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Philippine National Bank

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

₱6.35 billion 3.875%

Long Term Negotiable Certificates of Time Deposit Due April 2023

Issue Price 100%

Philippine National Bank ("PNB" or the "Bank" or the "Issuer") is offering up to ₱6.35 billion worth of Long Term Negotiable Certificates of Time Deposit Due 2023 (the "CDs") pursuant to the authority granted by the Monetary Board of the Bangko Sentral ng Pilipinas ("BSP") to the Bank in Resolution No. 1934 dated 27 October 2016 and Subsection X233.9 of the Manual of Regulations of Banks and any other circulars and regulations as may be relevant to the transaction, as amended from time to time (the "BSP Rules").

The CDs will bear interest at the rate of 3.875% per annum from and including 26 October 2017 to but excluding 26 April 2023 and interest will be payable quarterly in arrears at the each Interest Period on 26 January, 26 April, 26 July and 26 October beginning on 26 January 2018.

The CDs have a stated maturity date of 26 April 2023(the "Maturity Date"). However, subject to satisfaction of certain regulatory approvals, the Bank may redeem the CDs 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 CDs – Early Redemption Option")

The CDs will constitute direct, unconditional, unsecured and unsubordinated obligations of the Bank. The CDs 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 CDs - Status and Ranking")

The CDs will be registered in scripless form and in minimum denominations of ₱200,000.00 and in increments of ₱50,000.00 thereafter. The CDs will be issued on such terms and conditions set out in the Terms and Conditions. Upon issuance, the CDs 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 CDs 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 CDs shall be coursed through or effected using the trading facilities of the Exchange.

The CDs are and shall be, while outstanding, insured with the Philippine Deposit Insurance Corporation ("PDIC") for up to the maximum insurance coverage set out in and subject to PDIC's applicable rules, regulations, terms and conditions, as may be amended from time to time. (See Terms and Conditions of the CDs.)

The Issuer has a Long Term Deposit Rating of Baa3 from Moody's. A rating is not a recommendation to buy sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the rating agency concerned. INVESTING IN THE CDs INVOLVES CERTAIN RISKS. (SEE "INVESTMENT CONSIDERATIONS" FOR A DISCUSSION OF FACTORS TO BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE CDs.)

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 Offering Circular is 26 October 2017.

Joint Lead Arrangers and Selling Agents

Selling Agents

Financial Advisor to the Issuer

PUBLIC

Pursuant to the BSP Rules, an application for the issuance of the CDs was approved by the Monetary Board of the BSP on 27 October 2016. The issuance of the CDs 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 by The Hongkong and Shanghai Banking Corporation Limited and ING Bank N.V., Manila Branch (each a "Joint Lead Arranger" and a "Selling Agent"), as well as Multinational Investment Bancorporation (also a "Selling Agent"), with respect to the CDs to be issued by the Bank. 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 CDs which is material in the context of the issue and offering of the CDs, 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 CDs, 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 CDs, including the merits and risks involved. By receiving this Offering Circular, you acknowledge that (i) you have not relied on the Joint Lead Arrangers or on the Selling Agents or any person affiliated with the Joint Lead Arrangers 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 CDs 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 Joint Lead Arrangers .

Each of HSBC, ING, MIB and the Philippine Depository and Trust Corp. is a third-party in relation to PNB and each is not (i) a subsidiary or affiliate of PNB and (ii) not related in any manner to PNB as would undermine its independence and ability to perform its obligations in relation to the issuance of the CDs.

