the parties collectively control the arrangement. Further, the Parent Company determines the relevant activities of the arrangement and whether decisions around relevant activities require unanimous consent. The Parent Company also considers the scope of decision-making authority of the real estate companies in accordance with their respective contractual arrangements.

The Parent Company determined that it has joint control over these joint arrangements on the basis that even though the real estate companies are the designated operators of the joint arrangement, they are still bound by the contract that establishes joint control of the undertaking and they can only act in accordance with the authorities granted to them under the joint venture agreement.

(g) *Sale of Allianz-PNB Life Insurance, Inc.(APLII)*
Pursuant to the sale of APLII in 2016 under a share purchase agreement, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years.

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Parent Company was allocated between the sale of its ownership interest in APLII and the Exclusive Distribution Right (see Note 12).

Estimates

(a) *Credit losses on loans and receivables*
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 management is required in the estimation of the amount and timing of future cash flows when determining the level of required 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.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

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 Notes 10 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively.

(b) *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 likely timing and level of future taxable income together with future tax planning strategies.
The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 31.

(c) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves 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. All assumptions are reviewed 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 was based on the Group's policy taking into account 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 fair value of plan assets is estimated 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 29.

(d) *Impairment of nonfinancial assets - property and equipment, investments in subsidiaries and an associate, investment properties, other properties acquired and intangibles*
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 factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- 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 nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. 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 computation 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 Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties and intangible assets and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(e) *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 their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use 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 value-in-use are sensitive to estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Note 14.

(f) *Valuation of insurance contracts*
Estimates have to be made both for the expected ultimate cost of claims reported and for 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.

Nonlife insurance contract liabilities are not discounted for the time value of money.
The main assumption underlying the estimation of the claims provision is that Group's company's past claims development experience can be used to project future claims development and hence ultimate claims costs. Historical claims development is mainly analyzed by accident years as well as by significant business lines and claim types. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Note 22.

(g) *Determination of fair value of shares of APLII and Exclusive Distribution Rights (EDR)*
The Group determined the fair value of the shares of APLII using a combination of the Income Approach and the Market Approach. The Income Approach was based on the present value of the future cash flows over a three-year period, adjusted for the control premium and the lack of marketability discount. Significant management judgment is required to determine the expected

future cash flows. The valuation under the Income Approach is most sensitive to discount rate and growth rate used to project cash flows.

The Market Approach involved determining the price to book value of selected publicly traded companies that have been identified to be comparable to PLII such as those with similar business activities and product offerings. The price to book value are then subjected to a control premium and lack of marketability discount.
The fair value of the Exclusive Distribution Right was determined using the Market Approach where it involved identifying recent bancassurance agreements with upfront payments from publicly available data of comparable companies. Using the amount of upfront payment fee, the number of branches and customers, a value per branch and value per customer multiple were determined.

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 managementframework. 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 strategyand assists in overseeing the implementation of those strategies and business plans by seniormanagement. 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 an₱8.0 billion increase in risk weighted assets or a ₱1.0 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 2017-2019, these are based on the following nine (9) 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 and remedial 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 Parent Company 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 Capital Adequacy Ratio (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 (cash releases and cash collection for the month)
    c. loss rate

d. recovery rate
e. trend of nonperforming loans (NPLs)
f. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Parent Company collects data on risk rating of loan borrowers with an asset size of ₱15.0 million and above as initial requirement in the Parent Company's model for internal Probability of Default (PD) and Loss Given Default (LGD).

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.

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.

Unit-linked financial assets
The Group issues unit-linked insurance policies. In the unit-linked business, the policy holder bears the investment risk in the assets held in the unit-linked funds as the policy benefits are directly linked to the values of the assets in the fund. Therefore, the Group has no material credit risk on unit-linked financial assets.

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			
	2017			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under repurchase agreement	**₱14,621,483**	**₱14,473,258**	**₱148,225**	**₱14,473,258**
Loans and receivables:				
Receivable from customers*:				
Business loans	**408,977,024**	**573,328,885**	**280,657,441**	**128,319,583**
Consumers	**45,972,385**	**36,704,079**	**31,580,271**	**14,392,114**
GOCCs and National Government Agencies (NGAs)	**17,429,380**	**15,117,428**	**2,311,952**	**15,117,428**
LGUs	**7,176,573**	**1,024,131**	**6,701,323**	**475,250**
Fringe benefits	**516,360**	**553,035**	**299,245**	**217,115**
Unquoted debt securities	**14,674,130**	**–**	**14,674,130**	**–**
Other receivable	**22,459,399**	**16,084,896**	**21,583,282**	**876,117**
	₱531,826,734	**₱657,285,712**	**₱357,955,869**	**₱173,870,865**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated			
	2016			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱1,972,310	₱1,968,603	₱3,707	₱1,968,603
Loans and receivables:				
Receivable from customers*:				
Business loans	345,154,387	275,990,051	276,724,626	68,429,761
Consumers	41,224,688	24,791,559	28,463,760	12,760,928
GOCCs and National Government Agencies (NGAs)	19,897,037	25,594,651	3,089,179	16,807,858
LGUs	7,335,499	1,053,132	6,806,185	529,314
Fringe benefits	588,092	743,271	291,754	296,338
Unquoted debt securities	6,972,710	2,789,063	4,125,801	2,789,063
Other receivable	21,039,980	10,745,528	15,156,530	5,883,450
	₱444,184,703	₱343,675,858	₱334,661,542	₱109,465,315

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent Company			
	2017			
	Gross Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under repurchase agreement	**₱14,621,483**	**₱14,473,258**	**₱148,225**	**₱14,473,258**
Loans and receivables:				
Receivable from customers:				
Business loans	**388,516,309**	**546,762,806**	**271,403,152**	**117,113,157**
Consumers	**11,721,298**	**1,567,307**	**11,106,334**	**614,964**
GOCCs and NGAs	**17,429,380**	**15,117,428**	**2,311,952**	**15,117,428**
LGUs	**7,176,573**	**1,024,131**	**6,701,323**	**475,250**
Fringe benefits	**482,020**	**522,070**	**290,864**	**191,156**
Unquoted debt securities	**14,616,628**	**–**	**14,616,628**	**–**
Other receivable	**16,076,425**	**16,012,112**	**15,273,093**	**803,333**
	₱470,640,116	**₱595,479,112**	**₱321,851,571**	**₱148,788,546**

	Parent Company			
	2016			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱1,972,310	₱1,968,603	₱3,707	₱1,968,603
Loans and receivables:				
Receivable from customers:				
Business loans	332,783,948	255,205,029	273,830,642	58,953,306
Consumers	9,988,258	3,059,479	8,357,123	1,631,135
GOCCs and NGAs	19,897,036	25,594,651	3,089,179	16,807,857
LGUs	7,335,499	1,053,132	6,806,185	529,314
Fringe benefits	560,828	734,575	283,164	277,664
Unquoted debt securities	6,914,864	2,789,063	4,125,801	2,789,063
Other receivable	14,750,427	10,743,494	9,124,573	5,625,854
	₱394,203,170	₱301,148,026	₱305,620,374	₱88,582,796

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 as disclosed in Note 35 to the financial statements.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Parent Company 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 Parent Company 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 loans and receivables, the Parent Company sets an internal limit for group exposures which is equivalent to 100.00% of the single borrower's limit (SBL) for loan accounts with credit risk rating (CRR) 1 to CRR 5 or 50.00% of SBL if rated below CRR 5.

   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			
	2017			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱468,116,001**	**₱79,432,010**	**₱128,064,005**	**₱675,612,016**
Asia (excluding the Philippines)	**28,656,909**	**10,974,911**	**17,295,570**	**56,927,390**
USA and Canada	**1,243,490**	**2,450,828**	**8,530,735**	**12,225,053**
Oceania	**3,398,662**	**–**	**–**	**3,398,662**
Other European Union Countries	**–**	**382,808**	**2,065,193**	**2,448,001**
United Kingdom	**26,128**	**6,284,385**	**3,007,550**	**9,318,063**
Middle East	**–**	**–**	**10,943**	**10,943**
	₱501,441,190	**₱99,524,942**	**₱158,973,996**	**₱759,940,128**

** 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			
	2016			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱388,691,048	₱78,723,534	₱131,622,446	₱598,037,028
Asia (excluding the Philippines)	18,430,743	12,716,017	18,211,900	49,358,660
USA and Canada	15,315,893	202,939	4,302,151	19,820,983
Oceania	3,594,610	–	–	3,594,610
Other European Union Countries	1,425,522	942,855	4,643,448	7,011,825
United Kingdom	42,086	843,737	1,568,364	2,454,187
Middle East	7,707	–	31,042	38,749
	₱427,507,609	₱93,429,082	₱160,379,351	₱681,316,042

** 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			
	2017			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱417,687,275**	**₱77,297,223**	**₱122,665,366**	**₱617,649,864**
Asia (excluding the Philippines)	**19,753,264**	**10,971,619**	**6,437,886**	**37,162,769**
United Kingdom	**–**	**6,210,003**	**3,007,451**	**9,217,454**
Oceania	**3,398,662**	**479**	**–**	**3,399,141**
USA and Canada	**674,104**	**2,326,180**	**8,460,359**	**11,460,643**
Other European Union Countries	**–**	**382,808**	**2,062,191**	**2,444,999**
Middle East	**–**	**–**	**10,943**	**10,943**
	₱441,513,305	**₱97,188,312**	**₱142,644,196**	**₱681,345,813**

**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			
	2016			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱366,510,639	₱77,371,752	₱127,423,655	₱571,306,046
Asia (excluding the Philippines)	11,011,491	12,715,714	10,154,230	33,881,435
United Kingdom	–	225	–	225
Oceania	668,901	–	4,135,016	4,803,917
USA and Canada	–	843,276	4,053,526	4,896,802
Other European Union Countries	–	843,737	1,244,950	2,088,687
Middle East	7,707	–	31,042	38,749
	₱378,198,738	₱91,774,704	₱147,042,419	₱617,015,861

**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 shows 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			
	2017			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱81,339,503**	**₱11,385,526**	**₱52,731,051**	**₱145,456,080**
Wholesale and retail	**72,590,561**	**–**	**–**	**72,590,561**
Electricity, gas and water	**63,607,168**	**242,543**	**–**	**63,849,711**
Transport, storage and communication	**39,143,238**	**255,953**	**–**	**39,399,191**
Manufacturing	**30,808,117**	**18**	**–**	**30,808,135**
Public administration and defense	**23,770,145**	**–**	**–**	**23,770,145**
Agriculture, hunting and forestry	**7,138,996**	**19**	**–**	**7,139,015**
Secondary target industry:				
Government	**358,971**	**70,845,045**	**105,497,459**	**176,701,475**
Real estate, renting and business activities	**82,785,877**	**9,217,989**	**–**	**92,003,866**
Construction	**18,742,726**	**–**	**–**	**18,742,726**
Others**	**81,155,888**	**7,577,849**	**745,486**	**89,479,223**
	₱501,441,190	**₱99,524,942**	**₱158,973,996**	**₱759,940,128**

** 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)*

	Consolidated			
	2016			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱60,774,307	₱10,066,253	₱30,506,854	₱101,347,414
Wholesale and retail	63,358,584	26	8,772	63,367,382
Electricity, gas and water	49,857,988	4,771,740	5,469	54,635,197
Transport, storage and communication	38,352,051	7,249,511	1,286	45,602,848
Manufacturing	40,987,080	496,529	71	41,483,680
Public administration and defense	23,289,595	–	411	23,290,006
Agriculture, hunting and forestry	5,970,524	–	–	5,970,524
Secondary target industry:				
Government	625,802	63,321,206	129,310,255	193,257,263
Real estate, renting and business activities	67,321,221	6,814,681	50,343	74,186,245
Construction	18,249,762	99,939	1,070	18,350,771
Others**	58,720,695	609,197	494,820	59,824,712
	₱427,507,609	₱93,429,082	₱160,379,351	₱681,316,042

* *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			
	2017			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Primary target industry:				
Financial intermediaries	**₱80,879,478**	**₱11,212,105**	**₱36,460,258**	**₱128,551,841**
Wholesale and retail	**68,704,929**	**–**	**–**	**68,704,929**
Electricity, gas and water	**63,351,538**	**239,078**	**–**	**63,590,616**
Transport, storage and communication	**38,120,139**	**1,766**	**–**	**38,121,905**
Manufacturing	**28,266,909**	**17**	**–**	**28,266,926**
Public administration and defense	**22,419,612**	**–**	**–**	**22,419,612**
Agriculture, hunting and forestry	**6,665,547**	**19**	**–**	**6,665,566**
Secondary target industry:				
Government	**358,971**	**69,269,955**	**105,497,459**	**175,126,385**
Real estate, renting and business activities	**75,202,099**	**8,986,299**	**–**	**84,188,398**
Construction	**17,703,490**	**–**	**–**	**17,703,490**
Others*	**39,840,593**	**7,479,073**	**686,479**	**48,006,145**
	₱441,513,305	**₱97,188,312**	**₱142,644,196**	**₱681,345,813**

* *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			
	2016			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱59,963,399	₱9,976,639	₱20,744,821	₱90,684,859
Wholesale and retail	56,592,495	26	8,772	56,601,293
Electricity, gas and water	49,626,635	4,771,510	5,469	54,403,614
Transport, storage and communication	34,052,933	7,150,623	1,286	41,204,842
Manufacturing	35,104,381	496,529	71	35,600,981
Public administration and defense	23,915,397	–	411	23,915,808
Agriculture, hunting and forestry	4,922,200	–	–	4,922,200
Secondary target industry:				
Government	–	62,372,155	125,772,346	188,144,501
Real estate, renting and business activities	51,294,655	6,721,508	50,343	58,066,506
Construction	14,488,232	99,939	1,070	14,589,241
Others*	48,238,411	185,775	457,830	48,882,016
	₱378,198,738	₱91,774,704	₱147,042,419	₱617,015,861

* *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
The credit quality of financial assets is assessed and managed using external and internal ratings. For receivable from customers classified as business loans, the credit quality is generally monitored using the 14-gradeCRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables
The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of ₱15.0 million and above)are defined below:

CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 – Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR 7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management’s close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company uses credit scoring for evaluating borrowers with assets size below ₱15.0 million. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivable from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017 and 2016, but net of residual values of leased assets.

	Consolidated			
	2017			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 – Excellent	**₱4,291,461**	**₱–**	**₱–**	**₱4,291,461**
2 - Super Prime	**44,150,956**	**–**	**–**	**44,150,956**
3 – Prime	**79,626,334**	**–**	**–**	**79,626,334**
4 - Very Good	**51,582,911**	**4,995**	**–**	**51,587,906**
5 - Good	**41,160,103**	**–**	**–**	**41,160,103**
6 - Satisfactory	**47,552,725**	**104,642**	**–**	**47,657,367**
7 - Average	**32,300,228**	**5,115**	**14,990**	**32,320,333**
8 - Acceptable	**26,323,932**	**970**	**–**	**26,324,902**
9 - Fair	**8,111,610**	**–**	**60,909**	**8,172,519**
10 - Watchlist	**55,367,209**	**64,780**	**185,233**	**55,617,222**
11 - Special Mention	**3,030,339**	**143,170**	**159,571**	**3,333,080**
12 - Substandard	**957,285**	**38,244**	**2,245,340**	**3,240,869**
13 - Doubtful	**–**	**321,988**	**718,858**	**1,040,846**
14 - Loss	**–**	**10,740**	**2,986,181**	**2,996,921**
	394,455,093	**694,644**	**6,371,082**	**401,520,819**
Unrated Receivable from Customers				
Consumers	**51,341,530**	**1,426,568**	**218,224**	**52,986,322**
Business Loans	**18,240,516**	**468,879**	**710,896**	**19,420,291**
LGUs	**7,000,975**	**35,325**	**150,344**	**7,186,644**
Fringe Benefits	**493,746**	**4,266**	**12,743**	**510,755**
GOCCs and NGAs	**–**	**–**	**–**	**–**
	77,076,767	**1,935,038**	**1,092,207**	**80,104,012**
	₱471,531,860	**₱2,629,682**	**₱7,463,289**	**₱481,624,831**

	Consolidated			
	2016			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 – Excellent	₱5,086,517	₱791	₱–	₱5,087,308
2 - Super Prime	50,660,171	–	–	50,660,171
3 – Prime	81,566,409	–	–	81,566,409
4 - Very Good	46,455,179	–	–	46,455,179
5 - Good	28,223,428	–	–	28,223,428
6 - Satisfactory	37,118,762	33,674	–	37,152,436
7 - Average	26,039,398	5,085	–	26,044,483
8 - Acceptable	21,057,009	–	–	21,057,009
9 - Fair	5,855,663	–	–	5,855,663
10 - Watchlist	44,135,681	5,346	–	44,141,027
11 - Special Mention	2,786,219	78,861	148,981	3,014,061
12 - Substandard	776,933	484,029	610,813	1,871,775
13 - Doubtful	5,890	113,428	413,634	532,952
14 - Loss	3,203	256,644	3,901,451	4,161,298
	349,770,462	977,858	5,074,879	355,823,199
Unrated Receivable from Customers				
Consumers	37,548,926	802,828	27,440	38,379,194
Business Loans	12,366,590	465,016	567,575	13,399,181
LGUs	7,196,440	9,950	130,523	7,336,913
Fringe Benefits	560,534	12,484	–	178,153
GOCCs and NGAs	178,153	–	–	573,018
	57,850,643	1,290,278	725,538	59,866,459
	₱407,621,105	₱2,268,136	₱5,800,417	₱415,689,658

	Parent Company			
	2017			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 - Excellent	**₱4,248,533**	**₱–**	**₱–**	**₱4,248,533**
2 - Super Prime	**43,620,906**	**–**	**–**	**43,620,906**
3 - Prime	**79,122,851**	**–**	**–**	**79,122,851**
4 - Very Good	**50,260,694**	**4,995**	**–**	**50,265,689**
5 - Good	**40,554,077**	**–**	**–**	**40,554,077**
6 - Satisfactory	**39,856,116**	**43,680**	**–**	**39,899,796**
7 - Average	**31,374,729**	**5,115**	**14,990**	**31,394,834**
8 - Acceptable	**26,202,086**	**970**	**–**	**26,203,056**
9 - Fair	**7,828,143**	**–**	**76**	**7,828,219**
10 - Watchlist	**55,204,756**	**29,500**	**–**	**55,234,256**
11 - Special Mention	**2,962,058**	**143,170**	**–**	**3,105,228**
12 - Substandard	**957,285**	**38,244**	**945,997**	**1,941,526**
13 - Doubtful	**–**	**321,988**	**522,423**	**844,411**
14 - Loss	**–**	**10,740**	**2,708,753**	**2,719,493**
	382,192,234	**598,402**	**4,192,239**	**386,982,875**
Unrated Receivable from Customers				
Business Loans	**18,942,189**	**407,654**	**710,897**	**20,060,740**
Consumers	**–**	**1,254,482**	**205,197**	**11,852,518**
LGUs	**10,392,839**	**35,325**	**150,344**	**7,186,644**
Fringe Benefits	**7,000,975**	**4,266**	**12,743**	**484,389**
GOCCs and NGAs	**467,380**	**–**	**–**	**–**
	36,803,383	**1,701,727**	**1,079,181**	**39,584,291**
	₱418,995,617	**₱2,300,129**	**₱5,271,420**	**₱426,567,166**

	Parent Company			
	2016			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	₱ 5,015,902	₱791	₱–	₱5,016,693
2 - Super Prime	49,664,931	–	–	49,664,931
3 - Prime	80,281,186	–	–	80,281,186
4 - Very Good	44,936,909	–	–	44,936,909
5 - Good	27,370,130	–	–	27,370,130
6 - Satisfactory	28,790,669	–	–	28,790,669
8 - Acceptable	25,168,489	5,085	–	25,173,574
9 - Fair	20,879,402	–	–	20,879,402
9 - Marginal	5,549,401	–	–	5,549,401
10 - Watchlist	44,111,934	–	–	44,111,934
11 - Special Mention	2,695,185	78,861	–	2,774,046
12 - Substandard	716,596	93,764	96,465	906,825
13 - Doubtful	–	8,821	379,665	388,486
14 - Loss	–	605,299	3,369,191	3,974,490
	335,180,734	792,621	3,845,321	339,818,676
Unrated Receivable from Customers				
Business Loans	13,526,556	403,791	567,575	14,497,922
Consumers	8,658,310	631,265	15,503	9,305,078
LGUs	7,196,440	9,950	130,523	7,336,913
Fringe Benefits	533,272	12,484	–	178,153
GOCCs and NGAs	178,153	–	–	545,756
	30,092,731	1,057,490	713,601	31,863,822
	₱365,273,465	₱1,850,111	₱4,558,922	₱371,682,498

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due. The tables below show the aging analysis of past due but not individually impaired loans receivables per class.

	Consolidated				
	2017				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱124,510**	**₱158,674**	**₱211,759**	**₱561,431**	**₱1,056,374**
Consumers	**237,018**	**147,991**	**308,946**	**839,763**	**1,533,718**
Fringe benefits	**667**	**824**	**1,476**	**1,299**	**4,266**
LGUs	**35,325**	**–**	**–**	**–**	**35,325**
Total	**₱397,520**	**₱307,489**	**₱522,181**	**₱1,402,493**	**₱2,629,683**

	Consolidated				
	2016				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱117,611	₱159,652	₱52,707	₱1,476,010	₱1,805,980
Consumers	235,986	20,222	8,505	574,297	839,010
Fringe benefits	29	24	721	11,710	12,484
LGUs	–	–	–	9,950	9,950
Total	₱353,626	₱179,898	₱61,933	₱2,071,967	₱2,667,424

	Parent Company 2017				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
Business loans	**₱63,411**	**₱158,412**	**₱211,759**	**₱561,430**	**₱995,012**
Consumers	**6,098**	**112,265**	**307,401**	**839,763**	**1,265,527**
Fringe benefits	**35,324**	**–**	**–**	**–**	**35,324**
LGUs	**667**	**824**	**1,476**	**1,299**	**4,266**
Total	**₱105,500**	**₱271,501**	**₱520,636**	**₱1,402,491**	**₱2,300,129**

	Parent Company 2016				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱56,339	₱159,451	₱47,404	₱930,506	₱1,193,700
Consumers	35,830	19,074	6,235	572,838	633,977
Fringe benefits	29	24	721	11,710	12,484
LGUs	–	–	–	9,950	9,950
Total	₱92,198	₱178,549	₱54,360	₱1,525,004	₱1,850,111

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, the Bank 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, net of allowances, excluding receivable from customers, which are monitored using external ratings.

	Consolidated					
	2017					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱108,743,985**	**₱108,743,985**	**₱–**	**₱108,743,985**
Due from other banks	**5,679,010**	**5,155,624**	**3,392,665**	**14,227,299**	**7,798,023**	**22,025,322**
Interbank loans receivables	**5,801,422**	**2,754,325**	**3,588,842**	**12,144,589**	**693,132**	**12,837,721**
Securities held under agreements to resell	**–**	**–**	**14,621,483**	**14,621,483**	**–**	**14,621,483**
Financial assets at FVPL:						
Government securities	**–**	**–**	**1,822,378**	**1,822,378**	**385,574**	**2,207,952**
Derivative assets[2/]	**97,206**	**12,648**	**298,156**	**408,010**	**154,974**	**562,984**
Private debt securities	**–**	**–**	**–**	**–**	**31,305**	**31,305**
Equity securities	**–**	**–**	**42,990**	**42,990**	**30,928**	**73,918**
Investment in unit investment trust funds (UITFs)	**–**	**–**	**6,236**	**6,236**	**–**	**6,236**
AFS investments:						
Government securities	**2,240,392**	**–**	**33,735,515**	**35,975,907**	**5,645,317**	**41,625,920**
Private debt securities	**2,283,698**	**5,941,865**	**9,044,338**	**17,269,901**	**9,650,145**	**26,920,045**
Quoted equity securities	**–**	**–**	**139,905**	**139,905**	**1,004,874**	**1,144,779**
Unquoted equity securities	**–**	**–**	**538**	**538**	**146,154**	**146,692**
HTM investments:						
Government securities	**124,913**	**–**	**23,959,337**	**24,084,250**	**2,720,881**	**26,805,131**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**148,723**	**148,723**	**10,784,672**	**10,933,396**
Others[4/]	**–**	**–**	**12,561,523**	**–**	**–**	**12,561,523**

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Consolidated					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱127,337,861	₱127,337,861	₱–	₱127,337,861
Due from other banks	5,051,163	6,461,719	10,580,175	22,093,057	616,748	22,709,805
Interbank loans receivables	4,928,854	1,866,579	995,541	7,790,974	134	7,791,108
Securities held under agreements to resell	–	–	1,972,310	1,972,310	–	1,972,310
Financial assets at FVPL:						
Government securities	–	–	949,379	949,379	364,021	1,313,400
Equity securities	–	–	27,415	27,415	27,194	54,609
Derivative assets[2/]	43,510	28,097	9,974	81,581	337,541	419,122
Private debt securities	–	–	–	–	120,589	120,589
Investment in Unit Investment Trust Funds (UITFs)	–	–	6,144	6,144	–	6,144
AFS investments:						
Government securities	1,569,757	–	36,202,025	37,771,782	84,158	37,855,940
Private debt securities	4,278,116	2,880,154	4,964,387	12,122,657	16,697,032	28,819,689
Quoted equity securities	–	–	54,139	54,139	481,109	535,248
Unquoted equity securities	16,837	–	536	17,373	112,489	129,862
HTM investments						
Government securities	99,580	–	22,842,219	22,941,799	1,232,680	24,174,479

(Forward)

	Consolidated					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Loans and receivables:						
Unquoted debt securities[3/]	₱–	₱–	₱124,748	₱124,748	₱3,160,474	₱3,285,222
Others[4/]	–	–	–	–	18,208,225	18,208,225

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2017					
	Rated					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated[5/]**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱105,497,459**	**₱105,497,459**	**₱–**	**₱105,497,459**
Due from other banks	**2,595,995**	**5,281,255**	**1,517,295**	**9,394,545**	**1,360,715**	**10,755,260**
Interbank loans receivables	**5,801,422**	**2,754,325**	**1,834,636**	**10,390,383**	**693,132**	**11,083,515**
Securities held under agreements to resell	**–**	**–**	**14,621,483**	**14,621,483**	**–**	**14,621,483**
Financial assets at FVPL:						
Government securities	**–**	**–**	**1,822,378**	**1,822,378**	**385,574**	**2,207,952**
Equity securities	**–**	**–**	**–**	**–**	**30,928**	**30,928**
Derivative assets[2/]	**95,704**	**10,858**	**298,156**	**404,718**	**154,974**	**559,692**
Private debt securities	**–**	**–**	**–**	**–**	**31,305**	**31,305**
AFS investments:						
Government securities	**789,949**	**–**	**33,647,109**	**34,437,058**	**5,645,318**	**40,082,376**
Private debt securities	**1,808,202**	**5,941,865**	**9,044,338**	**16,794,405**	**9,650,145**	**26,444,549**
Quoted equity securities	**–**	**–**	**–**	**–**	**1,004,873**	**1,004,873**
Unquoted equity securities	**–**	**–**	**–**	**–**	**146,154**	**146,154**
HTM investments:						
Government securities	**266**	**–**	**23,959,337**	**23,959,602**	**2,720,881**	**26,680,483**
Loans and receivables:						
Unquoted debt securities[3/]	**–**	**–**	**148,723**	**148,723**	**10,784,671**	**10,933,395**
Others[4/]	**–**	**–**	**12,804,193**	**–**	**–**	**12,804,193**

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱123,799,952	₱123,799,952	₱–	₱123,799,952
Due from other banks	4,849,575	5,877,522	1,564,859	12,291,956	539,558	12,831,514
Interbank loans receivables	4,928,854	1,866,579	995,541	7,790,974	116,392	7,907,366
Securities held under agreements to resell	–	–	1,972,310	1,972,310	–	1,972,310
Financial assets at FVPL:						
Government securities	–	–	949,379	949,379	364,021	1,313,400
Equity securities	–	–	69	69	27,194	27,263
Derivative assets[2/]	43,510	28,097	9,974	81,581	337,238	418,819
Private debt securities	–	–	–	–	120,589	120,589

(Forward)

	Parent Company					
	2016					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
AFS investments:						
Government securities	₱730,311	₱–	₱36,170,619	₱36,900,930	₱–	₱36,900,930
Private debt securities	3,835,245	2,880,154	4,912,596	11,628,175	16,697,032	28,325,207
Quoted equity securities	–	–	–	–	439,819	439,819
Unquoted equity securities	–	–	–	–	153,779	153,779
HTM investments						
Government securities	–	–	22,842,219	22,842,219	1,232,679	24,074,898
Loans and receivables:						
Unquoted debt securities[3/]	–	–	124,748	124,748	3,102,628	3,227,376
Others[4/]	–	–	–	–	12,268,647	12,268,647

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables (Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

Impairment assessment
The Group recognizes impairment or credit losses based on the results of specific (individual) and collective assessment of its credit exposures. A possible impairment has taken place when there are presence of known difficulties in the payment of obligation by counterparties, a significant credit rating downgrade takes place, infringement of the original terms of the contract has happened, or when there is an inability to pay principal or interest overdue beyond a certain threshold (e.g., 90 days). These and other factors, either singly or in tandem with other factors, constitute observable events and/or data that meet the definition of an objective evidence of impairment.

The two methodologies applied by the Group in assessing and measuring impairment or credit losses include:

a. Specific (individual) assessment
   The Group assesses each individually significant credit exposure or advances for any objective evidence of impairment.

   Among the items and factors considered by the Group when assessing and measuring specific impairment/credit allowances are:

   - the going concern of the borrower's business;
   - the ability of the borrower to repay its obligations during financial crises;
   - the projected receipts or expected cash flows;
   - the availability of other sources of financial support;
   - the existing realizable value of collateral; and
   - the timing of the expected cash flows.

   The impairment or credit allowances, if any, are evaluated every quarter or as the need arise in view of favorable or unfavorable developments.

b. Collective assessment
Loans and advances that are not individually significant (e.g., credit cards, housing loans, car loans, development incentives loans, fringe benefit loans) and individually significant loans and advances where there is no apparent evidence of individual impairment are collectively assessed for impairment. A particular portfolio is reviewed every quarter to determine its corresponding appropriate allowances.

Impairment losses are estimated by taking into consideration the following information:

- historical losses of the portfolio;
- current adverse economic conditions that have direct impact on the portfolio; and
- expected receipts and recoveries once impaired.

Refer to Note 16 for the detailed information on the allowance for credit losses on loans and receivables and other financial assets.

Liquidity Risk and Funding Management
Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Parent Company's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Parent Company's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Parent Company'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					
	2017					
	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	₱12,391,139	₱–	₱–	₱–	₱–	₱12,391,139
Due from BSP and other banks	130,769,307	–	–	–	–	130,769,307
Interbank loans receivable	12,286,982	228,340	172,609	149,790	–	12,837,721
Securities under agreements to resell	14,621,483	–	–	–	–	14,621,483
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	30,057,331	5,363,657	565,366	103,789	788,189	36,878,332
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	220,096	36,827	24,281	23,637	258,143	562,984
Designated at FVPL:						
Investment in UITFs	6,236	–	–	–	–	6,236
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,291,471	1,291,471
HTM investments:						
Government securities	188,569	212,336	303,546	757,310	44,207,605	45,669,366
Loans and receivables:						
Receivables from customers	80,262,108	67,820,331	22,813,722	12,710,714	388,953,761	572,560,636
Unquoted debt securities	6,385,292	4,996,563	3,218,486	–	85,254	14,685,595
Other receivables	6,365,805	810,857	852,239	870,379	14,480,093	23,379,373
Other assets	886,941	–	–	–	45,697	932,638
Total financial assets	₱267,288,300	₱74,802,597	₱28,662,896	₱18,101,581	₱524,919,043	₱913,774,417
Financial Liabilities						
Deposit liabilities:						
Demand	₱125,581,889	₱–	₱–	₱–	₱–	₱125,581,889
Savings	291,611,443	31,169,095	12,960,373	18,753,987	15,868,774	370,363,672
Time and LTNCDs	44,892,027	41,379,772	12,008,434	10,077,758	59,496,046	167,854,037
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416
Bills and acceptances payable	14,828,488	1,107,665	4,390,454	5,074,742	12,967,428	38,368,777
Accrued interest payable and accrued other expenses payable	1,543,768	156,457	29,837	9,872	16,785	1,756,719
Other liabilities	19,622,229	180,420	74,596	182,729	1,502,432	21,562,406
Total financial liabilities	₱498,207,917	₱74,001,399	₱29,467,073	₱34,120,032	₱90,034,495	₱725,830,916

	Consolidated					
	2016					
	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	₱11,014,663	₱–	₱–	₱–	₱–	₱11,014,663
Due from BSP and other banks	150,047,666	–	–	–	–	150,047,666
Interbank loans receivable	6,487,756	1,005,602	149,965	150,626	–	7,793,949
Securities under agreements to resell	1,972,803	–	–	–	–	1,972,803
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,318,421	–	–	–	–	1,318,421
Private debt securities	121,166	–	–	–	–	121,166
Equity securities	54,609	–	–	–	–	54,609
Derivative assets:						
Gross contractual receivable	23,134,620	602,481	363,065	97,557	945,345	25,143,068
Gross contractual payable	(23,027,112)	(602,494)	(359,977)	(81,868)	(652,495)	(24,723,946)
	107,508	(13)	3,088	15,689	292,850	419,122
Designated at FVPL						
Investment in UITFs	6,144	–	–	–	–	6,144
AFS investments:						
Government securities	445,411	1,360,270	833,280	952,375	44,483,507	48,074,843
Private debt securities	216,349	180,604	311,691	608,101	33,527,569	34,844,314
Equity securities	–	–	–	–	665,110	665,110
HTM investments:						
Government securities	186,669	188,619	268,121	638,758	42,326,085	43,608,252
Loans and receivables:						
Receivables from customers	51,281,982	61,017,482	22,991,722	21,982,567	322,823,346	480,097,099
Unquoted debt securities	57,846	2,731,616	2,910	2,904	4,211,082	7,006,358
Other receivables	7,747,353	689,651	1,608,947	329,549	12,234,095	22,609,595
Other assets	458,636	1,601	2,512	19,799	85,719	568,267
Total financial assets	₱231,524,982	₱67,175,432	₱26,172,236	₱24,700,368	₱460,649,363	₱810,222,381
Financial Liabilities						
Deposit liabilities:						
Demand	₱117,329,019	₱–	₱–	₱–	₱–	₱117,329,019
Savings	270,698,512	35,289,350	17,265,684	26,859,280	24,313,983	374,426,809
Time and LTNCDs	39,116,118	27,989,034	9,243,512	7,796,611	32,624,672	116,769,947
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	4,266,633	1,032,083	338,061	97,308	794,951	6,529,036
Gross contractual receivable	(4,258,623)	(1,027,751)	(336,280)	(84,515)	(589,035)	(6,296,204)
	8,010	4,332	1,781	12,793	205,916	232,832
Bills and acceptances payable	14,828,488	1,107,665	4,390,454	5,074,742	12,967,428	38,368,777
Subordinated debt	–	51,406	51,406	102,812	4,425,308	4,630,932
Accrued interest payable and accrued other expenses payable	585,761	232,935	247,614	619,526	–	1,685,836
Other liabilities	19,114,919	57,012	58,421	11,756	1,483,085	20,725,193
Total financial liabilities	₱461,680,827	₱64,731,734	₱31,258,872	₱40,477,520	₱76,020,392	₱674,169,345

	Parent Company					
	2017					
	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	₱11,671,952	₱–	₱–	₱–	₱–	₱11,671,952
Due from BSP and other banks	116,252,719	–	–	–	–	116,252,719
Interbank loans receivable	9,157,109	1,604,115	172,673	149,931	–	11,083,828
Securities under agreements to resell	14,625,088	–	–	–	–	14,625,088
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	₱30,056,716	₱5,362,855	₱563,491	₱103,789	₱788,189	₱36,875,040
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	219,481	36,025	22,406	23,637	258,143	559,692
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,151,027	1,151,027
HTM investments:						
Government securities	70,937	748,750	72,514	760,759	27,799,434	29,452,394
Loans and receivables:						
Receivables from customers	73,021,615	65,455,257	20,885,287	10,315,944	341,846,641	511,524,744
Unquoted debt securities	6,327,790	4,996,563	3,218,486	–	85,254	14,628,093
Other receivables	937,977	640,518	765,135	749,369	14,065,429	17,158,428
Other assets	874,510	–	–	–	–	874,510
Total financial assets	₱236,063,520	₱74,178,571	₱26,414,514	₱15,589,391	₱460,802,947	₱813,048,943
Financial Liabilities						
Deposit liabilities:						
Demand	₱123,396,962	₱–	₱–	₱–	₱–	₱123,396,962
Savings	278,242,929	28,561,604	11,681,381	15,880,899	13,776,365	348,143,178
Time and LTNCDs	35,916,806	25,512,119	8,886,110	9,939,517	47,991,405	128,245,957
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416
Bills and acceptances payable	17,590,751	10,625,833	2,839,180	1,504,114	32,559,878	65,119,756
Accrued interest payable and accrued other expenses payable	1,413,437	153,518	5,428	7,848	16,785	1,597,016
Other liabilities	12,468,862	–	–	–	1,058,246	13,527,108
Total financial liabilities	₱469,157,820	₱64,861,064	₱23,415,478	₱27,353,322	₱95,585,709	₱680,373,393

	Parent Company 2016					
	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	₱10,626,525	₱–	₱–	₱–	₱–	₱10,626,525
Due from BSP and other banks	136,637,734	–	–	–	–	136,637,734
Interbank loans receivable	6,600,278	1,009,362	149,965	150,626	–	7,910,231
Securities under agreements to resell	1,972,803	–	–	–	–	1,972,803
Financial assets at FVPL:						
Held-for-trading:						
Government securities	1,318,421	–	–	–	–	1,318,421
Private debt securities	121,166	–	–	–	–	121,166
Equity securities	27,263	–	–	–	–	27,263
Derivative assets:						
Gross contractual receivable	23,102,042	552,761	39,862	97,557	945,345	24,737,567
Gross contractual payable	(22,994,783)	(552,786)	(36,817)	(81,868)	(652,494)	(24,318,748)
	107,259	(25)	3,045	15,689	292,851	418,819
AFS investments:						
Government securities	361,066	1,359,182	782,328	883,536	43,661,794	47,047,906
Private debt securities	164,558	178,096	309,183	603,085	33,009,976	34,264,898
Equity securities	–	–	–	–	593,598	593,598
HTM investments:						
Government securities	186,669	188,578	268,090	638,573	42,226,116	43,508,026
Loans and receivables:						
Receivables from customers	47,135,914	58,812,741	20,970,205	19,158,472	288,318,164	434,395,496
Unquoted debt securities	–	2,731,616	2,910	2,904	4,211,082	6,948,512
Other receivables	2,400,902	519,217	1,542,416	183,824	11,661,573	16,307,932
Other assets	459,877	1,601	2,512	3,156	64,131	531,277
Total financial assets	₱208,120,435	₱64,800,368	₱24,030,654	₱21,639,865	₱424,039,285	₱742,630,607
Financial Liabilities						
Deposit liabilities:						
Demand	₱115,392,463	₱–	₱–	₱–	₱–	115,392,463
Savings	266,337,815	32,235,733	13,403,890	19,395,767	16,411,819	347,785,024
Time and LTNCDs	17,423,314	13,597,207	5,254,132	5,211,374	52,133,451	93,619,478
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	2,740,229	783,483	39,741	97,308	794,951	4,455,712
Gross contractual receivable	(2,732,875)	(779,167)	(38,143)	(84,515)	(589,035)	(4,223,735)
	7,354	4,316	1,598	12,793	205,916	231,977
Bills and acceptances payable	10,765,961	1,565,459	4,957,897	4,903,913	12,235,687	34,428,917
Subordinated debt	–	51,406	51,406	102,812	4,425,308	4,630,932
Accrued interest payable and accrued other expenses payable	414,252	236,725	251,453	630,422	–	1,532,852
Other liabilities	12,656,889	–	1,731	–	952,255	13,610,875
Total financial liabilities	₱422,998,048	₱47,690,846	₱23,922,107	₱30,257,081	₱86,364,436	₱611,232,518

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 2016 and 2015, 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, 2017	**₱7.30**	**₱179.72**	**₱1.29**	**₱188.31**
Average Daily	**3.75**	**178.20**	**0.74**	**182.69**
Highest	**18.25**	**324.06**	**1.52**	**343.83**
Lowest	**0.63**	**58.00**	**0.26**	**58.89**

* *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, 2016	₱1.65	₱77.87	₱1.39	₱80.91
Average Daily	3.35	161.09	4.73	169.17
Highest	12.09	444.55	9.14	465.79
Lowest	0.62	34.67	1.33	36.62

* *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*

The table below shows the interest rate VaR for AFS investments (in millions):

	2017	2016
End of year	**₱1,341.66**	₱1,399.01
Average Daily	**1,245.40**	1,261.85
Highest	**1,916.48**	1,575.39
Lowest	**811.93**	859.08

Structural Market Risk

Non-trading Market Risk
Interest rate risk
The Parent Company 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 the Parent Company to interest rate risk. The Parent Company 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 Parent Company 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 repricethree 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 Parent Company uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Parent Company's 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 Parent Company's BOD sets a limit on the level of EaR exposure tolerable to the Parent Company. 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					
	2017					
	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	**₱24,660,231**	**₱2,121,146**	**₱728,009**	**₱185,844**	**₱4,589,558**	**₱32,284,788**
Interbank loans receivable	**19,961,838**	**7,326,962**	**170,404**	–	–	**27,459,204**
Receivable from customers and other receivables - gross**	**133,507,202**	**75,007,949**	**17,508,883**	**23,249,440**	**89,053,842**	**338,327,316**
Total financial assets	**₱178,129,271**	**₱84,456,057**	**₱18,407,296**	**₱23,435,284**	**₱93,643,400**	**₱398,071,308**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱75,793,561**	**₱22,624,460**	**₱12,265,322**	**₱17,354,750**	**₱223,384,284**	**₱351,422,377**
Time***	**59,937,295**	**25,560,312**	**10,090,695**	**10,242,856**	**23,720,876**	**129,552,034**
Bills and acceptances payable	**22,795,429**	**15,546,756**	**752,635**	**884,611**	**3,937,257**	**43,916,688**
Total financial liabilities	**₱158,526,285**	**₱63,731,528**	**₱23,108,652**	**₱28,482,217**	**₱251,042,417**	**₱524,891,099**
Repricing gap	**₱19,602,986**	**₱20,724,529**	**(₱4,701,356)**	**(₱5,046,933)**	**(₱157,399,017)**	**(₱126,819,791)**
Cumulative gap	**19,602,986**	**40,327,515**	**35,626,159**	**30,579,226**	**(126,819,791)**	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets (Note 10).*
****Excludes LTNCD.*

	Consolidated					
	2016					
	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	₱23,068,982	₱2,139,755	₱441,737	₱414,746	₱226,955	₱26,292,175
Interbank loans receivable	5,251,490	158,192	390,702	–	–	5,800,384
Receivable from customers and other receivables - gross**	119,503,109	54,698,330	7,568,053	2,524,222	51,382,112	235,675,826
Total financial assets	₱147,823,581	₱56,996,277	₱8,400,492	₱2,938,968	₱51,609,067	₱267,768,385
Financial Liabilities*						
Deposit liabilities:						
Savings	₱82,042,319	₱26,460,116	₱18,737,481	₱19,104,851	₱12,364,766	₱158,709,533
Time	19,329,798	8,793,128	6,358,168	3,958,490	3,098,634	41,538,218
Bills and acceptances payable	3,850,446	1,080,637	1,006,011	1,140,959	18,674,168	25,752,221
Total financial liabilities	₱105,222,563	₱36,333,881	₱26,101,660	₱24,204,300	₱34,137,568	₱225,999,972
Repricing gap	₱42,601,018	₱20,662,396	(₱17,701,168)	(₱21,265,332)	₱17,471,499	₱41,768,413
Cumulative gap	42,601,018	63,263,414	45,562,246	24,296,914	41,768,413	–

* *Financial instruments that are not subject to repricing/rollforward were excluded.*
** *Receivable from customers excludes residual value of leased assets (Note 10).*

	Parent Company					
	2017					
	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	**₱19,626,976**	**₱–**	**₱–**	**₱–**	**₱128,284**	**₱19,755,260**
Interbank loans receivable	**18,207,632**	**7,326,962**	**170,404**	–	–	**25,704,998**
Receivable from customers and other receivables – gross**	**133,507,202**	**75,007,949**	**17,508,883**	**23,249,440**	**89,053,842**	**338,327,316**
Total financial assets	**₱171,341,810**	**₱82,334,911**	**₱17,679,287**	**₱23,249,440**	**₱89,182,126**	**₱383,787,574**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱74,365,998**	**₱22,287,315**	**₱11,817,535**	**₱16,816,776**	**₱219,991,839**	**₱345,279,463**
Time***	**42,070,312**	**22,331,683**	**8,367,100**	**9,354,882**	**14,240,680**	**96,364,657**
Bills and acceptances payable	**25,020,114**	**15,172,286**	**338,672**	**273,751**	**595,980**	**41,400,803**
Total financial liabilities	**₱141,456,424**	**₱59,791,284**	**₱20,523,307**	**₱26,445,409**	**₱234,828,499**	**₱483,044,923**
Repricing gap	**₱29,885,386**	**₱22,543,627**	**(₱2,844,020)**	**(₱3,195,969)**	**(₱145,646,373)**	**(₱99,257,349)**
Cumulative gap	**29,885,386**	**52,429,013**	**49,584,993**	**46,389,024**	**(99,257,349)**	–

* *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					
	2016					
	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	₱17,271,237	₱–	₱–	₱24,707	₱–	₱17,295,944
Interbank loans receivable	5,409,633	158,192	390,702	–	–	5,958,527
Receivable from customers and other receivables - gross	119,503,109	54,698,330	7,568,053	2,524,222	51,382,112	235,675,826
Total financial assets	₱142,183,979	₱54,856,522	₱7,958,755	₱2,548,929	₱51,382,112	₱258,930,297
Financial Liabilities*						
Deposit liabilities:						
Savings	₱78,666,283	₱26,460,116	₱18,737,481	₱19,104,851	₱12,364,766	₱155,333,497
Time	15,232,475	5,339,910	4,446,307	3,721,070	2,982,331	31,722,093
Bills and acceptances payable	3,257,332	351,318	479,587	283,413	20,258,236	24,629,886
Total financial liabilities	₱97,156,090	₱32,151,344	₱23,663,375	₱23,109,334	₱35,605,333	₱211,685,476
Repricing gap	₱45,027,889	₱22,705,178	(₱15,704,620)	(₱20,560,405)	₱15,776,779	₱47,244,821
Cumulative gap	45,027,889	67,733,067	52,028,447	31,468,042	47,244,821	–

**Financial instruments that are not subject to repricing/rollforward were excluded.*

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, 2017 and 2016:

	Consolidated			
	2017		2016	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱195,558**	**₱195,558**	₱358,163	₱358,163
-50bps	**(195,558)**	**(195,558)**	(358,163)	(358,163)
+100bps	**391,117**	**391,117**	716,326	716,326
-100bps	**(391,117)**	**(391,117)**	(716,326)	(716,326)

	Parent Company			
	2017		2016	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱244,450**	**₱244,450**	₱371,372	₱371,372
-50bps	**(244,450)**	**(244,450)**	(371,372)	(371,372)
+100bps	**488,901**	**488,901**	742,744	742,744
-100bps	**(488,901)**	**(488,901)**	(742,744)	(742,744)

As one of the long-term goals in the risk management process, the Parent Company 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 Parent Company 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 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					
	2017			2016		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱156,558**	**₱518,612**	**₱675,170**	₱2,439,520	₱364,532	₱2,804,052
Due from other banks	**9,553,985**	**7,081,852**	**16,635,837**	6,963,920	12,842,915	19,806,835
Interbank loans receivable and securities held under agreements to resell	**2,904,298**	**1,678,936**	**4,583,234**	2,465,839	1,650,496	4,116,335
Loans and receivables	**13,729,348**	**941,223**	**14,670,571**	13,443,688	697,144	14,140,832
AFS investments	**14,380,453**	**1,592,873**	**15,973,326**	1,876,850	1,958,502	3,835,352
HTM investments	**7,250**	**–**	**7,250**	8,026	–	8,026
Other assets	**61,789**	**210,440**	**272,229**	92,922	82,444	175,366
Total assets	**40,793,681**	**12,023,936**	**52,817,617**	27,290,765	17,596,033	44,886,798
Liabilities						
Deposit liabilities	**9,304,064**	**4,154,433**	**13,458,497**	9,857,351	3,679,624	13,536,975
Derivative liabilities	**–**	**1,335**	**1,335**	427	529	956
Bills and acceptances payable	**12,464,796**	**7,667,327**	**20,132,123**	4,931,773	225,866	5,157,639
Accrued interest payable	**55,593**	**36,856**	**92,449**	41,222	105,904	147,126
Other liabilities	**10,658,664**	**434,957**	**11,093,621**	1,070,134	520,406	1,590,540
Total liabilities	**32,483,117**	**12,294,908**	**44,778,025**	15,900,907	4,532,329	20,433,236
Net Exposure	**₱8,310,564**	**(₱270,972)**	**₱8,039,592**	₱11,389,858	₱13,063,704	₱24,453,562

* *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), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Parent Company					
	2017			2016		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱27,480**	**₱516,152**	**₱543,632**	₱134,521	₱236,225	₱370,746
Due from other banks	**2,367,235**	**5,732,388**	**8,099,623**	2,342,535	8,514,773	10,857,308
Interbank loans receivable and securities held under agreements to resell	**2,904,298**	**1,678,936**	**4,583,234**	1,816,463	1,449,239	3,265,702
Loans and receivables	**12,448,339**	**593,535**	**13,041,874**	11,638,723	452,175	12,090,898
AFS investments	**14,379,915**	**1,518,490**	**15,898,405**	1,876,314	1,891,150	3,767,464
HTM investments	**7,250**	**–**	**7,250**	8,026	–	8,026
Other assets	**55,641**	**199,912**	**255,553**	92,922	268	93,190
Total assets	**32,190,158**	**10,239,413**	**42,429,571**	17,909,504	12,543,830	30,453,334
Liabilities						
Deposit liabilities	**2,059,160**	**4,126,954**	**6,186,114**	1,990,870	3,308,204	5,299,074
Derivative liabilities	**-**	**1,335**	**1,335**	–	529	529
Bills and acceptances payable	**12,335,654**	**7,501,224**	**19,836,878**	4,763,163	70,183	4,833,346
Accrued interest payable	**43,110**	**17,213**	**60,323**	34,342	19,023	53,365
Other liabilities	**10,438,562**	**141,435**	**10,579,997**	914,852	104,947	1,019,799
Total liabilities	**24,876,486**	**11,788,161**	**36,664,647**	7,703,227	3,502,886	11,206,113
Net Exposure	**₱7,313,672**	**(₱1,548,748)**	**₱5,764,924**	₱10,206,277	₱9,040,944	₱19,247,221

* *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 ₱1.1 billion (sold) and ₱265.7 million (bought) as of December 31, 2017 and ₱1.2 billion (sold) and ₱3.9 billion (bought) as of December 31, 2016.

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, 2017 and 2016 follow:

	2017	2016
US dollar - Philippine peso exchange rate	**₱49.93 to USD1.00**	₱49.72 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, 2017 and 2016:

	2017			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱60,699**	**₱83,106**	**₱70,662**	**₱73,137**
-1.00%	**(60,699)**	**(83,106)**	**(70,662)**	**(73,137)**

	2016			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱95,130	₱113,899	₱83,300	₱102,063
-1.00%	(95,130)	(113,899)	(83,300)	(102,063)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

Capital management and management of insurance and financial risks

Governance framework

The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management
PNB General Insurers Inc. (PNB Gen's) capital management framework is aligned with the statutory requirements imposed by the IC.To ensure compliance with these externally imposed capital requirements, it is the policy of PNB Gen to assess its position against set minimum capital requirements.

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 - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively;and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under Section 203 of the Insurance Code, are free from liens and encumbrances.

Effective January 1, 2017, CL No. 2016-68 states that RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of tier 1 and tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. The RBC requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula given in the circular with details of its components and applicable risk charges.

The Group manages the capital of its subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as the IC, SEC and Philippine Stock Exchange (PSE). As of December 31, 2017 and 2016, PNB Gen has an estimated statutory networth amounting to ₱592.3 million and ₱484.3 million, respectively. PNB Gen's RBC ratio as of December 31, 2017 and 2016 is 262%and 72%, respectively.

In a letter dated January 11, 2017 addressed to the Parent Bank, the BSP approved on December 28, 2016 the request of the Parent Bank to infuse ₱200.0 million in PNB Gen subject to regulatory compliance and reporting conditions, and to be booked by the latter as contingency surplus in compliance with IC Circular Letter (CL) No. 2015-02-A dated January 13, 2015.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35.00%. Should this event occur, the Commissioner is required to place the company under regulatory control under Section 247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Section 247 of the Insurance Code.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC. Further, the IC has yet to finalize the new RBC computation under the New Insurance Code.

5. **Fair Value Measurement**

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - Fair values of quoted equity securities are based on quoted market prices. While unquoted equity securities are carried at their original cost less impairment if any, since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Investments in UITFs classified as financial assets designated as at FVPL - Fair values are based on Net Asset Value per share (NAVps).

Loans and receivables - For loans with fixed interest rates, fair values are estimated using the discounted cash flow methodology, using the current incremental lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long-term maturity and subordinated debt including designated at FVPL - Fair value is determined using the discounted cash flow methodology. The discount rate used in estimating the fair values of the subordinated debt and time deposits ranges from 3.00% to 4.13%, 2.70% to 6.75% and from 2.66% to 3.77% as of December 31, 2017, 2016 and 2015, respectively.