The Joint Lead Arrangers and Selling Agents have not independently verified all the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Arrangers 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 CDs. The Joint Lead Arrangers 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 CDs. Neither the delivery of this Offering Circular nor the offer of CDs 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 Joint Lead Arrangers nor the Selling Agents (other than the Bank) nor any of their respective affiliates or representatives is making any representation to any purchaser of CDs 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 CDs 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 CDs.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any CDs shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the CDs is correct as at any time subsequent to the date indicated in the document containing the same. The Joint Lead Arrangers and Selling Agents expressly do not undertake to review the financial condition or affairs of the Bank during the life of the CDs or to advise any investor in the CDs 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 Joint Lead Arrangers or the Selling Agents or any of their respective affiliates or representatives to purchase any of the CDs, 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 CDs must comply with all applicable laws and regulations in the jurisdiction in which it purchases or offers to purchase such CDs, and must obtain the necessary consent, approval, or permission for its purchase, or offer to purchase such CDs 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 Joint Lead Arrangers 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 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 Joint Lead Arrangers 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 Joint Lead Arrangers 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 Joint Lead Arrangers 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 CDs 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 which summarizes the total amount of Applications to Purchase accepted and the allocation of CDs among the Issuer and the various Selling Agents
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 CDs and submitted to the Selling Agents, in such form attached as Schedule 5 to the Registry and Paying Agency Agreement, as amended by supplemental agreements dated 6 April 2017 and 10 October 2017
Applications Schedule	The schedule of Applications to Purchase which sets out the aggregate amount of CDs applied for by the respective applicants of the Issuer and the various Selling Agents
Arrangement and Selling Agency Agreement	The Arrangement and Selling Agency Agreement dated 10 October 2017
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
BIR	Philippines Bureau of Internal Revenue
Board or Board of Directors	The Board of Directors of the Bank
BSP	*Bangko Sentral ng Pilipinas*, the Central Bank of the Philippines
Cash Settlement Account	an account designated by a Holder with a Cash Settlement Bank to which all interest, principal and other payments on the CDs shall be credited
Cash Settlement Bank	a bank licensed and authorized under the laws of the Philippines and designated by the Holder as the bank with which the Holder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent

CD Agreements	the Arrangement and Selling Agency Agreement and the Registry and Paying Agency Agreement
CDs	Long-Term Negotiable Certificates of Deposit issued pursuant to Resolution No. 1934 dated 27 October 2016 of the Monetary Board of the BSP
Closed Period	The periods during which the Registrar shall not register any transfer or assignment of the CDs, specifically, the period of two (2) Banking Days preceding any Interest Payment Date or the due date for any payment of the principal amount of the CDs
Early Redemption Amount	The Issue Price of the CDs plus accrued but unpaid interest thereon up to but excluding the Early Redemption Date
Early Redemption Option	In respect of this third Tranche, the Issuer's option to redeem all but not less than all of the CDs comprising such Tranche before maturity in accordance with the Terms and Conditions
Early Redemption Date	The Interest Payment Date on which the Issuer exercises the Early Redemption Option in accordance with the Terms and Conditions and the BSP Rules.
Data Privacy Act	Republic Act No. 10173
Director	A director of the Bank
DOSRI	Directors, Officers, Shareholders and Related Interests
Eligible Holders	All prospective purchasers of the CDs other than those identified as Prohibited Holders.
FCDU	Foreign Currency Deposit Unit
General Banking Law	General Banking Law of 2000 (Republic Act No. 8791)
GOCCs	Government Owned and Controlled Corporations
Holder	A person who, at any relevant time, appears in the Registry as the registered owner of CDs
HSBC	The Hongkong and Shanghai Banking Corporation Limited
ING	ING Bank N.V., Manila Branch
Interest Payment Date	The last day of an Interest Period; *Provided*, that, if any Interest Payment Date would otherwise fall on a day which is not a Banking Day, the interest payments which would then ordinarily fall due shall be actually paid on the next succeeding Banking Day without adjustments to the amount paid
Interest Period	Each successive three-month period commencing on the last day of the immediately preceding Interest Period and ending on (but excluding) the first day of

	the immediately succeeding Interest Period. Each Interest Period shall end on the numerically corresponding day of each third month after the Issue Date of this third Tranche (or if there is no day so corresponding in such month, such Interest Period shall end on the last day of such month); provided, the last Interest Period shall end on, but exclude, the Maturity Date or Early Redemption Date (as the case may be) of the CDs
Interest Rate	The interest rate *per annum* as specified in the Tranche Certificate.
Issue Date	In respect of this third Tranche, the date on which such CDs are issued, as specified in the Tranche Certificate
Issue Price	In respect of this third Tranche, an amount equal to one hundred percent (100%) of the face value of such CDs
Issuer	Philippine National Bank
Joint Lead Arrangers	The Hongkong and Shanghai Banking Corporation Limited and ING Bank N.V., Manila Branch
LGUs	Local Government Units
Lucio Tan Group (LTG)	A group of companies and individual shareholders affiliated/associated with and/or have given special powers of attorney to Mr. Lucio C. Tan
Majority Holders	At any time, the Holder or Holders who hold, represent or account for more than fifty percent (50%) of the aggregate outstanding principal amount of the CDs
Maturity Date	In respect of this third Tranche, the date specified as the maturity date in the Tranche Certificate, which is up to 5.5 years from Issue Date
Maturity Value	The amount of the face value of the CDs plus unpaid accrued applicable interest on the CDs up to but excluding the Maturity Date.
MIB	Multinational Investment Bancorporation
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 CDs to Eligible Holders.
Offering Circular	In respect of this third Tranche, the preliminary offering circular dated 11 October 2017 and final offering circular dated 19 October 2017,
Offer Period	In respect of this third Tranche, the period the CDs are offered for sale by the Issuer through the Selling Agents to prospective Eligible Holders, as determined by the Issuer and the Joint Lead Arrangers.
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 Bank designated by the Issuer and solely managed by the Paying Agent, in trust and for the irrevocable benefit of the CD Holders, into which the Issuer shall timely deposit the amount of interest and/or principal payments due on the outstanding CDs on the relevant Payment Date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the CD Holders
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 CDs are due and payable to the Holders
PDEx	Philippine Dealing and Exchange Corp.
PDIC	Philippine Deposit Insurance Corporation
PFRS	Philippine Financial Reporting Standards
Prohibited Holders	The persons or entities which are prohibited from holding the CDs pursuant to the BSP Rules, specifically: (1) the Issuer; and (2) the subsidiaries and affiliates of the Issuer; (3) wholly or majority-owned or controlled entities of the subsidiaries and affiliates of the Issuer; (4) non-resident aliens not engaged in trade or business in the Philippines; and (5) non-resident foreign corporations. 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 Issuer 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 Issuer. 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
Purchase Advice	The written advice substantially in the form set out in Schedule 6 of the Registry and Paying Agency Agreement as amended by supplemental agreements dated 6 April 2017 and 10 October 2017, to be issued by a Selling Agent to the Holder (in the case of the primary issuance of the CDs) or by a PDEx Trading Participant (in the case of the secondary market of the CDs upon listing in PDEx) to the CD Holder and to the Registry, confirming the acceptance of the CD Holder's offer to purchase such CDs and consequent ownership thereof, and stating the details, including the tax status as well as a summary of the terms and conditions of the issuer, sale or assignment of CDs
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 14 November 2016 by and between the Issuer and the Registry and Paying Agent, as amended by supplemental agreements dated 6 April 2017 and 10 October 2017.
Registry or Registry Book	The electronic registry book of the Registrar and Paying Agent containing the official information on the Holders and the amount of CDs 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, as amended by supplemental agreements dated 6 April 2017 and 10 October 2017, to be sent by the Registrar to the relevant Holder to confirming the registration in the name of such Holder and the number and terms and conditions of CDs issued to or purchased by a Holder, 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
Sales Report	With respect to this third Tranche, a report from the Selling Agents and the Issuer (to the extent the Issuer also performs the functions of a Selling Agent) on the final issue size of such Tranche, the total amount of CDs to be issued under such Tranche, the final allocation of such CDs among the Issuer and the Selling Agents, and which sets out the details of the accepted Applications to Purchase and the corresponding Purchase Advices and summarizes the allocations of CDs made among the various applicants.
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, The Hongkong and Shanghai Banking Corporation Limited, ING Bank N.V., Manila Branch and Multinational Investment Bancorporation or any other entity appointed by the Issuer as agreed with the Joint Lead Arrangers to sell and distribute the CDs to prospective Eligible Holders.
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 CDs, as set out in, and as qualified by, the section "*Terms and Conditions of the CDs*" of this Offering Circular.
Tranche	Each tranche of the CDs issued in accordance with the CD Agreements
Tranche Certificate	The certificate to be issued by the Issuer evidencing and covering such amount corresponding to each Tranche of the CDs