Fair value hierarchy
The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVPL and AFS investments.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

- 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					
	2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/17	₱2,207,952	₱1,534,790	₱673,162	₱–	₱2,207,952
Derivative assets	12/29/17	562,984	–	508,046	54,938	562,984
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	73,918	73,918	–	–	73,918
Investments in UITF	12/29/17	6,236	–	6,236	–	6,236
AFS investments:						
Government securities	12/29/17	41,625,900	36,968,672	4,657,228	–	41,625,900
Private debt securities	12/29/17	26,920,045	20,899,896	6,020,149	–	26,920,045
Equity securities*	12/29/17	1,144,779	–	1,144,779	–	1,144,779
		₱72,573,119	₱59,477,276	₱13,040,905	₱54,938	₱72,573,119
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,522	₱–	₱343,522	₱–	₱343,522
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,805,131	₱23,732,936	₱4,191,145	₱–	₱27,924,081
Loans and Receivables:**						
Receivables from customers	12/29/17	472,493,703	–	–	481,355,052	481,355,052
Unquoted debt securities	12/29/17	10,934,148	–	–	10,942,367	10,942,367
		₱510,232,982	₱23,732,936	₱4,191,145	₱492,297,419	₱520,221,500
Nonfinancial Assets						
Investment property:***						
Land	12/29/17	₱13,161,937	₱–	₱–	₱18,995,358	₱18,995,358
Buildings and improvements	12/29/17	2,432,449	–	–	3,730,716	3,730,716
		₱15,594,386	₱–	₱–	₱22,726,074	₱22,726,074
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱129,552,035	₱–	₱–	₱147,666,612	₱147,666,612
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	41,684,801	–	–	41,765,052	41,765,052
		₱202,600,792	₱–	₱–	₱220,823,606	₱220,823,606

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

	Consolidated					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/16	₱1,313,400	₱1,300,293	₱13,107	₱–	₱1,313,400
Derivative assets	12/29/16	419,122	–	357,577	61,545	419,122
Private debt securities	12/29/16	120,589	112,605	7,984	–	120,589
Equity securities	12/29/16	54,609	54,609	–	–	54,609
Investments in UITF	12/29/16	6,144	–	6,144	–	6,144
AFS investments:						
Government securities	12/29/16	37,834,559	34,416,113	3,418,446	–	37,834,559
Private debt securities	12/29/16	28,841,070	26,177,419	2,663,651	–	28,841,070
Equity securities*	12/29/16	493,958	493,958	–	–	493,958
		₱69,083,451	₱62,554,997	₱6,466,909	₱61,545	₱69,083,451
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/16	₱232,832	–	₱232,832	–	₱232,832
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/16	₱24,174,479	₱21,282,956	₱3,807,936	₱–	₱25,090,892
Loans and Receivables:**						
Receivables from customers	12/29/16	406,534,024	–	–	412,236,428	412,236,428
Unquoted debt securities	12/29/16	3,285,222	–	–	3,305,345	3,305,345
		₱433,993,725	₱21,282,956	₱3,807,936	₱415,541,773	₱440,632,665
Nonfinancial Assets						
Investment property:***						
Land	12/29/16	₱13,309,379	₱–	₱–	₱19,019,263	₱19,019,263
Buildings and improvements	12/29/16	3,031,873	–	–	3,963,475	3,963,475
		₱16,341,252	₱–	₱–	₱22,982,738	₱22,982,738
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/16	₱87,783,621	₱–	₱–	₱100,057,941	₱100,057,941
LTNCDs	12/29/16	24,382,144	–	–	24,403,900	24,403,900
Bills payable	12/29/16	34,226,608	–	–	38,468,732	38,468,732
Subordinated debt	12/29/16	3,497,798	–	–	3,551,484	3,551,484
		₱149,890,171	₱–	₱–	₱166,482,057	₱166,482,057

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*
**** *Excludes cash component*

	Parent Company					
	2017					
	Valuation Date	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	**12/29/17**	**₱2,207,952**	**₱1,645,573**	**₱562,379**	**₱–**	**₱2,207,952**
Derivative assets	**12/29/17**	**559,692**	**–**	**504,753**	**54,939**	**559,692**
Private debt securities	**12/29/17**	**31,305**	**–**	**31,305**	**–**	**31,305**
Equity securities	**12/29/17**	**30,928**	**30,928**	**–**	**–**	**30,928**
AFS investments:						
Government securities	**12/29/17**	**40,082,376**	**36,968,172**	**3,114,204**	**–**	**40,082,376**
Private debt securities	**12/29/17**	**26,444,549**	**20,899,905**	**5,544,644**	**–**	**26,444,549**
Equity securities*	**12/29/17**	**1,004,873**	**–**	**1,004,873**	**–**	**1,004,873**
		₱70,361,675	**₱59,544,578**	**₱10,762,158**	**₱54,939**	**₱70,361,675**
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	**12/29/17**	**₱343,416**	**₱–**	**₱343,416**	**₱–**	**₱343,416**
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	**12/29/17**	**₱26,680,483**	**₱23,732,936**	**₱4,071,745**	**₱–**	**₱27,804,681**
Loans and Receivables:**						
Receivables from customers	**12/29/17**	**418,018,387**	**–**	**–**	**418,229,045**	**418,229,045**
Unquoted debt securities	**12/29/17**	**10,933,395**	**–**	**–**	**10,941,615**	**10,941,615**
		₱455,632,265	**₱23,732,936**	**₱4,071,745**	**₱429,170,660**	**₱456,975,341**
Nonfinancial Assets						
Investment property:***						
Land	**12/29/17**	**₱12,833,559**	**₱–**	**₱–**	**₱18,464,458**	**₱18,464,458**
Buildings and improvements	**12/29/17**	**2,484,849**	**–**	**–**	**3,357,678**	**3,357,678**
		₱15,318,408	**₱–**	**₱–**	**₱21,822,136**	**₱21,822,136**
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	**12/29/17**	**₱96,364,657**	**₱–**	**₱–**	**₱109,838,818**	**₱109,838,818**
LTNCDs	**12/29/17**	**31,363,956**	**–**	**–**	**31,391,942**	**31,391,942**
Bills payable	**12/29/17**	**39,168,917**			**39,249,168**	**39,249,168**
		₱166,897,530	**₱–**	**₱–**	**₱180,479,928**	**₱180,479,928**

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

	Parent Company					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/16	₱1,313,400	₱1,300,293	₱13,107	₱–	₱1,313,400
Derivative assets	12/29/16	418,819	–	357,274	61,545	418,819
Private debt securities	12/29/16	120,589	112,605	7,984	–	120,589
Equity securities	12/29/16	27,263	27,263	–	–	27,263
AFS investments:						
Government securities	12/29/16	36,900,930	33,482,484	3,418,446	–	36,900,930
Private debt securities	12/29/16	28,325,207	25,661,556	2,663,651	–	28,325,207
Equity securities*	12/29/16	439,819	439,819	–	–	439,819
		₱67,546,027	₱61,024,020	₱6,460,462	₱61,545	₱67,546,027

(Forward)

	Parent Company					
	2016					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/16	₱231,977	–	₱231,977	–	₱231,977
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/16	₱24,074,898	₱21,183,585	₱3,807,936	–	₱24,991,521
Loans and Receivables:**						
Receivables from customers	12/29/16	362,702,715	–	–	368,405,370	368,405,370
Unquoted debt securities	12/29/16	3,227,376	–	–	3,247,498	3,247,498
		₱390,004,989	₱21,183,585	₱3,807,936	₱371,652,868	₱396,644,389
Nonfinancial Assets						
Investment property:***						
Land	12/29/16	13,341,300	–	–	18,800,199	18,800,199
Buildings and improvements	12/29/16	2,633,830	–	–	3,364,011	3,364,011
		₱15,975,130	–	–	₱22,164,210	₱22,164,210
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/16	₱66,139,590	–	–	₱75,387,540	₱75,387,540
LTNCDs	12/29/16	24,382,144			24,403,900	24,403,900
Bills payable	12/29/16	32,327,358	–	–	32,641,258	32,641,258
Subordinated debt	12/29/16	3,497,798	–	–	3,551,484	3,551,484
		₱126,346,890	–	–	₱135,984,182	₱135,984,182

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 13)*

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVps as of reporting date.

As of December 31, 2017 and 2016, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

The following table shows a reconciliation of the beginning and closing amount of Level 3 financial assets and liabilities which are recorded at fair value:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial assets				
Balance at beginning of year	**₱61,545**	₱5,843,569	**₱61,545**	₱63,332
Fair value changes recognized in profit or loss	**(6,606)**	(1,787)	**(6,606)**	(1,787)
Change arising from sale of direct interest in a subsidiary	**–**	(5,780,237)	**–**	–
Balance at end of year	**₱54,939**	₱61,545	**₱54,939**	₱61,545

The fair values of warrants have been determined using price quotes received from a third-party broker without any pricing adjustments imputed by the Parent Company. The valuation model and inputs used in the valuation which were developed and determined by the third-party broker were not made available to the Parent Company. Under such instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties follows:

Valuation Techniques	
Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.
Significant Unobservable Inputs	
Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Significant Unobservable Inputs

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

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

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-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, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from 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:

	2017					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	**₱1,404,759**	**₱17,112,989**	**₱3,313,723**	**₱123,189**	**₱121,992**	**₱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**	**123,189**	**121,992**	**22,076,652**
Other income	**1,881,419**	**4,934,248**	**1,916,158**	**2,650,308**	**(123,852)**	**11,258,281**
Segment revenue	**12,745,391**	**12,853,504**	**4,964,401**	**2,773,497**	**(1,860)**	**33,334,933**
Other expenses	**11,519,652**	**2,025,523**	**168,908**	**1,688,555**	**68,159**	**15,470,797**
Segment result	**₱1,225,739**	**₱10,827,981**	**₱4,795,493**	**₱1,084,942**	**(₱70,019)**	**₱17,864,136**
Unallocated income/expenses						**7,385,378**
Net income before income tax						**10,478,758**
Income tax						**2,322,213**
Net income from continuing operations						**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						**1,882,493**
Total capital expenditure						**₱2,989,738**
Depreciation and amortization	**₱520,812**	**₱138,463**	**₱1,478**	**₱281,700**	**₱–**	**₱942,453**
Unallocated depreciation and amortization						**741,938**
Total depreciation and amortization						**₱1,684,391**
Provision for (reversal of) impairment, credit and other losses	**(₱1,477)**	**₱599,901**	**(₱41,417)**	**(₱7,067)**	**₱334,193**	**₱884,133**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2016 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,136,370	₱15,027,877	₱3,014,495	₱126,606	₱261,154	₱19,566,502
Inter-segment	5,345,226	(7,756,129)	2,410,903	–	–	–
Net interest margin after inter-segment transactions	6,481,596	7,271,748	5,425,398	126,606	261,154	19,566,502
Other income	1,896,868	4,274,575	2,284,097	3,323,121	(1,804,309)	9,974,352
Segment revenue	8,378,464	11,546,323	7,709,495	3,449,727	(1,543,155)	29,540,854
Other expenses	(8,207,826)	(3,611,997)	(200,330)	(3,423,737)	(632,593)	(16,076,483)
Segment result	₱170,638	₱7,934,326	₱7,509,165	₱25,990	(₱966,206)	13,464,371
Unallocated expenses						(7,048,978)
Net income before income tax						6,415,393
Income tax						1,517,221
Net income from continuing operations						4,898,172
Net income from discontinued operations						2,263,902
Non-controlling interest						(38,122)
Net income for the year attributable to equity holders of the Parent Company						₱7,123,952
Other segment information						
Capital expenditures	₱1,063,897	₱5,723	₱961	₱510,870	₱–	₱1,581,451
Unallocated capital expenditure						852,941
Total capital expenditure						₱2,434,392
Depreciation and amortization	₱493,221	₱22,318	₱2,663	₱644,739	₱–	₱1,162,941
Unallocated depreciation and amortization						391,704
Total depreciation and amortization						₱1,554,645
Provision for (reversal of) impairment, credit and other losses	₱360,089	₱2,529,286	₱300	₱4,233	₱318,786	₱3,212,694

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2015 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱2,396,903	₱11,614,343	₱3,177,360	₱239,257	₱263,976	₱17,691,839
Inter-segment	4,287,196	(4,915,106)	627,910	–	–	–
Net interest margin after inter-segment transactions	6,684,099	6,699,237	3,805,270	239,257	263,976	17,691,839
Other income	1,413,242	4,103,084	2,195,452	1,693,160	2,444,077	11,849,015
Segment revenue	8,097,341	10,802,321	6,000,722	1,932,417	2,708,053	29,540,854
Other expenses	(7,808,713)	(935,445)	(118,411)	(3,061,754)	(1,060,430)	(12,984,753)
Segment result	₱288,628	₱9,866,876	₱5,882,311	(₱1,129,337)	(₱249,132)	16,556,101
Unallocated expenses						(8,965,086)
Net income before income tax						7,591,015
Income tax						(1,619,494)
Net income from continuing operations						5,971,521
Net income from discontinued operations						357,931
Non-controlling interest						(198,087)
Net income for the year attributable to equity holders of the Parent Company						₱6,131,365

(Forward)

	2015 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Other segment information						
Capital expenditures	₱925,062	₱10,405	₱1,780	₱121,557	₱250,092	₱1,308,896
Unallocated capital expenditure						1,170,258
Total capital expenditure						₱2,479,154
Depreciation and amortization	₱558,046	₱132,559	₱6,440	₱542,347	₱143,101	₱1,382,493
Unallocated depreciation and amortization						69,728
Total depreciation and amortization						₱1,452,221
Provision for (reversal of) impairment, credit and other losses	₱301,499	(₱261,596)	(₱11,910)	₱220,261	₱319,926	₱568,180

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2017					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱160,378,585**	**₱436,181,872**	**₱147,035,920**	**₱109,153,300**	**(₱19,433,076)**	**₱833,316,601**
Unallocated assets						**2,837,880**
Total assets						**₱836,154,481**
Segment liabilities	**₱528,053,875**	**₱84,384,861**	**₱87,966,482**	**₱32,024,306**	**(₱19,192,245)**	**₱713,237,279**
Unallocated liabilities						**3,179,253**
Total liabilities						**₱716,416,532**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2016 (As Restated)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱176,539,820	₱551,794,830	₱212,189,932	₱25,351,620	(₱213,316,779)	₱752,559,423
Unallocated assets						1,422,213
Total assets						₱753,981,636
Segment liabilities	₱339,136,935	₱247,380,216	₱64,033,215	₱37,602,324	(₱213,688,923)	₱474,463,767
Unallocated liabilities						169,557,166
Total liabilities						₱644,020,933

* *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 five (5) 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 Expenditure**	
	2017	2016	**2017**	2016	**2017**	2016
Philippines	**₱387,750,978**	₱341,515,211	**₱687,770,416**	₱615,281,652	**₱2,980,245**	₱2,195,996
Asia (excluding Philippines)	**6,775,199**	6,225,748	**25,761,863**	24,392,446	**7,484**	232,949
USA and Canada	**84,655,334**	77,790,006	**2,342,588**	4,245,479	**1,822**	461
United Kingdom	**2,883,469**	2,649,627	**541,665**	101,356	**187**	4,986
	₱482,064,980	₱428,180,592	**₱716,416,532**	₱644,020,933	**₱2,989,738**	₱2,434,392

** 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		
	2017	2016	**2017**	2016	2015
Philippines	**₱37,217,949**	₱27,995,354	**₱30,704,384**	₱29,124,972	₱25,580,852
Asia (excluding Philippines)	**212,586**	467,830	**1,021,619**	1,267,659	1,308,540
USA and Canada	**3,795**	4,197	**543,158**	668,833	598,662
United Kingdom	**–**	–	**110,915**	147,050	154,585
	₱37,434,330	₱28,467,381	**₱32,380,076**	₱31,208,514	₱27,642,639

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

As of December 31, 2017 and 2016, 8.28% and 30.11% of the Group's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Due from BSP bears annual interest rates ranging from 3.45% to 3.50% in 2017, 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015.

As of December 31, 2017 and 2016, 8.53% and 29.64% of the Parent Company's Due from BSP are placed under the TDF with the BSP. TDFs bear annual interest rates ranging from 3.45% to 3.50% in 2017, 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

The Group and the Parent Company's peso-denominated interbank loans receivables bear interest ranging from 2.56% to 2.63% in 2017 and 2.56% to 3.19% in 2015; and from 0.01% to 4.40%, and 0.01% to 0.35% for foreign-currency denominated placements in 2017, 2016 and 2015, respectively.

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Interbank loans receivable	**₱12,837,721**	₱7,791,108	**₱11,083,515**	₱7,907,366
Less: Interbank loans receivable not considered as cash and cash equivalents	**1,346,037**	547,222	**1,382,599**	554,526
	₱11,491,684	₱7,243,886	**₱9,700,916**	₱7,352,840

The Group and the Parent Company's peso-denominated securities held under repurchase agreements bear interest of 3.00%, 3.00% to 4.00%, and 4.00% in 2017, 2016 and 2015, respectively. The fair value of the treasury bills pledged under these agreements as of December 31, 2017, 2016 and 2015 amounted to ₱14.6 billion, ₱2.0 billion and ₱14.5 billion, respectively.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial assets at FVPL	**₱2,882,395**	₱1,913,864	**₱2,829,877**	₱1,880,071
AFS investments	**69,837,416**	67,340,739	**67,677,952**	65,819,735
HTM investments	**26,805,131**	24,174,479	**26,680,483**	24,074,898
	₱99,524,942	₱93,429,082	**₱97,188,312**	₱91,774,704

Financial Assets at FVPL
This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Government securities	**₱2,207,952**	₱1,313,400	**₱2,207,952**	₱1,313,400
Derivative assets (Notes 23 and 36)	**562,984**	419,122	**559,692**	418,819
Private debt securities	**31,305**	120,589	**31,305**	120,589
Equity securities	**73,918**	54,609	**30,928**	27,263
Investment in UITFs	**6,236**	6,144	–	–
	₱2,882,395	₱1,913,864	**₱2,829,877**	₱1,880,071

As of December 31, 2017 and 2016, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱73.0 million and ₱66.9 million, respectively.

The carrying amount of equity securities includes unrealized loss of ₱22.0 million and ₱21.5 million as of December 31, 2017 and 2016, respectively, for the Group and unrealized loss of ₱22.0 million and ₱32.0 million as of December 31, 2017 and 2016, respectively, for the Parent Company.

In 2017, 2016, and 2015, the nominal interest rates of government securities range from 2.13% to 6.13%, 2.75% to 10.63% and 2.13% to 10.63%, respectively.

In 2017, 2016, and 2015, the nominal interest rates of private debt securities range from 5.23% to 6.63%, 5.50% to 7.38% and 4.80% to 7.38%, respectively.

AFS Investments
This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Government debt securities (Notes 19 and 33)	**₱41,625,900**	₱37,834,559	**₱40,082,376**	₱36,900,930
Private securities	**26,920,045**	28,841,070	**26,444,549**	28,325,207
Equity securities - net of allowance for impairment losses (Note 16)				
Quoted	**1,144,779**	493,958	**1,004,873**	439,819
Unquoted	**146,692**	171,152	**146,154**	153,779
	₱69,837,416	₱67,340,739	**₱67,677,952**	₱65,819,735

For the year 2017, the Group and the Parent Company did not recognize impairment losses. As of December 31, 2016, the Group and the Parent Company recognized impairment losses on equity securities amounting to ₱15.9 million and ₱15.6 million, respectively (Note 16).

The movements in net unrealized loss on AFS investments of the Group are as follows:

	2017			2016			2015		
	Parent Company	**NCI**	**Total**	Parent Company	NCI	Total	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,469,939)**	**₱–**	**(₱3,469,939)**	(₱3,030,588)	₱168,630	(₱2,861,958)	(₱2,336,142)	₱179,878	(₱2,156,264)
Changes in fair values of AFS investments	**818,624**	**–**	**818,624**	1,008,465	–	1,008,465	(190,133)	(9,641)	(199,774)
Provision for impairment (Note 16)	**–**	**–**	**–**	15,856	–	15,856	230	–	230
Realized gains	**(506,238)**	**–**	**(506,238)**	(1,362,462)	(360)	(1,362,822)	(756,777)	(4,175)	(760,952)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**141,802**	**–**	**141,802**	144,657	1,079	145,736	136,804	2,568	139,372
Share in net unrealized losses of an associate (Note 12)	**(24,756)**	**–**	**(24,756)**	(245,867)	–	(245,867)	–	–	–
Effect of disposal group classified as held-for-sale (Note 37)	**–**	**–**	**–**	–	(169,349)	(169,349)	115,430	–	115,430
	429,432	**–**	**429,432**	(439,351)	(168,630)	(607,981)	(694,446)	(11,248)	(705,694)
Income tax effect (Note 31)	**–**	**–**	**–**	286	–	286	2,887	–	2,887
Balance at end of year	**(₱3,040,507)**	**₱–**	**(₱3,040,507)**	(₱3,469,939)	₱–	(₱3,469,939)	(₱3,030,588)	₱168,630	(₱2,861,958)

The changes in the net unrealized loss in AFS investments of the Parent Company follow:

	2017	2016	2015
Balance at the beginning of the year	**(₱3,469,939)**	(₱3,030,588)	(₱2,336,142)
Changes in fair values of AFS investments	**843,082**	1,008,908	(192,809)
Provision for impairment (Note 16)	**–**	15,601	230
Realized gains	**(516,023)**	(1,350,450)	(756,777)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**141,802**	140,341	126,531
Share in net unrealized losses of subsidiaries and an associate (Note 12)	**(39,429)**	(253,748)	51,906
Effect of disposal group classified as held-for-sale (Note 37)	**–**	–	73,586
	(3,040,507)	(3,469,936)	(3,033,475)
Income tax effect (Note 31)	**–**	–	2,887
Balance at end of year	**(₱3,040,507)**	(₱3,469,936)	(₱3,030,588)

As of December 31, 2017 and 2016, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱26.5 billion and ₱9.8 billion (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. There are no other significant terms and conditions associated with the pledged investments.

HTM Investments
As of December 31, 2017, HTM investments of the Group and the Parent Company comprise of government amounting to ₱26.8 billion and ₱26.7 billion, respectively.

As of December 31, 2016, HTM investments of the Group and the Parent Company consist of government securities amounting to ₱24.2 billion and ₱24.1 billion, respectively.

As of December 31, 2017 and 2016, the fair value of the HTM investments in the form of Republic of the Philippines bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱17.8 billion and ₱15.3 billion, respectively (Note 19).

Reclassification of Financial Assets
On March 3 and 5, 2014, the Group reclassified certain AFS investment securities, which were previously classified as HTM investments, with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD on February 28, 2014. The previous fair valuation gains amounting to ₱2.7 billion that have been recognized in OCI shall be amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64%.

As of December 31, 2017, the carrying values and fair values of the Parent Company's reclassified investment securities amounted to ₱24.0 billion and ₱25.0 billion, respectively. As of December 31, 2016, the carrying values and fair values of the Group's and Parent Company's reclassified investment securities amounted to ₱20.1 billion and ₱21.4 billion, respectively. Had these securities not been reclassified as HTM, the additional mark-to-market loss that would have been recognized by the Group and the Parent Company in the statement of comprehensive income amounts to ₱0.5 billion in 2017 and ₱0.3 billion in 2016.

Interest Income on Trading and Investment Securities
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
AFS investments	**₱2,121,231**	₱2,262,857	₱2,443,660	**₱2,056,124**	₱2,212,466	₱2,407,634
HTM investments	**978,680**	926,652	925,334	**977,719**	926,131	924,462
Financial assets at FVPL	**38,808**	76,947	226,065	**38,809**	76,947	226,065
	₱3,138,719	₱3,266,456	₱3,595,059	**₱3,072,652**	₱3,215,544	₱3,558,161

Effective interest rates range from 0.88% to 9.33%, 1.31% to 5.93% and 1.03% to 5.62% in 2017, 2016 and 2015, respectively, for peso-denominated AFS investments.

Effective interest rates range from 0.04% to 10.30%, 1.29% to 5.30% and 1.10% to 5.39% in 2017, 2016 and 2015, respectively, for foreign currency-denominated AFS investments.

HTM investments bear effective annual interest rates ranging from 2.75% to 10.63% in 2017 and 3.60% to 5.64% in 2016 and 2015.

Trading and Investment Securities Gains (Losses) - net
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Financial assets at FVPL:						
Held-for-trading	**₱58,157**	(₱6,113)	(₱175,161)	**₱58,156**	(₱6,113)	(₱175,290)
Designated at FVPL	**3,328**	(3,202)	–	**–**	–	–
AFS investments	**506,238**	1,362,462	761,191	**506,238**	1,350,453	756,777
Derivative financial instruments (Note 23)	**(7,965)**	25,174	(11,709)	**(7,965)**	25,174	(11,709)
	₱559,758	₱1,378,321	₱574,321	**₱556,429**	₱1,369,514	₱569,778

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2017	2016 (As Restated – Note 2)	**2017**	2016
Receivable from customers:				
Loans and discounts	**₱455,839,142**	₱392,159,433	**₱403,254,903**	₱350,840,183
Credit card receivables	**10,145,474**	7,102,207	**10,145,474**	7,102,207
Customers' liabilities on letters of credit and trust receipts	**9,490,075**	8,830,606	**9,364,742**	8,600,938
Lease contracts receivable (Note 30)	**2,891,043**	3,049,375	**97,109**	100,109
Customers' liabilities on acceptances (Note 19)	**2,231,887**	1,659,340	**2,231,887**	1,659,340
Bills purchased (Note 22)	**1,702,535**	3,596,589	**1,473,052**	3,379,721
	482,300,156	416,397,550	**426,567,167**	371,682,498
Less unearned and other deferred income	**1,553,108**	1,489,955	**1,241,587**	1,116,929
	480,747,048	414,907,595	**425,325,580**	370,565,569
Unquoted debt securities	**14,674,130**	6,972,710	**14,616,628**	6,914,864
Other receivables:				
Accounts receivable	**10,073,663**	9,573,552	**4,538,103**	3,423,593
Sales contract receivables	**7,588,301**	7,449,020	**7,549,113**	7,397,664
Accrued interest receivable	**4,235,075**	3,703,763	**3,497,184**	3,485,881
Miscellaneous	**562,360**	501,675	**492,025**	443,289
	22,459,399	21,228,010	**16,076,425**	14,750,427
	517,880,577	443,108,315	**456,018,633**	392,230,860
Less allowance for credit losses (Note 16)	**15,764,060**	14,892,814	**14,505,328**	14,032,122
	₱502,116,517	₱428,215,501	**₱441,513,305**	₱378,198,738

Below is the reconciliation of loans and receivables as to classes:

	Consolidated							
	2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱394,245,819	₱17,742,839	₱7,190,864	₱36,295,129	₱364,491	₱–	₱–	₱455,839,142
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,490,075	–	–	–	–	–	–	9,490,075
Lease contracts receivable (Note 30)	2,891,043	–	–	–	–	–	–	2,891,043
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
Bills purchased (Note 22)	1,702,535	–	–	–	–	–	–	1,702,535
	410,647,067	17,742,839	7,190,864	46,199,937	519,449	–	–	482,300,156
Less unearned and other deferred income	994,717	313,459	14,291	227,552	3,089	–	–	1,553,108
	409,652,350	17,429,380	7,176,573	45,972,385	516,360	–	–	480,747,048
Unquoted debt securities	–	–	–	–	–	14,674,130	–	14,674,130
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,073,663	10,073,663
Sales contract receivables	–	–	–	–	–	–	7,588,301	7,588,301
Accrued interest receivable	–	–	–	–	–	–	4,235,075	4,235,075
Miscellaneous	–	–	–	–	–	–	562,360	562,360
	409,652,350	17,429,380	7,176,573	45,972,385	516,360	14,674,130	22,459,399	517,880,577
Less allowance for credit losses (Note 16)	6,770,478	100,493	218,423	1,392,870	13,751	3,739,983	3,528,062	15,764,060
	₱402,881,872	₱17,328,887	₱6,958,150	₱44,579,515	₱502,609	₱10,934,147	₱18,931,337	₱502,116,517

	Consolidated							
	2016							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱329,917,238	₱20,117,661	₱7,346,757	₱34,336,857	₱440,920	₱–	₱–	₱392,159,433
Credit card receivables	66,258	–	–	6,888,616	147,333	–	–	7,102,207
Customers' liabilities on letters of credit and trust receipts	8,830,606	–	–	–	–	–	–	8,830,606
Lease contracts receivable (Note 30)	3,049,375	–	–	–	–	–	–	3,049,375
Customers' liabilities on acceptances (Note 19)	1,659,340	–	–	–	–	–	–	1,659,340
Bills purchased (Note 22)	3,383,938	212,651	–	–	–	–	–	3,596,589
	346,906,755	20,330,312	7,346,757	41,225,473	588,253	–	–	416,397,550
Less unearned and other deferred income	1,044,476	433,275	11,258	785	161	–	–	1,489,955
	345,862,279	19,897,037	7,335,499	41,224,688	588,092	–	–	414,907,595
Unquoted debt securities	–	–	–	–	–	6,972,710	–	6,972,710
Other receivables:								
Accounts receivable	–	–	–	–	–	–	9,573,522	9,573,522
Sales contract receivables	–	–	–	–	–	–	7,449,020	7,449,020
Accrued interest receivable	–	–	–	–	–	–	3,703,763	3,703,763
Miscellaneous	–	–	–	–	–	–	501,675	501,675
	345,862,279	19,897,037	7,335,499	41,224,688	588,092	6,972,710	21,228,010	443,108,315
Less allowance for credit losses (Note 16)	6,846,958	96,030	170,175	1,241,394	19,014	3,687,488	2,831,755	14,892,814
	₱339,015,321	₱19,801,007	₱7,165,324	₱39,983,294	₱569,078	₱3,285,222	₱18,208,225	₱428,215,501

	Parent Company							
	2017							
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Unquoted Debt Securities**	**Others**	**Total**
Receivable from customers:								
Loans and discounts	**₱375,964,637**	**₱17,742,839**	**₱7,190,864**	**₱2,026,412**	**₱330,151**	**₱–**	**₱–**	**₱403,254,903**
Credit card receivables	**85,708**	–	–	**9,904,808**	**154,958**	–	–	**10,145,474**
Customers' liabilities on letters of credit and trust receipts	**9,364,742**	–	–	–	–	–	–	**9,364,742**
Customers' liabilities on acceptances (Note 19)	**2,231,887**	–	–	–	–	–	–	**2,231,887**
Bills purchased (Note 22)	**1,473,052**	–	–	–	–	–	–	**1,473,052**
Lease contracts receivable (Note 30)	**97,109**	–	–	–	–	–	–	**97,109**
	389,217,135	**17,742,839**	**7,190,864**	**11,931,220**	**485,109**	–	–	**426,567,167**
Less unearned and other deferred income	**700,826**	**313,459**	**14,291**	**209,922**	**3,089**	–	–	**1,241,587**
	388,516,309	**17,429,380**	**7,176,573**	**11,721,298**	**482,020**	–	–	**425,325,580**
Unquoted debt securities	–	–	–	–	–	**14,616,628**	–	**14,616,628**
Other receivables:								
Accounts receivable	–	–	–	–	–	–	**4,538,103**	**4,538,103**
Sales contract receivables	–	–	–	–	–	–	**7,549,113**	**7,549,113**
Accrued interest receivable	–	–	–	–	–	–	**3,497,184**	**3,497,184**
Miscellaneous	–	–	–	–	–	–	**492,025**	**492,025**
	388,516,309	**17,429,380**	**7,176,573**	**11,721,298**	**482,020**	**14,616,628**	**16,076,425**	**456,018,633**
Less allowance for credit losses (Note 16)	**6,194,035**	**100,493**	**218,423**	**1,023,164**	**13,748**	**3,683,233**	**3,272,232**	**14,505,328**
	₱382,322,274	**₱17,328,887**	**₱6,958,150**	**₱10,698,134**	**₱468,272**	**₱10,933,395**	**₱12,804,193**	**₱441,513,305**

	Parent Company							
	2016							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱319,861,682	₱20,117,661	₱7,346,757	₱3,100,426	₱413,657	₱–	₱–	₱350,840,183
Credit card receivables	66,258	–	–	6,888,617	147,332	–	–	7,102,207
Customers' liabilities on letters of credit and trust receipts	8,600,938	–	–	–	–	–	–	8,600,938
Lease contracts receivable (Note 30)	100,109	–	–	–	–	–	–	100,109
Customers' liabilities on acceptances (Note 19)	1,659,340	–	–	–	–	–	–	1,659,340
Bills purchased (Note 22)	3,167,071	212,650	–	–	–	–	–	3,379,721
	333,455,398	20,330,311	7,346,757	9,989,043	560,989	–	–	371,682,498
Less unearned and other deferred income	671,450	433,275	11,258	785	161	–	–	1,116,929
	332,783,948	19,897,036	7,335,499	9,988,258	560,828	–	–	370,565,569
Unquoted debt securities	–	–	–	–	–	6,914,864	–	6,914,864
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,423,593	3,423,593
Sales contract receivables	–	–	–	–	–	–	7,397,664	7,397,664
Accrued interest receivable	–	–	–	–	–	–	3,485,881	3,485,881
Miscellaneous	–	–	–	–	–	–	443,289	443,289
	332,783,948	19,897,036	7,335,499	9,988,258	560,828	6,914,864	14,750,427	392,230,860
Less allowance for credit losses (Note 16)	6,687,544	96,030	170,175	890,093	19,012	3,687,488	2,481,780	14,032,122
	₱326,096,404	₱19,801,006	₱7,165,324	₱9,098,165	₱541,816	₱3,227,376	₱12,268,647	₱378,198,738

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets (included in 'Loans and Receivables') and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

As of December 31, 2015, the balance of these receivables amounted to ₱3.7 billion (₱1.8 billion is included under 'Loans and discounts' and ₱1.9 billion is included under 'Accrued interest receivable') while the transferred liabilities amounted to ₱3.4 billion (₱1.8 billion is included under 'Bills payable to BSP and local banks' - Note 19 and ₱1.6 billion is included under 'Accrued interest payable' - Note 20). The excess of the transferred receivables over the transferred liabilities is fully covered by an allowance for credit losses amounting to ₱0.3 billion as of December 31, 2015.

In 2016, the Group and the Parent Company applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2017 and 2016, the remaining receivables amounted to ₱0.3 billion which is fully covered by an allowance.

Unquoted debt instruments
Unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2017 and 2016, the notes are carried at their recoverable values.

Lease contract receivables
An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Minimum lease payments				
Due within one year	**₱1,265,542**	₱1,177,612	**₱ 28,909**	₱23,509
Due beyond one year but not over five years	**924,973**	1,127,371	**43,000**	40,100
Due beyond five years	**25,201**	36,500	**25,200**	36,500
	2,215,716	2,341,483	**97,109**	100,109
Residual value of leased equipment				
Due within one year	**292,000**	249,923	–	–
Due beyond one year but not over five years	**383,327**	457,969	–	–
	675,327	707,892	–	–
Gross investment in lease contract receivables (Note 30)	**₱2,891,043**	₱3,049,375	**₱ 97,109**	₱100,109

Accounts receivables
As of December 31, 2017 and 2016, the Group's accounts receivable includes insurance receivables of PNB Gen amounting to ₱5.1 billion and ₱4.8 billion, respectively.

Interest income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Receivable from customers and sales contract receivables	**₱22,523,464**	₱19,635,249	₱17,074,179	**₱19,100,932**	₱16,874,365	₱15,092,695
Unquoted debt securities	**146,012**	51,160	63,478	**144,878**	49,499	58,568
	₱22,669,476	₱19,686,409	₱17,137,657	**₱19,245,810**	₱16,923,864	₱15,151,263

As of December 31, 2017 and 2016, 78.83% and 75.24%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2017 and 2016, 79.07% and 76.23%, respectively, of the total receivable from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.94% to 9% in 2017, 2.30% to 8.75% in 2016 and 1.10% to 7.00% in 2015 for foreign currency-denominated receivables, and from 1.9% to 7.98% in 2017, 0.50% to 15.25% in 2016 and 0.50% to 15.25%% in 2015 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 2.70% to 21.00%, 5.00% to 21.00% and 3.30% to 21.00% in 2017, 2016 and 2015, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱106.2 million in 2017, ₱103.7 million in 2016, and ₱217.0 million in 2015 (Note 16).

BSP Reporting

An industry sector analysis of the Group's and the Parent Company's receivable from customers before taking into account the unearned and other deferred income and allowance for credit losses is shown below.

	Consolidated				Parent Company			
	2017		2016		**2017**		2016	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Wholesale and retail	**₱74,279,581**	**15.40**	₱61,414,279	14.75	**₱69,846,899**	**16.37**	₱57,682,565	15.52
Financial intermediaries	**72,757,733**	**15.09**	64,806,163	15.56	**69,382,757**	**16.27**	64,415,801	17.33
Electricity, gas and water	**64,921,830**	**13.46**	49,814,968	11.96	**62,947,842**	**14.76**	49,687,531	13.37
Transport, storage and communication	**40,565,972**	**8.41**	39,939,856	9.59	**38,270,489**	**8.97**	37,085,522	9.98
Manufacturing	**33,118,627**	**6.87**	36,542,499	8.78	**29,905,637**	**7.01**	34,276,937	9.22
Public administration and defense	**22,998,264**	**4.77**	24,676,655	5.93	**22,630,209**	**5.31**	24,601,304	6.62
Agriculture, hunting and forestry	**7,023,471**	**1.46**	5,490,920	1.32	**6,403,860**	**1.50**	5,044,898	1.36
Secondary target industry:								
Real estate, renting and business activities	**78,823,937**	**16.34**	59,701,406	14.34	**73,609,101**	**17.26**	53,719,909	14.45
Construction	**19,264,219**	**3.99**	16,819,358	4.04	**17,682,688**	**4.15**	14,574,409	3.92
Others	**68,546,522**	**14.21**	57,191,446	13.73	**35,887,685**	**8.40**	30,593,622	8.23
	₱482,300,156	**100.00**	₱416,397,550	100.00	**₱426,567,167**	**100.00**	₱371,682,498	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivable from customers as to secured and unsecured and as to collateral follows:

	Consolidated				Parent Company			
	2017		2016		**2017**		2016	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱69,798,045**	**14.47**	₱62,257,711	14.95	**₱56,166,102**	**13.17**	₱45,697,957	12.30
Chattel mortgage	**28,159,567**	**5.84**	33,531,566	8.05	**26,187,151**	**6.14**	25,326,989	6.81
Bank deposit hold-out	**14,600,056**	**3.03**	14,034,793	3.38	**14,530,200**	**3.41**	13,938,107	3.75
Shares of stocks	**1,412,136**	**0.29**	1,681,531	0.40	**1,412,136**	**0.33**	1,681,531	0.45
Others	**75,308,199**	**15.61**	38,699,661	9.29	**72,719,502**	**17.05**	35,368,522	9.52
	189,278,003	**39.24**	150,205,262	36.07	**171,015,091**	**40.09**	122,013,106	32.83
Unsecured	**293,022,153**	**60.76**	266,192,288	63.93	**255,552,076**	**59.91**	249,669,392	67.17
	₱482,300,156	**100.00**	₱416,397,550	100.00	**₱426,567,167**	**100.00**	₱371,682,498	100.00

The table below reflects the balances of loans and receivables as reported to the BSP. For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Secured	**₱6,721,812**	₱5,406,717	**₱4,803,416**	₱4,918,225
Unsecured	**4,923,617**	4,752,493	**4,222,671**	3,853,334
	₱11,645,429	₱10,159,210	**₱9,026,087**	₱8,771,559

Generally, NPLs refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing BSP rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming

In the case of loans that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears.

In the case of loans that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten percent (10.00%) of the total loan balance.

Loans are classified as nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As of December 31, 2017 and 2016, NPLs of ₱9.0 billion and ₱8.8 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱7.9 billion and ₱8.1 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2017 and 2016, gross and net NPL ratios of the Parent Company were 2.01% and 0.26%, and 2.31% and 0.18%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2017 and 2016 amounted to ₱2.1 billion and ₱1.6 billion and ₱1.6 billion and ₱1.5 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated						
	2017						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱11,470,425	₱5,717,761	₱4,947,104	₱567,270	₱698,131	₱1,094,617	₱24,495,308
Additions/transfers	–	197,239	755,165	-	785,486	192,896	1,930,786
Disposals/transfers/others	(1,049)	128,314	(102,549)	(1,025)	(627,145)	63,771	(539,683)
Balance at end of year	11,469,376	6,043,314	5,599,720	566,245	856,472	1,351,284	25,886,411
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,571,166	2,917,671	33,302	–	647,581	6,169,720
Depreciation and amortization	–	243,764	695,012	5,518	–	184,217	1,128,511
Disposals/transfers/others	–	(11,481)	(274,532)	(385)	–	(18,265)	(304,663)
Balance at end of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486
Net Book Value at End of Year	₱11,379,260	₱3,101,495	₱2,261,569	₱527,810	₱856,472	₱537,751	₱18,664,357

	Consolidated						
	2016						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱15,552,766	₱6,894,418	₱4,686,714	₱553,988	₱341,366	₱841,052	₱28,870,304
Additions/transfers	–	206,910	965,326	–	669,094	187,009	2,028,339
Disposals/transfers/others	(4,082,341)	(1,383,567)	(704,936)	13,282	(312,329)	66,556	(6,403,335)
Balance at end of year	11,470,425	5,717,761	4,947,104	567,270	698,131	1,094,617	24,495,308
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,641,945	3,105,944	23,595	–	509,279	6,280,763
Depreciation and amortization	–	235,546	623,153	5,199	–	149,779	1,013,677
Disposals/transfers/others	–	(306,325)	(811,426)	4,508	–	(11,477)	(1,124,720)
Balance at end of year	–	2,571,166	2,917,671	33,302	–	647,581	6,169,720
Allowance for Impairment Losses (Note 16)	121,033	107,200	–	–	–	–	228,233
Net Book Value at End of Year	₱11,349,392	₱3,039,395	₱2,029,433	₱533,968	₱698,131	₱447,036	₱18,097,355

	Parent Company					
	2017					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Construction In-progress**	**Leasehold Improvements**	**Total**
Cost						
Balance at beginning of year	₱11,266,169	₱5,488,197	₱3,946,854	₱698,132	₱876,424	₱22,275,776
Additions/transfers	–	181,135	512,520	785,486	179,844	1,658,985
Disposals/transfers/others	7	132,375	(111,927)	(627,145)	3,687	(603,003)
Balance at end of year	11,266,176	5,801,707	4,347,447	856,473	1,059,955	23,331,758
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,518,058	2,465,332	–	559,106	5,542,496
Depreciation and amortization	–	242,298	494,994	–	149,496	886,788
Disposals/transfers/others	–	(9,892)	(200,021)	–	(9,884)	(219,797)
Balance at end of year	–	2,750,464	2,760,305	–	698,718	6,209,487
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,176,512	₱2,912,873	₱1,587,142	₱856,473	₱361,237	₱16,894,236

	Parent Company					
	2016					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱13,380,915	₱6,831,425	₱3,936,183	₱341,366	₱726,223	₱25,216,112
Additions/transfers	–	206,910	716,982	669,094	147,352	1,740,338
Disposals/transfers/others	(2,114,746)	(1,550,138)	(706,311)	(312,328)	2,849	(4,680,674)
Balance at end of year	11,266,169	5,488,197	3,946,854	698,132	876,424	22,275,776
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,621,673	2,747,940	–	437,600	5,807,213
Depreciation and amortization	–	234,210	476,638	–	124,619	835,467
Disposals/transfers/others	–	(337,825)	(759,246)	–	(3,113)	(1,100,184)
Balance at end of year	–	2,518,058	2,465,332	–	559,106	5,542,496
Allowance for Impairment Losses (Note 16)	121,033	107,200	–	–	–	228,233
Net Book Value at End of Year	₱11,145,136	₱2,862,939	₱1,481,522	₱698,132	₱317,318	₱16,505,047

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 ₱1.0 billion as of December 31, 2017 and 2016.

Gain on disposal of property and equipment in 2017, 2016 and 2015 amounted to ₱4.3 million, ₱1.2 million, and ₱7.7 million, respectively, for the Group and ₱2.0 million, ₱1.5 million and ₱3.7 million, respectively, for the Parent Company (Note 13).

Depreciation and amortization consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Continuing operations:						
Depreciation						
Property and equipment	**₱1,128,511**	₱1,013,677	₱830,663	**₱886,788**	₱835,467	₱710,542
Investment properties (Note 13)	**152,894**	226,545	162,097	**136,507**	206,472	149,309
Chattel mortgage	**33,009**	22,000	35,285	**8,123**	22,001	33,748
Amortization - Intangible assets (Note 14)	**369,977**	292,423	424,176	**353,939**	279,643	412,180
	₱1,684,391	₱1,554,645	₱1,452,221	**₱1,385,357**	₱1,343,583	₱1,305,779
Discontinued operations:						
Property and Equipment (Note 37)	–	4,707	10,704	–	–	–
	₱1,684,391	₱1,559,352	₱1,462,925	**₱1,385,357**	₱1,343,583	₱1,305,779

Certain property and equipment of the Parent Company with carrying amount of ₱9.3 million and ₱178.5 million are temporarily idle as of December 31, 2017 and 2016, respectively.

As of December 31, 2017 and 2016, property and equipment of the Parent Company with gross carrying amount of ₱3.3 billion are fully depreciated but are still being used.

12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

				Percentage of Ownership	
Subsidiaries				**Direct**	**Indirect**
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–
PNB Holdings Corporation (PNB Holdings)	Investment	- 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	Remittance	USA	USD	**100.00**	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–
PNB Remittance Centers, Inc. (PNB RCI) [a]	Remittance	- do -	USD	–	**100.00**
PNB Remittance Co. (Nevada) [b]	Remittance	-do-	USD	–	**100.00**
PNB RCI Holding Co. Ltd. [b]	Holding Company	- do -	USD	–	**100.00**
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–
PNB Remittance Co. (Canada) [c]	Remittance	Canada	CAD	–	**100.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	**99.04**	–
PNB-IBJL Leasing and Finance Corporation (PILFC)[d]	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-IBJL Equipment Rentals Corporation[e]	Rental	- do -	Php	–	**75.00**
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)*	Banking	Hong Kong	HKD	**51.00**	–

(Forward)

Subsidiaries				Percentage of Ownership Direct	Indirect
Associate					
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) *(g)	Insurance	- do -	Php	**44.00**	–

** Subsidiaries acquired as a result of the merger with ABC*
(a) Owned through PNB IIC
(b) Owned through PNB RCI
(c) Owned through PNB RCI Holding Co. Ltd.
(d) Formerly Japan-PNB Leasing
(e) Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC

The details of this account follow:

	Consolidated		Parent Company		
	December 31		December 31		
	2017	2016 (As Restated – Note 2)	2017	2016 (As Restated – Note 2)	January 1, 2016 (As Restated – Note 2)
Investment in Subsidiaries					
PNB SB	**₱–**	₱–	**₱10,935,041**	₱10,935,041	₱10,935,041
ACB	–	–	**6,087,520**	6,087,520	6,087,520
PNB IIC	–	–	**2,028,202**	2,028,202	2,028,202
PNB Europe PLC	–	–	**1,006,536**	1,006,537	1,006,537
ABCHKL	–	–	**947,586**	947,586	947,586
PNB GRF	–	–	**753,061**	753,061	753,061
PNB Gen	–	–	**800,000**	600,000	600,000
PNB Holdings	–	–	**377,876**	377,876	377,876
PNB Capital	–	–	**850,000**	350,000	350,000
ABUK	–	–	**320,858**	320,858	320,858
OHBVI	–	–	**291,841**	291,841	291,841
PILFC	–	–	**181,943**	181,942	181,942
ALFC	–	–	**148,400**	148,400	148,400
PNB Securities	–	–	**62,351**	62,351	62,351
PNB Forex, Inc.	–	–	–	50,000	50,000
APLII	–	–	–	–	481,068
PNB Corporation - Guam	–	–	**7,672**	7,672	7,672
	–	–	**24,798,887**	24,148,887	24,629,955
Investment in an Associate – APLII (44% owned)	**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	**70,220**	–	**1,314,542**	1,495,910	1,897,737
Equity in net earnings for the year	**59,215**	70,220	**498,254**	231,780	269,709
Transfer to 'Investment in an associate'	–	–	–	(347,023)	–
Transfer to 'Assets of a disposal group held for sale'	–	–	–	–	(326,948)
Transfer to 'Reserves of a disposal group held for sale'	–	–	–	–	(85,106)
Sale of direct interest in a subsidiary	–	–	–	–	(79,482)
Dissolution of a subsidiary	–	–	**(7,415)**	–	–
	129,435	70,220	**1,805,381**	1,380,667	1,675,910
Dividends received for the year	–	–	**(1,333,350)**	(66,125)	(180,000)
	129,435	70,220	**472,031**	1,314,542	1,495,910
Accumulated share in:					
Net unrealized losses on available-for-sale investments (Note 9)	**(270,623)**	(245,867)	**(300,912)**	(261,483)	(7,735)
Remeasurement losses on retirement plan	**(235,424)**	1,209	**(289,824)**	(31,363)	(37,932)
Aggregate reserves on life insurance policies	**12,280**	3,087	**12,280**	3,087	–
Accumulated translation adjustments	–	–	**986,863**	477,909	457,755
	(493,767)	(241,571)	**408,407**	188,150	412,088
	₱2,363,757	₱2,556,738	**₱28,407,414**	₱28,379,668	₱26,537,953

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 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: (a) 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; and (b) 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.

As of December 31, 2017 and 2016, 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 is not available for dividend declaration.

Material non-controlling interests
The financial information as of December 31, 2017 and 2016 of ABCHKL which has material NCI is provided below.

Proportion of equity interest held by non- controlling interests

		Equity interest of NCI		**Accumulated balances of material NCI**		**Profit allocated to material NCI**	
	Principal Activities	**2017**	2016	**2017**	2016	**2017**	2016
ABCHKL	Banking	**49.00%**	49.00%	**₱1,501,069**	₱1,427,133	**₱83,431**	₱41,667

The following table presents financial information of ABCHKL as of December 31, 2017 and 2016:

	2017	2016
Statement of Financial Position		
Current assets	**₱7,253,278**	₱7,528,024
Non-current assets	**3,666,167**	3,877,748
Current liabilities	**7,700,425**	8,244,302
Non-current liabilities	**155,613**	164,164
Statement of Comprehensive Income		
Revenues	**422,605**	345,376
Expenses	**252,338**	260,342
Net income	**170,267**	85,034
Total comprehensive income	**197,254**	134,237
Statement of Cash Flows		
Net cash provided by operating activities	**(445,345)**	116,786
Net cash provided used in investing activities	**(4,822)**	(69,200)
Net cash used in financing activities	–	–

As of December 31, 2017 and 2016, the non-controlling interests in respect of ALFC, PILFC, ACB and OHBVI is not material to the Group.

Investment in APLII
On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51.00% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.";
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of the Parent Company and PNB SB.

As of December 31, 2015, the carrying value of the 51% equity interest in APLII amounting to ₱1.2 billion was classified as "Assets of Disposal Group Held for Sale" in the separate statement of

financial position.
The sale of APLII was completed on June 6, 2016 for a total consideration of USD66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively.

The Parent Company will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Parent Company recognized gain on sale of the 51.00% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration allocated to the EDR was recognized as "Other Deferred Revenue" (Note 22) and will be amortized to income over 15 years from date of sale.

Prior to the sale of shares to Allianz SE, the Parent Company acquired additional 15.00% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, the Parent Company accounted for its remaining 44.00% ownership interest in APLII as an associate. At the date of loss of control, the Parent Company's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. The Parent Company recognized gain on remeasurement amounting to ₱1.6 billion in the statement of income in 2016.

The fair value of the retained equity was based on a combination of the income approach and market approach.

On September 21, 2016, the SEC approved the amendment of PNB Life Insurance, Inc.'s article of incorporation to reflect the change in corporate name to Allianz-PNB Life Insurance, Inc.

Summarized financial information of APLII as of December 31, 2017 and 2016 are as follows:

	2017	2016
Current assets	**₱9,043,953**	₱14,812,452
Noncurrent assets	**18,478,830**	9,602,162
Current liabilities	**9,151,219**	14,287,861
Noncurrent liabilities	**16,537,014**	7,995,855
Equity	**1,834,550**	2,130,898

Summarized statement of income of APLII for the year ended December 31, 2017 and for the seven months ended December 31, 2016 follows:

	2017 (One Year)	2016 (Seven Months)
Revenues	**₱2,190,474**	₱1,164,407
Costs and expenses	**(2,018,549)**	(1,022,543)
Income before tax	**171,925**	141,864
Provision for income tax	**(35,128)**	(29,762)
Net income	**136,797**	112,102
Other comprehensive loss	**(133,356)**	(556,042)
Total comprehensive income	**₱3,441**	(₱443,940)
Group’s share of comprehensive income for the period	**₱1,514**	(₱195,334)

Investment in ACB
On November 22, 2013, the BOD of the Parent Company approved and confirmed the increase in equity investment of the Parent Company in ACB as a prerequisite to ACB’s application for CNY license, by way of purchase of the 9.59% shareholdings of the natural–person investors in ACB in the amount of USD13.8 million. This was approved by BSP on June 4, 2014. On November 12, 2015, the China Banking Regulatory Commission approved the takeover of the Parent Company of the 51.00% shareholdings held by ABC and the buyout of the 8.63% shareholdings of six natural-person investors in ACB resulting in the increase of equity ownership in ACB to 99.04%. The Parent Company paid the natural-person investors on November 27, 2015. This acquisition was accounted for as an equity transaction which resulted in an increase of other equity adjustment amounting to ₱14.5 million in the consolidated statement of financial position.

PNB Forex
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to December 31, 2013. PNB Forex ceased its business operations on January 1, 2006. On August 24, 2017, SEC approved the dissolution of PNB Forex.

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.

The BSP and IC regulations require banks and insurance companies to maintain certain levels of regulatory capital. As of December 31, 2017 and 2016, the total assets of banking subsidiaries amounted to ₱72.1 billion and ₱58.1 billion, respectively; and ₱7.6 billion and ₱6.9 billion for insurance subsidiaries, respectively.