2 SUMMARY OF THE OFFERING

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 the 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 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 date. As of 30 June 2017, 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 ₱823.1 billion. PNB likewise ranks fourth in terms of net loans and receivables, capital and deposits. As of the same period, the Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches. PNB has 685 branches and offices and 1,143 ATMs located throughout the Philippines. The Bank has the largest overseas network among Philippine banks with 73 overseas branches, representative offices, remittance centers and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia. As of 30 June 2017, the Bank also maintained correspondent relationships with 951 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, the Bank also engages in a number of diversified financial and related businesses such as remittance servicing in the United States, Canada, Hong Kong, Italy, France and the United Kingdom, investment banking, non-life insurance, stock brokerage, leasing and financing.

As of 30 June 2017, 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 14.89% and 15.69%, respectively. The Bank has been listed on the Philippine Stock Exchange ("PSE") since June 1989. The market capitalization of the Bank on 30 June 2017 (based on the closing price of the shares of the Bank on the PSE on that date of ₱66.75 per Share) was ₱83.4 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 1.94% as of 30 June 2017, 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 March 2017, the Bank is the Philippines' fourth largest private commercial bank in terms of total capital, assets, deposits, as well as 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 of 30 June 2017, the Bank had 685 domestic branches and offices and 1,143 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. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches as of 30 June 2017. Based on BSP data, the 685 domestic branches and offices of the Bank comprised approximately 8.0% of the 8,577 total number of branches of all commercial, universal, and thrift banks in the Philippines as of 30 June 2017. The 1,143 ATMs of the Bank represented about 6.0% of the 18,935 total number of ATMs of universal, commercial and thrift banks.

Industry-leading OFW remittance business

The Bank's OFW remittance business accounted for approximately 15% market share by remittance volume as of 30 June 2017, based on data from the BSP, making it one of the largest in the Philippines. 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 73 branches, representative offices and remittance centers. As of 30 June 2017, the Bank also maintained correspondent relationships with 951 banks and financial institutions worldwide.

Diversified customer base

The Bank provides a full range of banking and other financial services to diversified customer bases including government entities, large corporate, middle-market, SME and retail customers, with the Bank having the distinction of being one of only five authorized Government depository banks in the Philippines.

Solid capitalization, improving asset quality and stable financial performance

The Bank believes its capital position is strong, with a consolidated Tier 1 ratio of 14.89% and consolidated CAR of 15.69% as of 30 June 2017 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 30 June 2017, the Group recorded a net NPL ratio of 0.25%, a net NPA ratio of 2.7% and an NPL coverage ratio of 129.8% based on the balances of the Parent Company.

Synergies from its strong shareholder group

As a member of the Lucio Tan Group ("LTG"), the Bank believes that it will continue to benefit from being part of one of the largest and most diverse 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 LTG, such as partnering with Philippine Airlines 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 PMFTC's products and for other members of LTG, streamlining loan applications for end-buyers of Eton, and facilitating guarantees for ticketing agents of Philippine Airlines.

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 2017:

1. Increase core business
   a) Lending
   b) Deposits
   c) Fee Based & Other Income
2. Enhance efficiency
3. Enhance the profitability of the Bank's subsidiaries

Credit Ratings Upgrade

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

In February 2017, Fitch affirmed the BB+ Long-Term Issuer Default Rating and the National Long-Term Rating of AA-(phl) of the Bank. The ratings are all on stable outlook.

PNB also currently has a Baa3 Long Term Rating, Foreign LT Bank Deposits Rating and Local LT Bank Deposits Rating from Moody's.

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 CD. 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; and
- Risks relating to the CDs.

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 CDs.

Recent Developments

On 10 March 2017, PNB issued a Notice of Exercise of Call Option over its ₱3.5 billion Lower Tier 2 Unsecured Subordinated Notes with an interest rate of 5.875%. These notes, which were issued last 9 May 2012, were redeemed on 10 May 2017.

3 SUMMARY OF CONSOLIDATED FINANCIAL INFORMATION AND OPERATING DATA

The following summary financial information as of and for the years ended 31 December 2014, 2015 and 2016 has been derived from the annual audited consolidated financial statements, included elsewhere in this offering document, and had been prepared in accordance with Philippine Financial Reporting Standards. The audited consolidated financial statements have not been revised to reflect the change in the standards of valuation of their insurance reserves from Net Premium Valuation Method to Gross Premium Valuation Method effective 1 January 2017 in compliance with the IC Circular No. 2016-69 as issued by the Insurance Commission. The change in the standards of valuation require retrospective application and the Audited Financial Statements have not been revised to reflect the changes. The effects of the change in the standards of valuation of insurance reserves have been disclosed in Note 2 to the Group's interim condensed consolidated financial statements included elsewhere in this offering document.

The selected financial information as of 30 June 2017 and for the six month periods ended 30 June 2016and 2017 were derived from the unaudited interim condensed consolidated financial statements of the Bank and its subsidiaries, prepared in accordance with PAS 34, Interim Financial Reporting and reviewed in accordance with Philippine Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" (PSRE 2410). As a result of the adoption of the change in the standards of valuation of insurance reserves effective 1 January 2017, the Group's summary of financial information as at 30 June 2017 and for the six months periods ended 30 June 2017 and 2016 are not directly comparable with those as of and for the years ended 31 December 2016, 2015 and 2014. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

Comparison of audited financial information for the years ended 31 December 2014, 2015 and 2016 and for the six months ended 30 June 2016 and 2017.

(₱ millions)	For the years ended 31 December			For the six months ended 30 June	
	2014	2015	2016	2016	2017
	(Audited)			(Unaudited)	
Interest Income	20,104	21,702	24,344	11,850	13,305
Interest Expense	3,645	4,010	4,777	2,306	2,999
Net Interest Income	**16,459**	**17,692**	**19,567**	**9,544**	**10,306**
Net Service Fees and Commission Income	2,877	3,596	2,655	1,300	1,617
Net Insurance Premiums (Benefits and Claims)	312	104	374	143	129
Other Income	6,157	5,097	8,613	6,310	1,704
Total Operating Income	**25,805**	**26,489**	**31,209**	**17,297**	**13,756**
Provision for Impairment, Credit and Other Losses	2,265	568	3,213	739	283
Operating Expenses	16,942	18,348	19,913	9,736	9,974
Income before Income Tax	**6,598**	**7,573**	**8,083**	**6,822**	**3,499**
Provision for Income Tax	**1,367**	**1,619**	**1,517**	**1,548**	**839**
Net Income from Continuing Operations	**5,231**	**5,954**	**6,566**	**5,274**	**2,660**
Net Income from Discontinued Operations	**264**	**358**	**620**	**1,103**	**-**
Net Income	**5,495**	**6,312**	**7,186**	**6,377**	**2,660**
Net Income attributable to Equity Holders of the Parent Company	5,359	6,114	7,148	6,235	2,611
Non-controlling Interest	136	198	38	142	49
Net Income	**5,495**	**6,312**	**7,186**	**6,377**	**2,660**