13. Investment Properties

Breakdown of investment properties:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Properties held for lease	**₱4,762,380**	₱4,821,335	**₱5,078,689**	₱5,137,644
Foreclosed assets	**10,832,005**	11,519,917	**10,239,719**	10,837,486
Total	**₱15,594,385**	₱16,341,252	**₱15,318,408**	₱15,975,130

The composition of and movements in this account follow:

	Consolidated		
	2017		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱16,309,233**	**₱5,062,298**	**₱21,371,531**
Additions	**350,999**	**274,661**	**625,660**
Disposals/transfers/others	**(796,107)**	**(862,053)**	**(1,658,160)**
Balance at end of year	**15,864,125**	**4,474,906**	**20,339,031**
Accumulated Depreciation			
Balance at beginning of year	–	**1,733,938**	**1,733,938**
Depreciation (Note 11)	–	**152,894**	**152,894**
Disposals/transfers/others	–	**(161,151)**	**(161,151)**
Balance at end of year	–	**1,725,681**	**1,725,681**
Allowance for Impairment Losses (Note 16)	**2,702,189**	**316,776**	**3,018,965**
Net Book Value at End of Year	**₱13,161,936**	**₱2,432,449**	**₱15,594,385**

	Consolidated		
	2016		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱14,287,746	₱3,989,636	₱18,277,382
Additions	386,491	295,019	681,510
Disposals/transfers/others	1,634,996	777,643	2,412,639
Balance at end of year	16,309,233	5,062,298	21,371,531
Accumulated Depreciation			
Balance at beginning of year	–	1,753,738	1,753,738
Depreciation (Note 11)	–	226,545	226,545
Disposals/transfers/others	–	(246,345)	(246,345)
Balance at end of year		1,733,938	1,733,938
Allowance for Impairment Losses (Note 16)	2,999,854	296,487	3,296,341
Net Book Value at End of Year	₱13,309,379	₱3,031,873	₱16,341,252

	Parent Company		
	2017		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱16,341,154**	**₱4,627,569**	**₱20,968,723**
Additions	**278,090**	**187,254**	**465,344**
Disposals/Transfers/Others	**(1,083,496)**	**(298,937)**	**(1,382,433)**
Balance at end of year	**15,535,748**	**4,515,886**	**20,051,634**
Accumulated Depreciation			
Balance at beginning of year	–	**1,692,521**	**1,692,521**
Depreciation (Note 11)	–	**136,506**	**136,506**
Disposals/Transfers/Others	–	**(115,223)**	**(115,223)**
Balance at end of year	–	**1,713,804**	**1,713,804**
Allowance for Impairment Losses (Note 16)	**2,702,189**	**317,233**	**3,019,422**
Net Book Value at End of Year	**₱12,833,559**	**₱2,484,849**	**₱15,318,408**

	Parent Company		
	2016		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,096,896	₱3,760,994	₱19,857,890
Additions	352,577	256,621	609,198
Disposals/Transfers/Others	(108,319)	609,954	501,635
Balance at end of year	16,341,154	4,627,569	20,968,723
Accumulated Depreciation			
Balance at beginning of year	–	1,705,410	1,705,410
Depreciation (Note 11)	–	206,472	206,472
Disposals/Transfers/Others	–	(219,361)	(219,361)
Balance at end of year	–	1,692,521	1,692,521
Allowance for Impairment Losses (Note 16)	2,999,854	301,218	3,301,072
Net Book Value at End of Year	₱13,341,300	₱2,633,830	₱15,975,130

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱115.9 million and ₱155.4 million, as of December 31, 2017 and 2016, 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 ₱5.3 billion and ₱7.0 billion as of December 31, 2017 and 2016, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱5.2 billion and ₱6.9 billion as of December 31, 2017 and 2016, respectively.

In 2015, investment properties with carrying value of ₱2.2 billion were converted as branches and head offices of its subsidiaries and were transferred to property and equipment by the Group. Also in 2015, investment properties under joint arrangements with total carrying value of ₱1.2 billion were transferred to Real Estate Inventories Held under Development under 'Other Assets' (Note 15). Property and equipment with carrying value of ₱54.5 million were leased out under operating leases and have been transferred to investment properties in 2015.

In 2016, the Group and the Parent Company reclassified certain properties from 'Property and equipment' to 'Investment property' with aggregate carrying amount of ₱4.7 billion and ₱3.2 billion, respectively. These properties mainly consist of the office spaces in the Allied Bank Center in Makati leased out and land in Buendia, Makati being held for future development.

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 ₱27.5 million, ₱13.6 million and ₱30.5 million in 2017, 2016, and 2015, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱173.9 million, ₱201.8 million and ₱192.4 million in 2017, 2016, and 2015, 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 ₱27.5 million, ₱8.3 million and ₱20.4 million in 2017, 2016, and 2015, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱167.1 million, ₱201.6 million and ₱182.7 million in 2017, 2016, and 2015, respectively

Net gains on sale or exchange of assets
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	**2016**	2015
Net gains from sale of investment property (Note 34)	**₱3,755,533**	₱2,343,634	₱1,435,798	**₱3,698,236**	₱2,387,472	₱1,400,650
Net gains from foreclosure and repossession of investment property	**162,125**	165,570	152,061	**162,125**	128,927	152,553
Net gains from sale of property and equipment (Note 11)	**4,282**	1,157	7,659	**1,980**	1,462	3,741
Net gains (loss) from sale of receivables	**(804)**	–	–	**–**	–	24,441
	₱3,921,136	₱2,510,361	₱1,595,518	**₱3,862,341**	₱2,517,861	₱1,581,385

14. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	Consolidated				
	2017				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱2,239,262**	**₱4,528,994**	**₱13,375,407**
Additions	**–**	**–**	**1,162,121**	**1,162,121**	**–**
Write-offs	**–**	**–**	**(3,080)**	**(3,080)**	**–**
Cumulative translation adjustment	**–**	**–**	**9,482**	**9,482**	**–**
Balance at end of year	**1,897,789**	**391,943**	**3,407,785**	**5,697,517**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**739,083**	**391,943**	**835,599**	**1,966,625**	**–**
Amortization (Note 11)	**189,779**	**–**	**217,272**	**407,051**	**–**
Cumulative translation adjustment		**–**	**984**	**984**	**–**
Balance at end of year	**928,862**	**391,943**	**1,053,855**	**2,374,660**	
Net Book Value at End of Year	**₱968,927**	**₱–**	**₱2,353,930**	**₱3,322,857**	**₱13,375,407**

	Consolidated				
	2016				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,830,957	₱4,120,689	₱13,375,407
Additions	–	–	406,053	406,053	–
Write-offs	–	–	(894)	(894)	–
Cumulative translation adjustment	–	–	3,146	3,146	–
Balance at end of year	1,897,789	391,943	2,239,262	4,528,994	13,375,407
Accumulated Amortization					
Balance at beginning of year	549,304	378,153	750,354	1,677,811	–
Amortization (Note 11)	189,779	13,790	88,854	292,423	–
Cumulative translation adjustment	–	–	(3,609)	(3,609)	–
Balance at end of year	739,083	391,943	835,599	1,966,625	–
Net Book Value at End of Year	₱1,158,706	₱–	₱1,403,663	₱2,562,369	₱13,375,407

	Parent Company				
	2017				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱2,106,233**	**₱4,395,965**	**₱13,515,765**
Additions	–	–	**1,045,743**	**1,045,743**	–
Write-offs	–	–	–	–	–
Others	–	–	**(668)**	**(668)**	–
Balance at end of year	**1,897,789**	**391,943**	**3,151,308**	**5,441,040**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**739,083**	**391,943**	**793,487**	**1,924,513**	–
Amortization (Note 11)	**189,779**	–	**164,161**	**353,940**	–
Others		–	**(656)**	**(656)**	–
Balance at end of year	**928,862**	**391,943**	**956,992**	**2,277,797**	
Net Book Value at End of Year	**₱968,927**	**₱–**	**₱2,194,316**	**₱3,163,243**	**₱13,515,765**

	Parent Company				
	2016				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,701,224	₱3,990,956	₱13,515,765
Additions	–	–	404,837	404,837	–
Write-offs	–	–	(15)	(15)	–
Cumulative translation adjustment	–	–	186	186	–
Balance at end of year	1,897,789	391,943	2,106,232	4,395,964	13,515,765
Accumulated Amortization					
Balance at beginning of year	549,304	378,153	717,253	1,644,710	–
Amortization (Note 11)	189,779	13,790	76,074	279,643	–
Cumulative translation adjustment	–	–	160	160	–
Balance at end of year	739,083	391,943	793,487	1,924,513	–
Net Book Value at End of Year	₱1,158,706	₱–	₱1,312,745	₱2,471,451	₱13,515,765

Core deposit (CDI) and customer relationship (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, 2017 and 2016 includes capitalized development costs amounting to ₱2.2 billion and ₱1.3 billion, respectively, 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 recognition of goodwill which is determined as follows:

Purchase consideration transferred	₱41,505,927
Add: Proportionate share of the non-controlling interest in the net assets of ABC	2,768,380
Acquisition-date fair value of previously held interest in subsidiaries	2,471,630
Less: Fair values of net identifiable assets and liabilities assumed	33,370,530
Goodwill	₱13,375,407

Impairment testing of goodwill and intangible asset
Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 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 CGUs' 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.

Key assumptions used in value in use calculations
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:

	2017			2016		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**8.16%**	**8.16%**	**6.89%**	11.17%	11.19%	8.99%
Projected growth rate	**6.80%**	**6.80%**	**6.80%**	6.50%	6.50%	6.50%

The calculation of value in use for retail banking, corporate banking and treasury cash generating units is most sensitive to interest margin, discount rates, market share during the budget period, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

Discount rate
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 treasury 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. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
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	
	December 31		January 1,	December 31	
	2017	2016 (As Restated - Note 2)	2016 (As Restated - Note 2)	2017	2016
Financial					
Return checks and other cash items	**₱409,257**	₱249,528	₱103,667	**₱396,826**	₱254,420
Checks for clearing	**285,676**	198,109	119,134	**285,676**	198,109
Security deposits	**45,697**	109,944	78,922	**–**	71,713
Receivable from SPV	**500**	500	500	**500**	500
Others	**4,355**	10,186	748	**3,477**	6,535
	745,485	568,267	302,971	**686,479**	531,277
Non-financial					
Creditable withholding taxes	**5,272,020**	4,328,019	3,770,716	**5,085,846**	4,187,074
Real estate inventories held under development	**728,752**	728,752	1,235,530	**728,752**	728,752
Deferred reinsurance premium	**816,058**	632,559	786,242	**–**	–
Deferred benefits	**577,291**	532,938	401,231	**524,253**	458,119
Prepaid expenses	**390,290**	470,882	395,671	**299,780**	330,930
Documentary stamps on hand	**234,234**	214,969	221,088	**230,328**	212,145
Stationeries and supplies	**95,129**	64,900	78,764	**89,168**	59,433
Chattel mortgage properties-net of depreciation	**149,347**	36,586	51,086	**32,752**	35,046
Other investments	**26,309**	22,201	37,664	**22,983**	18,862
Miscellaneous	**796,490**	266,745	339,392	**1,374,806**	729,324
	9,085,919	7,298,551	7,317,384	**8,388,668**	6,759,685
	9,831,404	7,866,818	7,620,355	**9,075,147**	7,290,962
Less allowance for impairment losses (Note 16)	**954,090**	770,662	840,151	**922,532**	738,088
	₱8,877,314	₱7,096,156	₱6,780,204	**₱8,152,615**	₱6,552,874

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.

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2017 and 2016.

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

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.

Chattel mortgage properties
As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱96.1 million and ₱79.1 million, respectively. As of December 31, 2017 and 2016, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱66.5 million and ₱79.1 million, respectively.

As of December 31, 2017 and 2016, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱0.9 million and ₱2.1 million, respectively.

Receivable from SPV
The Group has receivable from SPV, Opal Portfolio Investing Inc. (OPII), which was deconsolidated upon adoption of PFRS 10.

Receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of certain Non-performing assets of the Bank. Collections from OPII in 2016 and 2015 amounting to ₱500.0 million and ₱353.0 million, respectively are recorded under 'Miscellaneous Income' (Note 28).

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		
	2017	2016	2015	**2017**	2016	2015
Continuing operations:						
Provision for impairment	**₱421,792**	₱114,448	₱449,698	**₱422,452**	₱113,593	₱322,649
Provision for credit losses	**793,524**	2,696,693	860,393	**70,609**	1,192,348	513,697
Provision for (reversal of) other losses (Note 35)	**(331,183)**	401,553	(741,911)	**(331,183)**	401,553	(741,911)
	884,133	3,212,694	568,180	**161,878**	1,707,494	94,435
Discontinued operations:						
Provision for credit losses (Note 37)	–	4,704	32,765	–	–	–
	₱884,133	₱3,217,398	₱600,945	**₱161,878**	₱1,707,494	₱94,435

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated					
	2017			2016		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱875,475**	**14,892,814**	**₱500**	₱930,111	₱13,428,014	₱500
Provisions	–	**793,524**	–	15,856	2,680,837	–
Accretion on impaired loans (Note 10)	–	**(106,158)**	–	–	(103,715)	–
Accounts charged-off	**(249,720)**	**(474,876)**	–	–	(1,282,872)	–
Transfers and others	**(125)**	**658,756**	–	(70,492)	170,550	–
Balance at end of year	**₱625,630**	**₱15,764,060**	**₱500**	₱875,475	₱14,892,814	₱500

	Parent Company					
	2017			2016		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱875,220**	**₱14,032,123**	**₱500**	₱930,111	₱12,860,728	₱500
Provisions	**–**	**70,609**	–	15,601	1,176,747	–
Accretion	**–**	**(106,158)**	–	–	(103,715)	–
Accounts charged-off	**(249,720)**	**(206,898)**	–	–	(419,978)	–
Transfers and others	**–**	**715,652**	–	(70,492)	518,340	–
Balance at end of year	**₱625,500**	**₱14,505,328**	**₱500**	₱875,220	₱14,032,122	₱500

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated					
	2017			2016		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,233**	**₱3,296,341**	**₱770,162**	₱461,077	₱3,293,639	₱839,651
Provisions (reversals)	**21**	**(46,377)**	**468,148**	–	141,740	(27,292)
Disposals	**(220)**	**(152,718)**	**(1,136)**	–	(331,094)	–
Transfers and others	**453**	**(78,281)**	**(283,084)**	(232,844)	192,056	(42,197)
Balance at end of year	**₱228,487**	**₱3,018,965**	**₱954,090**	₱228,233	₱3,296,341	₱770,162

	Parent Company					
	2017			2016		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,233**	**₱3,301,072**	**₱737,588**	₱264,701	₱3,485,649	₱834,542
Provisions (reversals)	**21**	**(46,377)**	**468,808**	–	140,883	(27,290)
Disposals	**(220)**	**(152,718)**	**(1,136)**	–	(331,094)	–
Transfers and others	**–**	**(82,555)**	**(283,228)**	(36,468)	5,634	(69,664)
Balance at end of year	**₱228,034**	**₱3,019,422**	**₱922,032**	₱228,233	₱3,301,072	₱737,588

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2017							
	Receivable from customers					**Unquoted**		
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱6,846,958**	**₱96,030**	**₱170,175**	**₱1,241,394**	**₱19,014**	**₱3,687,488**	**₱2,831,755**	**₱14,892,814**
Provisions (reversals)	**(302,489)**	**(10,930)**	**22,179**	**417,853**	**9,269**	**–**	**657,643**	**793,525**
Accretion on impaired loans (Note 10)	**(98,615)**	**–**	**(6,904)**	**(573)**	**(65)**	**–**	**–**	**(106,157)**
Accounts charged off	**(295,749)**	**–**	**–**	**(127,026)**	**–**	**–**	**(52,101)**	**(474,876)**
Transfers and others	**620,372**	**15,393**	**32,973**	**(138,778)**	**(14,467)**	**52,495**	**90,765**	**658,754**
Balance at end of year	**₱6,770,477**	**₱100,493**	**₱218,423**	**₱1,392,870**	**₱13,751**	**₱3,739,983**	**₱3,528,062**	**₱15,764,060**
Individual impairment	**4,146,527**	**20,653**	**120,845**	**219,538**	**12,743**	**3,739,983**	**1,208,384**	**9,468,673**
Collective impairment	**2,623,951**	**79,840**	**97,578**	**1,173,332**	**1,008**	**–**	**2,319,678**	**6,295,387**
	₱6,770,478	**₱100,493**	**₱218,423**	**₱1,392,870**	**₱13,751**	**₱3,739,983**	**₱3,528,062**	**₱15,764,060**
Gross amounts of loans and receivables subject to individual impairment	**₱6,933,931**	**₱20,653**	**₱150,344**	**₱345,618**	**₱12,743**	**₱3,739,983**	**₱1,208,384**	**₱12,399,665**

	Consolidated							
	2016							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Provisions (reversals)	2,646,019	(60,691)	7,855	345,819	(1,375)	68,221	(325,011)	2,680,837
Accretion on impaired loans (Note 10)	(98,161)	–	(7,478)	1,855	69	–	–	(103,715)
Accounts charged off	(886,304)	–	–	(304,081)	(1,534)	–	(90,953)	(1,282,872)
Transfers and others	(782)	(2,326)	21,196	84,634	(1,212)	–	69,040	170,550
Balance at end of year	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Individual impairment	₱4,508,372	₱–	₱67,637	₱49,861	₱14,940	₱3,687,488	₱1,761,208	₱10,089,506
Collective impairment	2,338,586	96,030	102,538	1,191,533	4,074	–	1,070,547	4,803,308
	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Gross amounts of loans and receivables subject to individual impairment	₱5,573,463	₱–	₱130,523	₱81,276	₱15,155	₱6,914,864	₱1,763,012	₱14,478,293

	Parent Company							
	2017							
	Receivable from customers					**Unquoted**		
	Business Loans	**GOCCs and NGAs**	**LGUs**	**Consumers**	**Fringe Benefits**	**Debt Securities**	**Others**	**Total**
Balance at beginning of year	**₱6,687,544**	**₱96,030**	**₱170,175**	**₱890,093**	**₱19,012**	**₱3,687,488**	**₱2,481,780**	**₱14,032,122**
Provisions (reversals)	**(891,970)**	**(10,930)**	**22,179**	**247,212**	**9,268**	**–**	**694,851**	**70,610**
Accretion on impaired loans (Note 10)	**(98,615)**	**–**	**(6,904)**	**(573)**	**(65)**	**–**	**–**	**(106,157)**
Accounts charged off	**(50,969)**	**–**	**–**	**(127,022)**	**–**	**–**	**(28,907)**	**(206,898)**
Transfers and others	**548,045**	**15,393**	**32,973**	**13,454**	**(14,467)**	**(4,256)**	**124,508**	**715,650**
Balance at end of year	**₱6,194,035**	**₱100,493**	**₱218,423**	**₱1,023,164**	**₱13,748**	**₱3,683,232**	**₱3,272,232**	**₱14,505,327**
Individual impairment	**3,361,779**	**20,653**	**120,845**	**122,561**	**12,743**	**3,683,232**	**1,184,021**	**8,505,834**
Collective impairment	**2,832,256**	**79,840**	**97,578**	**900,603**	**1,005**	**-**	**2,088,211**	**5,999,493**
	₱6,194,035	**₱100,493**	**₱218,423**	**₱1,023,164**	**₱13,748**	**₱3,683,232**	**₱3,272,232**	**₱14,505,327**
Gross amounts of loans and receivables subject to individual impairment	**₱4,839,781**	**₱20,653**	**₱150,344**	**₱247,899**	**₱12,743**	**₱3,683,232**	**₱1,184,021**	**₱10,138,674**

	Parent Company							
	2016							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱5,038,887	₱159,047	₱148,602	₱995,020	₱23,064	₱3,619,267	₱2,876,841	₱12,860,728
Provisions (reversals)	1,178,626	(60,691)	7,855	327,211	(1,375)	68,221	(343,100)	1,176,747
Accretion on impaired loans (Note 10)	(98,161)	–	(7,478)	1,855	69	–	–	(103,715)
Accounts charged off	(24,221)	–	–	(304,075)	(1,534)	–	(90,148)	(419,978)
Transfers and others	592,413	(2,326)	21,196	(129,918)	(1,212)	–	38,187	518,340
Balance at end of year	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122

(Forward)

	Parent Company							
	2016							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Individual impairment	₱4,045,946	₱–	₱67,637	₱575	₱14,940	₱3,687,488	₱1,649,393	₱9,465,979
Collective impairment	2,641,598	96,030	102,538	889,518	4,072	–	832,387	4,566,143
	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122
Gross amounts of loans and receivables subject to individual impairment	₱4,412,364	₱–	₱130,523	₱1,075	₱14,940	₱6,914,864	₱1,649,393	₱13,123,159

17. **Deposit Liabilities**

As of December 31, 2017 and 2016, noninterest-bearing deposit liabilities amounted to ₱28.9 billion and ₱19.9 billion, respectively, for the Group and ₱24.8 billion and ₱15.8 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.01% to 4.13% in 2017, 0.00% to 6.23% in 2016 and 0.05% to 5.00% in 2015 for peso-denominated deposit liabilities, and from 0.00% to 2.10% in 2017, 0.00% to 3.71% in 2016 and 0.00% to 2.25% in 2015 for foreign currency-denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earn annual fixed interest rates ranging from 0.01% to 4.13% in 2017, 0.01% to 6.23% in 2016 and 0.10% to 5.00% in 2015 for peso-denominated deposit liabilities, and from 0.00% to 2.10% in 2017, 0.00% to 2.25% in 2016 and 0.00% to 2.25% in 2015 for foreign-currency denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and PNB SB are subject to reserves equivalent to 20.00% and 8.00%, respectively.

Available reserves booked under 'Due from BSP' are as follows:

	2017	2016
Parent Company	**₱96,497,459**	₱87,099,952
PNB SB	**2,850,526**	1,895,909
	₱99,347,985	₱88,995,861

Long-term Negotiable Certificates of Time Deposits

Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value **2017**	2016
October 26, 2017	April 26, 2023	₱6,350,000	3.88%	Quarterly	**₱6,310,033**	₱–
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,743,546**	–
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,349,341**	5,343,041
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,976,118**	6,967,077
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,992,376**	3,986,777
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,992,542**	4,985,977
November 18, 2011	February 17, 2017	3,100,000	5.18%	Quarterly	**–**	3,099,272
					₱31,363,956	₱24,382,144

Other significant terms and conditions of the above LTNCDs follow:

(1) Issue price at 100.00% of the face value of each LTNCD.

(2) The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

    Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

(3) Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

(4) The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

(5) Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

(6) The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.50 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

(7) Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	**2015**
Savings	**₱1,940,283**	₱2,124,979	₱1,677,307	**₱1,904,459**	₱2,074,446	**₱1,646,552**
Time	**1,815,853**	798,894	463,980	**1,169,541**	431,161	**292,707**
LTNCDs	**933,632**	764,230	752,562	**933,631**	764,230	**752,563**
Demand	**104,459**	92,139	86,170	**97,167**	87,029	**81,898**
	₱4,794,227	₱3,780,242	₱2,980,019	**₱4,104,798**	₱3,356,866	**₱2,773,720**

In 2017, 2016 and 2015, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱32.1 million, ₱25.3 million and ₱126.9 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱131.0 million and ₱97.9 million as of December 31, 2017 and 2016, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Derivative liabilities (Notes 23 and 36)	**₱343,522**	₱232,832	**₱343,416**	₱231,977

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Bills payable to:				
BSP and local banks (Note 34)	**₱41,435,696**	₱26,575,781	**₱39,167,156**	₱23,121,171
Foreign banks	**157,849**	7,632,548	**–**	9,188,027
Others	**91,255**	18,279	**1,761**	18,160
	41,684,800	34,226,608	**39,168,917**	32,327,358
Acceptances outstanding (Note 10)	**2,231,887**	1,659,340	**2,231,887**	1,659,340
	₱43,916,687	₱35,885,948	**₱41,400,804**	₱33,986,698

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.05% to 3.61%, 0.30% to 1.75%, 0.05% to 2.00% in 2017, 2016 and 2015, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.63% in 2017, 2016 and 2015, respectively.

The Parent Company's bills payable to BSP includes the transferred liabilities from Maybank amounting to ₱1.8 billion as of December 31, 2015 which were applied against the principal component of the transferred receivables in May 2016 (Note 10).

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing with carrying value of ₱7.4 billion as of December 31, 2016 and was pre-terminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

(1) The lenders agree to provide the Parent Company with a term loan facility of up to $150.00 million. The Parent Company must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

(2) The borrowing bears interest at 1.38% over USD LIBOR. The Parent Company may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

(3) The Parent Company shall ensure that so long as any amount is of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

(4) The Parent Company may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of $1.00 million, subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2016, the Parent Company has complied with the above debt covenants.

As of December 31, 2016, the unamortized transaction cost of the syndicated borrowing amounted ₱32.7 million.

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and ₱26.5 billion and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 billion, respectively (Note 9).

As of December 31, 2016, bills payable with a carrying amount of ₱20.6 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱10.0 billion and ₱9.8 billion and HTM investments with carrying value and fair value of ₱14.5 billion and ₱15.3 billion, respectively (Note 9).

Following are the significant terms and conditions of the repurchase agreements entered into by the Parent Company:

(1) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) The term or life of this borrowing is up to three years;
(3) Some borrowings bear a fixed interest rate while others have floating interest rate;
(4) The Parent Company has pledged its AFS and HTM investments, in the form of ROP Global bonds, in order to fulfill its collateral requirement;
(5) Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
(6) Certain borrowings are subject to margin call of up to USD1.4 million; and
(7) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Bills payable	**₱600,334**	₱526,755	₱321,128	**₱507,332**	₱492,650	₱296,399
Subordinated debt (Note 21)	**75,314**	416,871	661,304	**75,314**	416,871	661,304
Others	**71,833**	53,995	47,563	**68,078**	50,088	45,470
	₱747,481	₱997,621	₱1,029,995	**₱650,724**	₱959,609	₱1,003,173

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Accrued taxes and other expenses	**₱4,690,580**	₱4,281,609	**₱4,129,687**	₱3,664,288
Accrued interest	**632,907**	662,017	**543,858**	567,327
	₱5,323,487	₱4,943,626	**₱4,673,545**	₱4,231,615

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Financial liabilities:				
Promotional expenses	**₱483,570**	₱405,651	**₱483,570**	₱405,651
Information technology-related expenses	**204,666**	122,039	**195,599**	120,719
Rent and utilities payable	**188,962**	324,878	**157,195**	284,826
Management, directors and other professional fees	**172,133**	110,611	**142,313**	93,689
Repairs and maintenance	**74,481**	60,640	**74,481**	60,640
	1,123,812	1,023,819	**1,053,158**	965,525
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,637,877**	1,506,395	**1,564,909**	1,475,124
PDIC insurance premiums	**660,290**	517,145	**589,876**	494,466
Other taxes and licenses	**539,720**	243,134	**337,765**	86,610
Employee benefits	**476,032**	373,167	**474,868**	343,008
Reinstatement premium	–	56,922	–	–
Other expenses	**252,849**	561,027	**109,111**	299,555
	3,566,768	3,257,790	**3,076,529**	2,698,763
	₱4,690,580	₱4,281,609	**₱4,129,687**	₱3,664,288

The Parent Company's accrued interest payable includes the transferred liabilities from Maybank amounting to ₱1.6 billion as of December 31, 2016 which were applied against the interest component of the transferred receivables in May 2016 (Note 10).

'Other expenses' include janitorial, representation and entertainment, communication and other operating expenses.

21. **Subordinated Debt**

This account consists of:

Issue Date	Maturity Date	Face Value	Coupon Rate	Interest Repayment Terms	Carrying Value 2017	2016
May 9, 2012	May 9, 2022	₱3,500,000	5.875%	Quarterly	₱–	₱3,497,798
June 15, 2011	June 15, 2021	6,500,000	6.750%	Quarterly	–	–
		₱10,000,000			₱–	₱3,497,798

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes

On May 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.

(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

On June 16, 2016, the Parent Company exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

As of December 31, 2016, the unamortized transaction cost of subordinated debt amounted to ₱2.2 million.

In 2017, 2016 and 2015, amortization of transaction costs amounting to ₱2.2 million, ₱11.4 million and ₱16.9 million, respectively were charged to 'Interest expenses - bills payable and other borrowings' in the statement of income (Note 19).

22. Other Liabilities

This account consists of:

	Consolidated			Parent Company	
	December 31		January 1,	December 31	
	2017	2016 (As Restated - Note 2)	2016 (As Restated - Note 2)	**2017**	2016
Financial					
Accounts payable	**₱8,759,527**	₱7,841,009	₱6,825,663	**₱7,250,827**	₱6,375,193
Insurance contract liabilities	**4,929,392**	4,581,800	4,719,336	–	–
Bills purchased - contra (Note 10)	**1,324,447**	3,260,308	3,418,002	**1,323,896**	3,254,224
Manager's checks and demand drafts outstanding	**2,345,787**	1,174,872	937,799	**2,042,181**	1,003,755
Dormant credits	**1,094,176**	928,582	753,338	**1,011,224**	918,217
Due to other banks	**1,212,436**	923,777	461,100	**836,992**	763,046
Deposits on lease contracts	**773,020**	805,377	854,817	**47,022**	35,769
Accounts payable - electronic money	**643,000**	791,223	556,618	**630,249**	791,223
Payment order payable	**315,256**	292,336	407,196	**315,256**	292,336
Margin deposits and cash letters of credit	**55,058**	174,206	182,640	**55,058**	162,972
Commission payable	**74,094**	94,618	132,059	–	–
Transmission liability	**21,809**	31,732	24,976	–	–
Deposit for keys on safety deposit boxes	**14,403**	14,140	14,217	**14,403**	14,140
	21,562,405	20,913,980	19,287,761	**13,527,108**	13,610,875
Nonfinancial					
Retirement benefit liability (Note 29)	**1,526,962**	3,138,824	2,955,003	**1,485,426**	3,063,243
Provisions (Note 35)	**969,106**	1,300,290	898,737	**969,106**	1,300,290
Reserve for unearned premiums	**1,273,279**	1,075,732	1,191,405	–	–
Other deferred revenue (Note 12)	**866,473**	939,672	–	**866,473**	939,672
Due to Treasurer of the Philippines	**574,261**	543,002	438,943	**573,768**	542,501
Withholding tax payable	**283,471**	230,044	224,523	**254,164**	220,859
Deferred tax liabilities (Note 31)	**157,511**	152,532	152,585	–	–
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**27,571**	28,327	29,092	**26,792**	27,404
Miscellaneous	**678,295**	439,699	786,576	**331,507**	323,116
	6,356,929	7,848,122	6,676,865	**4,507,236**	6,417,085
	₱27,919,334	₱28,762,102	₱25,964,626	**₱18,034,343**	₱20,027,960

Other deferred revenue pertains to the allocated portion of the consideration received for the disposal of APLII related to the Exclusive Distribution Right (Note 12). In 2017 and 2016, amortization of other deferred revenue amounting to ₱73.2 million and ₱36.6 million, respectively, were recognized under 'Service fees and commission income.'

'Miscellaneous' of the Group and the Parent Company include interoffice floats, remittance - related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, 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, 2017 and 2016 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2017			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱11,347**	**₱87,446**	**50.44**	**573,545**
JPY	**8,413**	**44,371**	**0.01**	**16,555,042**
HKD	**1,548**	**102**	**0.13**	**211,050**
CAD	**108**	**–**	**0.78**	**1,258**
GBP	**72**	**–**	**1.34**	**518**
EUR	**98**	**–**	**1.19**	**3,328**
SGD	**3**	**–**	**0.75**	**50**
SELL:				
USD	**222,225**	**4,382**	**50.44**	**680,164**
CAD	**–**	**328**	**0.79**	**2,705**
GBP	**142**	**857**	**1.34**	**6,560**
CHF	**28**	**–**	**1.02**	**200**
HKD	**102**	**207**	**0.13**	**39,059**
EUR	**–**	**891**	**1.19**	**2,990**
JPY	**33,105**	**529**	**0.01**	**6,766,560**
NZD	**13**	**–**	**0.71**	**150**
Interest rate swaps	**230,842**	**204,409**		
Warrants	**54,938**	**–**		
	₱562,984	**₱343,522**		

**The notional amounts and average forward rates pertain to original currencies.*

	Consolidated			
	2016			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱99	₱3,766	49.99	200,498
EUR	94	48	1.05	979
HKD	630	–	0.13	412,710
CAD	277	–	0.74	1,861
GBP	–	160	1.23	2,595
SELL:				
USD	46,155	10,601	49.85	382,664
CAD	873	258	0.74	4,263
GBP	5,227	–	1.24	9,550
SGD	–	361	0.69	5,573
HKD	–	1,032	0.13	144,748
EUR	740	–	1.05	4,000
JPY	45,957	504	0.01	16,524,949
AUD	483	–	0.74	450
Interest rate swaps	257,042	216,102		
Warrants	61,545	–		
	₱419,122	₱232,832		

**The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2017			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱9,701**	**₱87,446**	**50.44**	**378,100**
JPY	**8,411**	**44,371**	**0.01**	**16,554,145**
HKD	**–**	**102**	**0.13**	**15,605**
CAD	**108**	**–**	**0.78**	**1,258**
GBP	**72**	**–**	**1.34**	**518**
EUR	**2**	**–**	**1.19**	**105**
SGD	**3**	**–**	**0.75**	**50**
SELL:				
USD	**222,225**	**4,329**	**50.44**	**656,711**
CAD	**–**	**328**	**0.79**	**2,705**
GBP	**142**	**857**	**1.34**	**6,560**
CHF	**28**	**-**	**1.02**	**200**
HKD	**102**	**156**	**0.13**	**15,605**
EUR	**–**	**891**	**1.19**	**2,990**
JPY	**33,105**	**527**	**0.01**	**6,766,019**
NZD	**13**	**-**	**0.71**	**150**
Interest rate swaps	**230,842**	**204,409**		
Warrants	**54,938**	**-**		
	₱559,692	**₱343,416**		

**The notional amounts and average forward rates pertain to original currencies.*

	Parent Company			
	2016			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱–	₱3,766	49.99	196,998
CAD	277	–	0.74	1,861
GBP	–	160	1.23	2,595
HKD	520	–	0.13	58,154
EUR	–	48	1.05	358
SELL:				
USD	46,156	10,093	49.85	336,314
CAD	873	258	0.74	4,263
GBP	5,227	–	1.24	9,550
SGD	–	361	0.69	5,573
EUR	740	–	1.05	4,000
HKD	–	711	0.13	117,609
JPY	45,957	478	0.01	16,524,949
AUD	482	–	0.74	450
Interest rate swaps	257,042	216,102		
Warrants	61,545	–		
	₱418,819	₱231,977		

**The notional amounts and average forward rates pertain to original currencies.*

As of December 31, 2017 and 2016, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.1 million and USD1.2 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2017 and 2016:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Balance at the beginning of the year:				
Derivative assets	**₱419,122**	₱181,348	**₱418,819**	₱181,142
Derivative liabilities	**232,832**	135,193	**231,977**	135,009
	186,290	46,155	**186,842**	46,133
Changes in fair value				
Currency forwards and spots*	**136,382**	(723,245)	**132,644**	(723,245)
Interest rate swaps and warrants**	**(7,965)**	25,174	**(7,965)**	25,174
	128,417	(698,071)	**124,679**	(698,071)
Availments (Settlements)	**(95,246)**	838,206	**(95,246)**	838,780
Balance at end of year:				
Derivative assets	**562,984**	419,122	**559,692**	418,819
Derivative liabilities	**343,522**	232,832	**343,416**	231,977
	₱219,462	₱186,290	**₱216,276**	₱186,842

* *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 table shows 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					
	2017			2016 (As Restated)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱12,391,139**	**₱–**	**₱12,391,139**	₱11,014,663	₱–	₱11,014,663
Due from BSP	**108,743,985**	**–**	**108,743,985**	127,337,861	–	127,337,861
Due from other banks	**22,025,322**	**–**	**22,025,322**	22,709,805	–	22,709,805
Interbank loans receivable	**12,837,721**	**–**	**12,837,721**	7,791,108	–	7,791,108
Securities held under agreements to resell	**14,621,483**	**–**	**14,621,483**	1,972,310	–	1,972,310
Financial assets at FVPL	**2,882,395**	**–**	**2,882,395**	1,913,864	–	1,913,864
AFS investments - gross (Note 9)	**4,526,929**	**65,936,118**	**70,463,047**	1,891,137	66,325,077	68,216,214
HTM investments	–	**26,805,131**	**26,805,131**	–	24,174,479	24,174,479
Loans and receivables - gross (Note 10)	**202,376,074**	**316,402,283**	**518,778,357**	176,236,423	267,653,955	443,890,378
Other assets - gross (Note 15)	**699,288**	**46,197**	**745,485**	482,548	85,719	568,267
	381,104,336	**409,189,729**	**790,294,065**	351,349,719	358,239,230	709,588,949
Nonfinancial Assets						
Property and equipment - gross (Note 11)	–	**25,866,409**	**25,866,409**	–	24,495,308	24,495,308
Investments in Subsidiaries and an Associate - gross (Note 12)	–	**2,363,757**	**2,363,757**	–	2,556,737	2,556,737
Investment properties - gross (Note 13)	–	**20,339,032**	**20,339,032**	–	21,371,531	21,371,531
Deferred tax assets	–	**1,695,480**	**1,695,480**	–	1,482,029	1,482,029
Goodwill (Note 14)	–	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	–	**6,873,305**	**6,873,305**	–	4,528,994	4,528,994
Residual value of leased assets (Note 10)	**292,000**	**383,327**	**675,327**	249,923	457,969	707,892
Other assets - gross (Note 15)	**7,203,305**	**1,978,533**	**9,181,838**	5,620,466	1,673,387	7,298,551
	7,495,305	**72,875,251**	**80,370,556**	5,870,389	69,941,362	75,816,449

(Forward)

	Consolidated					
	2017			2016 (As Restated)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Assets of disposal group classified as held for sale (Note 37)	**₱–**	**₱–**	**₱–**	₱–	₱–	₱–
Less: Allowance for impairment and credit losses (Note 16)			**20,591,233**			20,063,525
Unearned and other deferred income (Note 10)			**1,553,108**			1,489,955
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**12,365,798**			9,870,283
			₱836,154,481			₱753,981,635
Financial Liabilities						
Deposit liabilities	**₱553,599,950**	**₱84,320,307**	**₱637,920,257**	₱537,325,097	₱33,178,290	₱570,503,387
Financial liabilities at FVPL	**343,522**	–	**343,522**	232,832	–	232,832
Bills and acceptances payable	**36,811,547**	**7,105,140**	**43,916,687**	25,066,507	10,819,441	35,885,948
Subordinated debt	–	–	–	–	3,497,798	3,497,798
Accrued interest payable (Note 20)	**632,907**	–	**632,907**	662,017	–	662,017
Accrued other expenses payable (Note 20)	**1,123,812**	–	**1,123,812**	1,023,819	–	1,023,819
Other liabilities (Note 22):						
Accounts payable	**8,725,544**	**33,983**	**8,759,527**	7,813,310	27,699	7,841,009
Insurance contract liabilities	**4,929,392**	–	**4,929,392**	4,565,925	15,875	4,581,800
Bills purchased – contra	**1,324,447**	–	**1,324,447**	3,260,308	–	3,260,308
Managers' checks and demand drafts outstanding	**2,345,787**	–	**2,345,787**	1,174,872	–	1,174,872
Dormant credits	**1,094,176**	–	**1,094,176**	928,582	–	928,582
Due to other banks	**1,212,436**	–	**1,212,436**	923,777	–	923,777
Deposit on lease contracts	**316,246**	**456,774**	**773,020**	268,754	536,623	805,377
Accounts payable – electronic money	**643,000**	–	**643,000**	791,223	–	791,223
Payment order payable	**315,256**	–	**315,256**	292,336	–	292,336
Margin deposits and cash letters of credit	**55,058**	–	**55,058**	174,206	–	174,206
Commission payable	**74,094**	–	**74,094**	94,618	–	94,618
Transmission liability	**21,809**	–	**21,809**	31,732	–	31,732
Deposit for keys on safety deposit boxes	**14,403**	–	**14,403**	14,140	–	14,140
	612,554,926	**92,944,664**	**705,499,590**	583,727,217	48,992,564	632,719,781
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,566,768**	–	**3,566,768**	3,257,790	–	3,257,790
Income tax payable	**993,245**	–	**993,245**	195,240	–	195,240
Other liabilities (Note 22)	**2,858,729**	**3,498,200**	**6,356,929**	2,890,471	4,957,651	7,848,122
	7,418,742	**3,498,200**	**10,916,942**	6,343,501	4,957,650	11,301,151
Liabilities of disposal group classified as held for sale (Note 37)	–	–	–	–	–	–
	₱621,002,128	**₱95,414,404**	**₱716,416,532**	₱590,070,718	₱53,950,214	₱644,020,932

	Parent Company					
	2017			2016 (As Restated)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	**Less than Twelve Months**	Over Twelve Months	Total
Financial Assets						
COCI	**₱11,671,952**	**₱–**	**₱11,671,952**	₱10,626,525	₱–	₱10,626,525
Due from BSP	**105,497,459**	–	**105,497,459**	123,799,952	–	123,799,952
Due from other banks	**10,755,260**	–	**10,755,260**	12,831,514	–	12,831,514
Interbank loans receivable	**11,083,515**	–	**11,083,515**	7,907,366	–	7,907,366
Securities held under agreements to resell	**14,621,483**	–	**14,621,483**	1,972,310	–	1,972,310
Financial assets at FVPL	**2,829,877**	–	**2,829,877**	1,880,071	–	1,880,071
AFS investments - gross (Note 9)	**2,367,334**	**65,310,618**	**67,677,952**	1,612,001	65,082,954	66,694,955
HTM investments	–	**26,680,483**	**26,680,483**	–	24,074,898	24,074,898
Loans and receivables - gross (Note 10)	**185,404,588**	**271,855,633**	**457,260,221**	158,852,021	234,495,768	393,347,789
Other assets - gross (Note 15)	**685,979**	**500**	**686,479**	467,146	64,131	531,277
	344,917,447	**363,847,234**	**708,764,681**	319,948,906	323,717,751	643,666,657
Nonfinancial Assets						
Property and equipment– gross (Note 11)	–	**23,331,758**	**23,331,758**	–	22,275,776	22,275,776
Investment properties– gross (Note 13)	–	**20,051,634**	**20,051,634**	–	20,968,723	20,968,723
Deferred tax assets	–	**987,332**	**987,332**	–	1,014,308	1,014,308
Investments in Subsidiaries and an Associate (Note 12)	–	**28,407,414**	**28,407,414**	–	28,379,668	28,379,668

(Forward)

	Parent Company					
	2017			2016 (As Restated)		
	Less than Twelve Months	Over Twelve Months	Total	Less than Twelve Months	Over Twelve Months	Total
Goodwill (Note 14)	**₱–**	**₱13,515,765**	**₱13,515,765**	₱–	₱13,515,765	₱13,515,765
Intangible assets (Note 14)	**–**	**6,662,558**	**6,662,558**	–	4,395,964	4,395,964
Other assets– gross (Note 15)	**8,153,885**	**860,282**	**9,014,167**	6,123,328	636,357	6,759,685
	8,153,885	**93,816,743**	**101,970,628**	6,123,328	91,166,754	97,290,092
Asset of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**19,300,816**			19,174,735
Unearned and other deferred income (Note 10)			**1,241,587**			1,116,929
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**11,422,607**			9,159,530
			₱778,770,299			₱711,525,355
Financial Liabilities						
Deposit liabilities	**₱545,272,109**	**₱ 51,132,929**	**₱596,405,038**	₱501,442,928	₱40,747,695	₱542,190,623
Financial liabilities at FVPL	**343,416**	**–**	**343,416**	231,977	–	231,977
Bills and acceptances payable	**34,792,160**	**6,608,644**	**41,400,804**	21,876,831	12,109,867	33,986,698
Subordinated debt	**–**	**–**	**–**	–	3,497,798	3,497,798
Accrued interest payable (Note 20)	**527,073**	**16,785**	**543,858**	567,327	–	567,327
Accrued other expenses payable (Note 20)	**1,053,158**	**–**	**1,053,158**	965,525	–	965,525
Other liabilities (Note 22):						
Accounts payable	**7,250,827**	**–**	**7,250,827**	6,375,193	–	6,375,193
Bills purchased - contra	**1,323,896**	**–**	**1,323,896**	3,254,224	–	3,254,224
Managers' checks and demand drafts outstanding	**2,042,181**	**–**	**2,042,181**	1,003,755	–	1,003,755
Dormant credits	**–**	**1,011,224**	**1,011,224**	1,731	916,486	918,217
Accounts payable - electronic money	**630,249**	**–**	**630,249**	791,223	–	791,223
Due to other banks	**836,992**	**–**	**836,992**	763,046	–	763,046
Payment order payable	**315,256**	**–**	**315,256**	292,336	–	292,336
Margin deposits and cash letters of credit	**55,058**	**–**	**55,058**	162,972	–	162,972
Deposit on lease contracts	**–**	**47,022**	**47,022**	–	35,769	35,769
Deposit for keys on safety deposit boxes	**14,403**	**–**	**14,403**	14,140	–	14,140
	594,456,778	**58,816,604**	**653,273,382**	537,743,208	57,307,615	595,050,823
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,076,529**	**–**	**3,076,529**	2,698,763	–	2,698,763
Income tax payable	**833,708**	**–**	**833,708**	60,898	–	60,898
Other liabilities	**1,243,141**	**3,264,095**	**4,507,236**	1,619,828	4,797,258	6,417,086
	5,153,378	**3,264,095**	**8,417,473**	4,379,489	4,797,258	9,176,747
	₱599,610,156	**₱62,080,699**	**₱661,690,855**	₱542,122,697	₱62,104,873	₱604,227,570

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Common - ₱40 par value		
Authorized	**1,750,000,001**	**₱70,000,000**
Issued and outstanding		
Balance at the beginning and end of the year	**1,249,139,678**	**49,965,587**

The Parent Company shares are listed in the PSE. As of December 31, 2017 and 2016, the Parent Company had 37,401 and 29,953 stockholders, respectively.

On January 17, 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 increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and
d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Bank shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

In February 2014, the Bank successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Bank at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Bank. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Bank. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Bank's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2017 and 2016 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion)and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

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 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: (a) 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; and (b) 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.

Surplus Reserves
The surplus reserves consist of:

	2017	2016
Reserve for trust business (Note 33)	**₱517,605**	₱493,658
Reserve for self-insurance	**80,000**	80,000
	₱597,605	₱573,658

Reserve for self-insurance, contingencies and other account 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.

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 to be sourced from open market at fair value. Acquisition and distribution of the estimated 3.0 million shares shall be done based on a predetermined schedule 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. Fair value per share at grant date is ₱65.20. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱77.7 million and ₱105.7 million in 2017 and 2016, respectively, in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position. In 2017, the Group awarded 1.12 million centennial bonus shares and applied the settlement of the award against 'Other Equity Reserves' amounting to ₱113.2 million.

Capital Management
The primary objectives of the Parent Company'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 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.

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.

In addition, 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). Qualifying capital and risk-weighted assets are computed based on BSP regulations. 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 MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 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, 2017 and 2016, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	2017		2016	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱112,344.77**		₱104,103.60	
Less: Regulatory Adjustments to CET 1	**23,401.42**		24,454.28	
CET1 Capital (Net)	**88,943.35**		79,649.32	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**88,943.35**		79,649.32	
Add: Tier 2 Capital	**4,696.48**		4,308.03	
Total qualifying capital	**₱93,639.83**	**₱61,010.62**	₱83,957.35	₱50,410.11
Risk weighted assets	**₱610,106.24**		₱504,101.07	
Tier 1 capital ratio	**14.58%**		15.80%	
Total capital ratio	**15.35%**		16.65%	

	2017		2016	
Parent			Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱108,605.50**		₱101,545.14	
Less: Regulatory Adjustments to CET 1	**47,409.15**		49,874.81	
CET1 Capital (Net)	**61,196.35**		51,670.33	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**61,196.35**		51,670.33	
Add: Tier 2 Capital	**4,228.83**		3,866.45	
Total qualifying capital	**₱65,425.18**	**₱54,377.23**	₱55,536.78	₱45,131.25
Risk weighted assets	**₱543,772.35**		₱451,312.51	
Tier 1 capital ratio	**11.25%**		11.45%	
Total capital ratio	**12.03%**		12.31%	

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to 9.9 billion as of December 31, 2017 and 2016 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains, except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments, are excluded from the Bank's surplus available for dividend declaration.

A portion of a Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱3.3 billion and ₱2.8 billion as of December 31, 2017 and 2016, respectively, is not available for dividend declaration. The accumulated earnings become available for dividends upon receipt of cash dividends from subsidiaries.

Cash Dividends
On July 22, 2016, the BOD declared and approved cash dividend declaration of one peso (₱1.0) per share or a total of ₱1.3 billion out of the unrestricted surplus of the Parent Company as of March 31, 2016, to all stockholders of record as of August 19, 2016, and was paid on September 15, 2016. On August 19, 2016, the Parent Company received the approval from the BSP on the said dividend declaration.

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Parent Company has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Parent Company's operations by ensuring that the Parent Company maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Parent Company shall maintain a capital level that will not only meet the BSP CAR requirement, but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/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.

Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			**Parent Company**		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
Return on average equity (a/b)	**7.10%**	6.67%	6.21%	**7.27%**	6.81%	6.20%
a) Net income	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
b) Average total equity	**114,849,326**	107,378,392	101,939,664	**112,188,614**	104,560,511	98,846,813
Return on average assets (c/d)	**1.03%**	1.00%	0.97%	**1.10%**	1.06%	1.01%
c) Net income	**₱8,156,545**	₱7,162,074	₱6,329,452	**₱8,160,563**	₱7,124,054	₱6,131,464
d) Average total assets	**795,068,058**	717,007,968	652,740,066	**745,147,826**	670,845,173	604,140,786
Net interest margin on average earning assets (e/f)	**3.12%**	3.16%	3.21%	**2.97%**	3.00%	3.15%

(Forward)

	Consolidated			Parent Company		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
e) Net interest income	**₱22,076,652**	₱19,566,502	₱17,691,839	**₱19,062,428**	₱17,057,909	₱15,712,416
f) Average interest earning assets	**707,087,648**	618,852,942	551,034,812	**642,325,579**	568,208,414	498,268,301

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Deposit-related	**₱875,642**	₱643,991	₱1,076,041	**₱853,030**	₱618,972	₱1,050,546
Remittance	**819,689**	830,032	739,779	**430,324**	460,899	363,822
Credit-related	**554,608**	503,891	500,852	**547,618**	498,514	479,174
Interchange fees	**503,133**	389,179	317,509	**503,133**	389,179	317,509
Underwriting fees	**389,283**	187,133	327,400	–	–	–
Trust fees (Note 33)	**300,047**	311,882	256,203	**300,047**	311,882	256,203
Commissions	**466,737**	448,089	820,497	**269,021**	305,574	685,396
Credit card-related	**185,637**	61,584	62,071	**185,637**	61,584	62,071
Miscellaneous	**86,085**	194,177	212,546	**41,973**	84,654	141,251
	₱4,180,861	₱3,569,958	₱4,312,898	**₱3,130,783**	₱2,731,258	₱3,355,972

Commissions include those income earned for services rendered on opening letters of credit, handling of collection items, domestic/export/import bills and telegraphic transfers and sale of demand drafts, traveler's checks and government securities.

The interchange fees and rewards revenue were generated from the credit card business acquired by the Parent Company through rewards revenue.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

27. Net Insurance Premium and Benefits and Claims

Net Insurance Premium

This account consists of:

	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)
Gross earned premiums	**₱2,291,986**	₱2,348,900	₱2,432,737
Reinsurers' share of gross earned premiums	**(1,635,657)**	(1,723,973)	(1,890,813)
	₱656,329	₱624,927	₱541,924

Net Insurance Benefits and Claims
This account consists of:

	2017	2016 As Restated – Note 2)	2015 As Restated – Note 2)
Gross insurance contract benefits and claims paid	**₱428,225**	₱780,537	₱1,655,283
Reinsurers' share of gross insurance contract benefits and claims paid	**(86,845)**	(140,357)	(1,367,017)
Gross change in insurance contract liabilities	**147,880**	(201,403)	(530,579)
Reinsurers' share of change in insurance contract liabilities	**(168,563)**	(143,762)	662,863
	₱322,244	₱295,015	₱420,550

28. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Rental income (Note 28)	**₱424,758**	₱376,631	₱338,055	**₱290,562**	₱275,317	₱266,067
Recoveries	**73,845**	405,363	162,430	**72,990**	251,805	90,179
Penalty charges	**59,574**	40,388	30,799	–	40,388	30,799
Dividends	**33,577**	17,854	22,190	**32,417**	14,716	18,338
Customs Fees	**15,966**	18,983	14,801	**15,966**	18,984	14,801
Sales deposit forfeiture	**5,064**	15,772	12,023	**5,064**	15,772	12,023
Referral and trust fees	**3,448**	2,811	2,382	–	–	–
Income from SPV	–	500,000	353,000	–	500,000	353,000
Recovery from insurance claim (Note 34)	–	–	709,160	–	–	709,160
Others	**277,285**	164,565	74,919	**175,042**	77,965	5,306
	₱893,517	₱1,542,367	₱1,719,759	**₱592,041**	₱1,194,947	₱1,499,673

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Insurance	**₱1,428,680**	₱1,128,939	₱1,078,679	**₱1,287,724**	₱1,044,959	₱1,027,759
Secretarial, janitorial and messengerial	**1,283,655**	1,305,081	1,105,946	**1,199,446**	1,256,605	1,066,364
Marketing expenses	**928,613**	1,064,993	764,767	**836,491**	988,160	731,870
Information technology	**446,393**	499,319	489,036	**418,954**	471,262	465,872
Management and other professional fees	**431,312**	433,398	323,979	**359,078**	374,649	268,137
Travelling	**290,850**	248,433	229,251	**262,954**	223,896	209,116
Litigation expenses	**290,044**	323,726	235,526	**268,075**	304,783	224,669
Postage, telephone and cable	**187,953**	207,828	216,189	**132,872**	158,841	166,034
Entertainment and representation	**136,825**	99,024	86,095	**123,130**	89,944	72,799
Repairs and maintenance	**86,787**	82,113	81,711	**86,787**	82,113	81,711
Freight	**57,039**	45,727	34,195	**54,456**	43,986	32,556
Fuel and lubricants	**16,774**	21,237	25,476	**10,879**	17,521	24,275
Miscellaneous (Notes 13, 31 and 34)	**782,594**	682,926	648,694	**593,173**	547,469	540,824
	₱6,367,519	₱6,142,744	₱5,319,544	**₱5,634,019**	₱5,604,188	₱4,911,986

'Miscellaneous'also includes stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

29. 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	
	2017	2016	**2017**	2016
Retirement benefit liability (included in 'Other liabilities')	**₱1,526,962**	₱3,138,824	**₱1,485,426**	₱3,063,243
Net plan assets (included in 'Other assets')	**7,428**	2,714	**–**	–
	₱1,519,534	₱3,136,110	**₱1,485,426**	₱3,063,243

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, 2017 and 2016, 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, 2017. The following table shows the actuarial assumptions as of December 31, 2017 and 2016 used in determining the retirement benefit obligation of the Group:

			Parent Company					
	Consolidated		ABC		PNB		EIP	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Discount rate	**5.54%-5.91%**	5.06% - 5.31%	**5.54%**	5.17%	**5.54%**	5.17%	**5.54%**	5.17%
Salary rate increase	**5.00%-8.00%**	5.00% - 8.00%	**6.00%**	6.00%	**6.00%**	6.00%	**–**	–

The changes in the present value obligation and fair value of plan assets are as follows:

	Consolidated											
	2017											
	Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2017	Current 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, 2017
Present value of pension obligation	₱7,512,542	₱550,064	₱387,047	₱937,111	(₱557,519)	₱–	(674,973)	(₱192,750)	(₱258,392)	(₱1,126,115)	₱–	₱6,766,019
Fair value of plan assets	4,376,432	–	226,243	226,234	(557,519)	(127,963)	–	–	–	(127,963)	1,329,292	5,246,485
	₱3,136,110	₱550,064	₱160,804	₱710,868	₱–	₱127,723	(674,973)	(₱192,750)	(₱258,392)	(₱1,002,182)	(₱1,329,292)	₱ 1,519,534

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Consolidated												
	2016												
		Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2016	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 experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Others	Contributions by employer	December 31, 2016
Present value of pension obligation	₱6,823,317	₱533,442	₱–	₱326,287	₱859,729	(₱579,110)	₱–	(₱58,823)	₱467,429	₱408,606	₱–	₱–	₱7,512,542
Fair value of plan assets	3,871,359	–	–	186,219	186,219	(579,110)	(50,134)	–	–	(50,134)	–	948,098	4,376,432
	₱2,951,958	₱533,442	₱–	₱140,068	₱673,510	₱–	₱50,134	(58,832)	₱467,429	₱458,740	₱–	(₱948,098)	₱3,136,110

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

Parent Company

2017

	January 1, 2017	**Net benefit costs*: Current service cost**	**Net benefit costs*: Net interest**	**Net benefit costs*: Subtotal**	**Benefits paid**	**Remeasurement losses in other comprehensive income: Return on plan asset excluding amount included in net interest)**	**Remeasurement losses in other comprehensive income: Actuarial changes arising from experience adjustments**	**Remeasurement losses in other comprehensive income: Actuarial changes arising from demographic assumptions**	**Remeasurement losses in other comprehensive income: Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contributions by employer**	**December 31, 2017**
Present value of pension obligation	**₱7,320,262**	**₱519,965**	**₱377,257**	**₱897,222**	**(₱551,248)**	**₱–**	**(₱199,918)**	**(₱674,973)**	**(₱249,522)**	**(₱1,121,413)**	**₱–**	**₱6,544,823**
Fair value of plan assets	**4,257,019**	**–**	**220,088**	**220,088**	**(551,248)**	**(126,376)**	**–**		**–**	**(126,376)**	**1,259,914**	**5,059,397**
	₱3,063,243	**₱519,965**	**₱157,169**	**₱677,134**	**₱–**	**₱126,376**	**(₱196,918)**	**(₱674,973)**	**(₱249,522)**	**(₱995,037)**	**(₱1,259,914)**	**₱1,485,426**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

Parent Company

2016

	January 1, 2016	Net benefit costs*: Current service cost	Net benefit costs*: Past service cost	Net benefit costs*: Net interest	Net benefit costs*: Subtotal	Benefits paid	Remeasurement losses in other comprehensive income: Return on plan asset excluding amount included in net interest)	Remeasurement losses in other comprehensive income: Actuarial changes arising from experience adjustments	Remeasurement losses in other comprehensive income: Actuarial changes arising from changes in financial assumptions	Subtotal	Others	Contributions by employer	December 31, 2016
Present value of pension obligation	₱6,666,412	₱492,729	₱–	₱319,738	₱812,467	(₱576,395)	₱–	(₱17,649)	₱435,427	₱417,778	₱–	₱–	₱7,320,262
Fair value of plan assets	3,776,677	–	–	181,658	181,658	(576,395)	(46,429)	–	–	(46,429)	–	921,508	4,257,019
	₱2,889,735	₱492,729	₱–	₱138,080	₱630,809	₱–	46,429	(₱17,649)	₱435,427	₱464,207	₱–	(₱921,508)	₱3,063,243

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

The Group and the Parent Company expect to contribute ₱717.2 million and ₱684.5 million, respectively, to the defined benefit plans in 2018. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2017 is 10.5 years and 9.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Less than one year	**₱1,000,727**	₱347,321	**₱994,778**	₱341,323
More than one year to five years	**3,532,239**	1,671,800	**3,494,358**	1,646,006
More than five years to 10 years	**4,219,144**	3,393,078	**4,126,122**	3,338,327
More than 10 years to 15 years	**3,287,929**	4,877,000	**2,923,039**	4,687,986
More than 15 years	**10,419,581**	22,189,610	**7,201,910**	20,268,606

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Cash and cash equivalents	**₱1,793,329**	₱2,101,820	**₱1,755,075**	₱2,042,229
Equity investments				
Financial institutions (Note 34)	**448,357**	491,884	**445,454**	491,884
Others	**334,339**	8,346	**231,453**	5,440
Debt investment				
Private debt securities	**1,569,773**	1,373,837	**1,553,579**	1,354,853
Government securities	**976,062**	261,749	**958,308**	244,533
Investment in UITFs	**101,954**	122,356	**93,024**	101,572
Loans and receivables	**3,713**	3,713	**3,713**	3,713
Interest and other receivables	**21,016**	14,699	**20,767**	14,299
	5,248,543	4,378,404	**5,061,373**	4,258,523
Accrued expenses	**(2,058)**	(1,972)	**(1,976)**	(1,504)
	₱5,246,485	₱4,376,432	**₱5,059,397**	₱4,257,019

All equity and debt investments held 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 Parent Company's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2017 and 2016 includes investments in the Parent Company shares of stock with fair value amounting to ₱445.5 million and ₱491.9 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:

	2017			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱438,162)**	**+1.00%**	**(₱410,516)**
	-1.00%	**494,590**	**-1.00%**	**461,096**
Salary increase rate	**+1.00%**	**451,241**	**+1.00%**	**418,390**
	-1.00%	**(409,485)**	**-1.00%**	**(381,945)**
Employee turnover rate	**+10.00%**	**(105,324)**	**+10.00%**	**(91,209)**
	-10.00%	**105,324**	**-10.00%**	**91,209**

	2016			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱774,902)	+1.00%	(₱751,438)
	-1.00%	913,564	-1.00%	884,722
Salary increase rate	+1.00%	830,911	+1.00%	803,116
	-1.00%	(724,710)	-1.00%	(701,513)
Employee turnover rate	+10.00%	(66,070)	+10.00%	(52,572)
	-10.00%	66,070	-10.00%	52,572

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.

30. **Leases**

Operating Leases

Group as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 31.97% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 2.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱787.1 million, ₱824.7 million and ₱881.5 million in 2017, 2016 and 2015, respectively, for the Group, of which ₱668.7 million, ₱787.7 million and ₱727.6 million in 2017, 2016, and 2015, respectively, pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱721,241**	₱439,613	**₱584,733**	₱319,498
Beyond one year but not more than five years	**1,575,142**	988,042	**1,329,240**	766,990
More than five years	**252,116**	280,004	**186,720**	212,890
	₱2,548,499	₱1,707,659	**₱2,100,693**	₱1,299,378

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 2017, 2016 and 2015, total rent income (included under 'Miscellaneous income') amounted to ₱424.8 million, ₱376.6 million and ₱338.1 million, respectively, for the Group and ₱290.6 million, ₱275.3 million and ₱266.1 million, respectively, for the Parent Company (Note 28).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱285,885**	₱313,458	**₱216,416**	₱164,501
Beyond one year but not more than five years	**521,046**	302,910	**488,264**	265,821
More than five years	**115,663**	34,849	**89,471**	16,155
	₱922,594	₱651,217	**₱794,151**	₱446,477

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 bank's net investment outstanding in respect of the finance lease (EIR 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.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Within one year	**₱ 1,557,543**	₱1,738,954	**₱28,909**	₱23,509
Beyond one year but not more than five years	**1,308,300**	1,273,921	**43,000**	40,100
More than five years	**25,200**	36,500	**25,200**	36,500

(Forward)

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Gross investment in finance lease contracts receivable (Note 10)	**₱2,891,043**	₱3,049,375	**₱97,109**	₱100,109
Less amounts representing finance charges	**62,612**	355,743	**62,612**	56,880
Present value of minimum lease payments	**₱2,828,431**	₱2,693,632	**₱34,497**	₱43,229

31. 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.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be 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 7.50%. RA No. 9294 provides that the 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		
	2017	2016 (As Restated – Note 2)	2015 (As Restated – Note 2)	**2017**	2016	2015
Current						
Regular	**₱1,898,387**	₱1,058,065	₱761,872	**₱1,577,777**	₱880,828	₱501,682
Final	**636,353**	665,615	543,084	**518,923**	429,058	512,401
	₱2,534,740	₱1,723,680	1,304,956	**2,096,700**	1,309,886	1,014,083
Deferred	**(212,527)**	(206,459)	314,538	**26,976**	(81,514)	96,238
	₱2,322,213	₱1,517,221	₱1,619,494	**₱2,123,676**	₱1,228,372	₱1,110,321

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱5,745,464**	₱5,142,623	**₱5,161,135**	₱4,695,139
Accumulated depreciation on investment properties	**523,003**	521,069	**514,119**	511,623
Deferred revenue	**98,819**	97,622	**98,819**	97,622
Pension	**56,239**	24,442	**–**	–
Deferred reinsurance on commission	**17,027**	13,382	**–**	–
Unrealized loss on AFS investment	**–**	1,116	**–**	830
Others	**96,843**	58,859	**8,904**	10,188
	6,537,395	5,859,113	**5,782,977**	5,315,402
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,615,522**	1,448,798	**1,600,310**	1,448,798
Unrealized foreign exchange gains	**1,021,943**	664,971	**1,024,520**	665,237
Fair value adjustments due to business combination	**948,194**	1,043,112	**948,194**	1,043,112
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Unrealized trading gains on financial assets at FVPL	**164,480**	105,646	**164,480**	105,646
Deferred acquisition cost	**19,648**	19,354	**–**	–
Gain on remeasurement of previously held interest	**160,272**	160,272	**164,429**	164,429
Others	**193,132**	198,310	**139,749**	137,436
	4,842,100	4,376,899	**4,795,645**	4,301,094
	₱1,695,295	₱1,482,214	**₱987,332**	₱1,014,308

* *Balance includes DTL amounting to ₱736.4 million acquired from business combination*

As of December 31, 2017 and 2016, 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 ₱9.3 million.

Benefit from deferred tax charged directly to OCI during the year follows:

	Consolidated			Parent Company		
	2017	2016	2015	**2017**	2016	2015
Net unrealized losses (gains) on AFS investments	**₱–**	₱286	₱2,887	**₱–**	₱–	₱2,887
Remeasurement losses on retirement plan	**554**	2,204	2,277	**–**	–	2,277

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million in 2016. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱3.7 million in 2016.

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	
	2017	2016	**2017**	2016
Allowance for impairment and credit losses	**₱1,259,578**	₱1,676,551	**₱776,012**	₱1,112,654
Unamortized past service cost	**716,019**	603,280	**716,019**	603,280
Accrued expenses	**473,101**	442,562	**469,473**	442,537
Retirement liability	**445,628**	919,383	**445,628**	918,973
NOLCO	**430,886**	439,659	**–**	–
Unearned income	**106,881**	122,269	**106,881**	122,269
Derivative liabilities	**103,025**	69,593	**103,025**	69,593
Provision for IBNR	**46,645**	65,000	**–**	–
Other equity reserves	**21,064**	31,701	**21,064**	31,701
Conveyance of real estate inventories held for sale	**–**	34,321	**–**	34,321
Others	**5**	4,243	**–**	4,242
	₱3,602,832	₱4,408,562	**₱2,638,102**	₱3,339,570

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱263,581	₱4,231	₱170,349	Not applicable
2015	2,670	3,042	260,537	Not applicable
2016	2	2,668	–	2019
	₱266,253*	₱9,941	₱430,886	

The Group has net operating loss carryforwards for US federal tax purposes of USD6.2 million as of December 31, 2017 and 2016, respectively, and net operating loss carryforwards for California state tax purposes of USD4.1 million as of December 31, 2017 and 2016, respectively.

Unrecognized Deferred Tax Liabilities
As of December 31, 2017, there was a deferred tax liability of ₱698.8 million (₱727.2 million in 2016) for temporary differences of ₱2.2 billion (₱2.4 billion in 2016) 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		
	2017	2016	2015	**2017**	2016	2015 (As Restated – Note 2)
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(1.67)**	(3.68)	(4.62)	**(1.78)**	(3.78)	(5.10)
Net non-deductible expenses	**2.51**	6.90	10.14	**1.98**	6.23	8.12
Optional standard deduction	**(0.25)**	(0.02)	(0.38)	**–**	–	–
Tax-exempt income	**(4.11)**	(7.82)	(6.85)	**(3.49)**	(9.22)	(8.63)
Tax-paid income	**(6.76)**	(2.19)	(3.77)	**(6.80)**	(1.91)	(3.15)
Net unrecognized deferred tax assets	**2.44**	(3.80)	(3.70)	**0.73**	(3.88)	(5.91)
Effective income tax rate	**22.16%**	19.39%	20.82%	**20.64%**	17.44%	15.33%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. EAR are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in 'Miscellaneous expense' in the statements of income) amounted to ₱136.8 million in 2017, ₱99.02 million in 2016, and ₱86.1 million in 2015 for the Group, and ₱123.1 million in 2017, ₱89.9 million in 2016, and ₱72.8 million in 2015 for the Parent Company (Note 28).

32. Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Earnings per share attributable to equity holders of the Parent Company:

	2017	2016 (As Restated – Note 2)	2015
a) Net income attributable to equity holders of the Parent Company	**₱8,160,570**	₱7,123,952	₱6,131,365
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,140	1,249,020
c) Basic/Diluted earnings per share (a/b)	**₱6.53**	₱5.70	₱4.91

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2017	2016 (As Restated – Note 2)	2015
a) Net income attributable to equity holders of the Parent Company	**₱8,160,570**	₱4,860,050	₱5,773,434
b) Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱6.53**	₱3.89	₱4.62

As of December 31, 2017, 2016 and 2015, there are no potential common shares with dilutive effect on the basic earnings per share.

33. Trust Operations

Securities and other properties held by the Parent Company 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 ₱88.0 billion and ₱75.2 billion as of December 31, 2017 and 2016, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱1.0 billion and ₱924.8 million (included under 'AFS Investments') as of December 31, 2017 and 2016, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2017, 2016 and 2015 amounting to ₱300.0 million, ₱311.9 million and ₱256.2 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 ₱23.9 million, ₱19.4 million and ₱16.6 million in 2017, 2016 and 2015, 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.

34. Related Party Transactions

Regulatory Reporting

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% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2017 and 2016, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Total Outstanding DOSRI Accounts*	**₱8,184,175**	₱11,900,939	**₱8,184,175**	₱11,900,939
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of DOSRI accounts to total loans	**1.71%**	2.89%	**1.94%**	3.23%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.02%	**0.02%**	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%

**Includes outstanding unused credit accommodations of ₱192.3 million as of December 31, 2017 and ₱178.7 million as of December 31, 2016.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the bank's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

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;
- 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.

	2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investors			
Deposit Liabilities		**₱181,440**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	**₱1,880**		Interest expense on deposits
Net deposits	**61,366**		Net deposits during the period
Subsidiaries			
Receivables from customers		**2,263,933**	Term loan maturing in 2017 with 3.85% nominal rate;
Loan releases	**6,644,960**		Revolving credit lines with interest rate of 2.90%
Loan collections	**6,395,361**		maturity of three months; Unsecured
Loan commitments		**9,344,497**	Omnibus line; credit line
Interbank loans receivable		**126,739**	Foreign currency-denominated interbank term loans
Availments	**2,536,360**		with interest rates ranging from 0.65% to 1.00% and
Settlements	**2,526,014**		maturity terms ranging from 33 to 172 days
Due from other banks		**360,954**	Foreign currency-denominated demand and time deposits 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		**3,620**	Interest accrual on receivables from customers and interbank loans receivable
Dividend Receivable		**20,000**	Dividend declaration of subsidiaries
Accounts Receivable		**186,863**	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		**4,827,320**	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

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2017
Net withdrawals	**₱637,902**		Net withdrawals during the period
Bills payable		**₱186,591**	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	**2,743,583**		
Settlements	**4,333,988**		
Due to other banks		**32,238**	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accounts Payable		**29**	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		**12,306**	Accrued interest on deposit liabilities and bills payable
Rental deposit		**11,292**	Advance rental deposit received for 2 years and 3 months
Interest income	**59,979**		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	**83,717**		Interest expense on deposit liabilities and bills payable
Rental income	**47,732**		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	**1,710,647**		Outright purchase of securities
Sales	**763,355**		Outright sale of securities
Trading loss	**17,443**		Loss from sale of investment securities
Affiliates			
Receivables from customers		**23,881,936**	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	**20,063,712**		
Loan Collections	**16,162,613**		
Loan commitments		**13,836,350**	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		**432,377**	Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	**1,825,274**		
Accrued interest receivable		**1,441**	Accrued interest on receivables from customers
Rental deposits		**10,171**	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		**13,496,612**	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	**2,578,242**		Net deposits during the period
Accrued interest payable		**35**	Accrued interest payable from various deposits
Other liabilities		**4**	Various manager's check related to EISP and premium insurance
Accrued other expenses		**353,658**	Accruals in relation to promotional expenses
Interest income	**609,817**		Interest income on receivable from customers
Interest expense	**75,798**		Interest expense on deposit liabilities
Service fees and commission income	**124,743**		Bancassurance fees earned based on successful referrals and other milestones
Rental expense	**17,924**		Monthly rent payments with term ranging from 24 to 240 months

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2017
Miscellaneous expenses	**₱306,566**		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	**1,216**		Outright purchase of securities
Sales	**31,500**		Outright sale of securities
Trading gains	**2**		Gain from sale of investment securities
Associate			
Deposit liabilities		**₱337,471**	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.
Rental deposits		**27**	Advance rental and security deposits received for three months
Deferred income		**988,187**	Unamortized portion of income related to the sale of PNB Life
Interest expense	**650**		Interest expense on deposit liabilities
Service fees and commission income	**197,942**		Bancassurance fees earned based on successful referrals and income related to the sale of PNB Life

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Key Management Personnel			
Loans to officers		**12,743**	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	**2,197**		Settlement of loans and interest
Other equity reserves		**77,651**	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		**1,129,366**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accued interest receivable		**837**	Interest accrual on receivables from customers and sales contract receivable
Deposit liabilities		**1,970,230**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		**86**	Various manager's checks
Interest income	**18,588**		Interest income on receivable from customers
Interest expense	**36,572**		Interest expense on bills payable

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2016
Significant Investors			
Deposit Liabilities		₱120,074	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱5,633		Interest expense on deposits
Net withdrawals	110,585		Net withdrawals during the period
Subsidiaries			
Receivables from customers		2,014,333	Term loan maturing in 2017 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	6,876,000		
Loan collections	6,740,334		
Loan commitments		7,433,296	Omnibus line; credit line
Interbank loans receivable		116,393	Foreign currency-denominated interbank term loans with interest rates ranging from 0.20% to 0.30% and maturity terms ranging from 30 to 150 days
Availments	1,349,191		
Settlements	1,390,990		

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2016		
Due from other banks		₱428,290	Foreign currency-denominated demand deposits 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		2,849	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		5,465,222	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.125% to 1.125% and maturities from 30 to 365 days
Net withdrawals	₱501,832		Net withdrawals during the period
Bills payable		1,776,997	Foreign currency-denominated bills payable with interest rates ranging from 0.20% to 2.00% and maturity terms ranging from 30 to 183 days
Availments	1,971,729		
Settlements	2,097,198		
Due to other banks		45,211	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		9,261	Accrued interest on deposit liabilities and bills payable
Rental deposit		10,900	Advance rental deposit received for 2 years and 3 mos.
Interest income	75,684		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	149,832		Interest expense on deposit liabilities and bills payable
Rental income	55,003		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,549,350		Outright purchase of securities
Sales	1,218,139		Outright sale of securities
Trading loss	965		Loss from sale of investment securities
Affiliates			
Receivables from customers		19,404,084	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	14,798,065		
Loan Collections	13,248,403		
Loan commitments		2,941,216	Omnibus line; credit line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from ₱5.00 to ₱100.00 per share
Sales contract receivable		2,257,651	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Accrued interest receivable		26,739	Accrued interest on receivables from customers
Rental deposits		10,171	Advance rental and security deposits received for two months, three months and two years
Operating lease		7,575	Lease contract for 5 years
Deposit liabilities		₱10,918,370	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	3,499,520		Net deposits during the period
Accrued interest payable		52	Accrued interest payable from various deposits
Interest income	388,599		Interest income on receivable from customers
Interest expense	75,633		Interest expense on deposit liabilities
Gain on sale of investment property	1,281,742		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Rental income	53,253		Monthly rent income from related parties

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2016		
Rental expense	₱13,213		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expense	438		Claims expense, comprehensive insurance, service and referral fees
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Trading gains	–		Gain from sale of investment securities
Associate			
Deposit liabilities		₱352,146	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.
Other liabilities		115	Various manager's check related premium insurance
Interest expense	29,440		Interest expense on deposit liabilities
Rental income	10,158		Rental income from a five-year lease agreement, monthly rental subject to 5% escalation rate
Key Management Personnel			
Loans to officers		14,941	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,057		Settlement of loans and interest
Other equity reserves		105,670	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		940,860	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		940,053	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		1,133	Various manager's check
Interest income	4,524		Interest income on receivable from customers
Interest expense	19,051		Interest expense on bills payable
Miscellaneous income	5		Premiums collected

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2017 and 2016 in relation to amounts due from related parties.

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. On March 19, 2004, the Parent Company and PNB GRF entered into an agreement where the Parent Company agreed to undertake all impaired Pangarap Loans of PNB GRF. PNB GRF transfers the impaired loans at their carrying values on a quarterly basis or when aggregate carrying value of the impaired loans amounts to HK$2.0 million, whichever comes earlier. Subject to BOD approval, PNB GRF regularly declares special dividends (recognized as a liability). These special dividends are being offset against the intercompany receivables from the Parent Company.

Financial Assets at FVPL traded through PNB Securities
As of December 31, 2017 and 2016, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱28.6 million and ₱27.2 million, respectively. The Parent Company recognized trading losses amounting to ₱16.6 million in 2017 and ₱13.5 million in 2016 and trading gains amounting to ₱7.2 million in 2015 from the trading transactions facilitated by PNB Securities.

Investment in OHBVI
The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2017	2016	2015
Short-term employee benefits	**₱661,253**	₱581,302	₱589,199
Post-employment benefits	**60,554**	61,544	51,365
	₱721,807	₱642,846	₱640,564

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 2017 and 2016, total per diem given to the BOD amounted to ₱39.4 million and ₱43.2 million, respectively, recorded in 'Miscellaneous expenses' in the statements of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies. In 2017, Key Management Personnel received 43,803 Parent Bank Shares in relation to the centennial bonus distribution.

Joint Arrangements
The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion. 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. These Joints Arrangements qualify as Joint Operations under PFRS 11.

In July 2016, the Bank 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 PNB SB
PNB SB entered into a "Deed of Assignment" with the Parent Company for the purchase, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total carrying value of ₱5.2 billion in July and August 2016 and ₱5.0 billion on July 15, 2015. The purchase includes the assignment of the promissory notes and other relevant credit documents as well

as collateral/s and other accessory contract thereto and was implemented in tranches in various dates. The total consideration paid for the purchased loans amounted to ₱5.0 billion in 2016. In 2016, the Parent Company recognized gain of ₱18.3 million.

PNB SB 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 PNB SB 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.

PNB SB has available credit lines with the Parent Company amounting to ₱750 million and ₱1.3 billion as of December 31, 2017 and 2016, respectively. As of December 31, 2017 and 2016, the credit lines remain undrawn.

Claim from PNB Gen

In 2015, the Parent Company recognized income amounted to ₱716.2 million under 'Miscellaneous income' arising from the fire insurance claims of the Parent Company from PNB Gen on involving the Ever Gotesco Grand Central ('Insured Property') which was mortgaged to the Parent Company by Gotesco Investment, Inc. and Ever Emporium, Inc. (collectively 'Ever Gotesco Group') to secure certain credit accommodations. The insurable interest of the Parent Company (as mortgagee) was insured with PNB Gen. The Insured Property was razed by fire on March 19, 2012, which justified the payment by PNB Gen of the insurance claims of the Parent Company, after the Court cleared the legal issues between PNB and Ever Gotesco Group that might potentially bar the payment thereof.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱5.2 billion and ₱4.4 billion as of December 31, 2017 and 2016, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		**Parent Company**	
	2017	2016	**2017**	2016
Investment in PNB Shares	**₱445,454**	₱491,884	**₱445,454**	₱491,884
Deposits with PNB	**63,387**	330,716	**58,332**	330,678
Investment in UITFs	**201,021**	122,306	**93,025**	101,572
Total Fund Assets	**₱709,862**	₱904,906	**₱596,811**	₱924,134
Unrealized gain (loss) on HFT (PNB shares)	**(₱46,430)**	₱23,423	**(₱46,430)**	₱23,423
Interest income	**3,276**	15,602	**571**	14,952
	(43,154)	39,025	**(45,859)**	38,375
Trust fees	**(6,083)**	(4,821)	**(5,872)**	(4,912)
Fund income (loss)	**(₱49,237)**	₱34,204	**(₱51,731)**	₱33,463

As of December 31, 2017 and 2016, the retirement fund of the Group and the Parent Company include 9,008,864 PNB shares classified under HFT. 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.

The gain of the Fund arising from the sale of investment in the shares of the Parent Company amounted to ₱14.4 million.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

35. 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 2017, the Group and the Parent Company's outstanding provisions for legal claims decreased by ₱330.0 million, from ₱1.3 billion at the end of 2016 to ₱1.0 billion as of December 31, 2017.

In 2016, the Group and the Parent Company's outstanding provisions for legal claims increased by ₱401.6 million, from ₱898.7 million at the end of 2015 to ₱1.3 billion as of December 31, 2016.

There were no significant settlements made in 2017.

Tax Assessment

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.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2017	2016	**2017**	2016
Trust department accounts (Note 33)	**₱88,001,894**	₱75,238,152	**₱ 88,001,894**	₱75,238,152
Derivative forwards	**84,170,844**	40,000,448	**78,521,063**	34,886,157
Unutilized credit card lines	**34,566,065**	27,018,318	**27,018,318**	27,018,318
Interest rate swaps	**33,610,720**	33,610,720	**31,899,122**	33,610,720
Standby letters of credit	**31,301,441**	26,232,306	**31,246,248**	26,133,083
Deficiency claims receivable	**22,624,776**	22,337,807	**22,576,563**	22,285,950
Derivative spots	**5,086,321**	2,358,455	**5,086,321**	2,358,455
Items held as collateral	**1,823,033**	1,237	**1,823,018**	1,225
Inward bills for collection	**633,732**	1,001,375	**633,732**	974,300
Outward bills for collection	**248,776**	282,212	**116,605**	117,898
Confirmed export letters of credit	**93,985**	100,461	**93,985**	100,461
Unused commercial letters of credit	**57,541**	50,062	**57,541**	50,062
Shipping guarantees issued	**11,198**	13,716	**11,198**	13,716
Other contingent accounts	**311,860**	2,073,225	**297,552**	2,068,481

36. **Offsetting of Financial Assets and Liabilities**

The amendments to PFRS 7, which is effective January 1, 2013, require the Group 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 are disclosed in the succeeding tables.

Financial assets

			2017			
				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	**₱37,138,999**	**(₱36,646,558)**	**₱492,441**	**(₱44,921)**	**₱–**	**₱3,633,520**
Securities held under agreements to resell (Note 8)	**14,621,483**	**–**	**14,621,483**	**(148,225)**	**(14,473,258)**	**(148,225)**
Total	**₱51,760,482**	**(₱36,646,558)**	**₱15,113,924**	**(₱193,146)**	**(₱14,473,258)**	**₱3,485,295**

			2016			
				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	₱28,500,758	(₱28,152,954)	₱347,804	₱199,855	–	₱147,949
Securities held under agreements to resell (Note 8)	1,972,310	–	1,972,310	–	1,968,603	3,707
Total	₱30,473,068	(₱28,152,954)	₱2,320,114	₱199,855	₱1,968,603	₱151,656

Financial liabilities

			2017			
				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	**₱19,126,140**	**(₱19,390,528)**	**(₱264,388)**	**₱91,071**	**(₱–**	**(₱249,459)**
Securities sold under agreements to repurchase (Notes 9 and 19)*	**35,350,259**	**–**	**35,350,259**	**–**	**(39,827,898)**	**-**
Total	**₱54,476,399**	**(₱19,390,528)**	**₱35,085,871**	**₱91,071**	**(₱39,827,898)**	**(₱249,459)**

** Included in bills and acceptances payable in the statements of financial position*

			2016			
				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	₱15,217,658	(₱15,449,106)	(₱231,448)	₱273,191	₱–	₱–
Securities sold under agreements to repurchase (Notes 9 and 19)*	20,635,171	–	20,635,171	–	24,657,929	–
Total	₱35,852,829	(₱15,449,106)	₱20,403,723	₱273,191	₱24,657,929	₱–

** 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.

37. Assets and Liabilities of Disposal Group Held for Sale

As disclosed in Note 12, the Group entered into a share purchase agreement with Allianz SE for the sale of 51% equity interest in APLII on December 21, 2015. As a result, APLII was classified as a disposal group held for sale and as a discontinued operation. The Group reclassified all the assets and liabilities of APLII to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of APLII represented the entirety of the Group's life insurance business until December 21, 2015. With APLII being classified as a discontinued operation in 2015, the consolidated statement of income and comprehensive income were presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. The Group recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statement of income.

The results of operation of APLII follow:

	2016	2015
Interest Income on		
Loans and receivables	₱7,610	₱20,343
Trading and investment securities	195,605	443,116
Deposits with banks and others	5,151	3,504
	208,366	466,963
Net Service Fees And Commission Income	(67,591)	(281,639)
Net insurance premium	508,770	1,716,308
Net insurance benefits and claims	441,090	1,290,439
Net Insurance premium	67,680	425,869
Other Income		
Trading and investment securities gains - net	1,800	20,874
Foreign exchange gains (losses) - net	(876)	11,806
Miscellaneous	80,667	149,061
Total Operating Income	290,046	792,934
Operating Expenses		
Compensation and fringe benefits	71,741	223,322
Taxes and licenses	16,759	39,570
Occupancy and equipment-related costs	7,610	9,764
Depreciation and amortization	4,707	10,704
Provision for impairment, credit and other losses	4,704	32,765
Miscellaneous	39,692	74,573
Total Operating Expense	145,213	390,698

(Forward)

	2016	2015
Results from Operating Activities	₱144,833	₱402,236
Provision for income tax	21,049	44,305
Results from Operating Activities, net of tax	123,784	357,931
Gain on remeasurement	1,644,339	–
Gain on Sale of Discontinued Operation	834,535	–
Transaction Costs	153,307	–
Provision for Income Tax	185,449	–
Net Income from Discontinued Operations	₱2,263,902	₱357,931
Attributable to:		
Equity holders of the Parent Company	₱2,239,145	₱286,345
Non-controlling interests	24,757	71,586
	₱2,263,902	₱357,931

The major classes of assets and liabilities of APLII classified as disposal group held for sale to equity holders of the Parent follows:

	2016
Assets	
Cash and other cash items	₱546,621
Financial assets at fair value through profit or loss	14,506,651
AFS investments	7,922,461
HTM investments	1,254,898
Other receivables	473,259
Property and equipment - net	31,931
Other assets	41,791
	₱24,777,612
Liabilities	
Financial liabilities at fair value through profit or loss:	₱14,475,772
Accrued taxes, interest and other expenses	76,938
Insurance contract liability	7,097,270
Other liabilities	577,348
	₱22,227,328
Net assets of disposal group held for sale	2,550,284
Amounts included in accumulated OCI:	
Net unrealized gain on AFS investments	₱34,876
Remeasurement losses on retirement plan	(18,070)
	₱16,806

Cash flows from (used in) discontinued operations follow:

	2016	2015
The net cash flows directly associated with disposal group:		
Operating	₱171,535	₱1,210,588
Investing	(267,458)	(903,161)
	(₱95,923)	₱307,427

38. Notes to Statements of Cash Flows

The Group applied creditable withholding taxes against its income tax payable amounting to ₱1.55 billion, ₱882.2 million and ₱504.0 million in 2017, 2016 and 2015, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱1.53 billion, ₱869.9 million and ₱498.3 million in 2017, 2016, and 2015, respectively.

In 2017, the non-cash changes on bills and acceptances payable amounted to ₱151.0 million and ₱149.9 million arising from unrealised foreign exchange differences for the Group and the Parent Company, respectively.

In 2015, the Group classified APLII as disposal group held for sale and as discontinued operation and classified assets, liabilities, and reserves of APLII amounting to ₱23.5 billion, ₱21.5 billion, and ₱0.1 billion, respectively, as held for sale.

In 2015, the Group transferred investment properties with a carrying value of ₱2.0 billion and ₱1.2 billion to property and equipment and to Other Assets (presented as 'Real Estate Investments Held under Development'), respectively.

In 2016, the Group and the Parent Company reclassified certain properties from 'Property and equipment' to 'Investment property' with aggregate carrying amount of ₱4.7 billion and ₱3.2 billion, respectively. These properties mainly consist of the office spaces in the Allied Bank Center in Makati leased out and land in Buendia, Makati being held for future development.

For the Group, investment properties acquired through foreclosure and rescission amounted to ₱0.6 billion, ₱0.7 billion and ₱0.5 billion in 2017, 2016 and 2015, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission amounted to ₱0.5 billion, ₱0.6 billion, and ₱0.4 billion in 2017, 2016 and 2015, respectively.

In 2016, the Group and the Parent Company applied transferred payables from Maybank amounting to ₱1.8 billion under bills payable and ₱1.6 billion under accrued interest payable against the principal and accrued interest components of the transferred receivables.

Interest income of the Group includes fair value amortization of loans and receivables amounting to ₱6.1 million, ₱9.2 million, and ₱16.9 million in 2017, 2016 and 2015, respectively.

Interest expense of the Group includes fair value amortization of deposit liabilities amounting to ₱10.7 million, ₱30.3 million, and ₱80.4 million in 2017, 2016 and 2015, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱256.1 million, ₱338.6 million and ₱352.4 million in 2017, 2016 and 2015, respectively.

39. 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 23, 2018.

40. **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 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to 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 2017 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,195,272,356
Documentary stamp taxes	1,803,180,144
Real estate tax	154,675,360
Local taxes	65,777,106
Others	64,413,138
	₱3,283,318,104

2. Withholdings taxes

	Remitted	Outstanding
Withholding Taxes on Compensation and Benefits	₱1,138,558,393	₱ 175,154,458
Final income taxes withheld on interest on deposits and yield on deposit substitutes	426,733,553	53,661,809
Expanded withholding taxes	167,935,552	16,125,382
VAT withholding taxes	1,367,169	271,019
Other Final Taxes	52,404,911	2,453,399
	₱1,786,999,578	₱247,666,067

Tax Cases and Assessments

As of December 31, 2017, 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.

FINANCIAL STATEMENTS

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AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP AS OF DECEMBER 31, 2018 AND 2017 AND FOR THE YEARS ENDED DECEMBER 31, 2018, 2017, AND 2016

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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

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

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, 2018 and 2017 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, 2018, 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, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 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.

<u>Applicable to the audit of the consolidated and parent company financial statements</u>

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Group and the Parent Company adopted PFRS 9, Financial Instruments, which replaced PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group and the Parent Company used the modified retrospective approach in adopting PFRS 9.

1. Classification and Measurement of Financial Assets

   As at January 1, 2018 (the transition date), the Group and the Parent Company classified their financial assets based on their business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased surplus by ₱732.04 million and decreased other comprehensive loss by ₱2.29 billion, respectively, for the Group and the Parent Company. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

   The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

   The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

Audit Response
We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board approved business models for the Group's and the Parent Company's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group and the Parent Company. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

2. Expected Credit Loss (ECL)

The Group's and the Parent Company's adoption of the ECL model 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 (called overlays) in calculating ECL.

The application of the ECL model increased the allowance for credit losses and other comprehensive income as of January 1, 2018 by ₱2.90 billion and ₱58.50 million, respectively, for the Group, and by ₱1.91 billion, and ₱58.50 million, respectively, for the Parent Company. Provision for credit losses of the Group and the Parent Company in 2018 using the ECL model amounted to ₱1.81 billion and ₱1.47 billion, respectively.

Refer to Notes 2 and 16 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

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 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 for overlay through statistical test and 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, 2018, the deferred tax assets of the Group and the Parent Company amounted to ₱2.09 billion and ₱1.45 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 involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Group and the Parent Company and the applicable tax rate. We also re-performed the calculation of the deferred tax assets. 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, 2018, the Group and the Parent Company has goodwill amounting to ₱13.38 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 treasury. 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 to evaluate the assumptions and methodology 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.

Valuation of Retirement Benefit Liability

The Group has a defined benefit plan covering all regular employees. As at December 31, 2018, the retirement liability of the Group and the Parent Company amounted to ₱1.15 billion and ₱1.22 billion, respectively. Accumulated remeasurement losses amounted to ₱1.52 billion which accounts for 1.18% and 1.21% of the Group and Parent Company's total equity, respectively, as at December 31, 2018. The valuation of the retirement benefit liability requires the assistance of an external actuary whose calculations depend on certain assumptions, such as prospective salary increase and employee turnover rates, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter.

The disclosures related to retirement liability are included in Note 28 to the financial statements.

Audit response
We involved our internal specialist in the review of the scope, bases, methodology and results of the work of the Group's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resources data, and the discount rate and mortality rate against available market data. We inquired from management about the basis of the salary rate increase and compared it against the Group's forecast.

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, 2018, 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, 2018 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

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 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue 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-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332590, January 3, 2019, Makati City

February 28, 2019

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October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

**INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) as at December 31, 2018 and 2017 for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 733259, January 3, 2019, Makati City

February 28, 2019

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
ASSETS				
Cash and Other Cash Items	**₱16,825,487**	₱12,391,139	**₱15,904,663**	₱11,671,952
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**102,723,312**	108,743,985	**98,665,375**	105,497,459
Due from Other Banks (Note 33)	**20,525,318**	22,025,322	**10,459,496**	10,755,260
Interbank Loans Receivable (Notes 8 and 33)	**11,248,455**	12,837,721	**11,689,414**	11,083,515
Securities Held Under Agreements to Resell (Notes 8 and 35)	**20,700,000**	14,621,483	**20,700,000**	14,621,483
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	**9,999,447**	2,882,395	**9,983,636**	2,829,877
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	**51,674,167**	–	**50,656,893**	–
Available-for-Sale Investments (Note 9)	**–**	69,837,416	**–**	67,677,952
Investment Securities at Amortized Cost (Note 9)	**99,772,711**	–	**99,586,329**	–
Held-to-Maturity Investments (Note 9)	**–**	26,805,131	**–**	26,680,483
Loans and Receivables (Notes 10 and 33)	**581,695,477**	502,318,740	**510,819,274**	441,715,528
Property and Equipment (Note 11)	**19,710,145**	18,664,357	**17,606,143**	16,894,236
Investments in Subsidiaries and an Associate (Note 12)	**2,418,842**	2,363,757	**28,230,661**	28,407,414
Investment Properties (Note 13)	**13,488,866**	15,594,385	**13,149,358**	15,318,408
Deferred Tax Assets (Note 30)	**2,086,510**	1,695,295	**1,452,153**	987,332
Intangible Assets (Note 14)	**3,025,157**	3,322,857	**2,879,853**	3,163,243
Goodwill (Note 14)	**13,375,407**	13,375,407	**13,515,765**	13,515,765
Assets of Disposal Group Classified as Held for Sale (Note 36)	**8,238,623**	–	**595,146**	–
Other Assets (Note 15)	**6,140,262**	8,877,315	**5,906,427**	8,152,615
TOTAL ASSETS	**₱983,648,186**	₱836,356,705	**₱911,800,586**	₱778,972,522
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	**₱153,065,163**	₱125,581,889	**₱149,539,540**	₱123,396,962
Savings	**401,622,361**	351,422,377	**394,004,547**	345,279,463
Time	**147,210,729**	129,552,035	**108,450,094**	96,364,657
Long Term Negotiable Certificates	**31,403,225**	31,363,956	**31,403,225**	31,363,956
	733,301,478	637,920,257	**683,397,406**	596,405,038
Financial Liabilities at FVTPL (Notes 18 and 35)	**470,648**	343,522	**468,279**	343,416
Bills and Acceptances Payable (Notes 19, 33 and 35)	**70,082,835**	43,916,687	**62,706,795**	41,400,804
Accrued Taxes, Interest and Other Expenses (Note 20)	**6,167,398**	5,323,487	**5,559,960**	4,673,545
Bonds Payable (Note 21)	**15,661,372**	–	**15,661,372**	–
Income Tax Payable	**900,693**	993,245	**823,739**	833,708
Liabilities of Disposal Group Classified as Held for Sale (Note 36)	**7,237,811**	–	**–**	–
Other Liabilities (Note 22)	**21,266,939**	28,121,558	**17,532,588**	18,236,566
	855,089,174	716,618,756	**786,150,139**	661,893,077
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	**₱49,965,587**	₱49,965,587	**₱49,965,587**	₱49,965,587
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	**31,331,251**	31,331,251
Surplus Reserves (Notes 25 and 32)	**620,573**	597,605	**620,573**	597,605
Surplus (Note 25)	**46,613,457**	38,831,522	**46,613,704**	38,831,716
Net Unrealized Loss on Financial Assets at FVOCI (Note 9)	**(3,181,335)**	–	**(3,181,335)**	–
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**–**	(3,040,507)	**–**	(3,040,507)
Remeasurement Losses on Retirement Plan (Note 28)	**(1,520,538)**	(2,106,586)	**(1,520,538)**	(2,106,586)
Accumulated Translation Adjustment (Note 25)	**1,776,923**	1,417,884	**1,776,923**	1,417,884

(Forward)

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
Other Equity Reserves (Note 25)	**₱53,895**	₱70,215	**₱53,895**	₱70,215
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	**–**	–
Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 36)	**(21,893)**	–	**(21,893)**	–
	125,664,159	117,093,210	**125,650,447**	117,079,445
NON-CONTROLLING INTERESTS (Note 12)	**2,894,853**	2,644,739	**–**	–
	128,559,012	119,737,949	**125,650,447**	117,079,445
TOTAL LIABILITIES AND EQUITY	**₱983,648,186**	₱836,356,705	**₱911,800,586**	₱778,972,522

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	December 31			December 31		
	2018	2017 (As Restated – Note 36)	2016	**2018**	2017	2016
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	**₱30,202,480**	₱22,669,107	₱19,685,958	**₱25,504,159**	₱19,245,810	₱16,923,864
Investment securities at amortized cost and FVOCI, AFS and HTM Investments (Note 9)	**4,534,297**	3,053,243	3,162,349	**4,502,331**	3,033,873	3,138,597
Deposits with banks and others (Notes 7 and 33)	**775,820**	1,324,526	625,950	**524,723**	1,053,354	440,664
Interbank loans receivable and securities held under agreements to resell (Note 8)	**379,378**	480,021	794,000	**350,808**	446,134	794,312
Financial assets at FVTPL (Note 9)	**120,667**	38,779	40,854	**120,667**	38,779	76,947
	36,012,642	27,565,676	24,309,111	**31,002,688**	23,817,950	21,374,384
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	**7,871,173**	4,794,227	3,780,242	**6,591,288**	4,104,798	3,356,866
Bonds payable (Note 21)	**477,405**	–	–	**477,405**	–	–
Bills payable and other borrowings (Notes 19, 21 and 33)	**662,340**	747,481	997,621	**472,111**	650,724	959,609
	9,010,918	5,541,708	4,777,863	**7,540,804**	4,755,522	4,316,475
NET INTEREST INCOME	**27,001,724**	22,023,968	19,531,248	**23,461,884**	19,062,428	17,057,909
Service fees and commission income (Notes 26 and 33)	**4,251,692**	3,982,496	3,401,850	**3,524,263**	3,130,783	2,731,258
Service fees and commission expense (Note 33)	**773,082**	786,917	666,755	**616,207**	592,427	480,549
NET SERVICE FEES AND COMMISSION INCOME	**3,478,610**	3,195,579	2,735,095	**2,908,056**	2,538,356	2,250,709
OTHER INCOME						
Net gains on sale or exchange of assets (Note 13)	**5,861,143**	3,921,136	2,510,361	**5,841,136**	3,862,341	2,517,861
Foreign exchange gains - net (Note 23)	**942,372**	1,676,926	1,486,224	**578,180**	1,675,985	926,529
Trading and investment securities gains – net (Notes 9 and 33)	**150,691**	559,758	1,364,355	**157,678**	556,429	1,369,514
Equity in net earnings of subsidiaries and an associate (Note 12)	**43,847**	59,215	70,220	**530,885**	498,254	231,780
Miscellaneous (Note 27)	**1,425,439**	893,517	1,538,964	**1,101,875**	592,041	1,194,947
TOTAL OPERATING INCOME	**38,903,826**	32,330,099	29,236,467	**34,579,694**	28,785,834	25,549,249
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	**9,380,199**	8,959,754	8,399,954	**7,943,135**	7,754,566	7,370,977
Taxes and licenses (Note 30)	**3,729,016**	2,489,342	2,171,272	**3,343,899**	2,222,755	1,952,291
Depreciation and amortization (Note 11)	**1,944,808**	1,678,227	1,549,569	**1,542,712**	1,385,357	1,343,583
Occupancy and equipment-related costs (Note 29)	**1,716,315**	1,577,367	1,457,157	**1,453,341**	1,343,021	1,262,952
Provision for impairment, credit and other losses (Note 16)	**1,740,177**	903,595	3,212,774	**1,401,528**	161,877	1,707,494
Miscellaneous (Note 27)	**6,953,525**	6,320,707	6,103,814	**6,125,334**	5,634,019	5,604,188
TOTAL OPERATING EXPENSES	**25,464,040**	21,928,992	22,894,540	**21,809,949**	18,501,595	19,241,485
INCOME BEFORE INCOME TAX	**13,439,786**	10,401,107	6,341,927	**12,769,745**	10,284,239	6,307,764
PROVISION FOR INCOME TAX (Note 30)	**3,663,744**	2,314,934	1,509,522	**3,304,670**	2,123,676	1,228,372
NET INCOME FROM CONTINUING OPERATIONS	**9,776,042**	8,086,173	4,832,405	**9,465,075**	8,160,563	5,079,392
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 12 and 36)	**(219,972)**	70,372	2,329,669	–	–	2,044,662
NET INCOME	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	**₱9,465,022**	₱8,160,570	₱7,123,952			
Non-controlling Interests	**91,048**	(4,025)	38,122			
	₱9,556,070	₱8,156,545	₱7,162,074			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱7.58**	₱6.53	₱5.70			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 31)	**₱7.75**	₱6.48	₱3.84			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated – Note 36)	2016 (As Restated – Note 36)	**2018**	2017	2016
NET INCOME	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on financial assets at FVOCI (Note 9)	**(2,133,032)**	–	–	**(2,224,305)**	–	–
Net change in unrealized gain (loss) on available-for-sale investments (Note 9)	**–**	454,188	(193,484)	**–**	468,861	(185,603)
Income tax effect (Note 30)	**–**	–	286	**–**	–	–
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Note 9)	**(375,390)**	–	–	**(284,117)**	–	–
Share in changes in net unrealized gains (losses) on available for sale investments of subsidiaries and an associate (Note 9)	**–**	(24,756)	(245,867)	**–**	(39,429)	(253,748)
	(2,508,422)	429,432	(439,065)	**(2,508,422)**	429,432	(439,351)
Accumulated translation adjustment	**484,289**	504,736	420,381	**154,076**	(5,932)	282,600
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**204,963**	508,594	20,154
	(2,024,133)	934,168	(18,684)	**(2,149,383)**	932,094	(136,597)
Items that do not recycle to profit or loss in subsequent periods:						
Share in aggregate reserves on life insurance policies (Note 2)	**–**	9,193	3,087	**–**	9,193	3,087
Remeasurement gains (losses) on retirement plan (Note 28)	**193,128**	952,143	(458,740)	**109,596**	973,728	(464,207)
Income tax effect (Note 30)	**–**	554	2,204	**–**	–	–
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**386,628**	(236,632)	1,208	**470,160**	(258,461)	6,569
	579,756	725,258	(452,241)	**579,756**	724,460	(454,551)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,444,377)**	1,659,426	(470,925)	**(1,569,627)**	1,656,554	(591,148)
TOTAL COMPREHENSIVE INCOME	**₱8,111,693**	₱9,815,971	₱6,691,149	**₱7,895,448**	₱9,817,117	₱6,532,906
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱7,895,558**	₱9,817,124	₱6,532,804			
Non-controlling interests	**216,135**	(1,153)	158,345			
	₱8,111,693	₱9,815,971	₱6,691,149			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated															
	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 Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves (Note 25)	Other Equity Adjustment	Share in Aggregate Reserves on Life Insurance Policies (Note 120	Reserves of a Disposal Group Held for Sale (Note 36)	Parent Company Shares Held by a Subsidiary	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2018, as previously reported	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱13,959	₱12,280	₱–	₱–	₱117,093,210	₱2,644,739	₱119,737,949
Effect of the adoption of Philippine Financial Reporting Standards 9 (Note 2)	–	–	–	(1,660,119)	(688,514)	3,040,507	–	–	–	–	–	–	–	691,874	–	691,874
Balance at January 1, 2018, as restated	49,965,587	31,331,251	597,605	37,171,403	(688,514)	–	(2,106,586)	1,417,884	70,215	13,959	12,280	–	–	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)
Reserves of Disposal Group Classified as Held for Sale (Note 36)	–	–	–	–	15,601	–	6,292	–	–	–	–	(21,893)	–	–	–	–
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**	**(₱3,181,335)**	**₱–**	**(₱1,520,538)**	**₱1,776,923**	**₱53,895**	**₱13,959**	**₱12,280**	**(₱21,893)**	**–**	**₱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	₱13,959	₱3,087	₱–	₱–	₱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	₱13,959	₱12,280	₱–	₱–	₱117,093,210	₱2,644,739	₱119,737,949
Balance at January 1, 2016	₱49,965,587	₱31,331,251	₱554,263	₱24,839,480	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱	₱13,959	₱	(₱133,500)	(₱9,945)	₱101,778,760	₱3,017,322	₱104,796,082
Total comprehensive income (loss) for the year	–	–	–	7,123,952		(439,351)	(457,638)	302,754			3,087			6,532,804	158,345	6,691,149
Sale of direct interest in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	–	133,500	–	133,500	(483,296)	(349,796)
Disposal of Parent Company shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	9,945	9,945	–	9,945
Cash dividends declared (Note 25)	–	–	–	(1,249,138)	–	–	–	–	–	–	–	–	–	(1,249,138)	–	(1,249,138)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	105,670	–	–	–	–	105,670	–	105,670
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(43,209)	(43,209)
Transfer to surplus reserves (Note 32)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱13,959	₱3,087	₱–	–	₱107,311,541	₱2,649,162	₱109,960,703

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 Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves (Note 25)	Reserves of a Disposal Group Held for Sale (Note 36)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Total
Balance at January 1, 2018, as previously reported	**₱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 the adoption of Philippine Financial Reporting Standards 9 (Note 2)	–	–	–	**(1,660,119)**	**(688,514)**	**3,040,507**	–	–	–	–	–	**691,874**
Balance at January 1, 2018, as restated	**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)**
Reserves of Disposal Group Classified as Held for Sale (Note 36)	–	–	–	–	**15,601**	–	**6,292**	–	–	**(21,893)**	–	–
Balance at December 31, 2018	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,704**	**(₱3,181,335)**	**₱–**	**(₱1,520,538)**	**₱1,776,923**	**₱53,895**	**(₱21,893)**	**₱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
Balance at January 1, 2016	₱49,965,587	₱31,331,251	₱554,263	₱24,839,580	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	(₱85,106)	₱3,087	₱101,826,327
Total comprehensive income (loss) for the year	–	–	–	7,124,054	–	(439,351)	(457,638)	302,754	–	–	–	6,529,819
Cash dividends declared (Note 25)	–	–	–	(1,249,139)	–	–	–	–	–	–	–	(1,249,139)
Transfer to surplus reserves (Note 32)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	–	–	–	–	–	85,106	–	85,106
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	105,670	–	–	105,670
Balance at December 31, 2016	₱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

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated - Note 36)	2016 (As Restated - Note 36)	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱13,439,786**	₱10,401,107	₱6,341,927	**₱12,769,745**	₱10,284,239	₱6,307,764
Income (loss) before income tax from discontinued operations (Note 36)	**(196,611)**	77,651	2,543,866	**–**	–	2,325,568
Income before income tax	**13,243,175**	10,478,758	8,885,793	**12,769,745**	10,284,239	8,633,332
Adjustments for:						
Net gain on sale or exchange of assets (Note 13)	**(5,861,143)**	(3,921,136)	(2,510,361)	**(5,841,136)**	(3,862,341)	(2,517,861)
Depreciation and amortization (Notes 11 and 36)	**1,950,977**	1,684,391	1,554,640	**1,542,712**	1,385,357	1,343,583
Amortization of premium on investment securities	**789,981**	1,383,338	1,144,317	**1,034,142**	1,375,100	1,137,513
Provision for impairment, credit and other losses (Notes 16 and 36)	**1,752,812**	884,132	3,212,694	**1,401,528**	161,877	1,707,494
Loss (gain) on mark-to-market of derivatives (Note 23)	**899,614**	(128,417)	698,071	**899,614**	(124,679)	698,071
Realized trading gain on financial assets at FVOCI (Note 9)	**(167,902)**	–	–	**(167,902)**	–	–
Realized trading gain on available-for-sale investments (Note 9)	**–**	(506,238)	(1,348,496)	**–**	(506,238)	(1,350,453)
Amortization of transaction costs (Notes 17 and 21)	**51,502**	60,239	36,640	**51,502**	60,239	36,640
Equity in net earnings of subsidiaries and an associate (Note 12)	**(43,847)**	(59,215)	(70,220)	**(530,885)**	(498,254)	(231,780)
Gain on remeasurement of a previously held interest (Note 12)	**–**	–	(1,644,339)	**–**	–	(1,644,339)
Unrealized foreign exchange loss on bills payable and acceptances	**1,298,559**	–	–	**1,292,591**	–	–
Gain from sale of previously held interest (Note 12)	**–**	–	(681,228)	**–**	–	(681,228)
Recoveries on receivable from special purpose vehicle (Note 27)	**–**	–	(500,000)	**–**	–	(500,000)
Amortization of fair value loss of held-to-maturity investments reclassified to available-for-sale investments (Note 9)	**–**	141,802	145,727	**–**	141,802	140,332
Realized and unrealized gain on financial assets at FVPL (Note 9 and 36)	**21,548**	(61,485)	4,651	**10,386**	58,156	6,113
Loss on write-off of software cost (Note 14)	**–**	–	894	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**678,014**	(798,815)	(547,222)	**274,268**	(828,073)	(508,224)
Financial assets at FVTPL	**(8,039,543)**	(778,629)	1,888,845	**(8,063,597)**	(808,168)	1,923,254
Loans and receivables	**(88,550,596)**	(75,945,020)	(66,337,861)	**(73,552,230)**	(63,393,954)	(52,436,762)
Other assets	**1,785,717**	(777,538)	(1,558,302)	**3,669,296**	(2,103,444)	(615,025)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	**127,126**	–	–	**124,863**	–	–
Deposit liabilities	**95,341,952**	67,387,302	84,510,588	**86,953,099**	54,189,539	71,640,617
Accrued taxes, interest and other expenses	**1,083,584**	379,861	729,486	**886,416**	441,930	520,970
Other liabilities	**825,972**	(187,797)	1,273,977	**(103,155)**	(1,129,101)	626,229
Net cash generated from (used in) operations	**17,187,502**	(764,467)	28,888,294	**22,651,257**	(5,156,013)	27,928,476
Income taxes paid	**(4,060,889)**	(1,524,208)	(784,682)	**(3,313,721)**	(1,350,866)	(715,203)
Net cash provided by (used in) operating activities	**13,126,613**	(2,288,675)	28,103,612	**19,337,536**	(6,506,879)	27,213,273
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of financial assets at FVOCI/available-for-sale investments	**41,459,104**	199,856,642	83,143,335	**41,862,566**	199,690,619	81,843,119
Maturities of financial assets at amortized cost	**19,356,795**	–	–	**37,694,571**	–	–
Disposal of investment properties	**8,456,263**	5,570,269	2,387,170	**8,493,918**	5,119,922	2,255,377
Disposal of property and equipment (Note 11)	**123,767**	29,719	142,129	**135,257**	172,226	418,869
Disposal group classified as held for sale/Investment in shares of a subsidiary (Notes 12 and 37)	**–**	–	3,230,966	**–**	–	3,230,966
Collection of receivables from special purpose vehicle	**–**	–	500,000	**–**	–	500,000
Share in dividends from subsidiaries (Note 12)	**–**	–	–	**–**	1,333,350	66,125

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated - Note 36)	2016	**2018**	2017	2016
Acquisitions of:						
Financial Assets at FVOCI/available-for-sale investments	**(₱23,729,263)**	(₱202,587,314)	(₱83,486,942)	**(₱25,122,624)**	(₱201,794,860)	(₱82,272,241)
Property and equipment (Note 11)	**(3,026,508)**	(1,964,768)	(2,023,627)	**(2,263,064)**	(1,658,985)	(1,740,338)
Software cost (Note 14)	**(169,231)**	(1,162,121)	(406,053)	**(160,857)**	(1,045,743)	(404,837)
Financial assets at amortized cost	**(93,782,890)**	–	–	**(111,057,852)**	–	–
Held-to-maturity investments	**–**	(2,801,983)	–	**–**	(2,726,786)	–
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(266,000)**	(700,000)	(292,416)
Closure of subsidiaries (Note 12)	**–**	–	–	**–**	50,000	–
Net cash provided by (used in) investing activities	**(51,311,963)**	(3,059,556)	3,486,978	**(50,684,085)**	(1,560,257)	3,604,624
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of bills and acceptances payable	**187,599,609**	164,866,720	180,747,610	**178,534,210**	159,025,830	175,375,030
Proceeds from bonds payable	**15,398,696**	–	–	**15,398,696**	–	–
Settlement of:						
Bills and acceptances payable (Note 21)	**(162,732,019)**	(157,020,131)	(169,839,126)	**(158,520,810)**	(151,794,765)	(165,576,107)
Subordinated debt	**–**	(3,500,000)	(6,500,000)	**–**	(3,500,000)	(6,500,000)
Cash dividends declared and paid (Note 25)	**–**	–	(1,249,139)	**–**	–	(1,249,139)
Acquisition of non-controlling interest in subsidiaries (Note 12)	**–**	–	(292,416)	**–**	–	–
Dividends paid to non-controlling interest	**–**	(3,270)	(43,209)	**–**	–	–
Net cash provided by financing activities	**40,266,286**	4,343,319	2,823,720	**35,412,096**	3,731,065	2,049,784
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,080,936**	(1,004,912)	34,414,310	**4,063,547**	(4,336,071)	32,867,681
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**12,391,139**	11,014,663	15,863,080	**11,671,952**	10,626,525	12,598,715
Due from Bangko Sentral ng Pilipinas	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from other banks	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank loans receivable	**11,491,684**	7,243,886	5,800,383	**9,700,916**	7,352,840	5,912,224
Securities held under agreements to resell	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
	169,273,613	170,278,525	135,864,215	**152,247,070**	156,583,141	123,715,460
CASH AND CASH EQUIVALENTS AT END 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	**20,525,318**	22,025,322	22,709,805	**10,459,496**	10,755,260	12,831,514
Interbank loans receivable (Note 8)	**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
	₱171,354,549	₱169,273,613	₱170,278,525	**₱156,310,617**	₱152,247,070	₱156,583,141
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱8,151,979**	₱5,317,161	₱4,620,623	**₱6,768,648**	₱4,617,444	₱4,254,991
Interest received	**32,906,482**	28,559,267	22,279,734	**28,399,766**	25,320,173	20,653,077
Dividends received	**3,366**	3,270	17,593	**3,366**	32,417	80,841

See accompanying Notes to Financial Statements.