Consolidated Statements of Financial Position

(₱ millions)	As of 31 December			As of 30 June
	2014	2015	2016	2017
		(Audited)		(Unaudited)
Cash and Other Cash Items	14,628	15,221	11,015	13,728
Due from Bangko Sentral ng Pilipinas	105,774	81,364	127,338	136,955
Due from Other Banks	15,591	18,287	22,710	28,463
Interbank Loans Receivable	7,671	5,800	7,791	26,469
Securities Held Under Agreements to Resell	-	14,550	1,972	5,636
Financial Assets at Fair Value Through Profit or Loss	17,352	4,511	1,914	3,341
Available-for-Sale Investments	63,091	68,341	67,341	65,497
Held-to-Maturity Investments	22,970	23,232	24,174	24,567
Loans and Receivables	316,253	365,725	428,027	455,344
Property and Equipment	19,574	22,128	18,097	18,341
Investment in an Associate	-	-	2,533	2,579
Investment Properties	20,248	13,230	16,341	15,777
Deferred Tax Assets	1,463	1,174	1,482	1,369
Intangible Assets	2,296	2,443	2,563	3,198
Goodwill	13,375	13,375	13,375	13,375
Assets of Disposal Group Classified as Held for Sale	-	23,527	-	-
Other Assets	5,160	6,780	7,092	8,481
Total Assets	**625,446**	**679,688**	**753,765**	**823,120**
Deposit Liabilities	447,644	485,937	570,503	624,701
Financial Liabilities at Fair Value Through Profit or Loss	10,862	135	233	492
Bills and Acceptances Payable	19,050	25,752	35,886	42,841
Accrued Taxes, Interest and Other Expenses	5,441	5,875	4,944	5,064
Subordinated Debt	9,969	9,987	3,498	-
Income Tax Payable	86	135	195	374
Liabilities of Disposal Group Classified as Held for Sale	-	21,453	-	-
Other Liabilities	33,333	25,658	28,565	35,454
Non-Controlling Interests	3,213	3,017	2,649	2,724
Equity Attributable to Equity Holders of the Parent Company	95,848	101,739	107,292	111,470
Total Liabilities and Equity	**625,446**	**679,688**	**753,765**	**823,120**

Selected Financial Ratios and Earnings Per Share

(in percentages except earnings per share)	For the year ended 31 December			For the six months ended 30 June	
	2014	**2015**	**2016**	**2016**	**2017**
Return on average assets [1]	0.9%	1.0%	1.0%	1.8%	0.7%
Return on average equity [2]	6.1%	6.2%	6.7%	11.8%	4.8%
Net Interest margin on average earning assets [3]	3.1%	3.2%	3.2%	3.2%	3.0%
Efficiency ratio [4]	65.7%	69.3%	63.8%	56.3%	72.5%
Receivables from customers to deposit liabilities[5]	67.8%	73.6%	73.0%	71.3%	70.5%
Tier 1 capital adequacy ratio [6]	17.4%	16.2%	15.8%	16.5%	14.9%
Total capital adequacy ratio [7]	20.6%	19.2%	16.7%	17.3%	15.7%
Total capital funds to total assets [8]	15.8%	15.4%	14.6%	15.5%	13.9%
NPL ratio [9]	0.9%	0.2%	0.2%	0.2%	0.2%
Allowance for credit losses (loans) to total receivable from customers [10]	1.9%	1.9%	2.0%	1.9%	1.7%
Allowance for credit losses (loans) to total non-performing loans [11]	99.2%	125.6%	135.2%	131.6%	129.8%
Basic / Diluted Earnings per share attributable to equity holders of the Parent Company [12]	₱4.6	₱4.9	₱5.7	₱5.0	₱2.1

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 CDs, 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 CDs.