1. **Corporate Information**

Philippine National Bank (the Parent Company) is a universal bank established in the Philippines in 1916 and started commercial operations that same year. The Philippine Securities and Exchange Commission (SEC) approved the renewal of its corporate registration on May 27, 1996, with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines. As of December 31, 2018 and 2017, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.33% of the Parent Company's shares were held by Philippine Central Depository (PCD) Nominee Corporation. The remaining 22.84% of the Parent Company's shares were held by other stockholders holding less than 10.00% each. The Parent Company's shares were listed with the Philippine Stock Exchange (PSE) on June 21, 1989.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 711 and 692 domestic branches as of December 31, 2018 and 2017, respectively.

The Parent Company has 72 branches, representative offices, remittance centers and subsidiaries as of December 31, 2018 and 2017, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

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.

Merger with Allied Banking Corporation

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger, which involved a share-for-share exchange, was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company 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 Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 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 of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share (Note 14). The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On April 26, 2013, the Parent Company filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation 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). The Parent Company received BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction. The Parent Company received the final confirmation ruling on March 2, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI)/available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented in Note 12.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented 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.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross amounts in the statement of financial position.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (Note 12).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption, and when the Group has less than a 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, including:

- Contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Group and the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity as 'Other equity adjustment'. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Subsequent to acquisition (See Accounting Policy on Business Combinations and Goodwill), NCI consist of the amount attributed to such interest at initial recognition and the NCI's share of changes in equity since the date of business combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2018. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group.

- *New and Amended Standards*
  - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to PFRSs (2014-2017 Cycle)*
  - Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (*Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle)*
  - Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

PFRS 9, *Financial Instruments*
Effective January 1, 2018, PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group did not restate prior period comparative financial statements when the Group adopted the requirements of the new standard. Therefore, the comparative information for 2017 is reported under Philippine Accounting Standard (PAS) 39 and is not comparable to information presented in 2018. Restatements and differences in the carrying amounts of financial instruments arising from the adoption of PFRS 9 have been recognized in the 2018 opening balances of surplus and OCI as if the Group had always applied PFRS 9.

The Group adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

Classification and Measurement
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives continue to be measured as financial assets/liabilities at FVTPL under PFRS 9.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred loss versus Expected Credit Loss Methodology
The application of ECL significantly changed the Group's credit loss methodology and models.

ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

The adoption of PFRS 9 as at January 1, 2018 resulted in the reversal of net unrealized losses in OCI of ₱2.4 billion and reduction in surplus of ₱1.7 billion.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 follow:

Consolidated	December 31, 2017 under PAS 39						January 1, 2018 under PFRS 9	
	Category	Amount	Reclassification		Re-measurement	ECL	Category	Amount
Loans and advances to banks								
Due from BSP		₱108,743,985	₱–		₱–	₱–		₱108,743,985
Due from other banks		22,025,322	–		–	–		22,025,322
Interbank loans receivable and securities purchased under agreements to resell		27,459,204	–		–	–		27,459,204
	Loans and Receivable	₱158,228,511	₱–		₱–	₱–	Amortized Cost	₱158,228,511
Financial assets at FVTPL								
Debt		₱2,239,257	₱–		₱–	₱–	FVTPL	₱2,239,257
Equity		80,154	(80,154)		–	–		–
			80,085		–	–	FVTPL	80,085
			69		–	–	FVOCI	69
Derivatives		562,984	–		–	–	FVTPL	562,984
	FVPL Investments	₱2,882,395	₱–		₱–	₱–		₱2,882,395
Available-for-sale investments								
Debt		₱68,545,945	(₱68,545,945)		₱–	₱–		₱–
			31,694,862	***A***	–	–	FVOCI	31,694,862
			36,851,083	***B/H***	702,171	(22,365)	Amortized Cost	37,530,889
Equity		1,291,471	(1,291,471)					
			803,398	***C/E***	(11,722)	–	FVOCI	791,676
			488,073	***D***	–	–	FVTPL	488,073
	AFS Investment	₱69,837,416	₱–		₱690,449	(₱22,365)		₱70,505,500
Held-to-maturity investments		₱26,805,131	(26,805,131)		₱–	₱–		₱–
			9,205,240	***F/H***	773,071	(5,926)	Amortized Cost	9,972,385
			17,599,891	***A/G***	1,522,087	–	FVOCI	19,121,978
	Held to Maturity	₱26,805,131	₱–		₱2,295,158	(₱5,926)		₱29,094,363
Loans and receivables		₱502,116,517	(₱10,934,147)	***H***	₱–	(₱2,770,343)	Amortized Cost (Loans and receivables)	₱488,412,026
			488,771		–	–	Amortized Cost (Investments securities at amortized cost)	488,771
			10,445,376	***A/I***	39,924	–	FVOCI	10,485,300
	Loans and Receivable	₱502,116,517	₱–		₱39,924	(₱2,770,344)		499,386,097
		₱759,869,970	₱–		₱3,025,531	(₱2,798,635)		₱760,096,866

Parent Company	December 31, 2017 under PAS 39				Re-		**January 1, 2018 under PFRS 9**	
	Category	**Amount**	**Reclassification**		**measurement**	**ECL**	**Category**	**Amount**
Loans and advances to banks								
Due from BSP		₱105,497,459	₱–		₱–	₱–		₱105,497,459
Due from other banks		10,755,260	–		–	–		10,755,260
Interbank loans receivable and securities purchased under agreement to resell		25,704,998	–		–	–		25,704,998
	Loans and Receivable	₱141,957,717	₱–		₱–	₱–	Amortized Cost	₱141,957,717
Financial assets at FVPL								
Debt		₱2,239,257	₱–		₱–	₱–	FVTPL	₱2,239,257
Equity		30,928	(30,928)		–	–		
			30,859		–	–	FVTPL	30,859
			69		–	–	FVOCI	69
Derivatives		559,692	–		–	–	FVTPL	559,692
	FVPL	₱2,829,877	₱–		₱–	₱–		₱2,829,877
Available-for-sale investments								
Debt		₱66,526,925	(₱66,526,925)		₱–	₱–		₱–
			30,403,354	*A*	–	–	FVOCI	30,403,354
			36,123,571	*B/H*	667,104	(22,365)	Amortized Cost	36,768,310
Equity		1,151,027	(1,151,027)		–	–		–
			664,231	*C/E*	(11,722)	–	FVOCI	652,509
			486,796	*D*	–	–	FVTPL	486,796
	AFS Investment	₱67,677,952	₱–		₱655,382	(₱22,365)		₱68,310,969
Held-to-maturity investments								
Debt		₱26,680,483	(26,680,483)		₱–	₱–		–
			9,080,592	*F/H*	773,071	(5,926)	Amortized Cost	₱9,847,737
			17,599,891	*A/G*	1,522,087	–	FVOCI	19,121,978
	Held to Maturity	₱26,680,483	₱–		₱2,295,158	(₱5,926)		₱28,969,715
Loans and receivables		₱441,513,305	(₱10,933,397)	*H*	₱–	(₱1,908,533)	Amortized Cost (Loans and receivables)	₱428,671,375
			488,021		–	–	Amortized Cost (Investments securities at amortized cost)	488,021
			10,445,376	*A/I*	39,924	–	FVOCI	10,485,300
	Loans and Receivables	₱441,513,305	₱–		₱39,924	(₱1,908,533)		₱439,644,696
		₱680,659,334			₱2,990,464	(₱1,936,824)		₱681,712,974

The impact on the Group and Parent Company's surplus and net unrealized loss upon adoption of PFRS 9 are as follows:

		Consolidated	**Parent Company**
Net unrealized losses			
Closing balance under PAS 39 (December 31, 2017)		(₱3,040,507)	(₱3,040,507)
Classification and measurement:			
Reversal of net unrealized losses (AFS investments to investment securities at amortized cost)	B/	702,171	667,104
Recognition of net unrealized losses on equity securities	C/	(11,722)	(11,722)
Reclassification of net unrealized losses to Surplus (FVPL to FVOCI)	D/	(4,820)	(4,820)

		Consolidated	Parent Company
Reversal of allowance on AFS equity investments reclassified to financial assets at FVOCI	E/	(₱625,500)	(₱625,500)
Reversal of unamortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	671,353	671,353
Recognition of net unrealized gains or reversal of unamortized net unrealized losses (HTM investment to FVOCI)	G/	1,522,087	1,522,087
Recognition of net unrealized gain (Loans and receivables at amortized cost to FVOCI)	I/	39,924	39,924
Share in impact of PFRS 9 adoption by subsidiaries		–	35,067
		2,293,493	2,293,493
Expected credit losses:			
Recognition of ECL on financial assets at FVOCI	A/	58,500	58,500
		2,351,993	2,351,993
Opening balance under PFRS 9 (January 1, 2018)		(₱688,514)	(₱688,514)
Surplus			
Closing balance under PAS 39 (December 31, 2017)		₱38,831,522	₱38,831,716
Classification and measurement:			
Reversal of allowance on AFS equity investments reclassified to financial assets at FVOCI	E/	625,500	625,500
Reclassification of net unrealized losses from Surplus (FVOCI to FVTPL)	D/	4,820	4,820
Reversal of amortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	101,718	101,718
		732,038	732,038
Expected credit losses:			
Recognition of ECL on financial assets at FVOCI	A/	(58,500)	(58,500)
Recognition of ECL on financial assets at amortized cost	H/	(2,798,635)	(1,936,823)
Share in impact of PFRS 9 adoption by subsidiaries		–	(861,812)
Income tax effect		464,978	464,978
		(2,392,157)	(2,392,157)
		(1,660,119)	(1,660,119)
Opening balance under PFRS 9 (January 1, 2018)		₱37,171,403	₱37,171,597

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Group and Parent Company on January 1, 2018:

- Certain equity investment securities previously classified as financial assets at FVTPL with carrying value of ₱0.69 million were reclassified to financial assets at FVOCI in compliance with the defined business models.
- Certain debt instruments previously classified as AFS investments with carrying value of ₱36.85 billion for the Group and ₱36.12 billion for the Parent Company were reclassified to investment securities at amortized cost since the business model is to collect contractual cash flows up until its corresponding maturities.

- The Group has elected the option to irrevocably designate some of its AFS equity investments with carrying value of ₱803.40 million for the Group and ₱664.23 million for the Parent Company as at financial assets at FVOCI.
- Certain equity investments of the Group and Parent Company previous classified as AFS investments with carrying value of ₱488.07 million and ₱486.80 million, respectively, were reclassified to financial assets at FVTPL in compliance with the defined business model.
- A portion of its previously held-to-maturity investments with carrying value of ₱17.60 billion were reclassified to financial assets at FVOCI. Certain unquoted debt securities previously classified as 'loans and receivables' with carrying value of ₱10.4 billion were transferred to financial assets at FVOCI. These debt securities are managed to collect contractual cash flows and sell to realize fair value changes prior to maturities of the securities.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

Consolidated

Measurement category	**Impairment Allowance under PAS 39**	**Transition adjustment**	**Impairment Allowance Under PFRS 9**
Loans and receivables			
Receivables from customers	₱8,496,015	₱2,509,248	₱11,005,263
Unquoted debt securities *	3,739,983	(3,683,233)	56,750
Other receivables	3,528,062	261,095	3,789,157
Financial assets at FVOCI**	–	58,500	58,500
Investment securities at amortized cost	–	3,711,523	3,711,523
	₱15,764,060	₱2,857,133	₱18,621,193

**Certain unquoted debt securities were transferred to Investment securities at amortized cost as part of the adoption of PFRS 9*
***Recognized in other comprehensive income*

Parent Company

Measurement category	**Impairment Allowance under PAS 39**	**Transition adjustment**	**Impairment Allowance Under PFRS 9**
Loans and receivables			
Receivables from customers	₱7,549,863	₱1,908,533	₱9,458,396
Unquoted debt securities *	3,683,232	(3,683,232)	–
Other receivables	3,272,232	–	3,272,232
Financial assets at FVOCI**	–	58,500	58,500
Investment securities at amortized cost	–	3,711,523	3,711,523
	₱14,505,327	₱1,995,324	₱16,500,651

**Certain unquoted debt securities were transferred to Investment securities at amortized cost as part of the adoption of PFRS 9*
***Recognized in other comprehensive income*

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and supersedes all current revenue recognition requirements under PFRSs. The Group adopted PFRS 15 using the modified retrospective application with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

Reward points program on credit card business
Prior to the adoption of PFRS 15, reward points program offered by the Parent Company to its credit card customers resulted in the allocation of a portion of the service fee (interchange fee) to the reward points using the fair value of points issued and recognition of deferred revenue in relation to points issued but not yet redeemed or expired. The Parent Company concluded that under PFRS 15 these reward points constitute a separate performance obligation because they provide a material right to credit card customers and a portion of the service fee was allocated to the rewards points earned by the customers. The Parent Company determined that, considering the relative stand-alone transaction prices, the amount attributable to earned reward points was lower compared to the previous accounting policy. The change did not have a material impact on the deferred revenue related to the amount attributable to earned reward points.

There were no adjustments recognized to the opening balances of surplus as at January 1, 2018 as the adoption of PFRS 15 did not materially impact the Group's accounting of revenues from service charges, fees and commissions and gains or losses from sale of investment properties.

PFRS 4 (Amendments), *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

Significant Accounting Policies

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group, as an acquirer, shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the NCI, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

<u>Non-current Assets and Disposal Group Held for Sale and Discontinued Operations</u>
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 amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity 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

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Refer to Note 36 for the detailed disclosure on discontinued operations. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Foreign Currency Translation

The financial statements are presented in PHP, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in PHP while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances

As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and for foreign currency-denominated income and expenses at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated 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 gair or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively.)

FCDU and overseas subsidiaries

As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. 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.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. 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 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 requirements.

Fair Value Measurement
The Group measures financial instruments such as financial assets and liabilities at FVTPL and financial assets at FVOCI/AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes 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 fair value of an asset or a liability is measured 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 a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the 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.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments – Classification and Subsequent Measurement of Financial Assets

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Group. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized 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.

Derivatives recorded at FVTPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These contracts are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Policies applicable beginning January 1, 2018

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost.

The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (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.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at Financial assets at FVTPL, irrespective of the business model. Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of income.

Financial Assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, financial assets at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included 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: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment 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. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms 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 and securities purchased under resale agreements (SPURA)', 'Investment securities at amortized cost', 'Loans and receivables' and those under other assets.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from credit losses are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

<u>*Policies applicable prior to January 1, 2018*</u>
The Group classifies its financial assets in the following categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities at amortized cost.

Financial assets or financial liabilities held-for-trading
Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVTPL' or 'Financial Liabilities at FVTPL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVTPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized as 'Foreign exchange gains-net' in the statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVTPL or designated as AFS investments.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC) and Allied Leasing and Finance Corporation (ALFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from impairment are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial Assets at FVPL', 'HTM Investments' or 'Loans and Receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net change in unrealized gain (loss) on AFS investments' in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. Losses arising from impairment of such investments are recognized as 'Provision for impairment, credit and other losses' in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL, are classified as 'Deposit Liabilities', 'Bills and Acceptances Payable', 'Subordinated Debt' and other appropriate financial liability accounts, where the substance of the contractual arrangement 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.

After initial measurement, other financial liabilities not qualified as and not designated at FVTPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS investments category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized 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 asset is recognized to the extent of the Group's 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 liability

A financial liability is derecognized 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, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities Held Under Agreements to Resell', and is considered 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.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

Overview of the ECL principles

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with 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. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. 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.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

Definition of "Default" and "Cure"
A default is considered to have occurred when (a) the obligor is past due for more than 90 days on any material credit obligation to the Group, or (b) 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. An instrument is considered to be no longer 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 Significant Increase in Credit Risk
At each reporting date, the Group shall assess 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 (a) quantitative element, (b) qualitative element, and (c) if unpaid for at least 30 days ("backstop").

The quantitative element is being looked through statistical models or credit ratings process or scoring process that captures certain information which the Group shall consider as relevant in assessing changes in credit risk. The Group may also look 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.

Staging Transfer
Credit exposures shall be transferred from Stage 1 to Stage 2 if there is SICR from initial recognition date. Exposures shall be classified as Stage 2 if (a) the exposure have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. (b) 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.

Exposures shall be transferred from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to their transfer. Quantitative indicator is characterized by payments made within an observation period. Qualitative indicator pertains to the results of assessment of the borrower's financial capacity.

As a general rule, 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 (a) risk of default at reporting date based on modified terms, and the (b) risk of default at initial recognition date based on original terms.

Purchased or Originated Credit-Impaired Loans
A loan is considered 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 shall only recognize 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.
- 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.
- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occurs at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Discount rate - represents the rate to be used to discount an expected loss to a present value at the reporting date using the original effective interest rate determined at initial recognition.

Forward-looking information shall be considered in estimating/determining the 12-month and lifetime PD, EAD and LGD depending on the credit exposure.

Macroeconomic Forecasts, Forward-looking Information and Probability-weighted Scenarios
ECL measurement is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios shall 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, etc.
- 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/losses, etc.

The Group applied a simplified ECL approach for its other loans and receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to product conditions over the span of a given observation period.

Policies applicable prior to January 1, 2018
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is 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 indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment securities at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of 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. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under 'Provision for impairment, credit and other losses' in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies 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 gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates 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. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Financial Guarantees and undrawn loan commitments
In the ordinary course of business, the Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and under PAS 39, the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

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.

Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life.

Nonlife Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated 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 liability is not discounted for the time value of money and includes provision for claims IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract, is discharged or cancelled and has expired.

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 is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The 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. Further provisions are made 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.

Investments in Subsidiaries
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company separate financial statements, investments in subsidiaries are accounted for under equity method of accounting similar to investment in an associate.

Investments in an Associate and Joint Ventures
Associates pertain to all entities over which the Group has significant influence. Significant influence 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. Investment in an associate are accounted for under equity method of accounting.

Under the equity method, the investments in an associate and joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associates and joint ventures. The statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. When there has been a change recognized in the investee's other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the statement of comprehensive income. Profits and losses arising from transactions between the Group and the associates are eliminated to the extent of the interest in the associates and joint ventures.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

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 beginning January 1, 2018, revenue from contracts with customers 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. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*
Non-refundable access fees are recognized 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.

c) *Fee income from providing transaction services*
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 - are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized 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. Loan syndication fees are recognized in the statement of income 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 Bank assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income 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 the adoption of PFRS 15, consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed or have expired. The deferred balance is included under 'Other liabilities' in the statement of financial position.

Upon adoption of PFRS 15 beginning 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 amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.

Commissions earned on credit cards
Commissions earned are taken up as income 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.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized 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.

Revenues outside the scope of PFRS 15:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI/AFS investments, interest income is recorded 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. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), 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 adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), 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, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as 'Insurance contract liabilities.'

Dividend income
Dividend income is recognized when the Group's right to receive payment is established.

Trading and investment securities gains - net
'Trading and investment securities gains - net' includes 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 financial assets at FVOCI/AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method 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.

Premiums revenue
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. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when 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.

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' (Note 36).

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 which is presented under 'Liabilities of disposal group' will be withheld and recognized as Funds held for reinsurers and included as part of 'Liabilities of disposal group' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (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 24thmethod 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. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the consolidated statement of financial position.

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.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated 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.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. 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 an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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) is included in the statement of income in the period the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be reliably measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under 'Net gain on sale or exchange of assets'.

Foreclosed properties are classified under 'Investment Properties' upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and any impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Net gain on sale or exchange of assets' in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Transfers are made 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. Transfers are made from 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.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. 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 amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs

Software costs, included in 'Intangible Assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles

Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value 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, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets and other properties acquired

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, 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.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted 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.

An impairment loss is charged against operations in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed 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. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount 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. Such reversal is recognized in the statement of income. After such reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investments in subsidiaries and an associate

The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where 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), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. 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.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and Equipment' account with the corresponding liability to the lessor included in 'Other Liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor

Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and Receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases

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.

Retirement Benefits

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling, if any. 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 plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is 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. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

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) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified 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. Plan assets 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 fair value of plan assets is estimated 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’s right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Accrued Taxes, Interest and Other Expenses' in the statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and 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 reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined 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 increase in the provision due to the passage of time is recognized as an interest expense.

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

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, 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.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized 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. Deferred tax, however, is not recognized 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.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized 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 carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured 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.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset 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.

Parent Company Shares Held by a Subsidiary

Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company’s own equity instruments.

Earnings per Share

Basic earnings per share (EPS) is computed 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 stock dividends declared and stock rights exercised during the period, if any. Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends

Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

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 cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognized in “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.

Debt Issue Costs

Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs

Borrowing costs are recognized 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.

Events after the Reporting Date

Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

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

Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity

Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves

The reserves recorded in equity in the statement of financial position include:

'Remeasurement Losses on Retirement Plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated Translation Adjustment' which is 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 Loss on Available-for-Sale Investments'/'Net Unrealized loss on FVOCI' which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. 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 their financial statements.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and 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 an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Annual Improvements to PFRS 2015 to 2017 Cycle
PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements* - *Previously held interest in a joint operation*
The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, *Income Taxes* - *Income tax consequence of payments on financial instruments classified as equity*
The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization*
The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)
Amendments to PFRS 3, *Business Combinations - Definition of a Business*
The amendments to PFRS 3 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. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. 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 PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)
PFRS 17*, Insurance Contracts*
PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. 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 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, *Business Combinations*. 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.

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 of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Judgments

(a) *Leases*

Operating leases

Group as lessee

The Group has entered into lease on premises it uses for its operations. The Group has determined, based on the evaluation of the terms and conditions of the lease agreement (i.e., the lease does not transfer ownership of the asset to the lessee by the end of the lease term and lease term is not for the major part of the asset's economic life), that the lessor retains all the significant risks and rewards of ownership of these properties.

Finance leases

Group as lessor

The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) *Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, 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) *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).

(d) *Functional currency*

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

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.

(e) *Assessment of control over entities for consolidation*
Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls Oceanic Holding (BVI) Ltd. (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.

(f) *Assessment of joint control*
The Parent Company has certain joint arrangements with real estate companies for the development of its investment properties into residential/condominium units. In assessing joint control over these parties, the Parent Company assesses whether all the parties collectively control the arrangement. Further, the Parent Company determines the relevant activities of the arrangement and whether decisions around relevant activities require unanimous consent. The Parent Company also considers the scope of decision-making authority of the real estate companies in accordance with their respective contractual arrangements.

The Parent Company determined that it has joint control over these joint arrangements on the basis that even though the real estate companies are the designated operators of the joint arrangement, they are still bound by the contract that establishes joint control of the undertaking and they can only act in accordance with the authorities granted to them under the joint venture agreement.

(g) *Sale of Allianz-PNB Life Insurance, Inc.(APLII)*

Pursuant to the partial sale of interest in APLII in 2016 under a share purchase agreement, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years.

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Parent Company was allocated between the sale of its ownership interest in APLII and the Exclusive Distribution Right (see Note 12).

(h) *Classification of financial assets beginning January 1, 2018*
Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. 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.

The business model assessment (BMA) is the second test. The BMA reflects how financial assets are managed in order to generate net cash inflows, The Group performs BMA based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- 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.

Estimates

(a) *Credit losses on financial assets beginning 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. Elements of the ECL models that are treated as accounting judgments and estimates include, among others:

- 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.
- 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.
- 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 management is required in the estimation of the amount and timing of future cash flows when determining the level of required 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.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

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 Notes 10 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively. Refer to Note 16 for the details of the allowance for credit losses.

(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 likely timing and level of future taxable income together with future tax planning strategies.

The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 30.

(d) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves 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. All assumptions are reviewed 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 was based on the Group's policy taking into account 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 fair value of plan assets is estimated 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.

(e) *Impairment of nonfinancial assets - property and equipment, investments in subsidiaries and an associate, investment properties, other properties acquired and intangibles*
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 factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- 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 nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. 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 computation 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 Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties and intangible assets and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(f) *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 their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use 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 value-in-use are sensitive to estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Note 14.

(g) *Valuation of insurance contracts*
Estimates have to be made both for the expected ultimate cost of claims reported and for 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.

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance contract liabilities are not discounted for the time value of money.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Notes 22 and 36.

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 managementframework. 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 strategyand assists in overseeing the implementation of those strategies and business plans by seniormanagement. 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 Capital Adequacy Ratio (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. On January 1, 2018, upon the adoption of PFRS 9, 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. Therefore, the comparative information for 2017 is not comparable to the information presented for 2018 (see Note 10).

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			
	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**	**122,081,463**	**349,173,297**
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**	**–**	**11,079,479**
Housing Loans	**32,569,910**	**32,010,871**	**559,039**	**32,010,871**
Auto Loans	**11,511,890**	**10,948,300**	**563,590**	**10,948,300**
Others	**16,988,708**	**13,688,546**	**3,300,162**	**13,688,546**
Other receivables	**18,455,311**	**11,841,204**	**6,614,107**	**11,841,204**
	₱601,746,140	**₱457,563,946**	**₱152,854,196**	**₱448,891,944**

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Consolidated			
	2017			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱14,621,483	₱14,473,258	₱148,225	₱14,473,258
Loans and receivables:				
Receivables from customers*:				
Business loans	402,208,252	573,328,885	–	402,208,252
Consumers	44,780,030	36,704,079	9,365,239	35,414,791
GOCCs and National Government Agencies (NGAs)	17,328,887	15,117,428	2,211,459	15,117,428
LGUs	6,958,150	1,024,131	5,934,019	1,024,131
Fringe benefits	502,609	553,035	–	502,609
Unquoted debt securities	10,934,147	–	10,934,147	–
Other receivable	18,931,337	16,084,896	2,846,441	16,084,896
	₱516,264,895	₱657,285,712	₱31,439,530	₱484,825,365

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	Parent			
	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**	**129,982,791**	**323,072,021**
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**	**852,999**	**6,387,250**
Housing Loans	**1,569,098**	**1,405,724**	**163,374**	**1,405,724**
Auto Loans	**433**	**4,074**	**–**	**433**
Others	**13,487,060**	**13,480,147**	**6,913**	**13,480,147**
Other receivable	**16,281,540**	**11,835,919**	**4,445,621**	**11,835,919**
	₱531,519,274	**₱376,335,382**	**₱155,187,533**	**₱376,331,741**

	Parent Company			
	2017			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱14,621,483	₱14,473,258	₱148,225	14,473,258
Loans and receivables:				
Receivables from customers:				
Business loans	382,322,273	546,762,806	–	382,322,273
Consumers	10,900,358	1,567,307	10,250,924	1,567,307
GOCCs and NGAs	17,328,887	15,117,428	1,288,788	15,117,428
LGUs	6,958,150	1,024,131	5,934,019	1,024,131
Fringe benefits	468,272	522,070	–	468,272
Unquoted debt securities	10,933,395	–	10,933,395	–
Other receivable	12,804,193	16,012,112	–	12,804,193
	₱456,337,011	₱595,479,112	₱28,555,351	₱427,776,862

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 as disclosed in Note 34 to the financial statements.

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
   The internal limits set by the Parent Company for group exposures are as follows:
   CRR 1-12 – up to 95% of the regulatory Single Borrowers Limit (SBL)
   CRR 13-18 – up to of the regulatory SBL
   CRR 18-26 – up to 50% of the regulatory SBL

   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			
	2018			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱550,890,988**	**₱119,582,436**	**₱126,685,703**	**₱797,159,127**
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**
Oceania	**1,684,104**	–	–	**1,684,104**
Other European Union Countries	–	**39,599**	**1,532,835**	**1,572,434**
United Kingdom	**38,764**	**340,809**	**8,069,032**	**8,448,605**
Middle East	–	–	**16,530**	**16,530**
	₱581,046,140	**₱161,446,325**	**₱156,002,091**	**₱898,494,556**

* *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			
	2017			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱468,318,223	₱79,432,010	₱128,064,005	₱675,814,238
Asia (excluding the Philippines)	28,656,909	10,974,911	17,295,570	56,927,390
USA and Canada	1,243,490	2,450,828	8,530,735	12,225,053
Oceania	3,398,662	–	–	3,398,662
Other European Union Countries	–	382,808	2,065,193	2,448,001
United Kingdom	26,128	6,284,385	3,007,550	9,318,063
Middle East	–	–	10,943	10,943
	₱501,643,412	₱99,524,942	₱158,973,996	₱760,142,350

* *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			
	2018			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱493,649,414**	**₱118,495,863**	**₱122,138,458**	**₱734,283,735**
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**
Oceania	**1,684,104**	–	–	**1,684,104**
USA and Canada	–	**39,599**	**1,465,439**	**1,505,038**
Other European Union Countries	–	**340,809**	**7,155,383**	**7,496,192**
Middle East	–	–	**16,530**	**16,530**
	₱510,819,274	**₱160,226,858**	**₱142,185,535**	**₱813,231,667**

**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)*

	Parent Company			
	2017			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱417,889,498	₱77,297,223	₱122,665,366	₱617,852,087
Asia (excluding the Philippines)	19,753,264	10,971,619	6,437,886	37,162,769
United Kingdom	674,104	2,326,180	8,460,359	11,460,643
Oceania	3,398,662	479	–	3,399,141
USA and Canada	–	382,808	2,062,191	2,444,999
Other European Union Countries	–	6,210,003	3,007,451	9,217,454
Middle East	–	–	10,943	10,943
	₱441,715,528	₱97,188,312	₱142,644,196	₱681,548,036

**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			
	2018			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱91,268,308**	**₱32,395,927**	**₱132,938,912**	**₱256,603,147**
Wholesale and retail	**82,912,802**	**–**	**–**	**82,912,802**
Electricity, gas and water	**72,396,544**	**3,825,413**	**–**	**76,221,957**
Transport, storage and communication	**42,056,873**	**243,736**	**–**	**42,300,609**
Manufacturing	**49,251,873**	**446,044**	**–**	**49,697,917**
Public administration and defense	**18,007,819**	**–**	**–**	**18,007,819**
Agriculture, hunting and forestry	**7,293,753**	**–**	**–**	**7,293,753**
Secondary target industry:				
Government	**961,957**	**101,119,242**	**22,148,910**	**124,230,109**
Real estate, renting and business activities	**83,011,051**	**240,191**	**–**	**83,251,242**
Construction	**25,852,120**	**14,604,914**	**–**	**40,457,034**
Others**	**108,033,040**	**8,570,858**	**914,269**	**117,518,167**
	₱581,046,140	**₱161,446,325**	**₱156,002,091**	**₱898,494,556**

* *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)*

	Consolidated			
	2017			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱81,339,503	₱11,385,526	₱52,731,051	₱145,456,080
Wholesale and retail	72,590,561	–	–	72,590,561
Electricity, gas and water	63,607,168	242,543	–	63,849,711
Transport, storage and communication	39,143,238	255,953	–	39,399,191
Manufacturing	30,808,117	18	–	30,808,135
Public administration and defense	23,770,145	–	–	23,770,145
Agriculture, hunting and forestry	7,138,996	19	–	7,139,015
Secondary target industry:				
Government	358,971	70,845,045	105,497,459	176,701,475
Real estate, renting and business activities	82,787,585	9,217,989	–	92,005,574
Construction	18,742,726	–	–	18,742,726
Others**	81,356,402	7,577,849	745,486	89,679,737
	₱501,643,412	₱99,524,942	₱158,973,996	₱760,142,350

* *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			
	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*	**51,956,453**	**9,546,449**	**671,250**	**62,174,152**
	₱510,819,274	**₱160,226,858**	**₱142,185,535**	**₱813,231,667**

* *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).*

	Parent Company			
	2017			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱80,879,478	₱11,212,105	₱36,460,258	₱128,551,841
Wholesale and retail	68,704,929	–	–	68,704,929
Electricity, gas and water	63,351,538	239,078	–	63,590,616
Transport, storage and communication	38,120,139	1,766	–	38,121,905
Manufacturing	28,266,909	17	–	28,266,926
Public administration and defense	22,419,612	–	–	22,419,612
Agriculture, hunting and forestry	6,665,547	19	–	6,665,566
Secondary target industry:				
Government	358,971	69,269,955	105,497,459	175,126,385
Real estate, renting and business activities	75,203,807	8,986,299	–	84,190,106
Construction	17,703,490	–	–	17,703,490
Others*	40,041,108	7,479,073	686,479	48,206,660
	₱441,715,528	₱97,188,312	₱142,644,196	₱681,548,036

* *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

Beginning January 1, 2018

As previously mentioned, 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, GOCCs 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 PNB SB 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.
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.

Credit quality	26-grade CRR system Used beginning January 1, 2018
	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, 2018:

	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	**67,797,340**	**590,180**	**2,659,337**	**71,046,857**
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	**10,717,155**	**138,835**	**1,192,164**	**12,048,154**
Credit Card	**11,748,103**	**393,450**	**1,270,510**	**13,412,063**
Others	**16,074,232**	**501,025**	**2,115,073**	**18,690,330**
	106,543,836	**5,899,844**	**4,839,022**	**117,282,701**
	₱553,190,379	**₱11,073,567**	**₱9,563,668**	**₱573,827,613**

	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**
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**

Prior to January 1, 2018
The credit quality of financial assets is assessed and managed using external and internal ratings. For receivables from customers classified as business loans, the credit quality is generally monitored using the 14-grade CRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables
The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of above ₱15.0 million) are defined below:

CRR 1 - Excellent
Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime
Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime
Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 – Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR 7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company uses credit scoring for evaluating borrowers with asset size of ₱15.0 million and below. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017, but net of residual values of leased assets.

	Consolidated			
	2017			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 – Excellent	₱4,291,461	₱–	₱–	₱4,291,461
2 - Super Prime	44,150,956	–	–	44,150,956
3 – Prime	79,626,334	–	–	79,626,334
4 - Very Good	51,582,911	4,995	–	51,587,906
5 - Good	41,160,103	–	–	41,160,103
6 - Satisfactory	47,552,725	104,642	–	47,657,367
7 - Average	32,300,228	5,115	14,990	32,320,333
8 - Acceptable	26,323,932	970	–	26,324,902
9 - Fair	8,111,610	–	60,909	8,172,519
10 - Watchlist	55,367,209	64,780	185,233	55,617,222
11 - Special Mention	3,030,339	143,170	159,571	3,333,080
12 - Substandard	957,285	38,244	2,245,340	3,240,869
13 - Doubtful	–	321,988	718,858	1,040,846
14 - Loss	–	10,740	2,986,181	2,996,921
	394,455,093	694,644	6,371,082	401,520,819
Unrated Receivables from Customers				
Consumers	51,341,531	1,426,568	218,224	52,986,323
Business Loans	18,240,516	468,879	710,896	19,420,291
LGUs	7,000,975	35,325	150,344	7,186,644
Fringe Benefits	493,746	4,266	12,743	510,755
GOCCs and NGAs	–	–	–	–
	77,076,768	1,935,039	1,092,207	80,104,013
	₱471,531,861	₱2,629,683	₱7,463,289	₱481,624,832

	Parent Company			
	2017			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 - Excellent	₱4,248,533	₱–	₱–	₱4,248,533
2 - Super Prime	43,620,906	–	–	43,620,906
3 - Prime	79,122,851	–	–	79,122,851
4 - Very Good	50,260,694	4,995	–	50,265,689
5 - Good	40,554,077	–	–	40,554,077
6 - Satisfactory	39,856,116	43,680	–	39,899,796
7 - Average	31,374,729	5,115	14,990	31,394,834
8 - Acceptable	26,202,086	970	–	26,203,056
9 - Fair	7,828,143	–	76	7,828,219
10 - Watchlist	55,204,756	29,500	–	55,234,256
11 - Special Mention	2,962,058	143,170	–	3,105,228
12 - Substandard	957,285	38,244	945,997	1,941,526
13 - Doubtful	–	321,988	522,423	844,411
14 - Loss	–	10,740	2,708,753	2,719,493
	382,192,234	598,402	4,192,239	386,982,875
Unrated Receivables from Customers				
Business Loans	18,942,189	407,654	710,897	20,060,740
Consumers	10,392,839	1,254,482	205,197	11,852,518
LGUs	7,000,975	35,325	150,344	7,186,644
Fringe Benefits	467,380	4,266	12,743	484,389
GOCCs and NGAs	–	–	–	–
	36,803,383	1,701,727	1,079,181	39,584,291
	₱418,995,617	₱2,300,129	₱5,271,420	₱426,567,166

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

As of December 31, 2018, the analysis of past due status of receivables from customers that are subject to scoring and unrated follows:

	Consolidated				
	2018				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
LGU	**₱2,601,143**	**₱–**	**₱–**	**₱–**	**₱2,601,143**
Credit Card	**857**	**134,027**	**448,475**	**860,799**	**1,444,158**
Retail SME	**448,609**	**118,568**	**27,433**	**887,445**	**1,482,055**
Housing Loans	**149**	**6,589**	**20,150**	**5,417**	**32,305**
Auto Loans	**1,005**	**3,200**	**3,276**	**53,569**	**61,050**
Others	**101,342**	**4,200**	**4,193**	**1,079,508**	**1,189,243**
Total	**₱3,153,105**	**₱266,584**	**₱503,527**	**₱2,886,738**	**₱6,809,954**

	Parent Company				
	2018				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
LGU	**₱2,601,143**	**₱–**	**₱–**	**₱–**	**₱2,601,143**
Auto Loans	**857**	**134,027**	**448,475**	**860,799**	**1,444,158**
Housing Loans	**448,173**	**107,614**	**26,810**	**788,103**	**1,370,700**
Retail SME	**–**	**4,501**	**2,640**	**–**	**7,141**
Credit Card	**–**	**–**	**19**	**39,589**	**39,608**
Others	**81,491**	**4,004**	**3,737**	**1,073,497**	**1,162,729**
Total	**₱3,131,664**	**₱250,146**	**₱481,681**	**₱2,761,988**	**₱6,625,479**

The tables below show the aging analysis of past due but not individually impaired loans receivables per class.

	Consolidated				
	2017				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱124,510	₱158,674	₱211,759	₱561,431	₱1,056,374
Consumers	237,018	147,991	308,946	839,763	1,533,718
Fringe benefits	667	824	1,476	1,299	4,266
LGUs	35,325	–	–	–	35,325
Total	₱397,520	₱307,489	₱522,181	₱1,402,493	₱2,629,683

	Parent Company				
	2017				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱63,411	₱158,412	₱211,759	₱561,430	₱995,012
Consumers	6,098	112,265	307,401	839,763	1,265,527
Fringe benefits	35,324	–	–	–	35,324
LGUs	667	824	1,476	1,299	4,266
Total	₱105,500	₱271,501	₱520,636	₱1,402,492	₱2,300,129

<u>Trading and Investment Securities and Other Financial Assets</u>
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, net of allowances, excluding receivables from customers, which are monitored using external ratings.

	Consolidated					
	2018					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱4,057,938**	**₱4,057,938**	**₱98,665,375**	**₱102,723,313**
Due from other banks	**8,756,826**	**5,844,679**	**2,843,242**	**17,444,747**	**3,080,571**	**20,525,318**
Interbank loans receivables	**3,260,307**	**7,385,582**	**453,379**	**11,099,268**	**149,187**	**11,248,455**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**20,700,000**	**20,700,000**
Financial assets at FVOCI						
Government securities	**1,078,129**	**–**	**32,038,366**	**33,116,495**	**–**	**33,116,495**
Private debt securities	**403,959**	**4,794,125**	**4,447,169**	**9,645,253**	**8,026,756**	**17,672,009**
Quoted equity securities	**–**	**–**	**183,148**	**183,148**	**616,392**	**799,540**
Unquoted equity securities	**–**	**–**	**–**	**–**	**86,123**	**86,123**
Investment securities at amortized cost:						
Government securities	**33,463**	**–**	**59,986,408**	**60,019,871**	**201,444**	**60,221,315**
Private debt securities	**1,227,609**	**5,089,990**	**3,967,772**	**10,285,371**	**29,266,025**	**39,551,396**
Financial assets at amortized cost:						
Others[4/]	**–**	**–**	**18,836,276**	**18,836,276**	**–**	**18,836,276**

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

	Consolidated					
	2017					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱108,743,985	₱108,743,985	₱–	₱108,743,985
Due from other banks	5,679,010	5,155,624	3,392,665	14,227,299	7,798,023	22,025,322
Interbank loans receivables	5,801,422	2,754,325	3,588,842	12,144,589	693,132	12,837,721
Securities held under agreements to resell	–	–	14,621,483	14,621,483	–	14,621,483
Financial assets at FVPL:						
Government securities	–	–	1,822,378	1,822,378	385,574	2,207,952
Equity securities	97,206	12,648	298,156	408,010	154,974	562,984
Derivative assets[2/]	–	–	–	–	31,305	31,305
Private debt securities	–	–	42,990	42,990	30,928	73,918
Investment in Unit Investment Trust Funds (UITFs)	–	–	6,236	6,236	–	6,236
AFS investments:						
Government securities	2,240,392	–	33,735,515	35,975,907	5,645,317	41,621,224
Private debt securities	2,283,698	5,941,865	9,044,338	17,269,901	9,650,145	26,920,046
Quoted equity securities	–	–	139,905	139,905	1,004,874	1,144,779
Unquoted equity securities	–	–	538	538	146,154	146,692
HTM investments						
Government securities	124,913	–	23,959,337	24,084,250	2,720,881	26,805,131
Loans and receivables:						
Unquoted debt securities[3/]	–	–	148,723	148,723	10,784,672	10,933,395
Others[4/]	–	–	12,561,523	12,561,523	–	12,561,523

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	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	**3,260,307**	**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	**33,463**	–	**59,800,026**	**59,833,489**	**201,444**	**60,034,933**
Financial assets at amortized cost:						
Others[4/]	–	–	**17,308,833**	**17,308,833**	–	**17,308,833**

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] 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					
	2017					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱105,497,459	₱105,497,459	₱–	₱105,497,459
Due from other banks	2,595,995	5,281,255	1,517,295	9,394,545	1,360,715	10,755,260
Interbank loans receivables	5,801,422	2,754,325	1,834,636	10,390,383	693,132	11,083,515
Securities held under agreements to resell	–	–	14,621,483	14,621,483	–	14,621,483
Financial assets at FVPL:						
Government securities	–	–	1,822,378	1,822,378	385,574	2,207,952
Equity securities	–	–	–	–	30,928	30,928
Derivative assets[2/]	95,704	10,858	298,156	404,718	154,974	559,692
Private debt securities	–	–	–	–	31,305	31,305
AFS investments:						
Government securities	–	–	–	–	1,004,873	1,004,873
Private debt securities	–	–	–	–	146,154	146,154
Quoted equity securities						
Unquoted equity securities	266	–	23,959,337	23,959,603	2,720,881	26,680,484
HTM investments						
Government securities	–	–	148,723	148,723	10,784,671	10,933,394
Loans and receivables:	–	–	12,804,193	12,804,193	–	12,804,193
Unquoted debt securities[3/]	–	–	–	–	1,004,873	1,004,873
Others[4/]	–	–	–	–	12,950,347	12,950,347

[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/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] 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 (Notes 10 and 15).
[5/] Financial assets that are unrated are neither past due nor impaired.

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					
	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	10,664,790	2,442,863	–	–	–	13,107,653
Securities held under agreements to resell	20,713,656	–	–	–	–	20,713,656
Financial assets at FVTPL:						
Government securities	8,457,711	–	–	–	–	8,457,711
Private debt securities	415,583	–	–	–	–	415,583
Equity securities	545,149	–	–	–	–	545,149
Investment in UITFs	6,375	–	–	–	–	6,375
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	987,525	553,618	3,725,942	1,192,976	28,389,989	34,850,050
Private debt securities	319,173	152,913	484,719	2,756,936	14,374,652	18,088,393
Equity securities	–	–	–	–	885,663	885,663
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	3,899,850	87,502	3,997	3,702,950	18,739,286	26,433,585
Other assets	669,790	–	–	–	135,215	805,005
Total financial assets	₱280,418,509	₱89,123,598	₱37,227,622	₱32,826,988	₱626,444,916	₱1,066,041,633

(Forward)

	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 Liabilities						
Deposit liabilities:						
Demand	**₱153,065,163**	**₱–**	**₱–**	**₱–**	**₱–**	**₱153,065,163**
Savings	**325,879,492**	**55,277,943**	**11,124,898**	**3,934,958**	**59,492,319**	**455,709,610**
Time and LTNCDs	**64,510,020**	**47,939,843**	**15,741,007**	**12,397,727**	**47,608,239**	**188,196,836**
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	**₱574,741,404**	**₱135,378,518**	**₱35,196,186**	**₱23,863,312**	**₱136,793,644**	**₱905,973,064**

	Consolidated					
	2017					
	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	₱12,391,139	₱–	₱–	₱–	₱–	₱12,391,139
Due from BSP and other banks	130,769,307	–	–	–	–	130,769,307
Interbank loans receivable	12,286,982	228,340	172,609	149,790	–	12,837,721
Securities held under agreements to resell	14,621,483	–	–	–	–	14,621,483
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	30,057,331	5,363,657	565,366	103,789	788,189	36,878,332
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	220,096	36,827	24,281	23,637	258,143	562,984
Designated at FVPL:						
Investment in UITFs	6,236	–	–	–	–	6,236
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,291,471	1,291,471
HTM investments:						
Government securities	188,569	212,336	303,546	757,310	44,207,605	45,669,366
Loans and receivables:						
Receivables from customers	80,262,108	67,820,331	22,813,722	12,710,714	388,953,761	572,560,636
Unquoted debt securities	6,385,292	4,996,563	3,218,486	–	85,254	14,685,595
Other receivables	6,365,805	810,857	852,239	870,379	14,480,093	23,379,373
Other assets	886,941	–	–	–	45,697	932,638
Total financial assets	₱267,288,300	₱74,802,597	₱28,662,896	₱18,101,581	₱524,919,043	₱913,774,417
Financial Liabilities						
Deposit liabilities:						
Demand	₱125,581,889	₱–	₱–	₱–	₱–	₱125,581,889
Savings	291,611,443	31,169,095	12,960,373	18,753,987	15,868,774	370,363,672
Time and LTNCDs	44,892,027	41,379,772	12,008,434	10,077,758	59,496,046	167,854,037
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416

(Forward)

	Consolidated					
	2017					
	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
Bills and acceptances payable	₱14,828,488	₱1,107,665	₱4,390,454	₱5,074,742	₱12,967,428	₱38,368,777
Accrued interest payable and accrued other expenses payable	1,543,768	156,457	29,837	9,872	16,785	1,756,719
Other liabilities	19,622,229	180,420	74,596	182,729	1,502,432	21,562,406
Total financial liabilities	₱498,207,917	₱74,001,399	₱29,467,073	₱34,120,032	₱90,034,495	₱725,830,916

	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	**10,802,556**	**2,489,016**	–	**411,692**	–	**13,703,264**
Securities held under agreements to resell	**20,705,463**	–	–	–	–	**20,705,463**
Financial assets at FVTPL:						
Government securities	**8,457,711**	–	–	–	–	**8,457,711**
Private debt securities	**415,583**	–	–	–	–	**415,583**
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	**860,264**	**553,410**	**3,676,724**	**1,118,623**	**27,737,653**	**33,946,674**
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 amortized 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	**₱256,779,213**	**₱86,019,802**	**₱34,540,178**	**₱24,690,644**	**₱571,185,167**	**₱973,212,004**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱149,539,540**	**₱–**	**₱–**	**₱–**	**₱–**	**₱149,539,540**
Savings	**317,778,999**	**55,277,943**	**11,124,898**	**3,934,958**	**59,492,319**	**447,609,117**
Time and LTNCDs	**51,362,124**	**30,407,644**	**13,203,801**	**11,043,590**	**39,049,996**	**145,067,155**
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	**₱552,096,124**	**₱114,239,167**	**₱31,838,406**	**₱15,858,330**	**₱125,974,802**	**₱840,006,829**

	Parent Company					
	2017					
	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	₱11,671,952	₱–	₱–	₱–	₱–	₱11,671,952
Due from BSP and other banks	116,252,719	–	–	–	–	116,252,719
Interbank loans receivable	9,157,109	1,604,115	172,673	149,931	–	11,083,828
Securities held under agreements to resell	14,625,088	–	–	–	–	14,625,088
Financial assets at FVPL:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	₱30,056,716	₱5,362,855	₱563,491	₱103,789	₱788,189	₱36,875,040
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	219,481	36,025	22,406	23,637	258,143	559,692
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,151,027	1,151,027
HTM investments:						
Government securities	70,937	748,750	72,514	760,759	27,799,434	29,452,394
Loans and receivables:						
Receivables from customers	73,021,615	65,455,257	20,885,287	10,315,944	341,846,641	511,524,744
Unquoted debt securities	6,327,790	4,996,563	3,218,486	–	85,254	14,628,093
Other receivables	937,977	640,518	765,135	749,369	14,065,429	17,158,428
Other assets	874,510	–	–	–	–	874,510
Total financial assets	₱236,063,520	₱74,178,571	₱26,414,514	₱15,589,391	₱460,802,947	₱813,048,943
Financial Liabilities						
Deposit liabilities:						
Demand	₱123,396,962	₱–	₱–	₱–	₱–	₱123,396,962
Savings	278,242,929	28,561,604	11,681,381	15,880,899	13,776,365	348,143,178
Time and LTNCDs	35,916,806	25,512,119	8,886,110	9,939,517	47,991,405	128,245,957
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416
Bills and acceptances payable	17,590,751	10,625,833	2,839,180	1,504,114	32,559,878	65,119,756
Accrued interest payable and accrued other expenses payable	1,413,437	153,518	5,428	7,848	16,785	1,597,016
Other liabilities	12,468,862	–	–	–	1,058,246	13,527,108
Total financial liabilities	₱469,157,820	₱64,861,064	₱23,415,478	₱27,353,322	₱95,585,709	₱680,373,393

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 2018 and 2017, 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, 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*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2017	₱7.30	₱179.72	₱1.29	₱188.31
Average Daily	3.75	178.20	0.74	182.69
Highest	18.25	324.06	1.52	343.83
Lowest	0.63	58.00	0.26	58.89

* *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*

Structural Market Risk

Non-trading Market Risk
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					
	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**	**₱448,730,704**
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**	**₱634,577,295**
Repricing gap	**(₱5,585,210)**	**(₱53,753,263)**	**(₱24,830,211)**	**(₱6,412,298)**	**(₱95,265,605)**	**₱(185,364,773)**
Cumulative gap	**(5,585,210)**	**(59,338,473)**	**(84,168,684)**	**(90,580,982)**	**(185,846,588)**	**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.*

	Consolidated					
	2017					
	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	₱24,660,231	₱2,121,146	₱728,009	₱185,844	₱4,589,558	₱32,284,788
Interbank loans receivable	19,961,838	7,326,962	170,404	–	–	27,459,204
Receivables from customers and other receivables - gross**	133,507,202	75,007,949	17,508,883	23,249,440	89,053,842	338,327,316
Total financial assets	₱178,129,271	₱84,456,057	₱18,407,296	₱23,435,284	₱93,643,400	₱398,071,308
Financial Liabilities*						
Deposit liabilities:						
Savings	₱75,793,561	₱22,624,460	₱12,265,322	₱17,354,750	₱223,384,284	₱351,422,377
Time***	59,937,295	25,560,312	10,090,695	10,242,856	23,720,876	129,552,034
Bills and acceptances payable	22,795,429	15,546,756	752,635	884,611	3,937,257	43,916,688
Total financial liabilities	₱158,526,285	₱63,731,528	₱23,108,652	₱28,482,217	₱251,042,417	₱524,891,099
Repricing gap	₱19,602,986	₱20,724,529	(₱4,701,356)	(₱5,046,933)	(₱157,399,017)	(₱126,819,791)
Cumulative gap	19,602,986	40,327,515	35,626,159	30,579,226	(126,819,791)	–

* *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					
	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	**₱172,310,800**	**₱54,211,724**	**₱14,250,209**	**₱11,057,964**	**₱183,217,208**	**₱435,047,905**
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	**₱175,693,655**	**₱105,266,255**	**₱35,317,054**	**₱20,450,242**	**₱244,095,602**	**₱580,822,808**
Repricing gap	**(₱3,382,855)**	**(₱51,054,531)**	**(₱21,066,846)**	**(₱9,392,278)**	**(₱60,878,394)**	**(₱145,774,904)**
Cumulative gap	**(3,382,855)**	**(54,437,386)**	**(75,504,231)**	**(84,896,509)**	**(145,774,903)**	

* *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					
	2017					
	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	₱19,626,976	₱–	₱–	₱–	₱128,284	₱19,755,260
Interbank loans receivable and securities held under repurchase agreement	18,207,632	7,326,962	170,404	–	–	25,704,998
Receivable from customers and other receivables - gross**	133,507,202	75,007,949	17,508,883	23,249,440	89,053,842	338,327,316
Total financial assets	₱171,341,810	₱82,334,911	₱17,679,287	₱23,249,440	₱89,182,126	₱383,787,574
Financial Liabilities*						
Deposit liabilities:						
Savings	₱74,365,998	₱22,287,315	₱11,817,535	₱16,816,776	₱219,991,839	₱345,279,463
Time***	42,070,312	22,331,683	8,367,100	9,354,882	14,240,680	96,364,657
Bills and acceptances payable and bonds payable	25,020,114	15,172,286	338,672	273,751	595,980	41,400,803
Total financial liabilities	₱141,456,424	₱59,791,284	₱20,523,307	₱26,445,409	₱234,828,499	₱483,044,923
Repricing gap	₱29,885,386	₱22,543,627	(₱2,844,020)	(₱3,195,969)	(₱145,646,373)	(₱99,257,349)
Cumulative gap	29,885,386	52,429,013	49,584,993	46,389,024	(99,257,349)	–

* *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, 2018 and 2017:

	Consolidated			
	2018		2017	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱321,344**	**₱321,344**	₱195,558	₱195,558
-50bps	**(321,344)**	**(321,344)**	(195,558)	(195,558)
+100bps	**642,687**	**642,687**	391,117	391,117
-100bps	**(642,687)**	**(642,687)**	(391,117)	(391,117)

	Parent Company			
	2018		2017	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱293,938**	**₱293,938**	₱244,450	₱244,450
-50bps	**(293,938)**	**(293,938)**	(244,450)	(244,450)
+100bps	**587,876**	**587,876**	488,901	488,901
-100bps	**(587,876)**	**(587,876)**	(488,901)	(488,901)

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					
	2018			2017		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱137,978**	**₱330,617**	**₱468,595**	₱156,558	₱518,612	₱675,170
Due from other banks	**8,777,120**	**9,814,266**	**18,591,386**	9,553,985	7,081,852	16,635,837
Interbank loans receivable and securities held under agreements to resell	**2,869,290**	**1,950,059**	**4,819,349**	2,904,298	1,678,936	4,583,234
Loans and receivables	**18,453,000**	**11,376,886**	**29,829,886**	13,729,348	941,223	14,670,571
Financial Assets at FVTPL	**446,926**	**882**	**447,808**	–	–	–
AFS investments				14,380,453	1,592,873	15,973,326
Financial Assets at FVOCI	**4,180,482**	**1,325,930**	**5,506,412**	–	–	–
HTM investments				7,250	–	7,250
Investment securities at amortized cost	**10,206,937**	**775,295**	**10,982,232**	–	–	–
Other assets	**3,539,425**	**1,238,191**	**4,777,616**	61,789	210,440	272,229
Total assets	**48,611,158**	**26,812,126**	**75,423,284**	40,793,681	12,023,936	52,817,617
Liabilities						
Deposit liabilities	**9,288,237**	**9,261,411**	**18,549,648**	9,304,064	4,154,433	13,458,497
Derivative liabilities	**1,184**	**2,300**	**3,484**	–	1,335	1,335
Bills and acceptances payable	**8,548,504**	**26,777,697**	**35,326,201**	12,464,796	7,667,327	20,132,123
Accrued interest payable	**75,571**	**107,362**	**182,933**	55,593	36,856	92,449
Other liabilities	**1,390,598**	**1,135,891**	**2,526,489**	10,658,664	434,957	11,093,621
Total liabilities	**19,304,094**	**37,284,661**	**56,588,755**	32,483,117	12,294,908	44,778,025
Net Exposure	**₱29,307,064**	**(₱10,472,535)**	**₱18,834,529**	₱8,310,564	(₱270,972)	₱8,039,592

* *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), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Parent Company					
	2018			2017		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱81,634**	**₱328,417**	**₱410,051**	₱27,480	₱516,152	₱543,632
Due from other banks	**4,264,743**	**2,861,495**	**7,126,238**	2,367,235	5,732,388	8,099,623
Interbank loans receivable and securities held under agreements to resell	**2,869,290**	**1,950,059**	**4,819,349**	2,904,298	1,678,936	4,583,234
Loans and receivables	**15,902,948**	**540,618**	**16,443,566**	12,448,339	593,535	13,041,874
Financial Assets at FVTPL	**446,044**	**–**	**446,044**			
AFS investments				14,379,915	1,518,490	15,898,405
Financial Assets at FVOCI	**4,154,658**	**1,252,187**	**5,406,845**			
HTM investments				7,250	–	7,250
Investment securities at amortized cost	**10,153,480**	**775,295**	**10,928,775**			
Other assets	**3,512,644**	**28,210**	**3,540,854**	55,641	199,912	255,553
Total assets	**41,385,441**	**7,736,281**	**49,121,722**	32,190,158	10,239,413	42,429,571
Liabilities						
Deposit liabilities	**2,156,093**	**4,118,554**	**6,274,647**	2,059,160	4,126,954	6,186,114
Derivative liabilities	**–**	**1,116**	**1,116**	–	1,335	1,335
Bills and acceptances payable	**8,379,264**	**26,425,533**	**34,804,797**	12,335,654	7,501,224	19,836,878
Accrued interest payable	**58,511**	**17,325**	**75,836**	43,110	17,213	60,323
Other liabilities	**992,992**	**141,222**	**1,134,214**	10,438,562	141,435	10,579,997
Total liabilities	**11,586,860**	**30,703,750**	**42,290,609**	24,876,486	11,788,161	36,664,647
Net Exposure	**₱29,798,581**	**(₱22,967,469)**	**₱6,831,112**	₱7,313,672	(₱1,548,748)	₱5,764,924

* *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 ₱4.7 billion (sold) and ₱5.4 billion (bought) as of December 31, 2018 and ₱1.1 billion (sold) and ₱265.7 million (bought) as of December 31, 2017.

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, 2018 and 2017 follow:

	2018	2017
US dollar - Philippine peso exchange rate	**₱52.58 to USD1.00**	₱49.93 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, 2018 and 2017:

	2018			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱251,592**	**₱293,397**	**₱256,439**	**₱297,986**
-1.00%	**(251,592)**	**(293,071)**	**(256,439)**	**(297,986)**

	2017			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱60,699	₱83,106	₱70,662	₱73,137
-1.00%	(60,699)	(83,106)	(70,662)	(73,137)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

Capital management and management of insurance and financial risks

Governance framework

The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Group’s identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management

PNB General Insurers Inc.’s (PNB Gen) capital management framework is aligned with the statutory requirements imposed by the IC. To ensure compliance with these externally imposed capital requirements, it is the policy of PNB Gen to assess its position against set minimum capital requirements.

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 - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively; and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under Section 203 of the Insurance Code, are free from liens and encumbrances.

Effective January 1, 2017, CL No. 2016-68 states that RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of tier 1 and tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. The RBC requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula given in the circular with details of its components and applicable risk charges.

As of December 31, 2018 and 2017, PNB Gen has an estimated statutory net worth amounting to ₱615 million and ₱592.3 million, respectively. PNB Gen's RBC ratio as of December 31, 2018 and 2017 is 219% and 262%, respectively.

In a letter dated January 31, 2019 addressed to the Parent Bank, the BSP approved on December 28, 2018 the request of the Parent Bank to infuse ₱280.0 million in PNB Gen subject to regulatory compliance and reporting conditions, and to be booked by the latter as contingency surplus in compliance with IC Circular Letter (CL) No. 2015-02-A dated January 13, 2015. Also, there is an on-going business combination talk between Alliedbankers Insurance Corporation (ABIC) and PNB Gen.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35.00%. Should this event occur, the Commissioner is required to place the company under regulatory control under Section 247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Section 247 of the Insurance Code.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC.

5. Fair Value Measurement

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement. Where the government debt securities are not quoted or the market prices are not readily available, the fair value is determined in reference to PHP BVAL rates and interpolated PDST-R2 rates provided by the Philippine Dealing and Exchange Corporation (PDEx) in 2018 and 2017, respectively.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices. In 2017, unquoted equity securities are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. In 2018, remeasurement of such unquoted equity securities to their fair values is not material to the financial statements.

Investments in UITFs classified as financial assets at FVTPL - Fair values are based on Net Asset Value per share (NAVps).

Loans and receivables - For loans with fixed interest rates, fair values are estimated using the discounted cash flow methodology, using the current incremental lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity, bonds payable and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long-term maturity, bonds payable and subordinated debt - Fair value is estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread . The discount rate used in estimating the fair values of the subordinated debt, bonds payable, bills payable and time deposits ranges from 6.61% to 6.97% and 3.00% to 4.13% as of December 31, 2018 and 2017, respectively.
For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Fair value hierarchy
The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and financial assets at FVOCI/AFS investments.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

- 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					
	2018					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/28/18	₱8,457,711	₱7,127,592	₱1,330,119	₱–	₱8,457,711
Derivative assets	12/28/18	574,629	–	516,775	57,854	574,629
Private debt securities	12/28/18	415,583	–	415,583	–	415,583
Equity securities	12/28/18	545,149	545,149	–	–	545,149
Investments in UITF	12/28/18	6,375	–	6,375	–	6,375
Financial assets at FVOCI:						
Government securities	12/28/18	33,116,495	19,415,700	13,700,795	–	33,116,495
Private debt securities	12/28/18	17,672,009	5,581,723	12,090,285	–	17,672,008
Equity securities	12/28/18	885,663	488,029	281,910	115,724	885,663
		₱61,673,613	₱33,158,193	₱28,341,842	₱173,578	₱61,673,614
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Derivative liabilities	12/28/18	₱470,648	₱–	₱470,648	₱–	₱470,648
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost*	12/28/18	₱99,772,711	₱87,006,196	₱8,980,697	₱200,702	₱96,187,595
Financial assets at amortized cost:**						
Receivables from customers	12/28/18	561,627,786	–	–	563,770,117	563,770,117
		₱661,400,497	₱87,006,196	₱8,980,697	₱563,970,819	₱659,957,712
Nonfinancial Assets						
Investment property:						
Land	12/28/18	₱11,298,258	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements	12/28/18	2,190,608	–	–	2,662,848	2,662,848
		₱13,488,866	₱–	₱–	₱25,245,876	₱25,245,876
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/28/18	₱147,210,729	₱–	₱–	₱144,481,264	₱144,481,264
LTNCDs	12/28/18	31,403,225	–	–	28,517,657	28,517,657
Bonds payable	12/28/18	15,661,372	–	–	14,499,746	14,499,746
Bills payable	12/28/18	68,316,974	–	–	60,436,716	60,436,716
		₱262,592,300	₱–	₱–	₱247,935,383	₱247,935,383

* *Net of allowance for expected credit losses (Note 9)*

** *Net of allowance for expected credit losses and unearned and other deferred income (Note 10)*

	Consolidated					
	2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/29/17	₱2,207,952	₱1,534,790	₱673,162	₱–	₱2,207,952
Derivative assets	12/29/17	562,984	–	508,046	54,938	562,984
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	73,918	73,918	–	–	73,918
Investments in UITF	12/29/17	6,236	–	6,236	–	6,236
AFS investments:						
Government securities	12/29/17	41,625,900	36,968,672	4,657,228	–	41,625,900
Private debt securities	12/29/17	26,920,045	20,899,896	6,020,149	–	26,920,045
Equity securities*	12/29/17	1,144,779	–	1,144,779	–	1,144,779
		₱72,573,119	₱59,477,276	₱13,040,905	₱54,938	₱72,573,119
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,522	₱–	₱343,522	₱–	₱343,522
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,805,131	₱23,732,936	₱4,191,145	₱–	₱27,924,081
Loans and Receivables:**						
Receivables from customers	12/29/17	472,493,703	–	–	481,557,275	481,557,275
Unquoted debt securities	12/29/17	10,934,148	–	–	10,942,367	10,942,367
		₱510,232,982	₱23,732,936	₱4,191,145	₱492,499,642	₱520,423,723
Nonfinancial Assets						
Investment property:						
Land	12/29/17	₱13,161,936	₱–	₱–	₱18,995,358	₱18,995,358
Buildings and improvements	12/29/17	2,432,449	–	–	3,730,716	3,730,716
		₱15,594,385	₱–	₱–	₱22,726,074	₱22,726,074
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱129,552,035	₱–	₱–	₱147,666,612	₱147,666,612
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	41,684,801	–	–	41,765,052	41,765,052
		₱202,600,792	₱–	₱–	₱220,823,606	₱220,823,606

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*

	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
	Parent Company 2018					
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	**12/28/18**	**₱8,457,712**	**₱7,127,592**	**₱1,330,119**	**₱–**	**₱8,457,712**
Derivative assets	**12/28/18**	**572,864**	**–**	**515,010**	57,854	**572,864**
Private debt securities	**12/28/18**	**415,583**	**–**	**415,583**	**–**	**415,583**
Equity securities	**12/28/18**	**537,477**	**537,477**	**–**	**–**	**537,477**
Financial assets at FVOCI:						
Government securities*	**12/28/18**	**32,697,809**	**19,040,788**	**13,657,021**	**–**	**32,697,809**
Private debt securities*	**12/28/18**	**17,314,884**	**5,534,891**	**11,779,993**	**–**	**17,314,884**
Equity securities	**12/28/18**	**644,200**	**353,853**	**175,190**	**115,157**	**644,200**
		₱60,640,529	**₱48,663,320**	**₱11,919,355**	**₱57,854**	**₱60,640,529**
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	**12/28/18**	**₱468,279**	**₱–**	**₱468,279**	**₱–**	**₱468,279**
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost	**12/28/18**	**₱99,586,329**	**₱86,862,640**	**₱8,980,697**	**₱200,702**	**₱96,043,409**
Financial assets at amortized cost*						
Receivables from customers	**12/28/18**	**492,777,306**	**–**	**–**	**497,752,999**	**497,752,999**
		₱592,363,635	**₱86,862,640**	**₱8,980,697**	**₱497,953,701**	**₱593,796,408**
Nonfinancial Assets						
Investment property:***						
Land	**12/28/18**	**₱10,963,770**	**₱–**	**₱–**	**₱22,008,927**	**₱22,008,927**
Buildings and improvements	**12/28/18**	**2,185,588**			**2,286,209**	**2,286,209**
		₱13,149,358	**₱–**	**₱–**	**₱24,295,136**	**₱24,295,136**
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	**12/28/18**	**₱108,450,094**	**₱–**	**₱–**	**₱105,450,094**	**₱105,450,094**
LTNCDs	**12/28/18**	**31,403,225**	–	–	**28,517,657**	**28,517,657**
Bonds payable	**12/28/18**	**15,661,372**	–	–	**16,019,776**	**16,019,776**
Bills payable	**12/28/18**	**60,940,934**	–	–	**60,928,743**	**60,928,743**
		₱216,455,625	**₱–**	**₱–**	**₱210,916,270**	**₱210,916,270**

* *Net of allowance for expected credit losses (Note 9)*

** *Net of allowance for expected credit losses and unearned and other deferred income (Note 10)*

	Parent Company 2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/17	₱2,207,952	₱1,645,573	₱562,379	₱–	₱2,207,952
Derivative assets	12/29/17	559,692	–	504,753	54,939	559,692
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	30,928	30,928	–	–	30,928
AFS investments:						
Government securities	12/29/17	40,082,376	36,968,172	3,114,204	–	40,082,376
Private debt securities	12/29/17	26,444,549	20,899,905	5,544,644	–	26,444,549
Equity securities*	12/29/17	1,004,873	–	1,004,873	–	1,004,873
		₱70,361,675	₱59,544,578	₱10,762,158	₱54,939	₱70,361,675
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,416	₱–	₱343,416	₱–	₱343,416
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,680,483	₱23,732,936	₱4,071,745	₱–	₱27,804,681
Loans and Receivables:**						
Receivables from customers	12/29/17	418,018,387	–	–	418,229,045	418,229,045
Unquoted debt securities	12/29/17	10,933,395	–	–	10,941,615	10,941,615
		₱455,632,265	₱23,732,936	₱4,071,745	₱429,170,660	₱456,975,341
Nonfinancial Assets						
Investment property:***						
Land	12/29/17	₱12,833,559	₱–	₱–	₱18,464,458	₱18,464,458
Buildings and improvements	12/29/17	2,484,849	–	–	3,357,678	3,357,678
		₱15,318,408	₱–	₱–	₱21,822,136	₱21,822,136
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱96,364,657	₱–	₱–	₱109,838,818	₱109,838,818
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	39,168,917			39,249,168	39,249,168
		₱166,897,530	₱–	₱–	₱180,479,928	₱180,479,928

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVps as of reporting date.

As of December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties follows:

Valuation Techniques

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the

Valuation Techniques	building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.
Significant Unobservable Inputs	
Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

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

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-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, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from 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:

	2018					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net interest margin						
Third party	**₱1,287,627**	**₱21,844,985**	**₱3,583,152**	**₱870,454**	**(₱584,495)**	**₱27,001,724**
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**	**870,454**	**(584,495)**	**27,001,724**
Other income	**2,538,607**	**8,377,408**	**485,407**	**1,535,363**	**(261,602)**	**12,675,182**
Segment revenue	**18,602,220**	**15,570,146**	**3,944,820**	**2,405,817**	**(846,097)**	**39,676,906**
Other expenses	**12,726,476**	**2,343,403**	**375,651**	**1,836,700**	**(925,897)**	**16,356,334**
Segment result	**₱5,875,744**	**₱13,226,743**	**₱3,569,169**	**₱569,117**	**₱79,800**	**23,036,620**
Unallocated expenses						**9,880,790**
Income before income tax						**13,439,786**
Income tax						**3,663,744**

(Forward)

	2018					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net income from continuing operations						**₱9,776,042**
Net loss from discontinued operations						**(219,972)**
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						**1,824,707**
Total capital expenditure						**₱3,564,055**
Depreciation and amortization	**₱599,118**	**₱33,299**	**₱1,192**	**₱230,307**	**₱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**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2017 (As Restated-Note 36)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,404,759	₱17,112,989	₱3,313,723	₱70,505	₱121,992	₱22,023,968
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	70,505	121,992	22,023,968
Other income	1,881,419	4,934,248	1,916,158	2,485,075	(123,852)	11,093,048
Segment revenue	12,745,391	12,853,504	4,964,401	2,555,580	(1,860)	33,117,016
Other expenses	10,621,656	1,127,527	168,908	848,870	68,159	12,835,120
Segment result	₱2,123,735	₱11,725,977	₱4,795,493	₱1,706,710	(₱70,019)	₱20,281,896
Unallocated expenses						9,880,789
Income before income tax						10,401,107
Income tax						2,314,934
Net income from continuing operations						8,086,173
Net income from discontinued operations						70,373
Net income						8,156,546
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						1,985,662
Total capital expenditure						₱3,092,907
Depreciation and amortization	₱520,812	₱138,463	₱1,478	₱275,536	₱–	₱936,289
Unallocated depreciation and amortization						748,102
Total depreciation and amortization						₱1,684,391
Provision for (reversal of) impairment, credit and other losses	(₱1,477)	₱599,901	(₱41,417)	(₱7,068)	₱334,193	₱884,132

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	2016 (As Restated-Note 36)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,136,370	₱15,027,877	₱3,014,495	₱91,352	₱261,154	₱19,531,248
Inter-segment	5,345,226	(7,756,129)	2,410,903	–	–	–
Net interest margin after inter-segment transactions	6,481,596	7,271,748	5,425,398	91,352	261,154	19,531,248
Other income	1,896,868	4,274,575	2,284,097	3,720,743	(1,804,309)	10,371,974
Segment revenue	8,378,464	11,546,323	7,709,495	3,812,095	(1,543,155)	29,903,222
Other expenses	(8,207,826)	(3,611,997)	(200,330)	(3,793,804)	(632,593)	(16,446,550)
Segment result	₱170,638	₱7,934,326	₱7,509,165	₱18,291	(₱2,175,748)	13,456,672
Unallocated expenses						(7,114,745)
Income before income tax						6,341,927
Income tax						1,509,713
Net income from continuing operations						4,832,214
Net income from discontinued operations						2,329,669
Net Income						7,161,883
Non-controlling interest						(38,122)
Net income for the year attributable to equity holders of the Parent Company						₱7,123,761
Other segment information						
Capital expenditures	₱1,063,897	₱5,723	₱961	₱510,870	₱–	₱1,581,451
Unallocated capital expenditure						848,229
Total capital expenditure						₱2,429,680
Depreciation and amortization	₱493,221	₱22,318	₱2,663	₱644,739	₱–	₱1,162,941
Unallocated depreciation and amortization						391,669
Total depreciation and amortization						₱1,554,610
Provision for impairment, credit and other losses	₱360,089	₱2,529,286	₱300	₱4,233	₱318,786	₱3,212,694

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2018					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱176,979,190**	**₱521,012,459**	**₱196,800,341**	**₱100,415,100**	**(₱15,695,142)**	**₱979,511,948**
Unallocated assets						**4,136,238**
Total assets						**₱983,648,186**
Segment liabilities	**₱584,241,976**	**₱129,260,747**	**₱118,145,318**	**₱34,755,735**	**(₱15,261,242)**	**₱851,142,534**
Unallocated liabilities						**3,946,640**
Total liabilities						**₱855,089,174**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2017					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱160,378,585	₱436,181,872	₱147,035,920	₱109,094,556	(₱19,433,076)	₱833,257,857
Unallocated assets						2,837,880
Total assets						₱836,095,737
Segment liabilities	₱528,053,875	₱84,384,861	₱87,966,482	₱31,965,562	(₱19,192,245)	₱713,178,535
Unallocated liabilities						3,440,221
Total liabilities						₱716,618,756

* *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 five (5) 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 Expenditure	
	2018	2017	**2018**	2017	**2018**	2017
Philippines	**₱451,576,392**	₱387,750,978	**₱821,782,475**	₱687,972,640	**₱3,555,349**	₱3,083,414
Asia (excluding Philippines)	**5,828,575**	6,775,199	**30,496,429**	25,761,863	**8,053**	7,484
USA and Canada	**127,628,675**	84,655,334	**2,311,128**	2,342,588	**632**	1,822
United Kingdom	**1,731,423**	2,883,469	**499,142**	541,665	**21**	187
	₱586,765,065	₱482,064,980	**₱855,089,174**	₱716,618,756	**₱3,564,055**	₱3,092,907

* *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		
	2018	2017	**2018**	2017	2016
Philippines	**₱44,358,069**	₱37,217,949	**₱37,577,151**	₱31,441,324	₱27,819,680
Asia (excluding Philippines)	**881,144**	212,586	**1,290,100**	1,021,619	1,267,659
USA and Canada	**–**	3,795	**684,794**	543,158	668,833
United Kingdom	**–**	–	**124,861**	110,915	147,050
	₱45,239,213	₱37,434,330	**₱39,676,908**	₱33,117,016	₱29,903,222

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	
	2018	2017	**2018**	2017
Demand deposit (Note 17)	**₱101,027,312**	₱99,743,985	**₱97,665,375**	₱96,497,459
Term deposit facility (TDF)	**1,696,000**	9,000,000	**1,000,000**	9,000,000
	₱102,723,312	₱108,743,985	**₱98,665,375**	₱105,497,459

TDFs bear annual interest rates ranging from 3.22% to 5.24% in 2018, from 3.45% to 3.50% in 2017 and from 2.50% to 3.50% in 2016.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

The Group's and the Parent Company's peso-denominated interbank loans receivables bear interest ranging from 3.03% to 3.06% in 2018, from 2.56% to 2.63% in 2017 and from 2.56% to 3.19% in 2016; and from 0.01% to 5.09%, from 0.20 to 4.40% and from 0.01% to 4.40%, for foreign-currency denominated placements in 2018, 2017 and 2016 respectively.

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Interbank loans receivable	**₱11,248,455**	₱12,837,721	**₱11,689,414**	₱11,083,515
Less: Interbank loans receivable not considered as cash and cash equivalents	**668,023**	1,346,037	**1,108,331**	1,382,599
	₱10,580,432	₱11,491,684	**₱10,581,083**	₱9,700,916

The Group's and the Parent Company's peso-denominated securities held under agreements to resell bear interest ranging from 3.00% to 4.75%, 3.00%, and from 3.00% to 4.00% in 2018, 2017 and 2016, respectively.

Interest income recorded in 2018, 2017 and 2016 by the Group amounted to ₱379.4 million, ₱480.0 million and ₱794 million, respectively. Interest income recorded in 2018, 2017 and 2016 of the Parent Company amounted to ₱350.8 million, ₱446.1 million and ₱794.3 million, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2018 and 2017 amounted to ₱19.9 billion and ₱14.6 billion, respectively.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial assets at FVTPL	**₱9,999,447**	₱2,882,395	**₱9,983,636**	₱2,829,877
Financial assets at FVOCI	**51,674,167**	–	**50,656,893**	–
Investment securities at amortized cost	**99,772,711**	–	**99,586,329**	–
AFS investments	–	69,837,416	–	67,677,952
HTM investments	–	26,805,131	–	26,680,483
	₱161,446,325	₱99,524,942	**₱160,226,858**	₱97,188,312

Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Government securities	**₱8,457,711**	₱2,207,952	**₱8,457,711**	₱2,207,952
Derivative assets (Notes 23 and 35)	**574,629**	562,984	**572,864**	559,692
Equity securities	**545,149**	73,918	**537,478**	30,928
Private debt securities	**415,583**	31,305	**415,583**	31,305
Investment in UITFs	**6,375**	6,236	–	–
	₱9,999,447	₱2,882,395	**₱9,983,636**	₱2,829,877

As of December 31, 2018 and 2017, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱5.4 million and ₱73.0 million, respectively.

In 2018, 2017, and 2016, the nominal interest rates of government securities range from 2.75% to 8.38%, from 2.13% to 6.13% and from 2.75% to 10.63%, respectively.

In 2018, 2017, and 2016, the nominal interest rates of private debt securities range from 3.0% to 7.50%, from 5.23% to 6.63% and from 5.50% to 7.38%, respectively.

The carrying amount of equity securities includes unrealized loss of ₱7.9 million and ₱22.0 million as of December 31, 2018 and 2017, respectively, for the Group and unrealized loss of ₱0.9 million and ₱22.0 million as of December 31, 2018 and 2017, respectively, for the Parent Company.

The carrying amount of investment in UITF includes unrealized loss of ₱0.1 million and ₱0.2 million as of December 31, 2018 and 2017, respectively for the Group.

Financial Assets at FVOCI
As of December 31, 2018, this account consists of:

	Consolidated	Parent Company
Government securities (Note 19)	₱33,116,495	₱32,697,809
Private debt securities (Note 19)	17,672,009	17,314,884
Equity securities		
Quoted	799,540	558,077
Unquoted	86,123	86,123
	₱51,674,167	₱50,656,893

As of December 31, 2018, the ECL on debt securities at FVOCI (included in “Net unrealized loss on financial assets at FVOCI”) amounted to ₱46.35 million for the Group and the Parent Company (see Note 16).

In 2018, 2017 and 2016, the nominal interest rates of government securities range from 1.83% to 11.63%, from 1.05% to 10.63% and 2.75% to 10.63%respectively.

In 2018, 2017 and 2016, the nominal interest rates of private debt securities range from 2.63% to 7.38% and from 5.50% to 7.38%, respectively.

As of December 31, 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 ₱21.5 billion (see 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 allowance for financial assets at FVOCI as of January 1, 2018 was ₱58.5 million and decreased by ₱12.2 million at December 31, 2018. Movements over the year were mostly driven by movements in the corresponding gross figures in 2018.

AFS Investments

As of December 31, 2017, this account consists of:

	Consolidated	Parent Company
Government debt securities (Notes 19 and 33)	₱41,625,900	₱40,082,376
Private securities (Note 19)	26,920,045	26,444,549
Equity securities - net of allowance for impairment losses (Note 16)		
Quoted	1,144,779	1,004,873
Unquoted	146,692	146,154
	₱69,837,416	₱67,677,952

The movements in net unrealized loss on FVOCI/AFS investments of the Group are as follows:

	2018	2017	**2016**		
	Group	Group	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,040,507)**	(₱3,469,939)	(₱3,030,588)	₱168,630	(₱2,861,958)
Effect of transition adjustments (Note 2)	**2,351,993**	–	–	–	–
Balance as at January 1, 2018, as restated	**(688,514)**	(3,469,939)	(3,030,588)	168,630	(2,861,958)
Changes in fair values of financial asset at FVOCI/AFS investments	**(2,388,783)**	(193,852)	(1,684,747)	–	(1,684,747)
Provision for impairment/Expected credit losses (Note 16)	**(12,151)**	–	(15,856)	–	(15,856)
Realized gains	**167,902**	506,238	1,362,462	(360)	1,362,102
Amortization of net unrealized loss on AFS investments reclassified as HTM investments	–	141,802	144,371	1,079	145,450
Share in net unrealized losses of an associate (Note 12)	**(375,390)**	(24,756)	(245,867)	–	(245,867)
Effect of disposal group classified as held-for-sale (Note 36)	**15,601**	–	–	(169,349)	(169,349)
	(3,181,335)	3,040,507	3,470,225	(168,630)	(3,470,225)
Income tax effect (Note 31)	–	–	286	–	286
Balance at end of year	**(₱3,181,335)**	(₱3,040,507)	(₱3,469,939)	₱–	(₱3,469,939)

The changes in the net unrealized loss on financial assets at FVOCI/AFS investments of the Parent Company follow:

	2018	2017	2016
Balance at the beginning of the year	**(₱3,040,507)**	(₱3,469,939)	(₱3,030,588)
PFRS 9 transition adjustments (Note 2)	**2,316,926**	–	–
Share in impact of PFRS 9 adoption by subsidiaries (Note 2)	**35,067**	–	–
Balance as at January 1, 2018, as restated	**(688,514)**	(3,469,939)	(3,030,588)
Changes in fair values of financial assets at FVOCI/AFS investments	**(2,380,056)**	(179,179)	(1,660,796)
Provision for impairment/Expected credit losses (Note 16)	**(12,151)**	–	(15,601)
Realized gains	**167,902**	506,238	1,350,453
Amortization of net unrealized loss on AFS investments reclassified as HTM	–	141,802	140,341
Share in net unrealized losses of subsidiaries and an associate (Note 12)	**(284,117)**	(39,429)	(253,748)
Effect of disposal group classified as held-for-sale (Note 36)	**15,601**	–	–
	(3,181,335)	(3,040,507)	(3,469,939)
Income tax effect (Note 31)	–	–	–
Balance at end of year	**(₱3,181,335)**	(₱3,040,507)	(₱3,469,939)

As of December 31, 2017, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱26.7 billion (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. There are no other significant terms and conditions associated with the pledged investments.

Investment Securities at Amortized Cost

As of December 31, 2018, this account consists of:

	Consolidated	Parent Company
Government securities (Note 19)	**₱60,278,202**	**₱60,091,820**
Private debt securities (Note 10)	**43,263,773**	**43,263,773**
	103,541,975	**103,355,593**
Less allowance for expected credit losses (Note 16)	**(3,769,264)**	**(3,769,264)**
	₱99,772,711	**₱99,586,329**

The allowance for expected credit losses as of January 1, 2018 was ₱3.7 billion and increased by ₱57.7 million at December 31, 2018. Movements over the year were mostly driven by newly originated assets which remained in Stage 1 in 2018. The impairment allowance under PAS 39 for HTM investments was nil.

As of December 31, 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 ₱36.7 billion (Note 19).

HTM Investments
As of December 31, 2017 this account consists of:

	Consolidated	Parent Company
Government securities (Note 19)	₱26,580,342	₱26,455,694
Private debt securities	224,789	224,789
	₱26,805,131	₱26,680,483

As of December 31, 2017, the carrying value of the HTM investments in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱16.5 billion (Note 19).

Reclassification of Financial Assets
On March 3 and 5, 2014, the Group reclassified certain AFS investment securities, which were previously classified as HTM investments, with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD on February 28, 2014. The previous fair valuation losses amounting to ₱2.7 billion that have been recognized in OCI were amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64% until December 31, 2017. Upon adoption of PFRS 9, the remaining unamortized loss was reversed or closed to the related asset.

As of December 31, 2017, the carrying values and fair values of the Group's and Parent Company's reclassified investment securities amounted to ₱24.0 billion and ₱25.0 billion, respectively. Had these securities not been reclassified as HTM investments, the additional mark-to-market loss that would have been recognized by the Group and the Parent Company in the statement of comprehensive income amounts to ₱0.5 billion in 2017.

As of December 31, 2018, there were no reclassified HTM investments as they are already classified during transition period to investment securities at amortized cost and financial assets at FVOCI.

Interest Income on Financial Assets at FVOCI, Investment Securities at Amortized Cost and AFS and HTM investments
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Financial assets at FVOCI	**₱2,219,013**	₱–	₱–	**₱2,189,159**	₱–	₱–
Investment securities at amortized cost	**2,315,284**	–	–	**2,313,172**	–	–
AFS investments	–	2,074,563	2,235,697	–	2,056,154	2,212,466
HTM investments	–	978,680	926,652	–	977,719	926,131
	₱4,534,297	₱3,053,243	₱3,162,349	**₱4,502,331**	₱3,033,873	₱3,138,597

Effective interest rates range from 0.41% to 6.30% for peso-denominated Financial assets at FVOCI in 2018. Effective interest rates range from 0.88% to 9.33% and 1.31% to 5.93% in 2017 and 2016, respectively, for peso-denominated AFS investments.

Effective interest rates range from 1.13% to 6.00% for foreign currency-denominated Financial assets at FVOCI in 2018. Effective interest rates range from 0.04% to 10.30% and 1.29% to 5.30% in 2017 and 2016, respectively, for foreign currency-denominated AFS investments.

Investment securities at amortized cost bear effective annual interest rates ranging from 0.11% to 8.25% in 2018. HTM investments bear effective annual interest rates ranging from 2.75% to 10.63% in 2017 and 3.60% to 5.64% in 2016.

Trading and Investment Securities Gains - net
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Continuing operations:						
Financial assets at FVTPL	**(₱17,372)**	₱61,485	(₱9,315)	**(₱10,385)**	₱58,156	(₱6,113)
Financial assets at FVOCI						
Government securities	**132,670**	–	–	**132,670**	–	–
Private debt securities	**35,232**			**35,232**		
AFS investments	–	506,238	1,348,496	–	506,238	1,350,453
Derivative financial instruments (Note 23)	**161**	(7,965)	25,174	**161**	(7,965)	25,174
	150,691	559,758	1,364,355	**157,678**	556,429	1,369,514
Discontinued operations:						
AFS investments (Note 36)	**(4,176)**	–	13,966	–	–	–
	₱146,515	₱559,758	₱1,378,321	**₱157,678**	₱556,429	₱1,369,514

10. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Loans and discounts	**₱541,934,296**	₱455,839,142	**₱474,384,927**	₱403,254,903
Credit card receivables	**13,412,063**	10,145,474	**13,412,063**	10,145,474
Customers' liabilities on letters of credit and trust receipts	**12,230,782**	9,490,075	**12,046,744**	9,364,742
Lease contracts receivable (Note 29)	**2,928,339**	2,891,043	**9,618**	97,109
Bills purchased (Note 22)	**2,205,608**	1,702,535	**1,430,481**	1,473,052
Customers' liabilities on acceptances (Note 19)	**1,765,862**	2,231,887	**1,765,861**	2,231,887
	574,476,950	482,300,156	**503,049,694**	426,567,167
Less unearned and other deferred income	**979,678**	1,350,885	**677,052**	1,039,364
	573,497,272	480,949,271	**502,372,642**	425,527,803
Unquoted debt securities*	–	14,674,130	–	14,616,628
Other receivables:				
Sales contract receivables (Note 33)	**12,296,470**	7,588,301	**12,242,869**	7,549,113
Accrued interest receivable	**6,539,806**	4,235,075	**5,065,963**	3,497,184
Accounts receivable	**3,883,904**	10,073,663	**3,253,521**	4,538,103
Miscellaneous	**536,982**	562,360	**509,861**	492,025
	23,257,162	22,459,399	**21,072,214**	16,076,425
	596,754,434	518,082,800	**523,444,856**	456,220,856
Less allowance for credit losses (Note 16)	**15,058,957**	15,764,060	**12,625,582**	14,505,328
	₱581,695,477	₱502,318,740	**₱510,819,274**	₱441,715,528

**Unquoted debt securities were transferred to investment securities at amortized cost and financial assets at FVOCI as part of the adoption of PFRS 9*

Below is the reconciliation of loans and receivables as to classes:

	Consolidated								
	2018								
	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	₱9,118,384	₱–	₱541,934,296
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
Bills purchased (Note 22)	1,514,735	–	–	16,828	–	–	674,045	–	2,205,608
Customers' liabilities on acceptances (Note 19)	983,637	–	–	2,637	–	–	779,588	–	1,765,862
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,339,666	–	574,476,950
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	12,296,470	12,296,470
Accrued interest receivable	–	–	–	–	–	–	–	6,539,806	6,539,806
Accounts receivable	–	–	–	–	–	–	–	3,883,904	3,883,904
Miscellaneous	–	–	–	–	–	–	–	536,982	536,982
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,339,666	23,257,162	597,734,112
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	4,799,012	15,058,957
	₱471,254,760	₱6,849,595	₱12,336,487	₱11,079,479	₱32,569,910	₱11,511,890	₱17,638,044	₱18,455,312	₱581,695,477

	Consolidated							
	2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱394,245,819	₱17,742,839	₱7,190,864	₱36,295,129	₱364,491	₱–	₱–	₱455,839,142
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,490,075	–	–	–	–	–	–	9,490,075
Lease contracts receivable (Note 29)	2,891,043	–	–	–	–	–	–	2,891,043
Bills purchased (Note 22)	1,702,535	–	–	–	–	–	–	1,702,535
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
	410,647,067	17,742,839	7,190,864	46,199,937	519,449	–	–	482,300,156
Less unearned and other deferred income	994,717	313,459	14,291	25,329	3,089	–	–	1,350,885
	409,652,350	17,429,380	7,176,573	46,174,608	516,360	–	–	480,949,271
Unquoted debt securities	–	–	–	–	–	14,674,130	–	14,674,130
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,073,663	10,073,663
Sales contract receivables	–	–	–	–	–	–	7,588,301	7,588,301
Accrued interest receivable	–	–	–	–	–	–	4,235,075	4,235,075
Miscellaneous	–	–	–	–	–	–	562,360	562,360
	409,652,350	17,429,380	7,176,573	46,174,608	516,360	14,674,130	22,459,399	518,082,800
Less allowance for credit losses (Note 16)	6,770,478	100,493	218,423	1,392,870	13,751	3,739,983	3,528,062	15,764,060
	₱402,881,872	₱17,328,887	₱6,958,150	₱44,781,738	₱502,609	₱10,934,147	₱18,931,337	₱502,318,740

	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**
Bills purchased (Note 22)	**739,798**	–	–	**16,638**	–	–	**674,045**	–	**1,430,481**
Customers' liabilities on acceptances (Note 19)	**983,637**	–	–	**2,637**	–	–	**779,587**	–	**1,765,861**
	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	–	–	–	–	–	–	–	**3,253,521**	**3,253,521**
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**	**21,072,214**	**524,121,908**
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**	**₱16,281,540**	**₱510,819,274**

	Parent Company							
	2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱375,964,636	₱17,742,839	₱7,190,864	₱2,026,412	₱330,152	–	–	₱403,254,903
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,364,742	–	–	–	–	–	–	9,364,742
Lease contracts receivable (Note 29)	97,109	–	–	–	–	–	–	97,109
Bills purchased (Note 22)	1,473,052	–	–	–	–	–	–	1,473,052
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
	389,217,134	17,742,839	7,190,864	11,931,220	485,110	–	–	426,567,167
Less unearned and other deferred income	700,826	313,459	14,291	7,698	3,090	–	–	1,039,364
	388,516,308	17,429,380	7,176,573	11,923,522	482,020	–	–	425,527,803
Unquoted debt securities	–	–	–	–	–	14,616,628	–	14,616,628
Other receivables:								
Accounts receivable	–	–	–	–	–	–	4,538,103	4,538,103
Sales contract receivables	–	–	–	–	–	–	7,549,113	7,549,113
Accrued interest receivable	–	–	–	–	–	–	3,497,184	3,497,184
Miscellaneous	–	–	–	–	–	–	492,025	492,025
	388,516,308	17,429,380	7,176,573	11,923,522	482,020	14,616,628	16,076,425	456,220,856
Less allowance for credit losses (Note 16)	6,194,035	100,493	218,423	1,023,164	13,748	3,683,233	3,272,232	14,505,328
	₱382,322,273	₱17,328,887	₱6,958,150	₱10,900,358	₱468,272	₱10,933,395	₱12,804,193	₱441,715,528

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

In 2016, the Group and the Parent Company applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2018 and 2017, the remaining receivables amounted to ₱0.3 billion which is fully covered by an allowance.

Unquoted debt instruments
In 2017, unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2017, the notes are carried at their recoverable values. On January 1, 2018, unquoted debt instruments amounting to ₱488.77 million and ₱10.45 billion were reclassified to Investment securities at amortized cost and Financial assets at FVOCI, respectively, upon adoption of PFRS 9 (see Note 2).

Lease contract receivables
An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Minimum lease payments				
Due within one year	**₱1,101,635**	₱1,265,542	**₱3,118**	₱28,909
Due beyond one year but not over five years	**1,151,333**	924,973	**6,500**	43,000
Due beyond five years	**26,034**	25,201	–	25,200
	2,279,002	2,215,716	**9,618**	97,109
Residual value of leased equipment				
Due within one year	**298,725**	292,000	–	–
Due beyond one year but not over five years	**350,612**	383,327	–	–
	649,337	675,327	–	–
Gross investment in lease contract receivables (Note 29)	**₱2,928,339**	₱2,891,043	**₱9,618**	₱97,109

Accounts receivables
As of December 31, 2018, insurance receivables of PNB Gen amounting to ₱5.0 billion (net of allowance for credit losses of ₱208.6 million) were reclassified to Assets of Disposal Group Classified as Held for Sale (see Note 36).

Interest income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Receivables from customers and sales contract receivables	**₱30,202,480**	₱22,523,095	₱19,634,798	**₱25,504,159**	₱19,100,932	₱16,874,365
Unquoted debt securities	–	146,012	51,160	–	144,878	49,499
	₱30,202,480	₱22,669,107	₱19,398,958	**₱25,504,159**	₱19,245,810	₱16,923,864

As of December 31, 2018 and 2017, 64.09% and 78.83%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2018 and 2017, 61.66% and 79.07%, 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 1.75% to 9.00% in 2018, from 1.94% to 9.00% in 2017 and from 2.30% to 8.75% in 2016 for foreign currency-denominated receivables, and from 1.53% to 13.00% in 2018, from 1.9% to 7.98% in 2017 and from 0.50% to 15.25% in 2016 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 3.30% to 21.00%, 2.70% to 21.00% and 5.00% to 21.00% in 2018, 2017 and 2016, respectively.

BSP Reporting

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 is shown below.

	Consolidated				**Parent Company**			
	2018		2017		**2018**		2017	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Financial intermediaries	**₱96,278,488**	**16.76**	₱72,757,733	15.09	**₱92,274,585**	**18.34**	₱69,382,757	16.27
Wholesale and retail	**87,989,193**	**15.32**	74,279,581	15.40	**79,904,533**	**15.88**	69,846,899	16.37
Electricity, gas and water	**75,194,463**	**13.09**	64,921,830	13.46	**73,139,221**	**14.54**	62,947,842	14.76
Manufacturing	**51,156,432**	**8.90**	33,118,627	6.87	**45,848,301**	**9.11**	29,905,637	7.01
Transport, storage and communication	**44,401,302**	**7.73**	40,565,972	8.41	**41,374,773**	**8.22**	38,270,489	8.97
Public administration and defense	**18,034,106**	**3.14**	22,998,264	4.77	**18,034,106**	**3.58**	22,630,209	5.31
Agriculture, hunting and forestry	**8,072,538**	**1.41**	7,023,471	1.46	**7,290,142**	**1.45**	6,403,860	1.50
Secondary target industry:								
Real estate, renting and business activities	**84,432,904**	**14.70**	78,823,937	16.34	**75,432,007**	**15.00**	73,609,101	17.26
Construction	**27,489,273**	**4.79**	19,264,219	3.99	**25,562,907**	**5.08**	17,682,688	4.15
Others	**81,428,251**	**14.16**	68,546,522	14.21	**44,189,119**	**8.80**	35,887,685	8.40
	₱574,476,950	**100.00**	₱482,300,156	100.00	**₱503,049,694**	**100.00**	₱426,567,167	100.00

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 follows:

	Consolidated				**Parent Company**			
	2018		2017		**2018**		2017	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱90,846,785**	**15.81**	₱69,798,045	14.47	**₱57,344,870**	**11.40**	₱56,166,102	13.17
Chattel mortgage	**28,853,799**	**5.02**	28,159,567	5.84	**13,791,833**	**2.74**	26,187,151	6.14
Bank deposit hold-out	**22,786,131**	**3.97**	14,600,056	3.03	**22,305,850**	**4.43**	14,530,200	3.41
Shares of stocks	**–**	**–**	1,412,136	0.29	**–**	**–**	1,412,136	0.33
Others	**81,550,765**	**14.20**	75,308,199	15.61	**78,199,196**	**15.55**	72,719,502	17.05
	224,037,480	**39.00**	189,278,003	39.24	**171,641,749**	**34.12**	171,015,091	40.09
Unsecured	**350,439,470**	**61.00**	293,022,153	60.76	**331,407,945**	**65.88**	255,552,076	59.91
	₱574,476,950	**100.00**	₱482,300,156	100.00	**₱503,049,694**	**100.00**	₱426,567,167	100.00

The table below reflects the balances of loans and receivables as reported to the BSP. For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Secured	**₱6,739,828**	₱6,721,812	**₱4,144,629**	₱4,803,416
Unsecured	**6,112,628**	4,923,617	**5,305,268**	4,222,671
	₱12,852,456	₱11,645,429	**₱9,449,897**	₱9,026,087

Loans and receivables are considered non-performing, 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 non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered non-performing after contractual due date or after they have become past due. Restructured loans are considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

Non-performing loans and receivables 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.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As of December 31, 2018 and 2017, NPLs of ₱9.4 billion and ₱9.0 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱7.6 billion and ₱7.9 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2018 and 2017, gross and net NPL ratios of the Parent Company were 1.76% and 0.34%, and 2.01% and 0.26%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2018 and 2017 amounted to ₱2.1 billion and ₱1.6 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated						
	2018						
	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)**
Effect of disposal group classified as held for sale (Note 36)	–	–	**(45,459)**	–	–	**(6,076)**	**(51,535)**
Balance at end of year	**11,467,244**	**6,464,316**	**6,583,057**	**579,324**	**1,206,057**	**1,551,691**	**27,851,689**
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)**	**(777)**	**4,785**	–	**(11,454)**	**(57,543)**
Effect of disposal group classified as held for sale (Note 36)	–	–	**(31,615)**	–	–	**(5,425)**	**(37,040)**
Balance at end of year	–	**2,996,722**	**3,873,257**	**48,908**	–	**994,171**	**7,913,058**
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**	**₱2,709,800**	**₱530,416**	**₱1,206,057**	**₱557,520**	**₱19,710,145**

	Consolidated						
	2017						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱11,470,425	₱5,717,761	₱4,947,104	₱567,270	₱698,131	₱1,094,617	₱24,495,308
Additions	–	197,239	755,165	–	785,486	192,896	1,930,786
Disposals	–	(13,821)	(239,343)	–	–	(13,076)	(266,240)
Transfers/others	(1,049)	142,135	136,794	(1,025)	(627,145)	76,847	(273,443)
Balance at end of year	11,469,376	6,043,314	5,599,720	566,245	856,472	1,351,284	25,886,411
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,571,166	2,917,671	33,302	–	647,581	6,169,720
Depreciation and amortization	–	243,764	657,938	5,518	–	184,217	1,091,437
Disposals	–	(8,568)	(219,582)	–	–	(12,653)	(240,803)
Transfers/others	–	(2,913)	(17,876)	(385)	–	(5,612)	(26,786)
Balance at end of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486
Net Book Value at End of Year	₱11,379,260	₱3,101,495	₱2,261,569	₱527,810	₱856,472	₱537,751	₱18,664,357

	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**

	Parent Company					
	2017					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱11,266,169	₱5,488,197	₱3,946,854	₱698,132	₱876,424	₱22,275,776
Additions	–	181,135	512,520	785,486	179,844	1,658,985
Disposals	–	(13,821)	(181,651)	–	(4,342)	(199,814)
Transfers/others	7	146,196	69,724	(627,145)	8,029	(403,189)
Balance at end of year	11,266,176	5,801,707	4,347,447	856,473	1,059,955	23,331,758
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,518,058	2,465,332	–	559,106	5,542,496
Depreciation and amortization	–	242,298	494,994	–	149,496	886,788
Disposals	–	(8,568)	(176,803)	–	(4,342)	(189,713)
Transfers/others	–	(1,324)	(23,218)	–	(5,541)	(30,083)
Balance at end of year	–	2,750,464	2,760,305	–	698,719	6,209,488
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,176,512	₱2,912,873	₱1,587,142	₱856,473	₱361,237	₱16,894,236

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 ₱2.6 billion and ₱1.0 billion as of December 31, 2018 and 2017, respectively.