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 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 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 Parent Company's NPLs as of 30 June 2017 reported to the BSP remained unchanged at ₱8.8 billion from 31 December 2016 as compared to ₱9.0 billion and ₱9.9 billion as of 31 December 2015 and 31 December 2014, respectively. However, the Parent Company's net NPL ratio computed as NPLs divided by total loans (receivable from customers, interbank loans and securities under agreements to re-sell) was slightly higher at 0.25% as of 30 June 2017 from 0.2% as of 31 December 2016. The NPL ratio was at 0.2% as of 31 December 2015 and 0.9% as of 31 December 2014. Average net NPL ratios for the Philippine banking system was 0.6% as of the years ended 31 December 2016, 2015 and 2014. As of 30 June 2017, it was 0.7%. 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 30 June 2017, the Bank had reversal of credit losses amounting to ₱82.1 million, representing (0.6%) of the Bank's gross interest income for the period. For the year ended 31 December

2016, the Bank's provision for credit losses was ₱2.7 billion, representing 11.1% of the Bank's gross interest income for the same period. For the year ended 31 December 2015, the Bank's provision for credit losses for loans was ₱0.9 billion, representing 4.0% of the Bank's gross interest income for the year. For the year ended 31 December 2014, the Bank's provision for credit losses was ₱1.9 billion, which represented 9.5% of the Bank's gross interest income for the same period. As of 30 June 2017, NPL coverage was at 129.8% compared to 135.2% as of 31 December 2016.

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 2014 and 2015, the Bank had ₱1.8 billion and ₱1.6 billion, respectively, of restructured loans in its loan portfolio. As of 31 December 2016, restructured loans tally at ₱1.5 billion while this figure is at ₱1.5 billion as of 30 June 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 2014, 77.4% of total deposit liabilities was considered core while 22.6% was volatile. As of 31 December 2015, 77.7% of the Bank's funding was considered core while 22.3% was volatile. As of 31 December 2016, 80.9% of the Bank's funding were considered core while 19.1% was volatile. As of 30 June 2017, the Parent Company's core deposits comprise about 7.6% of total deposits with the balance of 92.4% deemed as volatile, based on contractual maturity. For the same period, the Parent Company has observed that core deposits comprise 80.3% of total deposits with the balance of 19.7% considered as volatile deposits, based on historical statistical behavior. 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 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 2014, Tier 1 capital adequacy ratio was 17.4% and total capital adequacy ratio on a consolidated basis was 20.6% (as reported to the BSP). The Tier 1 capital adequacy ratio and total capital adequacy ratio was 16.2% and 19.2% on December 31, 2015. As of 31 December 2016, Tier 1 capital adequacy ratio was 15.8% while total capital adequacy ratio was 16.7%. As of 30 June 2017, Tier 1 capital adequacy ratio was 14.89% while total capital adequacy ratio was computed at 15.69%.

While the Bank aims to maintain a two-percentage point buffer vs. 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. Further failure by the Bank to maintain its capital adequacy ratios may result in administrative actions or sanctions against the Bank which may have a material adverse effect on the Bank's financial condition and results of operations.

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

As of 31 December 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies. Holdings of LTG remained at 59.83% as of 30 June 2017. There can be no assurance that the companies and persons affiliated/associated with the LTG or any of the shareholders of the Bank will not exercise its control and influence the Bank for their benefit.

LTG 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 30 June 2017, 5.1% of the Bank's receivables from customers were from LTG. As of 31 December 2016, only 0.01% of the Bank's ₱416.4 billion in receivable from customers was extended to LTG.