Gain on disposal of property and equipment in 2018, 2017 and 2016 amounted to ₱28.4 million, ₱4.3 million, and ₱1.2 million, respectively, for the Group and ₱28.4 million, ₱2.0 million and ₱1.5 million, respectively, for the Parent Company (see Note 13).
Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2018	2017 As Restated – Note 36	2016 As Restated – Note 36	**2018**	2017	2016
Continuing operations:						
Depreciation						
Property and equipment	**₱1,279,116**	₱1,086,012	₱1,008,596	**₱967,456**	₱886,788	₱835,467
Investment properties (Note 13)	**177,611**	152,894	226,545	**129,615**	136,507	206,472
Chattel mortgage	**27,876**	33,009	22,000	**1,330**	8,122	22,001
Amortization - Intangible assets (Note 14)	**460,205**	406,312	292,423	**444,311**	353,940	279,643
	1,944,808	1,678,227	1,549,564	**1,542,712**	1,385,357	1,343,583
Discontinued operations:						
Property and equipment (Note 36)	**5,569**	5,425	4,822	**–**	–	–
Intangible assets (Note 36)	**600**	739	254	**–**	–	–
	₱1,950,977	₱1,684,391	₱1,554,640	**₱1,542,712**	₱1,385,357	₱1,343,583

Certain property and equipment of the Parent Company with carrying amount of ₱98.3 million and ₱9.3 million are temporarily idle as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, 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 Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–
PNB General Insurers Inc.(PNB Gen) [a]	Insurance	- do -	Php	**65.75**	**34.25**
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–
PNB Corporation – Guam	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. [c]	Holding Company	- do -	USD	–	**100.00**
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–
PNB Remittance Co. (Canada) [d]	Remittance	Canada	CAD	–	**100.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	**99.04**	–
PNB-IBJL Leasing and Finance Corporation (PILFC)	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-IBJL Equipment Rentals Corporation	Rental	- do -	Php	–	**75.00**
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)*	Banking	Hong Kong	HKD	**51.00**	–
ACR Nominees Limited *	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] Investment in PNB Gen has been classified as held for sale following the approval of the Parent Company's BOD on the sale of its ownership interest to ABIC
[a] Owned through PNB IIC
[b] Owned through PNB RCI
[c] Owned through PNB RCI Holding Co. Ltd

The details of this account follow:

	Consolidated 2018	Consolidated 2017	Parent Company 2018	Parent Company 2017
Investment in Subsidiaries				
PNB SB	**₱–**	₱–	**₱10,935,041**	₱10,935,041
ACB	**–**	–	**6,087,520**	6,087,520
PNB IIC	**–**	–	**2,028,202**	2,028,202
PNB Europe PLC	**–**	–	**1,006,536**	1,006,536
ABCHKL	**–**	–	**947,586**	947,586
PNB GRF	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**850,000**	850,000
ABUK	**–**	–	**320,858**	320,858
OHBVI	**–**	–	**291,841**	291,841
PILFC	**–**	–	**481,943**	181,943
PNB Securities	**–**	–	**62,351**	62,351
PNB Corporation - Guam	**–**	–	**7,672**	7,672
ALFC	**–**	–	**–**	148,400
PNB Gen (Note 36)	**–**	–	**980,000**	800,000
	–	–	**25,130,487**	24,798,887
Investment in an Associate – APLII (44% owned)	**2,728,089**	2,728,089	**2,728,089**	2,728,089

(Forward)

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accumulated equity in net earnings of subsidiaries and an associate:				
Balance at beginning of year	**₱129,435**	₱70,220	**₱472,031**	₱1,314,542
Effect of PFRS 9 adoption (Note 2)	**–**	–	**(861,812)**	–
Balance at beginning of year as restated	**129,435**	70,220	**(389,781)**	1,314,542
Equity in net earnings for the year	**43,847**	59,215	**530,885**	498,254
Transfer to 'Assets of a disposal group held for sale'			**(595,146)**	
Dissolution of a subsidiary	**–**	–	**48,607**	(7,415)
	173,282	129,435	**(405,435)**	1,805,381
Dividends received for the year	**–**	–	**–**	(1,333,350)
	173,282	129,435	**(405,435)**	472,031
Accumulated share in:				
Net unrealized losses on financial assets at FVOCI/available-for-sale investments (Note 9)	**(646,013)**	(270,623)	**(585,029)**	(300,912)
Remeasurement gain on retirement plan	**151,204**	(235,424)	**180,336**	(289,824)
Aggregate reserves on life insurance policies	**12,280**	12,280	**12,280**	12,280
Accumulated translation adjustments	**–**	–	**1,191,826**	986,863
Transfer to 'Reserves of a disposal group held for sale'	**–**	–	**(21,893)**	–
	(482,529)	(493,767)	**777,520**	408,407
	₱2,418,842	₱2,363,757	**₱28,230,661**	₱28,407,414

As of December 31, 2018 and 2017, 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 is not available for dividend declaration.

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.

Notwithstanding the change in the ownership interests of the parties due to the Parent Company's additional capital infusion, IBJLC will maintain its 25% voting rights in PILFC. To implement such effective voting rights, the Parent Company will issue in favor of IBJLC an irrevocable proxy to represent the Parent Company and vote the 1,000,000 shares registered in the Parent Company's name at all meetings of the stockholders of PILFC, or until IBJLC has purchased from the Parent Company the 1,000,000 common shares of PILFC, whichever is earlier.

On July 27, 2018, the BOD approved the sale of 1,000,000 shares at par in PILFC for ₱100 million at par. On August 29, 2018, a deed of assignment was executed by the Parent Company and IBJLC, for the one million common shares of PILFC. Thus, the Parent Company's ownership in PILFC remained at 75% as of December 31, 2018.

Disposal of PNB Gen shares in exchange for Alliedbankers Insurance Corp. shares

On April 26, 2018, the BOD of the Parent Company and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB Gen, in exchange of shares in ABIC, an affiliate (see Note 36).

Investment in PNB Savings

On September 28, 2018, the Parent Company's BOD approved (a) the full integration of PNB SB through the acquisition of its assets and assumption of its liabilities in exchange for cash, subject to regulatory and other necessary approvals.

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	**2018**	2017	**2018**	2017	**2018**	2017
ABCHKL	Banking	**49.00%**	49.00%	**₱1,693,807**	₱1,501,069	**₱80,595**	₱83,431
OHBVI	Holding Company	**72.22**	72.22	**1,008,307**	956,750	**749**	9,602

Investment in APLII

On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of the Parent Company and PNB SB.

The sale of APLII was completed on June 6, 2016 for a total consideration of USD66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively.

The Parent Company will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Parent Company recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration allocated to the EDR was recognized as "Deferred Revenue - Bancassurance" (see Note 22) and will be amortized to income over 15 years from date of sale. Prior to the sale of shares to Allianz SE, the Parent Company acquired additional 15.00% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, the Parent Company accounted for its remaining 44.00% ownership interest in APLII as an associate. At the date of loss of control, the Parent Company's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. The Parent Company recognized gain on remeasurement amounting to ₱1.6 billion in the statement of income in 2016.

The fair value of the retained equity was based on a combination of the income approach and market approach.

Summarized financial information of APLII as of December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱1,260,591**	₱1,178,768
Noncurrent assets	**28,363,443**	26,305,819
Current liabilities	**1,079,194**	1,693,635
Noncurrent liabilities	**26,504,728**	23,994,598

	2017	2016
Total assets	**₱29,624,034**	₱27,484,587
Total liabilities	**27,583,922**	25,688,233
	2,040,112	1,796,354
Percentage of ownership of the Group	**44%**	44%
Share in the net assets of the associate	**₱897,649**	₱790,396

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 income of APLII for the year ended December 31, 2018 and 2017 follows:

	2018	2017
Revenues	**₱2,752,253**	₱2,190,474
Costs and expenses	**(2,602,153)**	(2,018,549)
Net income	**150,100**	171,925
Other comprehensive income	**128,595**	(133,356)
Total comprehensive income	**₱278,695**	₱38,569
Group's share of comprehensive income for the period	**₱122,626**	₱75,647

PNB Forex

On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to December 31, 2013. PNB Forex ceased its business operations on January 1, 2006. On August 24, 2017, SEC approved the dissolution of PNB Forex.

Dissolution of ALFC

On December 18, 2017, the Securities and Exchange Commission (SEC) approved the dissolution of ALFC. Liquidating dividends amounting to ₱84.0 million were paid to Parent Company last April 3, 2018.

The following table presents financial information of ABCHKL as of December 31, 2018 and 2017:

	2018	2017
Statement of Financial Position		
Current assets	**₱11,079,475**	₱7,253,27
Non-current assets	**1,007,236**	551,083
Current liabilities	**8,396,635**	1,212,875
Non-current liabilities	**155,708**	36,711

	2018	2017
Statement of Comprehensive Income		
Revenues	**₱444,968**	₱422,605
Expenses	**280,490**	252,338
Net income	**164,478**	170,267
Total comprehensive income	**319,254**	197,254

	2018	2017
Statement of Cash Flows		
Net cash provided used in operating activities	**(₱274,555)**	(₱445,033)
Net cash provided used in investing activities	**(891)**	(4,818)
Net cash used in financing activities	**(6,971)**	(6,615)

The following table presents financial information of OHBVI as of December 31, 2018 and 2017:

	2018	2017
Statement of Financial Position		
Current assets	**₱1,396,160**	1,327,511
Current liabilities	–	2,739
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive	**13,296**	13,296
Statement of Cash Flows		
Net cash provided used in operating activities	**68,649**	(810,665)

As of December 31, 2018 and 2017, the NCI in respect of PILFC and ACB is not material to the Group.

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.

The BSP and IC regulations require banks and insurance companies to maintain certain levels of regulatory capital. As of December 31, 2018 and 2017, the total assets of banking subsidiaries amounted to ₱75.2 billion and ₱73.6 billion, respectively; and ₱8.2 billion and ₱7.6 billion for insurance subsidiaries, respectively.

13. **Investment Properties**

Breakdown of investment properties:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Properties held for lease	**₱4,715,184**	₱4,762,380	**₱5,019,733**	₱5,078,689
Foreclosed assets	**8,773,682**	10,832,005	**8,129,625**	10,239,719
Total	**₱13,488,866**	₱15,594,385	**₱13,149,358**	₱15,318,408

The composition of and movements in this account follow:

	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)**
Transfer/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**

	Consolidated		
	2017		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,309,233	₱5,062,298	₱21,371,531
Additions	350,999	274,661	625,660
Disposals/transfers/others	(796,107)	(862,053)	(1,658,160)
Balance at end of year	15,864,125	4,474,906	20,339,031
Accumulated Depreciation			
Balance at beginning of year	–	1,733,938	1,733,938
Depreciation (Note 11)	–	152,894	152,894
Disposals/transfers/others	–	(161,151)	(161,151)
Balance at end of year	–	1,725,681	1,725,681
Allowance for Impairment Losses (Note 16)	2,702,189	316,776	3,018,965
Net Book Value at End of Year	₱13,161,936	₱2,432,449	₱15,594,385

	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		**201,064**	**201,064**
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**

	Parent Company 2017		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,341,154	₱4,627,569	₱20,968,723
Additions	278,090	187,254	465,344
Disposals/Transfers/Others	(1,083,496)	(298,937)	(1,382,433)
Balance at end of year	15,535,748	4,515,886	20,051,634
Accumulated Depreciation			
Balance at beginning of year	–	1,692,521	1,692,521
Depreciation (Note 11)	–	136,507	136,507
Disposals/Transfers/Others	–	(115,224)	(115,224)
Balance at end of year	–	1,713,804	1,713,804
Allowance for Impairment Losses (Note 16)	2,702,189	317,233	3,019,422
Net Book Value at End of Year	₱12,833,559	₱2,484,849	₱15,318,408

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱307.8 million and ₱115.9 million, as of December 31, 2018 and 2017, 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 ₱4.3 billion and ₱5.3 billion as of December 31, 2018 and 2017, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱4.2 billion and ₱5.2 billion as of December 31, 2018 and 2017, 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 ₱58.6 million, ₱27.5 million and ₱13.6 million in 2018, 2017, and 2016, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱271.4 million, ₱173.9 million and ₱201.8 million in 2018, 2017, and 2016, 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 ₱58.6 million, ₱27.5 million and ₱8.3 million in 2018, 2017, and 2016, respectively. Direct operating expenses on investment properties that did not generate rental income included under ‘Miscellaneous expenses - Others’, amounted to ₱271.4 million, ₱167.1 million and ₱201.6 million in 2018, 2017, and 2016, respectively.

Net gains on sale or exchange of assets
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Net gains from sale of investment properties (Note 33)	**₱5,703,523**	₱3,755,533	₱2,343,634	**₱5,683,516**	₱3,698,236	₱2,387,472
Net gains from foreclosure and repossession of investment properties	**129,218**	162,125	165,570	**129,218**	162,125	128,927
Net gains from sale of property and equipment (Note 11)	**28,402**	4,282	1,157	**28,402**	1,980	1,462
Net loss from sale of receivables	–	(804)	–	–	–	–
	₱5,861,143	₱3,921,136	₱2,510,361	**₱5,841,136**	₱3,862,341	₱2,517,861

14. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	Consolidated				
	2018				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱3,410,865**	**₱5,700,597**	**₱13,375,407**
Additions	–	–	**169,231**	**169,231**	–
Cumulative translation adjustment	–	–	**1,520**	**1,520**	–
Effect of disposal group classified as held for sale (Note 36)	–	–	**(30,463)**	**(30,463)**	–
Balance at end of year	**1,897,789**	**391,943**	**3,551,153**	**5,840,885**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**928,862**	**391,943**	**1,056,935**	**2,377,740**	–
Amortization (Note 11)	**189,779**	–	**271,026**	**460,805**	–
Cumulative translation adjustment	–	–	**(559)**	**(559)**	–
Effect of disposal group classified as held for sale (Note 36)	–	–	**(22,258)**	**(22,258)**	–
Balance at end of year	**1,118,641**	**391,943**	**1,305,144**	**2,815,728**	–
Net Book Value at End of Year	**₱779,148**	**₱–**	**₱2,246,009**	**₱3,025,157**	**₱13,375,407**

	Consolidated				
	2017				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱2,239,262	₱4,528,994	₱13,375,407
Additions	–	–	1,162,121	1,162,121	–
Cumulative translation adjustment	–	–	9,482	9,482	–
Balance at end of year	1,897,789	391,943	3,410,865	5,700,597	13,375,407
Accumulated Amortization					
Balance at beginning of year	739,083	391,943	838,679	1,969,705	–
Amortization (Note 11)	189,779	–	217,272	407,051	–
Cumulative translation adjustment	–	–	984	984	–
Balance at end of year	928,862	391,943	1,056,935	2,377,740	
Net Book Value at End of Year	₱968,927	₱–	₱2,353,930	₱3,322,857	₱13,375,407

	Parent Company 2018 Intangible Assets				
	Core Deposit	**Customer Relationship**	**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**

	Parent Company 2017 Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱3,350,558	₱5,640,290	₱13,515,765
Additions	–	–	1,045,743	1,045,743	–
Cumulative translation adjustment	–	–	(668)	(668)	–
Balance at end of year	1,897,789	391,943	4,395,633	6,685,365	13,515,765
Accumulated Amortization					
Balance at beginning of year	739,083	391,943	2,037,812	3,168,838	–
Amortization (Note 11)	189,779	–	164,161	353,940	–
Cumulative translation adjustment		–	(656)	(656)	–
Balance at end of year	928,862	391,943	2,201,317	3,522,122	
Net Book Value at End of Year	₱968,927	₱–	₱2,194,316	₱3,163,243	₱13,515,765

Core deposit (CDI) and customer relationship (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, 2018 and 2017 includes capitalized development costs amounting to ₱0.5 billion and ₱2.2 billion, respectively, 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 ₱13.38 billion.

Impairment testing of goodwill and intangible asset
Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 billion, ₱4.2 billion and ₱3.0 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 CGUs' 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.

Key assumptions used in value in use calculations
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:

	2018			2017		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**11.90%**	**11.90%**	**7.76%**	8.16%	8.16%	6.89%
Projected growth rate	**6.50%**	**6.50%**	**6.50%**	6.80%	6.80%	6.80%

The calculation of value in use for retail banking, corporate banking and treasury CGUs 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.

Discount rate
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 treasury 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. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
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	
	2018	2017	**2018**	2017
Financial				
Return checks and other cash items	**₱169,997**	₱409,257	**₱166,992**	₱396,826
Checks for clearing	**499,792**	285,676	**499,792**	285,676
Security deposits	**129,309**	45,697	**–**	–
Receivable from SPV	**500**	500	**500**	500
Others	**5,407**	4,355	**3,966**	3,477
	805,005	745,485	**671,250**	686,479
Non-financial				
Creditable withholding taxes	**4,038,042**	5,272,020	**4,018,405**	5,085,846
Real estate inventories held under development (Note 33)	**728,752**	728,752	**728,752**	728,752
Deferred benefits	**564,343**	577,291	**540,328**	524,252
Prepaid expenses	**485,170**	390,290	**382,146**	299,780
Documentary stamps on hand	**438,312**	234,234	**431,751**	230,328
Chattel mortgage properties-net of depreciation	**109,264**	149,347	**32,437**	32,752
Stationeries and supplies	**99,176**	95,129	**93,594**	89,168
Deferred reinsurance premium (Note 36)	**–**	816,058	**–**	–
Miscellaneous	**50,801**	822,799	**186,319**	1,397,790
	6,513,860	9,085,920	**6,413,732**	8,388,668
	7,318,865	9,831,405	**7,084,982**	9,075,147
Less allowance for impairment losses (Note 16)	**1,178,605**	954,090	**1,178,555**	922,532
	₱6,140,262	₱8,877,135	**₱5,906,427**	₱8,152,615

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.

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2018 and 2017 (see Note 36).

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

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.

Chattel mortgage properties
As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱105.9 million and ₱96.1 million, respectively. As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱58.2 million and ₱66.5 million, respectively.

As of December 31, 2018 and 2017, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱0.9 million and ₱0.9 million, respectively.

Receivable from SPV
The Group has receivable from SPV, Opal Portfolio Investing Inc. (OPII), which was deconsolidated upon adoption of PFRS 10.

Receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of certain Non-performing assets of the Group. Collections from OPII in 2016 amounting to ₱500.0 million are recorded under 'Miscellaneous Income' (see Note 27).

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		
	2018	2017	2016	**2018**	2017	2016
Continuing operations:						
Provision for (reversal of) impairment	**(₱71,135)**	₱421,792	₱114,448	**(₱71,135)**	₱422,451	₱113,593
Provision for credit losses	**1,811,312**	812,986	2,696,773	**1,472,663**	70,609	1,192,348
Provision for (reversal of) other losses (Note 33)	–	(331,183)	401,553	–	(331,183)	401,553
	1,740,177	903,595	3,212,774	**1,401,528**	161,877	1,707,494
Discontinued operations:						
Provision for credit losses (Note 36)	**12,635**	(19,463)	(80)	–	–	–
	₱1,752,812	₱884,132	₱3,212,694	**₱1,401,528**	₱161,877	₱1,707,494

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated						
	2018				2017		
	Financial Assets at FVOCI	**Financial Assets at Amortized Cost**	**Loans and Receivables**	**Other Assets**	AFS Investments - Equity securities	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱–**	**₱–**	**₱15,764,060**	**₱500**	₱875,475	14,892,814	₱500
Effect of PFRS 9 adoption	**58,500**	**3,711,523**	**(912,890)**	**–**	–	–	–
Balance as restated	**58,500**	**3,711,523**	**14,851,170**	**500**	875,475	14,892,814	500
Provisions	**–**	**57,741**	**1,765,723**	**–**	–	793,524	–
Reversal of provision	**(12,151)**	**–**	**–**				
Accounts charged-off	**–**	**–**	**(420,193)**	**–**	(249,720)	(474,876)	–
Transfers and others	**–**	**–**	**(1,138,243)**	**–**	(125)	552,598	–
Balance at end of year	**₱46,349**	**₱3,769,264**	**₱15,058,457**	**₱500**	₱625,630	₱15,764,060	₱500

	Parent Company						
	2018				2017		
	Financial Assets at FVOCI	**Financial Assets at Amortized Cost**	**Loans and Receivables**	**Other Assets**	AFS Investments - Equity securities	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱–**	**₱–**	**14,505,328**	**₱500**	₱875,220	₱14,032,123	₱500
Effect of PFRS 9 adoption	**58,500**	**3,711,523**	**(1,774,700)**	–	–	–	–
Balance as restated	**58,500**	**3,711,523**	**12,730,628**	**500**	875,220	14,032,123	500
Provisions	–	**57,741**	**1,427,073**	–	–	70,609	–
Reversal of provision	**(12,151)**	–	–	–			
Accounts charged-off	–	–	**(420,193)**	–	(249,720)	(206,898)	–
Transfers and others	–	–	**(1,111,926)**	–	–	609,494	–
Balance at end of year	**46,349**	**3,769,264**	**12,625,582**	**₱500**	₱625,500	₱14,505,328	₱500

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated					
	2018			2017		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,486**	**₱3,018,965**	**₱954,090**	₱228,233	₱3,296,341	₱770,162
Provisions (reversals)	–	**13,221**	**(84,356)**	21	(46,377)	468,148
Disposals	–	**(25,274)**	**(301)**	(220)	(152,718)	(1,136)
Transfers and others	–	**276,451**	**308,672**	452	(78,281)	(283,084)
Balance at end of year	**₱228,486**	**₱3,283,363**	**₱1,178,105**	₱228,486	₱3,018,965	₱954,090

	Parent Company					
	2018			2017		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,034**	**₱3,019,422**	**₱922,032**	₱228,233	₱3,301,072	₱737,588
Provisions (reversals)	–	**13,221**	**(84,356)**	21	(46,377)	468,808
Disposals	–	**(25,274)**	**(301)**	(220)	(152,718)	(1,136)
Transfers and others	–	**277,098**	**340,680**	–	(82,555)	(283,228)
Balance at end of year	**₱228,034**	**₱3,284,467**	**₱1,178,055**	₱228,034	₱3,019,422	₱922,032

The reconciliation of allowance for the receivables from customers are shown below. The balances at the beginning of the year reflect the amounts after considering the effect of adoption of PFRS 9 (see Note 2).

	Consolidated			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate Loans*				
Beginning Balance	**₱1,469,029**	**₱23,150**	**₱3,850,384**	**₱5,342,563**
Newly originated assets which remained in Stage 1 as at year-end	**477,090**	–	–	**477,090**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**30,229**	**499,307**	**529,536**
Transfers to Stage 1	**1,082**	**(921)**	**(161)**	–
Transfers to Stage 2	**(4,437)**	**4,437**	–	–
Transfers to Stage 3	**(2,163)**	**(5,012)**	**7,175**	–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	–	**(94,461)**	**(94,461)**
Provisions	**82,761**	**136,288**	**440,496**	**659,545**
Effect of collections and other movements	**(728,076)**	**(151,579)**	**(874,368)**	**(1,754,023)**
Ending Balance	**1,295,286**	**36,592**	**3,828,372**	**5,160,250**

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
LGU				
Beginning Balance	**₱3,510**	**₱5,415**	**₱24,915**	**₱ 33,840**
Newly originated assets which remained in Stage 1 as at year-end	**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	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	–	–
Effect of collections and other movements	**30,575**	**(1,225)**	–	**29,350**
Ending Balance	**41,515**	**4,190**	**24,915**	**70,620**
Credit Cards				
Beginning Balance	**36,041**	**42,372**	**501,035**	**579,448**
Newly originated assets which remained in Stage 1 as at year-end	**18,591**	–	–	**18,591**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**13,923**	**67,864**	**81,787**
Transfers to Stage 1	**142,041**	**(7,467)**	**(134,574)**	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	**(106,197)**	**106,197**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	**(132,531)**	–	**(132,531)**
Provisions	–	–	–	–
Effect of collections and other movements	**(277,074)**	**248,567**	**556,789**	**528,282**
Ending Balance	**(80,401)**	**58,667**	**1,097,311**	**1,075,577**
Retail SMEs				
Beginning Balance	**156,783**	**6,190**	**558,726**	**721,699**
Newly originated assets which remained in Stage 1 as at year-end	**46,891**	–	–	**46,891**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**8,304**	**68,455**	**76,759**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	**(187)**	**187**	–	–
Transfers to Stage 3	**(1,114)**	**(320)**	**1,464**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	**(27,833)**	**(27,833)**
Provisions	**486**	**1,532**	**9,799**	**11,817**
Effect of collections and other movements	**(6,006)**	**49,355**	**(8,549)**	**34,800**
Ending Balance	**196,823**	**65,248**	**602,062**	**864,133**
Housing Loans				
Beginning Balance	**400,894**	**788,987**	**(374,370)**	**815,511**
Newly originated assets which remained in Stage 1 as at year-end	**35,622**	–	–	**35,622**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**37,823**	**11,149**	**48,972**
Transfers to Stage 1	**7,215**	**(7,137)**	**(78)**	–
Transfers to Stage 2	**(435,782)**	**534,643**	**(98,861)**	–
Transfers to Stage 3	**(51,117)**	**(70,076)**	**121,193**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	**13,748**	**22,392**	**17,529**	**53,669**
Effect of collections and other movements	**901,826**	**(774,030)**	**191,915**	**319,711**
Ending Balance	**872,406**	**532,602**	**(131,523)**	**1,273,485**

(Forward)

	Consolidated 2018 Stage 1	Stage 2	Stage 3	Total
Auto Loans				
Beginning Balance	**₱70,682**	**₱5,117**	**₱74,066**	**₱149,865**
Newly originated assets which remained in Stage 1 as at year-end	**8,863**	**–**	**–**	**8,863**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**4,962**	**1,623**	**6,585**
Transfers to Stage 1	**2,293**	**(2,206)**	**(87)**	**–**
Transfers to Stage 2	**(2,576)**	**3,386**	**(810)**	**–**
Transfers to Stage 3	**(3,926)**	**(7,332)**	**11,258**	**–**
Accounts charged off	**–**	**–**	**–**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**(5,416)**	**(5,416)**
Provisions	**(7,067)**	**6,516**	**(3,281)**	**(3,832)**
Effect of collections and other movements	**45,882**	**57,377**	**(27,969)**	**75,290**
Ending Balance	**114,151**	**67,820**	**49,384**	**231,355**
Other Loans				
Beginning Balance	**734,409**	**363,554**	**1,219,525**	**2,317,488**
Newly originated assets which remained in Stage 1 as at year-end	**304**	**–**	**–**	**304**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**4,999**	**940**	**5,939**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**
Transfers to Stage 3	**(5,529)**	**(3,368)**	**8,897**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts charged off	**–**	**–**	**(38,601)**	**(38,601)**
Provisions	**168,037**	**16,882**	**18,330**	**203,249**
Effect of collections and other movements	**(369,686)**	**(314,513)**	**(219,654)**	**(903,853)**
Ending Balance	**527,535**	**67,554**	**989,437**	**1,584,526**
Other Receivables				
Beginning Balance	**2,715,351**	**923,602**	**1,025,211**	**4,664,164**
Newly originated assets which remained in Stage 1 as at year-end	**12,478**	**–**	**–**	**12,478**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**–**	**–**	**–**
Transfers to Stage 1	**936**	**(171)**	**(765)**	**–**
Transfers to Stage 2	**(2,364)**	**2,364**	**–**	**–**
Transfers to Stage 3	**–**	**(457)**	**457**	**–**
Transfers to Asset Held for Sale	**(195,272)**	**–**	**–**	**(195,272)**
Accounts charged off	**–**	**–**	**(29,409)**	**(29,409)**
Provisions	**76,395**	**–**	**28,333**	**104,728**
Effect of collections and other movements	**(1,565,880)**	**1,722,322**	**85,881**	**242,323**
Ending Balance	**1,041,644**	**2,647,660**	**1,109,708**	**4,799,012**
Total Loans and Receivables				
Beginning Balance	**5,586,699**	**2,158,387**	**6,879,492**	**14,624,578**
Newly originated assets which remained in Stage 1 as at year-end	**607,269**	**–**	**–**	**607,269**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**100,240**	**649,338**	**749,578**
Transfers to Stage 1	**153,567**	**(17,902)**	**(135,665)**	**–**
Transfers to Stage 2	**(445,346)**	**545,017**	**(99,671)**	**–**
Transfers to Stage 3	**(63,879)**	**(192,762)**	**256,641**	**–**
Transfers to Asset Held for Sale	**(346,086)**	**198,783**	**(47,969)**	**(195,272)**
Accounts charged off	**–**	**(132,531)**	**(195,720)**	**(328,251)**
Provisions	**334,360**	**183,610**	**511,206**	**1,029,176**
Effect of collections and other movements	**(1,968,439)**	**836,274**	**(295,955)**	**(1,428,120)**
Ending Balance	**₱3,858,145**	**₱3,679,116**	**₱7,521,697**	**₱15,058,958**

*Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of January 1, 2018 was ₱87.8 million, increased by ₱63.4 million at December 31, 2018. Movements during the year were mostly driven by new loan facility availments in 2018.

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*				
Beginning Balance	₱1,405,697	₱22,673	₱3,839,860	₱5,268,230
Newly originated assets which remained in Stage 1 as at year-end	476,383	–	–	476,383
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	19,531	498,861	518,392
Transfers to Stage 1	1,319	(1,319)	–	–
Transfers to Stage 2	(4,442)	4,442	–	–
Transfers to Stage 3	(2,167)	(5,012)	7,179	–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	–	(94,461)	(94,461)
Provisions	7,958	136,288	437,473	581,719
Effect of collections and other movements	(740,963)	(150,709)	(874,358)	(1,766,030)
Ending Balance	1,143,785	25,894	3,814,554	4,984,233
LGU				
Beginning Balance	3,510	5,415	24,915	33,840
Newly originated assets which remained in Stage 1 as at year-end	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	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	–	–
Effect of collections and other movements	30,575	(1,225)	-	29,350
Ending Balance	41,515	4,190	24,915	70,620
Credit Cards				
Beginning Balance	36,041	42,372	501,035	579,448
Newly originated assets which remained in Stage 1 as at year-end	18,591	–	–	18,591
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	13,923	67,864	81,787
Transfers to Stage 1	142,041	(7,467)	(134,574)	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	(106,197)	106,197	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	(132,531)	–	(132,531)
Provisions	–	–	–	–
Effect of collections and other movements	(277,074)	248,567	556,789	528,282
Ending Balance	(80,401)	58,667	1,097,311	1,075,577
Retail SMEs				
Beginning Balance	74,686	5,935	483,607	564,228
Newly originated assets which remained in Stage 1 as at year-end	44,940	–	–	44,940
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	2,418	35,319	37,737
Transfers to Stage 1	50	–	(50)	–
Transfers to Stage 2	(593)	908	(315)	–
Transfers to Stage 3	(547)	–	547	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(27,833)	(27,833)
Provisions	361	337	28,362	29,060
Effect of collections and other movements	(67,784)	(1,809)	(170)	(69,763)
Ending Balance	51,113	7,789	519,467	578,369
Housing Loans				
Beginning Balance	1,398	678	40,245	42,321
Newly originated assets which remained in Stage 1 as at year-end	6	–	–	6

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Newly originated assets which moved to Stages 2 and 3 as at year-end	₱–	₱3	₱4,497	₱4,500
Transfers to Stage 1	134	(38)	(96)	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(207)	(89)	296	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	252	252
Effect of collections and other movements	20,341	322	(9,518)	11,145
Ending Balance	21,672	876	35,676	58,224
Auto Loans				
Beginning Balance	17	38	43,120	43,175
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	17	(17)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Accounts charged off	–	–	–	–
Transfers to Assets Held for Sale	–	–	(5,416)	(5,416)
Provisions	–	–	–	–
Effect of collections and other movements	(31)	(21)	1,885	1,833
Ending Balance	3	–	39,589	39,592
Other Loans				
Beginning Balance	2,142	362,248	1,194,078	1,558,468
Newly originated assets which remained in Stage 1 as at year-end	154	–	–	154
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	141	–	141
Transfers to Stage 1	404	(335)	(69)	–
Transfers to Stage 2	(411)	757	(346)	–
Transfers to Stage 3	(40)	(303)	343	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(38,601)	(38,601)
Provisions	–	13,480	37,683	51,163
Effect of collections and other movements	(2,047)	(318,416)	(219,730)	(540,193)
Ending Balance	202	57,572	973,358	1,031,132
Other Receivables				
Beginning Balance	2,613,376	920,913	936,791	4,471,080
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
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	–	–	–	–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	–	(29,409)	(29,409)
Provisions	–	–	28,333	28,333
Effect of collections and other movements	(1,509,281)	1,723,906	103,207	317,832
Ending Balance	1,104,095	2,644,819	1,038,922	4,787,836
Total Loans and Receivables				
Beginning Balance	4,136,867	1,360,272	7,063,651	12,560,790
Newly originated assets which remained in Stage 1 as at year-end	547,504	–	–	547,504
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	36,016	606,541	642,557
Transfers to Stage 1	143,965	(9,176)	(134,789)	–
Transfers to Stage 2	(5,446)	6,107	(661)	–

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 3	**(₱2,961)**	**(₱111,601)**	**₱114,562**	**₱–**
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	**(132,531)**	**(195,720)**	**(328,251)**
Provisions	**8,319**	**150,105**	**532,103**	**690,527**
Effect of collections and other movements	**(2,554,264)**	**1,500,615**	**(441,895)**	**(1,487,544)**
Ending Balance	**₱2,273,984**	**₱2,799,807**	**₱7,543,792**	**₱12,625,583**

*Allowance for ECL on corporate loans includes ECL on undrawn loan commitment. The balance of commitments as of January 1, 2018 was ₱87.8 million, increased by ₱63.4 million at December 31, 2018. Movements during the year were mostly driven by new loan facility availments in 2018.

Movements of the gross carrying amounts of receivables from customers are shown below:

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans				
Beginning Balance	**₱384,446,065**	**₱3,003,511**	**₱6,000,790**	**₱393,450,366**
Newly originated assets which remained in Stage 1 as at year-end	**231,847,502**	–	–	**231,847,502**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**4,519,519**	**1,334,506**	**5,854,025**
Transfers to Stage 1	**296,280**	**(296,280)**	–	–
Transfers to Stage 2	**(839,071)**	**839,071**	–	–
Transfers to Stage 3	**(393,213)**	**(251,314)**	**644,527**	–
Transfers to Asset Held for Sale	**(8,352)**	–	–	**(8,352)**
Accounts charged off	–	–	**(94,461)**	**(94,461)**
Effect of collections and other movements	**(151,775,885)**	**(2,022,248)**	**(835,937)**	**(154,634,070)**
Ending Balance	**463,573,326**	**5,792,259**	**7,049,425**	**476,415,010**
LGU				
Beginning Balance	**7,017,292**	**23,227**	**24,916**	**7,065,435**
Newly originated assets which remained in Stage 1 as at year-end	**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	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	**(7,017,292)**	**(21,329)**	**(24,916)**	**(7,063,537)**
Ending Balance	**6,877,331**	**17,968**	**24,916**	**6,920,215**
Credit Cards				
Beginning Balance	**9,184,514**	**294,477**	**666,483**	**10,145,474**
Newly originated assets which remained in Stage 1 as at year-end	**2,894,354**	–	–	**2,894,354**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**76,426**	**81,210**	**157,637**
Transfers to Stage 1	**83,458**	**(78,154)**	**(5,304)**	–
Transfers to Stage 2	**(263,134)**	**271,709**	**(8,575)**	–
Transfers to Stage 3	**(620,055)**	**(162,122)**	**782,177**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	**(137,452)**	**(42,326)**	**(182,554)**	**(362,332)**
Effect of collections and other movements	**602,249**	**33,483**	**(58,802)**	**576,930**
Ending Balance	**11,743,934**	**393,493**	**1,274,635**	**13,412,063**
Retail SMEs				
Beginning Balance	**11,648,490**	**337,636**	**488,606**	**12,474,732**
Newly originated assets which remained in Stage 1 as at year-end	**8,237,072**	–	–	**8,237,072**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**188,861**	**1,443,678**	**1,632,539**
Transfers to Stage 1	–	–	–	–

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 2	(₱191,176)	₱191,176	₱–	₱–
Transfers to Stage 3	(70,456)	(92,824)	163,280	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(27,833)	(27,833)
Effect of collections and other movements	(9,353,577)	(424,002)	(595,319)	(10,372,898)
Ending Balance	10,270,353	200,847	1,472,412	11,943,612
Housing Loans				
Beginning Balance	16,469,522	8,717,747	1,676,936	26,864,205
Newly originated assets which remained in Stage 1 as at year-end	6,773,796	–	–	6,773,796
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	355,084	46,294	401,378
Transfers to Stage 1	2,066,914	(2,038,294)	(28,620)	–
Transfers to Stage 2	(4,814,883)	5,904,269	(1,089,386)	–
Transfers to Stage 3	(282,094)	(385,334)	667,428	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	2,559,095	(4,815,526)	2,060,447	(195,984)
Ending Balance	22,772,350	7,737,946	3,333,099	33,843,395
Auto Loans				
Beginning Balance	6,251,527	2,757,834	218,887	9,228,248
Newly originated assets which remained in Stage 1 as at year-end	5,171,719	–	–	5,171,719
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	338,571	12,530	351,101
Transfers to Stage 1	887,495	(853,998)	(33,497)	–
Transfers to Stage 2	(1,407,767)	1,847,521	(439,754)	–
Transfers to Stage 3	(21,707)	(40,541)	62,248	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(5,416)	(5,416)
Effect of collections and other movements	(1,462,711)	(1,883,474)	343,778	(3,002,407)
Ending Balance	9,418,556	2,165,913	158,776	11,743,245
Other Loans				
Beginning Balance	19,627,677	696,618	1,350,439	21,674,734
Newly originated assets which remained in Stage 1 as at year-end	7,296,449	–	–	7,296,449
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	6,463,430	3,695	6,467,125
Transfers to Stage 1	19,194	–	(19,194)	–
Transfers to Stage 2	(76,478)	114,267	(37,789)	–
Transfers to Stage 3	(8,273)	–	8,273	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(38,602)	(38,602)
Effect of collections and other movements	(14,994,689)	(1,383,128)	200,682	(16,177,135)
Ending Balance	11,863,880	5,891,187	1,467,504	19,222,571
Other Receivables				
Beginning Balance	16,740,788	4,723,127	833,454	22,297,369
Newly originated assets which remained in Stage 1 as at year-end	11,275,032	–	–	11,275,032
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	143,045	130,350	273,395
Transfers to Stage 1	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	(20,443)	(3,999)	24,442	–
Transfers to Asset Held for Sale	(5,089,832)	–	–	(5,089,832)
Accounts Charged off	–	–	(29,408)	(29,408)
Effect of collections and other movements	(5,227,408)	(222,836)	(21,989)	(5,472,233)
Ending Balance	17,776,190	4,644,141	833,992	23,254,323
Total Loans and Receivables				

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning Balance	₱471,385,875	₱ 20,554,177	₱11,260,511	₱503,200,563
Newly originated assets which remained in Stage 1 as at year-end	280,373,255	–	–	280,373,255
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	12,101,006	3,077,179	15,178,186
Transfers to Stage 1	3,484,992	(3,319,422)	(165,570)	–
Transfers to Stage 2	(7,626,107)	9,225,513	(1,599,406)	–
Transfers to Stage 3	(1,416,241)	(936,134)	2,352,375	–
Transfers to Asset Held for Sale	(5,098,184)	–	–	(5,098,184)
Accounts Charged off	(137,452)	(42,326)	(378,274)	(558,052)
Effect of collections and other movements	(186,670,218)	(10,739,060)	1,067,944	(196,341,334)
Ending Balance	₱554,295,920	₱26,843,754	₱15,614,759	₱596,754,434

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans				
Beginning Balance	₱377,379,028	₱2,170,755	₱4,950,332	₱384,500,115
Newly originated assets which remained in Stage 1 as at year-end	229,278,616	–	–	229,278,616
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	4,333,052	1,328,441	5,661,493
Transfers to Stage 1	300,679	(300,679)	–	–
Transfers to Stage 2	(925,229)	925,229	–	–
Transfers to Stage 3	(458,770)	(251,314)	710,084	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(94,461)	(94,461)
Effect of collections and other movements	(158,891,821)	(1,739,461)	(675,436)	(161,306,718)
Ending Balance	446,682,503	5,137,582	6,218,960	458,039,045
LGU				
Beginning Balance	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	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	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	6,877,331	17,968	24,916	6,920,215
Credit Cards				
Beginning Balance	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	2,894,354	–	–	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	76,426	81,210	157,637
Transfers to Stage 1	83,458	(78,154)	(5,304)	–
Transfers to Stage 2	(263,134)	271,709	(8,575)	–
Transfers to Stage 3	(620,055)	(162,122)	782,177	–
Transfers to Assets Held for Sale	–	–	–	
Accounts Charged off	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	602,249	33,483	(58,802)	576,930
Ending Balance	11,743,934	393,493	1,274,635	13,412,062
Retail SMEs				
Beginning Balance	9,352,537	77,189	324,783	9,754,509
Newly originated assets which remained in Stage 1 as at year-end	6,494,319	–	–	6,494,319
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	125,965	1,383,885	1,509,850

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱833	₱–	(₱833)	₱–
Transfers to Stage 2	(105,242)	105,242	–	–
Transfers to Stage 3	(186,948)	(14,410)	201,358	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(27,833)	(27,833)
Effect of collections and other movements	(9,072,022)	(168,021)	(672,184)	(9,912,227)
Ending Balance	6,483,477	125,965	1,209,176	7,818,618
Housing Loans				
Beginning Balance	1,272,340	7,848	247,536	1,527,724
Newly originated assets which remained in Stage 1 as at year-end	8,644	–	–	8,644
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	63	16,830	16,893
Transfers to Stage 1	947	(421)	(526)	–
Transfers to Stage 2	(18,313)	18,313	–	–
Transfers to Stage 3	(6,190)	(2,909)	9,099	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	140,253	(7,044)	(59,148)	74,061
Ending Balance	1,397,681	15,850	213,791	1,627,322
Auto Loans				
Beginning Balance	3,506	420	47,776	51,702
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
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	(130)	–	130	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(5,416)	(5,416)
Effect of collections and other movements	(2,959)	(420)	(2,882)	(6,261)
Ending Balance	417	–	39,608	40,025
Other Loans				
Beginning Balance	10,609,247	492,402	1,173,090	12,274,739
Newly originated assets which remained in Stage 1 as at year-end	5,576,195	–	–	5,576,195
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	6,420,312	–	6,420,312
Transfers to Stage 1	2,712	(2,251)	(461)	–
Transfers to Stage 2	(109,767)	111,665	(1,898)	–
Transfers to Stage 3	(8,268)	(3,750)	12,018	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(38,602)	(38,602)
Effect of collections and other movements	(8,635,954)	(1,282,617)	204,119	(9,714,452)
Ending Balance	7,434,165	5,735,761	1,348,266	14,518,192
Other Receivables				
Beginning Balance	10,519,844	4,723,127	833,454	16,076,425
Newly originated assets which remained in Stage 1 as at year-end	10,495,560	–	–	10,495,560
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	143,045	130,350	273,395
Transfers to Stage 1	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	(20,443)	(3,999)	24,442	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(29,408)	(29,408)
Effect of collections and other movements	(5,501,771)	(222,836)	(21,989)	(5,746,596)
Ending Balance	15,591,243	4,644,141	833,992	21,069,376
Total Loans and Receivables				

(Forward)

	Parent Company			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Beginning Balance	**₱425,338,308**	**₱7,789,445**	**₱8,268,370**	**₱441,396,123**
Newly originated assets which remained in Stage 1 as at year-end	**261,625,019**	**–**	**–**	**261,625,019**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**11,114,933**	**2,965,632**	**14,080,565**
Transfers to Stage 1	**520,280**	**(434,201)**	**(86,079)**	**–**
Transfers to Stage 2	**(1,455,283)**	**1,489,658**	**(34,375)**	**–**
Transfers to Stage 3	**(1,300,804)**	**(438,504)**	**1,739,308**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**(137,452)**	**(42,326)**	**(378,274)**	**(558,052)**
Effect of collections and other movements	**(188,379,317)**	**(3,408,245)**	**(1,311,238)**	**(193,098,800)**
Ending Balance	**₱496,210,751**	**₱16,070,760**	**₱11,163,344**	**₱523,444,855**

The movements in allowance for credit losses for loans and receivables by class follow:

	Consolidated							
	2017							
	Receivables from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Provisions (reversals)	(302,489)	(10,930)	22,179	417,853	9,269	–	657,643	793,525
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(295,749)	–	–	(127,026)	–	–	(52,101)	(474,876)
Transfers and others	620,372	15,393	32,973	(138,778)	(14,467)	52,495	90,765	658,754
Balance at end of year	₱6,770,477	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Individual impairment	4,146,527	20,653	120,845	219,538	12,743	3,739,983	1,208,384	9,468,673
Collective impairment	2,623,951	79,840	97,578	1,173,332	1,008	–	2,319,678	6,295,387
	₱6,770,478	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Gross amounts of loans and receivables subject to individual impairment	₱6,933,931	₱20,653	₱150,344	₱345,618	₱12,743	₱3,739,983	₱1,208,384	₱12,399,665

	Parent Company							
	2017							
	Receivables from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122
Provisions (reversals)	(891,970)	(10,930)	22,179	247,212	9,268	–	694,851	70,610
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(50,969)	–	–	(127,022)	–	–	(28,907)	(206,898)
Transfers and others	548,045	15,393	32,973	13,454	(14,467)	(4,256)	124,508	715,650
Balance at end of year	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Individual impairment	₱3,361,779	₱20,653	₱120,845	₱122,561	₱12,743	₱3,683,232	₱1,184,021	₱8,505,834
Collective impairment	2,832,256	79,840	97,578	900,603	1,005	-	2,088,211	5,999,493
	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Gross amounts of loans and receivables subject to individual impairment	₱4,839,781	₱20,653	₱150,344	₱247,899	₱12,743	₱3,683,232	₱1,184,021	₱10,138,674

17. **Deposit Liabilities**

As of December 31, 2018 and 2017, noninterest-bearing deposit liabilities amounted to ₱28.6 billion and ₱28.9 billion, respectively, for the Group and ₱25.2 billion and ₱24.8 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.00% to 10.00% in 2018, 0.01% to 4.13% in 2017 and 0.00% to 6.23% in 2016 for peso-denominated deposit liabilities, and from 0.01% to 8.00% in 2018, 0.00% to 2.10% in 2017 and 0.00% to 3.71% in 2016 for foreign currency-denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earn annual fixed interest rates ranging from 0.00% to 10.00% in 2018, 0.01% to 4.13% in 2017 and 0.01% to 6.23% in 2016 for peso-denominated deposit liabilities, and from 0.01% to 8.00% in 2018, 0.00% to 2.10% in 2017 and 0.00% to 2.25% in 2016 for foreign-currency denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and PNB SB are subject to reserves equivalent to 18.00% and 8.00%, respectively.

Available reserves booked under 'Due from BSP' are as follows:

	2018	2017
Parent Company	**₱97,665,375**	₱96,497,459
PNB SB	**3,361,937**	2,850,526
	₱101,027,312	₱99,347,985

Long-term Negotiable Certificates of Time Deposits
Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

				Interest Repayment	**Carrying Value**	
Issue Date	Maturity Date	Face Value	Coupon Rate	Terms	**2018**	2017
October 26, 2017	April 26, 2023	₱6,350,000	3.88%	Quarterly	**₱6,316,699**	₱6,310,033
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,747,669**	3,743,546
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,355,858**	5,349,341
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,985,553**	6,976,118
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,998,167**	3,992,376
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,999,279**	4,992,542
		₱31,495,000			**₱31,403,225**	₱31,363,956

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.

- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

  Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

- The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section

X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

- The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.50 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.

- Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Savings	**₱3,240,636**	₱1,940,283	₱2,124,979	**₱3,236,424**	₱1,904,459	₱2,074,446
Time	**3,338,531**	1,815,853	798,894	**2,079,674**	1,169,541	431,161
LTNCDs	**1,170,378**	933,632	764,230	**1,170,378**	933,631	764,230
Demand	**121,628**	104,459	92,139	**104,812**	97,167	87,029
	₱7,871,173	₱4,794,227	₱3,780,242	**₱6,591,288**	₱4,104,798	₱3,356,866

In 2018, 2017 and 2016, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱39.3 million, ₱32.1 million and ₱25.3 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱91.8 million and ₱131.0 million as of December 31, 2018 and 2017, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Derivative liabilities (Notes 23 and 35)	**₱470,648**	₱343,522	**₱468,279**	₱343,416

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Bills payable to:				
BSP and local banks (Note 33)	**₱67,792,569**	₱41,435,696	**₱ 60,940,934**	₱39,167,156
Foreign banks	**521,405**	157,849	–	–
Others	**3,000**	91,255	–	1,761
	68,316,974	41,684,800	**60,940,934**	39,168,917
Acceptances outstanding (Note 10)	**1,765,861**	2,231,887	**1,765,861**	2,231,887
	₱70,082,835	₱43,916,687	**₱62,706,795**	₱41,400,804

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.04% to 4.41%, from 0.05% to 3.61%, from 0.30% to 1.75% in 2018, 2017 and 2016, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.63% to 5.37%, 0.63% in 2018, 2017 and 2016, respectively.

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing with carrying value of ₱7.4 billion as of December 31, 2016 and was pre-terminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

(1) The lenders agree to provide the Parent Company with a term loan facility of up to $150.00 million. The Parent Company must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

(2) The borrowing bears interest at 1.38% over USD LIBOR. The Parent Company may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

(3) The Parent Company shall ensure that so long as any amount of the facility is utilized, the Common Equity Tier 1 Risk Weighted Ratio, the Tier 1 Risk Weighted Ratio, and the Qualifying Capital Risk Weighted Ratio will, at all times, be equal to or greater than the percentage prescribed by BSP from time to time. Failure to comply with such financial covenants will result to cancellation of the total commitments of the lenders and declare all or part of the loans, together with accrued interest, be immediately due and payable.

(4) The Parent Company may voluntarily prepay whole or any part of any loan outstanding and in integral multiples of $1.00 million, subject to prior notice of the Agent for not less than 15 business days. Prepayment shall be made on the last day of an interest period applicable to the loan. Mandatory prepayment may occur if a change of control or credit rating downgrade occurs. In this case, the lenders may cancel the facility and declare all outstanding loans, together with accrued interest, immediately due and demandable.

As of December 31, 2018, bills payable with a carrying amount of ₱48.0 billion is secured by a pledge of certain Financial assets at FVOCI with carrying value and fair value of ₱19.7 billion and Investment securities at amortized cost with carrying value and fair value of ₱36.7 billion and ₱33.7 billion, respectively (Note 9).

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 billion, respectively (Note 9).

Following are the significant terms and conditions of the repurchase agreements entered into by the Parent Company:

(1) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) The term or life of this borrowing is up to three years;

(3) Some borrowings bear a fixed interest rate while others have floating interest rate;
(4) The Parent Company has pledged its Financial assets at FVOCI and investment securities at amortized costs, AFS and HTM investments, in the form of ROP Global bonds, in order to fulfill its collateral requirement;
(5) Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
(6) Certain borrowings are subject to margin call of up to USD1.4 million; and
(7) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Bills payable	**₱600,354**	₱600,334	₱526,755	**₱434,650**	₱507,332	₱492,650
Subordinated debt (Note 21)	**–**	75,314	416,871	**–**	75,314	416,871
Others	**61,986**	71,833	53,995	**37,461**	68,078	50,088
	₱662,340	₱747,481	₱997,621	**₱ 472,111**	₱650,724	₱959,609

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accrued taxes and other expenses	**₱4,730,917**	₱4,690,580	**₱4,295,448**	₱4,129,687
Accrued interest	**1,436,481**	632,907	**1,264,512**	543,858
	₱6,167,398	₱5,323,487	**₱5,559,960**	₱4,673,545

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial liabilities:				
Promotional expenses	**₱628,559**	₱483,570	**₱592,769**	₱483,570
Rent and utilities payable	**162,629**	188,962	**139,511**	157,195
Information technology-related expenses	**145,206**	204,666	**127,914**	195,599
Management, directors and other professional fees	**124,776**	172,133	**84,117**	142,313
Repairs and maintenance	**94,346**	74,481	**93,996**	74,481
	1,155,516	1,123,812	**1,038,307**	1,053,158
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,648,520**	1,637,877	**1,635,451**	1,564,909
PDIC insurance premiums	**716,041**	660,290	**667,982**	589,876
Other taxes and licenses	**571,574**	539,720	**515,292**	337,765
Employee benefits	**235,603**	476,032	**127,374**	474,868
Other expenses	**403,663**	252,849	**311,042**	109,111
	3,575,401	3,566,768	**3,257,141**	3,076,529
	₱4,730,917	₱4,690,580	**₱4,295,448**	₱4,129,687

‘Other expenses’ include janitorial, representation and entertainment, communication and other operating expenses.

21. **Bonds Payable and Subordinated Debt**

Bonds Payable

4.25% USD300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium term note listed on the Singapore Stock Exchange at par value of $300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2018, the unamortized transaction cost of bonds payable amounted to ₱116.3 million. Amortization of transaction costs amounting to ₱12.2 million was charged to 'Interest expenses - bonds payable' in the statement of income.

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes

On June 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.
(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

On June 16, 2016, the Parent Company exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

In 2017 and 2016 amortization of transaction costs amounting to ₱2.2 million and ₱11.4 million, respectively were charged to 'Interest expenses - bills payable and other borrowings' in the statement of income (Note 19).

22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
Financial				
Accounts payable	**₱9,036,865**	₱8,759,527	**₱7,398,716**	₱7,250,827
Bills purchased - contra (Note 10)	**1,396,318**	1,324,447	**1,396,128**	1,323,896
Manager's checks and demand drafts outstanding	**1,545,888**	2,345,787	**1,217,043**	2,042,181
Dormant credits	**946,354**	1,094,176	**922,167**	1,011,224
Due to other banks	**919,838**	1,212,436	**538,861**	836,992
Deposits on lease contracts	**823,968**	773,020	**130,375**	47,022
Accounts payable - electronic money	**519,810**	643,000	**519,810**	630,249
Payment order payable	**632,477**	315,256	**630,395**	315,256
Margin deposits and cash letters of credit	**44,383**	55,058	**31,651**	55,058
Transmission liability	**25,896**	21,809	**–**	–
Deposit for keys on safety deposit boxes	**15,493**	14,403	**15,471**	14,403
Insurance contract liabilities (Note 36)	**–**	4,929,392	**–**	–
Commission payable	**–**	74,094	**–**	–
	15,907,290	21,562,405	**12,800,617**	13,527,108
Nonfinancial				
Retirement benefit liability (Note 28)	**1,221,893**	1,526,962	**1,221,705**	1,485,426
Deferred revenue - Bancassurance (Note 12)	**793,274**	866,473	**793,274**	866,473
Provisions (Note 34)	**969,106**	969,106	**969,106**	969,106
Deferred revenue - Credit card-related	**290,969**	202,223	**290,969**	202,223
Due to Treasurer of the Philippines	**571,235**	574,261	**570,742**	573,768
Withholding tax payable	**513,136**	283,471	**476,196**	254,164
Deferred tax liabilities (Note 30)	**161,526**	157,511	**–**	–
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**28,619**	27,571	**28,160**	26,792
Reserve for unearned premiums (Note 36)	**–**	1,273,279	**–**	–
Miscellaneous	**809,892**	678,296	**381,819**	331,506
	5,359,650	6,559,153	**4,731,971**	4,709,458
	₱21,266,939	₱28,121,558	**₱17,532,588**	₱18,236,566

Deferred revenue - Bancassurance pertains to the allocated portion of the consideration received for the disposal of APLII related to the Exclusive Distribution Right (Note 12). In 2018 and 2017, amortization of other deferred revenue amounting to ₱73.2 million were recognized under 'Service fees and commission income' (see Note 26).

Deferred revenue - Credit card-related include portion of fee allocated to points issued which is deferred by the Group and recognized as revenue when the points are redeemed or have expired.

'Miscellaneous' of the Group and the Parent Company include interoffice floats, remittance - related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, 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, 2018 and 2017 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2018			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱1,710**	**₱97,106**	**53.11**	**482,974**
JPY	**24,985**	**16**	**0.01**	**6,018,002**
HKD	**874**	**36**	**0.13**	**219,355**
CNY	**33**	**–**	**0.14**	**1,000**
GBP	**211**	**–**	**1.26**	**1,100**
EUR	**60,822**	**74,001**	**1.15**	**385,712**
SELL:				
USD	**119,480**	**2,965**	**52.98**	**690,340**
CAD	**1,365**	**–**	**0.75**	**2,005**
GBP	**–**	**428**	**1.27**	**3,700**
CHF	**7**	**–**	**0.99**	**200**
HKD	**36**	**1,222**	**0.13**	**276,171**
EUR	**–**	**432**	**1.14**	**3,618**
JPY	**91**	**9,469**	**0.01**	**1,121,000**
SGD	**–**	**14**	**0.73**	**200**
AUD	**72**	**–**	**0.71**	**500**
Interest rate swaps	**307,089**	**284,959**		
Warrants	**57,854**	**–**		
	₱574,629	**₱470,648**		

**The notional amounts and average forward rates pertain to original currencies.*

	Consolidated			
	2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱11,347	₱87,446	50.44	573,545
JPY	8,413	44,371	0.01	16,555,042
HKD	1,548	102	0.13	211,050
CAD	108	–	0.78	1,258
GBP	72	–	1.34	518
EUR	98	–	1.19	3,328
SGD	3	–	0.75	50
SELL:				
USD	222,225	4,382	50.44	680,164
CAD	–	328	0.79	2,705
GBP	142	857	1.34	6,560
CHF	28	–	1.02	200
HKD	102	207	0.13	39,059

(Forward)

	Consolidated 2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
EUR	₱–	₱891	1.19	2,990
JPY	33,105	529	0.01	6,766,560
NZD	13	–	0.71	150
Interest rate swaps	230,842	204,409		
Warrants	54,938	–		
	₱562,984	₱343,522		

The notional amounts and average forward rates pertain to original currencies.

	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**
JPY	**24,985**	**16**	**0.01**	**6,018,002**
HKD	**–**	**36**	**0.13**	**3,912**
CNY	**33**	**–**	**0.14**	**1,000**
GBP	**211**	**–**	**1.26**	**1,100**
EUR	**60,813**	**74,001**	**1.15**	**384,781**
SELL:				
USD	**119,480**	**1,781**	**53.11**	**418,613**
CAD	**1,365**	**–**	**0.75**	**2,005**
GBP	**–**	**428**	**1.27**	**3,700**
CHF	**7**	**–**	**0.99**	**200**
HKD	**36**	**47**	**0.13**	**5,912**
EUR	**–**	**421**	**1.14**	**2,150**
JPY	**91**	**9,470**	**0.01**	**1,121,000**
SGD	**–**	**14**	**0.73**	**200**
AUD	**72**		**0.71**	**500**
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.

	Parent Company 2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱9,701	₱87,446	50.44	378,100
JPY	8,411	44,371	0.01	16,554,145
HKD	–	102	0.13	15,605
CAD	108	–	0.78	1,258
GBP	72	–	1.34	518
EUR	2	–	1.19	105
SGD	3	–	0.75	50
SELL:				
USD	222,225	4,329	50.44	656,711
CAD	–	328	0.79	2,705
GBP	142	857	1.34	6,560
CHF	28	-	1.02	200
HKD	102	156	0.13	15,605
EUR	–	891	1.19	2,990
JPY	33,105	527	0.01	6,766,019
NZD	13	-	0.71	150
Interest rate swaps	230,842	204,409		
Warrants	54,938	-		
	₱559,692	₱343,416		

The notional amounts and average forward rates pertain to original currencies.

As of December 31, 2018 and 2017, the Parent Company holds 275,075 shares and 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.1 million and USD1.1 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2018 and 2017:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Balance at the beginning of the year:				
Derivative assets	**₱562,984**	₱419,122	**₱559,692**	₱418,819
Derivative liabilities	**343,522**	232,832	**343,416**	231,977
	219,462	186,290	**216,276**	186,842
Changes in fair value				
Currency forwards and spots*	**(899,453)**	136,382	**(899,453)**	132,644
Interest rate swaps and warrants**	**161**	(7,965)	**161**	(7,965)
	(899,614)	128,417	**(899,614)**	124,679
Availments (Settlements)	**782,810**	(95,246)	**787,601**	(95,246)
Balance at end of year:				
Derivative assets	**574,628**	562,984	**572,864**	559,692
Derivative liabilities	**470,648**	343,522	**468,279**	343,416
	₱103,980	₱219,462	**₱104,585**	₱216,276

* *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 table shows 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					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱16,825,487**	**₱–**	**₱16,825,487**	₱12,391,139	₱–	₱12,391,139
Due from BSP	**102,723,312**	**–**	**102,723,312**	108,743,985	–	108,743,985
Due from other banks	**20,525,318**	**–**	**20,525,318**	22,025,321	–	22,025,322
Interbank loans receivable	**11,248,455**	**–**	**11,248,455**	12,837,721	–	12,837,721
Securities held under agreements to resell	**20,700,000**	**–**	**20,700,000**	14,621,483	–	14,621,483
Financial assets at FVPL	**9,999,447**	**–**	**9,999,447**	2,882,395	–	2,882,395
Financial assets at FVOCI - gross (Note 9)	**9,229,229**	**42,444,938**	**51,674,167**			
AFS investments - gross (Note 9)	**–**	**–**	**–**	4,526,929	65,936,118	70,463,047
Investment securities at amortized cost – gross (Note 9)	**25,190,527**	**78,351,448**	**103,541,975**			
HTM investments	**–**	**–**	**–**	–	26,805,131	26,805,131
Loans and receivables - gross (Note 10)	**205,184,833**	**391,899,941**	**597,084,774**	202,558,115	316,402,283	518,960,399
Other assets - gross (Note 15)	**669,790**	**135,215**	**805,005**	699,288	46,197	745,485
	422,296,398	**512,831,542**	**935,127,940**	381,286,376	409,189,729	790,476,105
Nonfinancial Assets						
Property and equipment - gross (Note 11)	**–**	**27,851,686**	**27,851,686**	–	25,866,409	25,866,409
Investments in Subsidiaries and an Associate - (Note 12)	**–**	**2,418,842**	**2,418,842**	–	2,363,757	2,363,757
Investment properties - gross (Note 13)	**–**	**18,605,466**	**18,605,466**	–	20,339,032	20,339,032
Deferred tax assets	**–**	**2,086,510**	**2,086,510**	–	1,695,480	1,695,480
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	**–**	**7,056,896**	**7,056,896**	–	6,873,305	6,873,305

(Forward)

	Consolidated					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Residual value of leased assets (Note 10)	**₱298,726**	**₱350,611**	**₱649,337**	₱292,000	₱383,327	₱675,327
Other assets - gross (Note 15)	**4,633,103**	**1,880,758**	**6,513,861**	7,107,386	1,978,533	9,085,919
	4,931,829	**73,626,176**	**78,558,005**	7,399,386	72,875,250	80,274,636
Assets of disposal group classified as held for sale (Note 36)	**8,238,623**	–	**8,238,623**	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**23,518,674**			20,591,233
Unearned and other deferred income (Note 10)			**979,678**			1,553,108
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**13,778,030**			12,269,696
			₱983,648,186			₱836,356,705
Financial Liabilities						
Deposit liabilities	**₱686,082,355**	**₱47,219,123**	**₱733,301,478**	₱553,599,950	₱84,320,307	₱637,920,257
Financial liabilities at FVPL	**470,648**	–	**470,648**	343,522	–	343,522
Bonds Payable	–	**15,661,372**	**15,661,372**			
Bills and acceptances payable	**60,549,245**	**9,533,590**	**70,082,835**	36,811,547	7,105,140	43,916,687
Accrued interest payable (Note 20)	**1,408,168**	**28,313**	**1,436,481**	632,907	–	632,907
Accrued other expenses payable (Note 20)	**464,823**	**690,693**	**1,155,516**	1,123,812	–	1,123,812
Other liabilities (Note 22):						
Accounts payable	**7,901,687**	**16,839**	**7,918,526**	8,725,544	33,983	8,759,527
Insurance contract liabilities	–	–	–	4,929,392	–	4,929,392
Bills purchased – contra	**1,396,318**	–	**1,396,318**	1,323,896	–	1,323,896
Managers' checks and demand drafts outstanding	**1,545,888**	–	**1,545,888**	2,345,787	–	2,345,787
Dormant credits	–	**922,167**	**922,167**	–	1,078,052	1,078,052
Due to other banks	**919,838**	–	**919,838**	1,212,436	–	1,212,436
Deposit on lease contracts	**303,596**	**520,372**	**823,968**	316,246	456,774	773,020
Accounts payable – electronic money	**519,810**	–	**519,810**	643,000	–	643,000
Payment order payable	**632,477**	–	**632,477**	315,256	–	315,256
Margin deposits and cash letters of credit	**44,383**	–	**44,383**	55,058	–	55,058
Transmission liability	**25,896**	–	**25,896**	21,809	–	21,809
Deposit for keys on safety deposit boxes	**15,493**	–	**15,493**	14,403	–	14,403
Commission payable	–	–	–	74,094	–	74,094
	762,280,625	**74,592,489**	**836,873,094**	612,488,659	92,994,256	705,482,915
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,575,401**	–	**3,575,401**	3,566,768	–	3,566,768
Income tax payable	**900,693**	–	**900,693**	993,245	–	993,245
Other liabilities (Note 22)	**1,119,973**	**3,744,052**	**4,864,025**	2,816,660	3,759,168	6,657,828
	5,579,747	**3,744,052**	**9,340,119**	7,376,673	3,759,168	11,135,915
Liabilities of disposal group classified as held for sale (Note 36)	**7,237,811**	–	**7,237,811**	–	–	–
	₱776,216,523	**₱78,180,086**	**₱855,089,173**	₱619,865,332	₱96,753,424	₱716,618,756

	Parent Company					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱15,904,663**	**₱–**	**15,904,663**	₱11,671,952	₱–	₱11,671,952
Due from BSP	**98,665,375**	–	**98,665,375**	105,497,459	–	105,497,459
Due from other banks	**10,459,496**	–	**10,459,496**	10,755,260	–	10,755,260
Interbank loans receivable	**11,689,414**	–	**11,689,414**	11,083,515	–	11,083,515
Securities held under agreements to resell	**20,700,000**	–	**20,700,000**	14,621,483	–	14,621,483
Financial assets at FVTPL	**9,983,636**	–	**9,983,636**	2,829,877	–	2,829,877
AFS investments - gross (Note 9)	**9,369,217**	**41,287,676**	**50,656,893**	2,992,834	65,310,618	68,303,452
HTM investments	**25,839,002**	**77,516,591**	**103,355,593**	–	26,680,483	26,680,483
Loans and receivables - gross (Note 10)	**190,824,032**	**333,297,876**	**524,121,908**	185,606,811	271,855,633	457,262,444
Other assets - gross (Note 15)	**670,750**	**500**	**671,250**	685,979	500	686,479
	394,105,585	**452,102,643**	**842,208,228**	345,745,170	363,847,234	709,392,404

(Forward)

	Parent Company					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Nonfinancial Assets						
Property and equipment– gross (Note 11)	**₱–**	**₱24,758,394**	**₱24,758,394**	₱–	₱23,331,758	₱23,331,758
Investment properties– gross (Note 13)	–	**18,235,224**	**18,235,224**	–	20,051,634	20,051,634
Deferred tax assets	–	**1,452,153**	**1,452,153**	–	987,332	987,332
Investments in Subsidiaries and an Associate (Note 12)	–	**28,230,664**	**28,230,664**	–	28,407,414	28,407,414
Goodwill (Note 14)	–	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765
Intangible assets (Note 14)	–	**846,449**	**6,846,449**	–	6,662,558	6,662,558
Other assets– gross (Note 15)	**5,081,850**	**1,331,879**	**6,413,729**	7,528,386	860,282	8,388,688
	5,081,850	**94,370,528**	**99,452,377**	7,528,386	93,816,743	101,345,128
Asset of disposal group classified as held for sale (Note 36)	–	–	–	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**20,490,757**			19,300,816
Unearned and other deferred income (Note 10)			**677,052**			1,241,587
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**12,692,211**			11,422,607
			₱911,800,856			₱778,972,522
Financial Liabilities						
Deposit liabilities	**₱644,774,714**	**₱38,622,692**	**₱683,397,406**	₱545,272,109	₱ 51,132,929	₱596,405,038
Financial liabilities at FVPL	**468,279**	–	**468,279**	343,416	–	343,416
Bonds Payable	–	**15,661,372**	**15,661,372**			
Bills and acceptances payable	**55,747,402**	**6,959,393**	**62,706,795**	34,792,160	6,608,644	41,400,804
Subordinated debt	–	–	–	–	–	–
Accrued interest payable (Note 20)	**1,236,199**	**28,313**	**1,264,512**	527,073	16,785	543,858
Accrued other expenses payable (Note 20)	**377,995**	**660,312**	**1,038,307**	1,053,158	–	1,053,158
Other liabilities (Note 22):						
Accounts payable	**7,918,526**	–	**7,918,526**	7,250,827	–	7,250,827
Bills purchased - contra	**1,396,128**	–	**1,396,128**	1,323,896	–	1,323,896
Managers' checks and demand drafts outstanding	**1,217,043**	–	**1,217,043**	2,042,181	–	2,042,181
Dormant credits	–	**922,167**	**922,167**	–	952,479	952,479
Accounts payable - electronic money	**519,810**	–	**519,810**	630,249	–	630,249
Due to other banks	**538,861**	–	**538,861**	836,992	–	836,992
Payment order payable	**630,395**	–	**630,395**	315,256	–	315,256
Margin deposits and cash letters of credit	**31,651**	**–**	**31,651**	55,058	–	55,058
Deposit on lease contracts	**–**	**130,375**	**130,375**	–	47,022	47,022
Deposit for keys on safety deposit boxes	**15,471**	**–**	**15,471**	14,403	–	14,403
	714,872,474	**62,984,624**	**777,857,098**	594,456,778	58,757,859	653,214,637
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,257,141**	**–**	**3,257,141**	3,076,529	–	3,076,529
Income tax payable	**823,739**	**–**	**823,739**	833,708	–	833,708
Other liabilities	**649,785**	**3,562,375**	**4,212,161**	1,184,398	3,525,062	4,709,460
	4,714,345	**3,562,375**	**8,293,040**	5,153,378	3,525,063	8,678,440
	₱719,586,819	**₱66,546,999**	**₱786,150,138**	₱599,610,156	₱62,341,666	₱661,893,077

25. **Equity**

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	**Amount**
Common - ₱40 par value		
Authorized	**1,750,000,001**	**₱70,000,000**
Issued and outstanding		
Balance at the beginning and end of the year	**1,249,139,678**	**49,965,587**

The Parent Company shares are listed in the PSE. As of December 31, 2018 and 2017, the Parent Company had 36,940 and 37,401 stockholders, respectively.

On January 17, 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 increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination. Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and
d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Group shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

In February 2014, the Parent Company successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Parent Company at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Parent Company. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Parent Company. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Parent Company's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2018 and 2017 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion) and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

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: (a) 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; and (b) 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.

Surplus Reserves

The surplus reserves consist of:

	2018	2017
Reserve for trust business (Note 32)	**₱540,573**	₱517,605
Reserve for self-insurance	**80,000**	80,000
	₱620,573	₱597,605

Reserve for self-insurance, contingencies and other account 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.

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 to be sourced from open market at fair value. Acquisition and distribution of the estimated 3.0 million shares shall be done based on a predetermined schedule 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. Fair value per share at grant date is 65.20. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱16.3 million and ₱35.45 million in 2018 and 2017, respectively, in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position. In 2018 and 2017, the Group awarded 343 thousand and 1.12 million centennial bonus shares and applied the settlement of the award against 'Other Equity Reserves'.

Capital Management

The primary objectives of the Parent Company'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 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.

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.

In addition, 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). Qualifying capital and risk-weighted assets are computed based on BSP regulations. 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 MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 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, 2018 and 2017, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	2018		2017	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱121,743.82**		₱112,344.77	
Less: Regulatory Adjustments to CET 1	**22,109.52**		23,401.42	
CET1 Capital (Net)	**99,634.30**		88,943.35	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**99,634.30**		88,943.35	
Add: Tier 2 Capital	**5,881.88**		4,696.48	
Total qualifying capital	**₱105,516.18**	**₱73,533.23**	₱93,639.83	₱61,010.62
Risk weighted assets	**₱735,332.30**		₱610,106.24	
Tier 1 capital ratio	**13.55%**		14.58%	
Total capital ratio	**14.35%**		15.35%	

	2018		2017	
Parent			Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱117,541.46**		₱108,605.50	
Less: Regulatory Adjustments to CET 1	**46,665.49**		47,409.15	
CET1 Capital (Net)	**70,875.97**		61,196.35	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**70,875.95**		61,196.35	
Add: Tier 2 Capital	**5,079.21**		4,228.83	
Total qualifying capital	**₱75,955.16**	**₱65,308.84**	₱65,425.18	₱54,377.23
Risk weighted assets	**₱653,088.43**		₱543,772.35	
Tier 1 capital ratio	**10.85%**		11.25%	
Total capital ratio	**11.63%**		12.03%	

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.9 billion as of December 31, 2018 and 2017 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains, except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments, are excluded from the Parent Company's surplus available for dividend declaration.

A portion of a Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱3.8 billion and ₱3.3 billion as of December 31, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated earnings become available for dividends upon receipt of cash dividends from subsidiaries.

Cash Dividends
On July 22, 2016, the BOD declared and approved cash dividend declaration of one peso (₱1.0) per share or a total of ₱1.3 billion out of the unrestricted surplus of the Parent Company as of March 31, 2016, to all stockholders of record as of August 19, 2016, and was paid on September 15, 2016. On August 19, 2016, the Parent Company received the approval from the BSP on the said dividend declaration.

Merger Incentives
In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation
In compliance with BSP Circular 639, the Parent Company has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Parent Company's operations by ensuring that the Parent Company maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Parent Company shall maintain a capital level that will not only meet the BSP CAR requirement, but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/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.

Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
		2017	2016			
	2018	(As Restated –Note 36)		**2018**	2017	2016
Return on average equity (a/b)	**7.70%**	7.10%	6.67%	**7.80%**	7.27%	6.81%
a) Net income	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
b) Average total equity	**124,148,481**	114,849,326	107,378,392	**121,364,947**	112,188,614	104,560,511
Return on average assets (c/d)	**1.05%**	1.03%	1.00%	**1.12%**	1.10%	1.06%
c) Net income	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,076**	₱8,160,563	₱7,124,054
d) Average total assets	**910,002,446**	795,068,059	717,007,968	**845,386,554**	745,147,826	670,845,173
Net interest margin on average earning assets (e/f)	**3.30%**	3.11%	2.79%	**3.17%**	2.97%	3.00%
e) Net interest income	**₱27,001,724**	₱22,023,968	₱19,531,248	**₱23,461,884**	₱19,062,428	₱17,057,909
f) Average interest earning assets	**817,382,993**	707,087,648	657,206,552	**740,890,904**	642,325,579	568,208,414

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Deposit-related	**₱1,075,496**	₱889,067	₱643,991	**₱930,563**	₱866,454	₱618,972
Remittance	**766,652**	819,689	830,032	**401,223**	430,324	460,899
Interchange fees	**625,059**	503,133	389,179	**625,059**	503,133	389,179
Credit-related	**612,058**	554,608	504,346	**604,790**	547,618	498,969
Credit card-related	**407,013**	278,579	214,135	**407,013**	278,579	214,135
Trust fees (Note 32)	**279,131**	300,047	311,882	**279,131**	300,047	311,882
Bancassurance	**208,653**	130,450	89,162	**208,653**	130,450	89,162
Underwriting fees	**140,660**	389,283	187,133	**-**	–	–
Miscellaneous	**136,970**	117,640	231,990	**67,831**	74,178	148,060
	₱4,251,692	₱3,982,496	₱3,401,850	**₱3,524,263**	₱3,130,783	₱2,731,258

The interchange fees and credit card-related fees were generated from the credit card business acquired by the Parent Company through rewards revenue.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

27. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Rental income (Note 29)	**₱767,505**	₱424,758	₱232,107	**₱583,636**	₱290,562	₱275,317
Recoveries	**58,584**	73,845	729,594	**57,767**	72,990	251,805
Dividends	**55,906**	33,577	14,886	**54,520**	32,417	14,716
Sales deposit forfeiture	**45,859**	5,064	15,772	**45,859**	5,064	15,772
Referral and trust fees	**3,011**	3,448	2,811	–	–	–
Income from SPV	–	–	500,000	–	–	500,000
Others	**494,574**	352,825	43,794	**360,093**	191,008	137,337
	₱1,425,439	₱893,517	₱1,538,964	**₱1,101,875**	₱592,041	₱1,194,947

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Insurance	**₱1,601,771**	₱1,428,464	₱1,128,749	**₱1,397,590**	₱1,287,724	₱1,044,959
Secretarial, janitorial and messengerial	**1,472,872**	1,277,955	1,299,477	**1,379,306**	1,199,446	1,256,605
Marketing expenses	**1,170,997**	920,519	1,057,625	**1,032,695**	836,491	988,160
Information technology	**561,597**	440,017	494,162	**542,478**	418,954	471,262
Management and other professional fees	**413,040**	428,237	431,660	**346,398**	359,078	374,649
Travelling	**324,220**	284,307	244,312	**297,506**	262,954	223,896
Litigation expenses & A/A expenses	**490,732**	290,044	323,726	**473,660**	268,075	304,783
Postage, telephone and cable	**215,362**	184,939	204,196	**156,160**	132,872	158,841
Entertainment and representation	**131,260**	134,139	98,048	**119,713**	123,130	89,944
Repairs and maintenance	**75,235**	86,787	82,113	**75,235**	86,787	82,113
Freight	**28,093**	57,039	45,727	**25,350**	54,456	43,986
Fuel and lubricants	**19,425**	16,774	21,237	**11,541**	10,879	17,521
Miscellaneous (Notes 13, 30 and 33)	**448,921**	771,486	672,782	**267,702**	593,173	547,469
	₱6,953,525	₱6,320,707	₱6,103,814	**₱6,125,334**	₱5,634,019	₱5,604,188

'Miscellaneous' also includes 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	
	2018	2017	**2018**	2017
Retirement benefit liability (included in 'Other liabilities')	**₱1,221,893**	₱1,526,962	**₱1,221,705**	₱1,485,426
Net plan assets (included in 'Other assets')	**76,509**	7,428	**–**	–
	₱1,145,384	₱1,519,534	**₱1,221,705**	₱1,485,426

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, 2018 and 2017, 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, 2018. The following table shows the actuarial assumptions as of December 31, 2018 and 2017 used in determining the retirement benefit obligation of the Group:

			Parent Company					
	Consolidated		ABC		PNB		EIP	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate	**7.23%-8.11%**	5.54%-5.91%	**7.23%**	5.54%	**7.23%**	5.54%	**7.23%**	5.54%
Salary rate increase	**5.00%-8.00%**	5.00%-8.00%	**6.00%**	6.00%	**6.00%**	6.00%	**–**	–

The changes in the present value obligation and fair value of plan assets are as follows:

Consolidated

2018

		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	**₱6,766,019**	**₱474,133**	**₱352,310**	**₱309,229**	**₱ 1,135,672**	**(₱578,442)**	**₱–**	**₱–**	**₱ 125,974**	**(₱805,995)**	**(₱680,021)**	**₱–**	**₱6,643,228**
Fair value of plan assets	**5,246,485**	**–**	**–**	**240,726**	**240,726**	**(578,442)**	**(465,081)**	**–**	**–**	**–**	**(465,081)**	**1,054,156**	**5,497,844**
	₱1,519,534	**₱474,133**	**₱352,310**	**₱ 68,503**	**₱ 894,946**	**₱–**	**₱465,081**	**₱–**	**₱125,974**	**(₱805,995)**	**(₱214,940)**	**(₱1,054,156)**	**₱1,145,384**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

Consolidated

2017

		Net benefit costs*				Remeasurements in other comprehensive income						
	January 1, 2017	Current 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, 2017
Present value of pension obligation	₱7,512,542	₱550,064	₱387,047	₱937,111	(₱557,519)	₱–	(674,973)	(₱192,750)	(₱258,392)	(₱1,126,115)	₱–	₱6,766,019
Fair value of plan assets	4,376,432	–	226,243	226,243	(557,519)	(127,963)	–	–	–	(127,963)	1,329,292	5,246,485
	₱3,136,110	₱550,064	₱160,804	₱710,868	₱–	₱127,963	(674,973)	(₱192,750)	(₱258,392)	(₱998,152)	(₱1,329,292)	₱ 1,519,534

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

Parent Company
2018

	January 1, 2018	Net benefit costs*: Current service cost	Past Service Cost	Net interest	Subtotal	Benefits paid	Remeasurement losses 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 statement of income*

Parent Company
2017

	January 1, 2017	Net benefit costs*: Current service cost	Net interest	Subtotal	Benefits paid	Remeasurement losses 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, 2017
Present value of pension obligation	₱7,320,262	₱519,965	₱377,257	₱897,222	(₱551,248)	₱–	(₱199,918)	(₱674,973)	(₱249,522)	(₱1,121,413)	₱–	₱6,544,823
Fair value of plan assets	4,257,019	–	220,088	220,088	(551,248)	(126,376)	–		–	(126,376)	1,259,914	5,059,397
	₱3,063,243	₱519,965	₱157,169	₱677,134	₱–	₱126,376	(₱199,918)	(₱674,973)	(₱249,522)	(₱995,037)	(₱1,259,914)	₱1,485,426

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

The Group and the Parent Company expect to contribute ₱979.3 million and ₱968.1 million, respectively, to the defined benefit plans in 2019. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2018 is 16.5 years and 14.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Less than one year	**₱1,088,338**	₱1,000,727	**₱1,077,394**	₱994,778
More than one year to five years	**4,139,446**	3,532,239	**4,115,892**	3,494,358
More than five years to 10 years	**4,477,940**	4,219,144	**4,370,627**	4,126,122
More than 10 years to 15 years	**3,227,264**	3,287,929	**2,960,912**	2,923,039
More than 15 years	**8,754,548**	10,419,581	**6,705,994**	7,201,910

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cash and cash equivalents	**₱988,595**	₱1,793,329	**₱974,608**	₱1,755,075
Equity investments				
Financial institutions (Note 33)	**321,213**	448,357	**321,213**	445,454
Others	**332,518**	334,339	**317,924**	231,453
Debt investment				
Private debt securities	**2,323,954**	1,569,773	**2,312,092**	1,553,579
Government securities	**1,026,785**	976,062	**1,017,080**	958,308
Investment in UITFs	**476,336**	101,954	**352,144**	93,024
Loans and receivables	**1,367**	3,713	**248**	3,713
Interest and other receivables	**29,090**	21,016	**27,692**	20,767
	5,499,858	5,248,543	**5,323,001**	5,061,373
Accrued expenses	**(2,014)**	(2,058)	**(1,973)**	(1,976)
	₱5,497,844	₱5,246,485	**₱5,321,028**	₱5,059,397

All equity and debt investments held 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, 2018 and 2017 includes investments in the Parent Company shares of stock with fair value amounting to ₱321.2 million and ₱445.5 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:

	2018			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱387,382)**	**+1.00%**	**(₱375,372)**
	-1.00%	**431,448**	**-1.00%**	**417,013**
Salary increase rate	**+1.00%**	**398,146**	**+1.00%**	**383,553**
	-1.00%	**(373,888)**	**-1.00%**	**(361,488)**
Employee turnover rate	**+10.00%**	**(53,082)**	**+10.00%**	**(64,019)**
	-10.00%	**53,082**	**-10.00%**	**64,019**

	2017			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱438,162)	+1.00%	(₱410,516)
	-1.00%	494,590	-1.00%	461,096
Salary increase rate	+1.00%	451,241	+1.00%	418,390
	-1.00%	(409,485)	-1.00%	(381,945)
Employee turnover rate	+10.00%	(105,324)	+10.00%	(91,209)
	-10.00%	105,324	-10.00%	91,209

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

Operating Leases

Group as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 31.97% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 2.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱844.6 million, ₱787.1 million and ₱824.7 million in 2018, 2017 and 2016, respectively, for the Group, of which ₱808.3 million, ₱668.7 million and ₱787.7 million in 2018, 2017, and 2016, respectively, pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱803,019**	₱721,241	**₱595,764**	₱584,733
Beyond one year but not more than five years	**1,569,722**	1,575,142	**1,176,135**	1,329,240
More than five years	**411,909**	252,116	**343,927**	186,720
	₱2,784,650	₱2,548,499	**₱2,115,826**	₱2,100,693

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 2018, 2017 and 2016, total rent income (included under 'Miscellaneous income') amounted to ₱767.5 million, ₱424.8 million and ₱232.1 million, respectively, for the Group and ₱583.6 million, ₱290.6 million and ₱275.3 million, respectively, for the Parent Company (Note 27).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱492,548**	₱285,885	**₱219,106**	₱216,416
Beyond one year but not more than five years	**1,130,331**	521,046	**786,391**	488,264
More than five years	**401,779**	115,663	**401,779**	89,471
	₱2,024,658	₱922,594	**₱1,407,276**	₱794,151

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.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱1,400,361**	₱1,557,543	**₱3,118**	₱28,909
Beyond one year but not more than five years	**1,501,944**	1,308,300	**6,500**	43,000
More than five years	**26,034**	25,200	–	25,200
Gross investment in finance lease contracts receivable (Note 10)	**2,928,339**	2,891,043	**9,618**	97,109
Less amounts representing finance charges	**13,770**	62,612	**13,770**	62,612
Present value of minimum lease payments	**₱2,914,569**	₱2,828,431	**(₱4,152)**	₱34,497

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.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be 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%. RA No. 9294 provides that the 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		
	2018	2017 As Restated – Note 36	2016	**2018**	2017	2016
Current						
Regular	**₱2,888,800**	₱1,898,387	₱1,055,483	**₱2,610,768**	₱1,577,777	₱880,828
Final	**720,504**	571,632	655,650	**692,984**	548,095	429,058
	₱3,609,304	₱2,470,019	₱1,711,133	**₱3,303,752**	₱2,125,872	₱1,309,886
Deferred	**54,440**	(155,085)	(201,611)	**918**	(2,196)	(81,514)
	₱3,663,744	₱2,314,934	₱1,509,522	**₱3,304,670**	₱2,123,676	₱1,228,372

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,230,174**	₱5,745,464	**₱3,673,894**	₱5,161,135
Accumulated depreciation on investment properties	**565,226**	523,003	**540,320**	514,119
Deferred revenue	**168,330**	98,819	**168,330**	98,819
Retirement liability	**30,587**	56,239	–	–
Unrealized trading losses on financial assets at FVTPL	**25,289**	–	**25,289**	–
Unrealized trading losses on financial assets at FVOCI	**707**	–	–	–
Deferred reinsurance on commission	–	17,027	–	–
Others	**71,680**	96,843	–	8,904
	5,091,993	6,537,395	**4,407,833**	5,782,977
Deferred tax liability on:				
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Fair value adjustment on investment properties	**1,248,724**	1,615,522	**1,245,547**	1,600,310
Unrealized foreign exchange gains	**124,651**	1,021,943	**124,651**	1,024,520
Fair value adjustments due to business combination	**620,039**	948,194	**620,039**	948,194
Unrealized trading gains on financial assets at FVPL	–	164,480		164,480
Deferred acquisition cost	–	19,648	–	–
Gain on remeasurement of previously held interest	**164,429**	160,272	**164,429**	164,429
Others	**111,204**	175,605	**64,578**	157,276
	3,005,483	4,842,100	**2,955,680**	4,795,645
	₱2,086,510	₱1,695,295	**₱1,452,153**	₱987,332

* *Balance represents DTL acquired from business combination*

On January 1, 2018, the Bank recognized deferred tax asset amounting to ₱0.46 billion as part of its transition adjustment related to the additional allowance for credit losses recognized upon the adoption of PFRS 9 (see Note 2).

As of December 31, 2018 and 2017, 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 ₱7.9 million and ₱9.3 million, respectively.

Benefit from deferred tax charged directly to OCI pertains to remeasurement losses on retirement plan amounting to ₱0.55 million and ₱2.20 billion in 2017 and 2016, respectively and to net unrealized losses on AFS investments amounting to ₱0.29 million in 2016 for the Group.

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million in 2016. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱3.7 million in 2016.

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	
	2018	2017	**2018**	2017
Allowance for impairment and credit losses	**₱9,361,434**	₱1,259,578	**₱8,399,510**	₱2,586,707
Accrued expenses	**2,883,285**	1,577,003	**2,462,170**	1,564,910
Retirement liability	**2,463,288**	445,628	**1,221,707**	1,485,427
Unamortized past service cost	**1,221,833**	2,386,730	**2,882,583**	2,386,730
Unrealized loss on financial asset at FVOCI/AFS investments	**1,173,243**	–	**1,173,243**	–
NOLCO	**260,537**	1,485,427	–	–
Derivative liabilities	**182,904**	343,417	**182,903**	343,417
Other equity reserves	**70,215**	70,213	**70,213**	6,319
Provision for IBNR	**42,025**	155,483	–	–
Unearned income	–	356,270	–	356,270
Others	**105**	16	–	–
	₱17,658,869	₱8,079,765	**₱16,392,329**	₱8,729,780

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱263,581	₱4,231	₱170,349	Not applicable
2015	2,670	3,042	260,537	Not applicable
2016	2	2,668	–	2019
	₱266,253*	₱9,941	₱430,886	

The Group has net operating loss carryforwards for US federal tax purposes of USD8.7 million and USD6.2 million as of December 31, 2018 and 2017, respectively, and net operating loss carryforwards for California state tax purposes of USD5.2 million and USD4.1 million as of December 31, 2018 and 2017, respectively.

Unrecognized Deferred Tax Liabilities
As of December 31, 2018, there was a deferred tax liability of ₱674.6 million (₱698.8 million in 2017) for temporary differences of ₱2.2 billion (₱2.2 billion in 2017) 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		
	2018	2017	2016	**2018**	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(4.20)**	(1.67)	(3.68)	**(3.28)**	(1.78)	(3.78)
Net non-deductible expenses	**8.00**	2.51	6.90	**6.27**	1.98	6.23
Optional standard deduction	–	(0.25)	(0.02)	–	–	–
Tax-exempt income	**(3.56)**	(4.11)	(7.82)	**(3.69)**	(3.49)	(9.22)
Tax-paid income	**(2.61)**	(6.76)	(2.19)	**(2.36)**	(6.80)	(1.91)
Net unrecognized deferred tax assets	**0.21**	2.44	(3.80)	**(1.06)**	0.73	(3.88)
Effective income tax rate	**27.84%**	22.16%	19.39%	**25.88%**	20.64%	17.44%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. EAR are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in

'Miscellaneous expense' in the statements of income) amounted to ₱131.26 million in 2018, ₱134.14 million in 2017, and ₱98.05 million in 2016 for the Group, and ₱119.71 million in 2018, ₱123.13 million in 2017, and ₱89.94 million in 2016 for the Parent Company (Note 27).

31. Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Earnings per share attributable to equity holders of the Parent Company:

	2018	2017	2016
a) Net income attributable to equity holders of the Parent Company	**₱9,465,022**	₱8,160,570	₱7,123,952
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,249,140	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱7.58**	₱6.53	₱5.70

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2018	2017	2016
a) Net income attributable to equity holders of the Parent Company from Continuing Operations	**₱9,684,994**	₱8,090,198	₱4,794,283
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,249,140	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱7.75**	₱6.48	₱3.84

As of December 31, 2018, 2017 and 2016, 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 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 ₱87.7 billion and ₱88.0 billion as of December 31, 2018 and 2017, respectively (Note 34). In connection with the trust functions of the Parent Company, government securities amounting to ₱941.5 million (included under 'Investment Securities at Amortized Cost') and ₱1.0 billion (included under 'AFS Investments') as of December 31, 2018 and 2017, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2018, 2017 and 2016 amounting to ₱279.1 million, ₱300.0 million and ₱311.9 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 ₱23.0 million, ₱23.9 million and ₱19.4 million in 2018, 2017 and 2016, respectively, which correspond to 10.0% 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.

33. Related Party Transactions

Regulatory Reporting

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% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2018 and 2017, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Total Outstanding DOSRI Accounts*	**₱7,894,862**	₱8,184,175	**₱7,894,862**	₱8,184,175
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of DOSRI accounts to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.02%	**0.02%**	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%

**Includes outstanding unused credit accommodations of ₱860.0 million as of December 31, 2018 and ₱192.3 million as of December 31, 2017.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

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.

	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
Accounts Payable		**12**	Loan repayments received on behalf of subsidiary clients

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
		2018	
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		**36,531,649**	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	**15,123,255**		
Loan Collections	**9,044,373**		
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

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2018
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 income		**914,988**	Unamortized portion of income related to the sale of APII
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 APII
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

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2017
Significant Investors			
Deposit Liabilities		₱181,440	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱1,880		Interest expense on deposits
Net deposits	61,366		Net deposits during the period
Subsidiaries			
Receivables from customers		2,263,933	Term loan maturing in 2017 with 3.85% nominal rate;
Loan releases	6,644,960		Revolving credit lines with interest rate of 2.90%
Loan collections	6,395,361		maturity of three months; Unsecured
Loan commitments		9,344,497	Omnibus line; credit line
Interbank loans receivable		126,739	Foreign currency-denominated interbank term loans
Availments	2,536,360		with interest rates ranging from 0.65% to 1.00% and
Settlements	2,526,014		maturity terms ranging from 33 to 172 days

(Forward)

Category	Amount/ Volume (2017)	Outstanding Balance (2017)	Nature, Terms and Conditions (2017)
Due from other banks		360,954	Foreign currency-denominated demand and time deposits 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		3,620	Interest accrual on receivables from customers and interbank loans receivable
Dividend Receivable		20,000	Dividend declaration of subsidiaries
Accounts Receivable		186,863	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		4,827,320	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	₱637,902		Net withdrawals during the period
Bills payable		186,591	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	2,743,583		
Settlements	4,333,988		
Due to other banks		32,238	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accounts Payable		29	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		12,306	Accrued interest on deposit liabilities and bills payable
Rental deposit		11,292	Advance rental deposit received for 2 years and 3 months
Interest income	59,979		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	83,717		Interest expense on deposit liabilities and bills payable
Rental income	47,732		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,710,647		Outright purchase of securities
Sales	763,355		Outright sale of securities
Trading loss	17,443		Loss from sale of investment securities
Affiliates			
Receivables from customers		23,881,936	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	20,063,712		
Loan Collections	16,162,613		
Loan commitments		13,836,350	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		432,377	Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	1,825,274		
Accrued interest receivable		1,441	Accrued interest on receivables from customers
Rental deposits		10,171	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		13,496,612	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	2,578,242		Net deposits during the period
Accrued interest payable		35	Accrued interest payable from various deposits
Other liabilities		4	Various manager's check related to EISP and premium insurance

Category	2017 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Accrued other expenses		353,658	Accruals in relation to promotional expenses
Interest income	609,817		Interest income on receivables from customers
Interest expense	75,798		Interest expense on deposit liabilities
Service fees and commission income	124,743		Bancassurance fees earned based on successful referrals and other milestones
Rental expense	17,924		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expenses	306,566		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	31,500		Outright sale of securities
Trading gains	2		Gain from sale of investment securities
Associate			
Deposit liabilities		337,471	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.
Rental deposits		27	Advance rental and security deposits received for three months
Deferred income		988,187	Unamortized portion of income related to the sale of PNB Life
Interest expense	650		Interest expense on deposit liabilities
Service fees and commission income	197,942		Bancassurance fees earned based on successful referrals and income related to the sale of PNB Life
Key Management Personnel			
Loans to officers		12,743	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,197		Settlement of loans and interest
Other equity reserves		77,651	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		1,129,366	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		837	Interest accrual on receivables from customers and sales contract receivable
Deposit liabilities		1,970,230	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		86	Various manager's checks
Interest income	18,588		Interest income on receivables from customers
Interest expense	36,572		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. In early 2016, the Parent Company and PNB GRF amended the agreement wherein 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, 2018 and 2017, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱94 million and ₱28.6 million, respectively. The Parent Company recognized trading losses amounting to ₱16.7 million in 2018, ₱16.6 million in 2017 and ₱13.5 million in 2016 from the trading transactions facilitated by PNB Securities.

Investment in OHBVI
The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2018	2017	2016
Short-term employee benefits	**₱691,450**	₱661,253	₱581,302
Post-employment benefits	**47,215**	60,554	61,544
	₱738,665	₱721,807	₱642,846

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 2018 and 2017, total per diem given to the BOD amounted to ₱43.0 million and ₱39.4 million, respectively, recorded in 'Miscellaneous expenses' in the statement of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies. In 2018 and 2017, key management personnel received Parent Company shares in relation to the centennial bonus distribution of 46,736 and 43,803, respectively.

Joint Arrangements
The Parent Company and EPPI signed two Joint Venture Agreement (JVA) 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. These Joints Arrangements qualify as Joint Operations under PFRS 11.

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 PNB SB
PNB SB entered into a "Deed of Assignment" with the Parent Company for the purchase, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total carrying value of ₱5.2 billion in July and August 2016 and ₱5.0 billion on July 15, 2015. The purchase includes the assignment of the promissory notes and other relevant credit documents as well

as collateral/s and other accessory contract thereto and was implemented in tranches in various dates. The total consideration paid for the purchased loans amounted to ₱5.0 billion in 2016. In 2016, the Parent Company recognized gain of ₱18.3 million.

PNB SB 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 PNB SB 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.

PNB SB has available credit lines with the Parent Company amounting to ₱750 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the credit lines remain undrawn.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱5.3 billion and ₱5.1 billion as of December 31, 2018 and 2017, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Investment in PNB Shares	**₱321,213**	₱445,454	**₱321,213**	₱445,454
Deposits with PNB	**102,689**	63,387	**102,326**	58,332
Investment in UITFs	**476,336**	201,021	**352,144**	93,025
Total Fund Assets	**₱900,238**	₱709,862	**₱775,683**	₱596,811
Unrealized loss on HFT (PNB shares)	**(₱124,241)**	(₱46,430)	**(₱124,241)**	(₱46,430)
Interest income	**1,293**	3,276	**850**	571
	(122,948)	(43,154)	**(123,391)**	(45,859)
Trust fees	**(6,449)**	(6,083)	**(6,288)**	(5,872)
Fund loss	**(₱129,397)**	(₱49,237)	**(₱129,679)**	(₱51,731)

As of December 31, 2018 and 2017, the retirement fund of the Group and the Parent Company includes 7,513,746 and 7,856,328 PNB shares, respectively, classified as FVPTL. 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.

The gain of the Fund arising from the sale of investment in the shares of the Parent Company amounted to ₱6.8 million.

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 2018, the Group and the Parent Company's outstanding provisions for legal claims remained at ₱1 billion as of December 31, 2018 and 2017.

In 2017, the Group and the Parent Company's outstanding provisions for legal claims decreased by ₱331.2 million, from ₱1.3 billion at the end of 2016 to ₱1 billion as of December 31, 2017.

There were no significant settlements made in 2018.

Tax Assessment

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.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Derivative forwards	**₱90,091,191**	₱84,170,844	**₱83,530,898**	₱78,521,063
Trust department accounts (Note 32)	**87,746,184**	88,001,894	**87,746,184**	88,001,894
Standby letters of credit	**43,503,980**	31,301,441	**43,503,980**	31,246,248
Unutilized credit card lines	**42,577,148**	34,566,065	**42,577,148**	27,018,318
Interest rate swaps	**31,587,678**	33,610,720	**31,587,678**	31,899,122
Deficiency claims receivable	**22,671,321**	22,624,776	**22,621,405**	22,576,563
Derivative spots	**12,069,390**	5,086,321	**12,069,390**	5,086,321
Items held as collateral	**1,577,577**	1,823,033	**1,577,550**	1,823,018
Inward bills for collection	**560,885**	633,732	**558,506**	633,732
Unused commercial letters of credit	**278,721**	57,541	**278,721**	57,541
Outward bills for collection	**229,428**	248,776	**101,345**	116,605
Shipping guarantees issued	**11,510**	11,198	**11,510**	11,198
Confirmed export letters of credit	**3,944**	93,985	**3,944**	93,985
Other contingent accounts	**62,059**	311,860	**39,306**	297,552

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 are disclosed in the succeeding tables.

Financial assets

			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 (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**

			2017			
				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	₱37,138,999	(₱36,646,558)	₱492,441	(₱44,921)	₱–	₱3,633,520
Securities held under agreements to resell (Note 8)	14,621,483	–	14,621,483	(148,225)	(14,473,258)	(148,225)
Total	₱51,760,482	(₱36,646,558)	₱15,113,924	(₱193,146)	(₱14,473,258)	₱3,485,295

Financial liabilities

			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**	–	**(56,368,809)**	**-**
Total	**₱80,905,281**	**(₱33,325,851)**	**₱47,579,430**	**(₱92,025)**	**(₱56,368,809)**	**(₱363,784)**

** Included in bills and acceptances payable in the statements of financial position*

			2017			
				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	₱19,126,140	(₱19,390,528)	(₱264,388)	[illegible]	(₱–	(₱249,459)
Securities sold under agreements to repurchase (Notes 9 and 19)*	35,350,259	–	35,350,259	–	(39,827,898)	-
Total	₱54,476,399	(₱19,390,528)	₱35,085,871	[illegible]	[illegible]	(₱249,459)

** 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. Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operation

The net income (loss) from discontinued operations consist of:

	Consolidated		
	2018	2017	2016
PNB Gen	**(₱219,972)**	₱70,373	₱65,767
APLII	−	−	2,263,902
	(₱219,972)	₱70,373	₱2,329,669

APLII

As disclosed in Note 12, the Group entered into a share purchase agreement with Allianz SE for the sale of 51% equity interest in APLII on December 21, 2015. The business of APLII represented the entirety of the Group's life insurance business until December 21, 2015. With APLII being classified as a discontinued operation in 2015, the consolidated statement of income and comprehensive income were presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. The Group recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statement of income.

The results of operation of APLII follow:

	2016
Interest Income on	
Loans and receivables	₱7,610
Trading and investment securities	195,605
Deposits with banks and others	5,151
	208,366
Net Service Fees and Commission Income	(67,591)
Net insurance premium	508,770
Net insurance benefits and claims	441,090
Net Insurance premium	67,680
Other Income	
Trading and investment securities gains - net	1,800
Foreign exchange losses - net	(876)
Miscellaneous	80,667
Total Operating Income	290,046

(Forward)

	2016
Operating Expenses	
Compensation and fringe benefits	₱71,741
Taxes and licenses	16,759
Occupancy and equipment-related costs	7,610
Depreciation and amortization	4,707
Provision for impairment, credit and other losses	4,704
Miscellaneous	39,692
Total Operating Expense	145,213
Results from Operating Activities	144,833
Provision for income tax	21,049
Results from Operating Activities, net of tax	123,784
Gain on remeasurement	1,644,339
Gain on Sale of Discontinued Operation	834,535
Transaction Costs	(153,307)
Provision for Income Tax	(185,449)
Net Income from Discontinued Operations	₱2,263,902
Attributable to:	
Equity holders of the Parent Company	₱2,239,145
Non-controlling interests	24,757
	₱2,263,902

Cash flows from (used in) discontinued operations follow:

	2016
The net cash flows directly associated with disposal group:	
Operating	₱171,535
Investing	(267,458)
	(₱95,923)

PNB Gen
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, the Group reclassified all the assets and liabilities of PNB Gen to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group's non-life insurance business. PNB Gen was previously presented in the 'Others' section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

The results of operation of PNB Gen are presented below:

	2018	2017	2016
Interest Income on			
Loans and receivables	**₱355**	₱370	₱451
Investment securities	**60,477**	46,698	29,391
Deposits with banks and others	**1,994**	5,618	5,412
	62,826	52,686	35,254

(Forward)

	2018	2017	2016
Net Service Fees and Commission Income (Expense)	**₱7,592**	(₱102,215)	(₱79,664)
Net insurance premium	**1,228,794**	656,329	624,927
Net insurance benefits and claims	**1,292,949**	(322,244)	295,015
Net Insurance premium	**(64,155)**	334,083	329,912
Other Income			
Trading and investment securities gains/(loss) - net	**(4,176)**	–	13,966
Foreign exchange gains/(loss) - net	**15,921**	(2,556)	1,516
Miscellaneous	**–**	–	3,403
Total Operating Income	**18,007**	281,997	301,387
Operating Expenses			
Compensation and fringe benefits	**130,241**	149,084	170,040
Occupancy and equipment-related costs	**18,695**	18,699	16,185
Provision for reversal of credit losses	**12,635**	(19,463)	(80)
Depreciation and amortization	**6,169**	6,164	5,076
Taxes and licenses	**931**	3,051	770
Miscellaneous	**45,948**	46,811	38,930
Total Operating Expenses	**214,619**	204,346	230,921
Income (Loss) before income tax from Operating Activities	**(₱196,611)**	₱77,651	₱73,466
Provision for income tax	**23,361**	7,278	7,699
Net Income (Loss) from Discontinued Operations	**(₱219,972)**	₱70,373	₱65,767

Net Insurance Premium
This account consists of:

	2018	2017	2016
Gross earned premiums	**₱2,501,725**	₱2,291,986	₱2,348,900
Reinsurers' share of gross earned premiums	**(1,272,931)**	(1,635,657)	(1,723,973)
	(₱1,228,794)	₱656,329	₱624,927

Net Insurance Benefits and Claims
This account consists of:

	2018	2017	2016
Gross insurance contract benefits and claims paid	**₱1,711,759**	₱428,225	₱780,537
Reinsurers' share of gross insurance contract benefits and claims paid	**(606,275)**	(86,845)	(140,357)
Gross change in insurance contract liabilities	**109,703**	147,880	(201,403)
Reinsurers' share of change in insurance contract liabilities	**77,763**	(167,016)	(143,762)
	₱1,292,950	₱322,244	₱295,015

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2018 follows:

Assets	
Due from other banks	₱477,761
Financial assets at FVTPL	1,329
Financial assets at FVOCI	455,654
Investment securities at amortized cost	1,033,150
Loans and other receivables - net	4,970,998
Deferred reinsurance premium	985,966
Property and equipment - net	14,495
Deferred tax assets	26,180
Intangible assets - net	8,205
Other assets	264,885
	₱8,238,623
Liabilities	
Accrued taxes, interest and other expenses	₱ 229,263
Insurance contract liabilities	5,420,609
Reserved for unearned reinsurance premium	1,438,001
Accounts payable	136,987
Other liabilities	12,951
	₱7,237,811
Net assets of disposal group held for sale	₱1,000,812
Amounts included in accumulated OCI:	
Net unrealized loss on financial assets at FVOCI	(₱15,601)
Remeasurement losses on retirement plan	(6,292)
	(₱21,893)

Net cash flow used in discontinued operations follow:

	2018
The net cash flows directly associated with the disposal group:	
Operating	(₱232,229)
Investing	212,896
	(₱19,333)

37. **Notes to Statements of Cash Flows**

The Group applied creditable withholding taxes against its income tax payable amounting to ₱2.58 billion, ₱1.55 billion and ₱882.2 million in 2018, 2017 and 2016, respectively.
The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱2.58 billion, ₱1.53 billion and ₱869.9 million in 2018, 2017, and 2016, respectively as a result of the merger.

In 2018, the Group reclassified PNB Gen as disposal group classified as held for sale and as discontinued operation and classified assets, liabilities, and reserves of PNB Gen amounting to ₱8.24 billion, ₱7.24 billion and ₱2.50 million, respectively, as held for sale.

In 2018, the non-cash changes on bills and acceptances payable amounted to ₱1.30 million and ₱1.29 million arising from unrealized foreign exchange differences for the Group and the Parent Company, respectively.

In 2018, bonds payable includes unrealized foreign exchange differences for the Group and Parent Company amounted to ₱250.44 million.

For the Group, investment properties acquired through foreclosure and rescission amounted ₱0.8 billion, ₱0.6 billion, and ₱0.7 billion in 2018, 2017 and 2016, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission ₱0.8 billion, ₱0.5 billion and ₱0.6 billion in 2018, 2017 and 2016, respectively.

Interest income of the Group includes fair value amortization of loans and receivables amounting to ₱6.0 million, ₱6.1 million, and ₱9.2 million in 2018, 2017 and 2016, respectively.

Interest expense of the Group includes fair value amortization of deposit liabilities amounting to ₱51.5 million, ₱10.7 million, and ₱30.3 million in 2018, 2017 and 2016, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱213.8 million, ₱256.1 million and ₱338.6 million in 2018, 2017 and 2016, 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, 2019.

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 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to 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 2018 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,705,754,202
Documentary stamp taxes	2,980,000000
Real estate tax	173,742,098
Local taxes	80,295,447
Others	32,245,496
	₱4,972,037,243

2. Withholding taxes

	Remitted	Outstanding
Withholding Taxes on Compensation and Benefits	₱776,856,894	₱ 148,835,410
Final income taxes withheld on interest on deposits and yield on deposit substitutes	601,451,287	261,319,630
Expanded withholding taxes	178,021,141	15,850,313
VAT withholding taxes	1,928,912	
Other Final Taxes	47,865,134	2,801,756
	₱1,606,123,368	₱428,807,109

Tax Cases and Assessments

As of December 31, 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.

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