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 LTG will necessarily coincide with the interests of the Holders. In addition, there can be no assurance that deterioration in the financial condition of the LTG or negative publicity regarding the LTG 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 have contributed an average of 52.1% 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 2016 and 30 June 2017, the Bank's loans and receivables, net of allowance for credit losses, experienced an increase in net carrying value, from ₱428.0 billion to ₱455.3 billion, respectively, constituting 56.8% and 55.3% of total assets. Due to the continued low interest rate environment and 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 Group 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 Group 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 2.2%, 4.4% and 2.2% of the Bank's total operating income for the period ended 30 June 2017, year ended 31 December 2016 and 2015, 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 a consequence of the financial crisis. Fortunately, the market recovered by the end of the year. 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 change 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 more transparency in the Philippine banking sector. These rules include new guidelines primarily related to the monitoring and reporting of suspected money laundering activities as well as new regulations governing the capital adequacy of banks in the Philippines. The Bank's risk profile along with its capital planning strategies are aligned with BSP issued regulations on the capital assessments of banks. The Bank has adopted the Basel principles in managing risk which is implemented in the banking industry under Section X115, Section X117 and Section X118 of the Manual of Regulations for Banks.

Furthermore, while the Philippines enacted the Anti-Money Laundering Act of 2001 (the "Anti-Money Laundering Act") to introduce more stringent anti-money laundering regulations, these regulations did not initially comply with the standards set by the FATF. However, following pressure from the FATF, an amendment to the Anti-Money Laundering Act became effective on 23 March 2003. On 11 February 2005, the Philippines was taken off the FATF's list of "non-cooperative countries and territories".

In the early part of 2012, the FATF threatened the Philippines with a blacklisting if the Anti-Money Laundering Act was not amended and if no law against terrorism financing was passed. Pursuant to this, Republic Act No. 10167 and Republic Act No. 10168, which amended the Anti-Money Laundering Act and criminalized terrorism financing, respectively, were signed into law by President Benigno Aquino III in June 2012.

Notably, Republic Act No. 10167 paved the way for amendments regarding the freeze order, which may be issued by the Court of Appeals, effective for a period of twenty days. Additionally, the amendment covers the Anti-Money Laundering Council ("AMLC") authority to inquire into bank deposits as well as related accounts upon order of any competent court and ex parte application. Note, however, that there were also instances provided where no such court order is required.

Republic Act No. 10168, among others, declared as a crime the act of financing of terrorism. As provided for by this law, when the AMLC is satisfied that funds are for terrorist funding, an ex parte order may be issued which can freeze without delay funds that are determined to be related to financing of terrorism or acts of terrorism, or even when there is probably cause to believe that funds are to be used in connection with terrorist activities.

These legislations dissuaded FATF from blacklisting the Philippines and instead, prodded an upgrade of the Philippines rating from "dark grey" to "grey." However, the FATF was not satisfied and insisted that there are still deficiencies in the Anti-Money Laundering Act. There was continued pressure on the part of the Philippines to enact amendments to the Anti-Money Laundering Act. Thus, Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, otherwise known as the Anti-Money Laundering Act of 2001, As Amended) was signed into law on 15 February 2013. This law took effect on 7 March 2013.

Under Republic Act No. 10365, predicate crimes (or those criminal acts where the law may also be applied if money is involved) were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

For the year 2016, 2.2% 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.

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. 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.

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 and technology systems and processes. The hardware and software used by the Bank in its information technology is vulnerable 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 such as internet service providers, ATM operators and telephone companies. 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 result in loss of income and decreased consumer confidence in the Bank. These may, in turn, adversely affect the Bank's business, financial condition and results of operations.

The Bank also seeks to protect its computer systems and network infrastructure from physical break-ins as well as cybersecurity breaches and other disruptive problems caused by the Bank's increased use of mobile apps and internet banking systems. Computer break-ins and security breaches could affect the confidence, integrity and availability of information stored in and transmitted through these computer systems and network infrastructure. The Bank employs IT security solutions such as firewalls data encryption and multifactor authentication,designed to minimize the risk of security breaches and maintains operational procedures to prevent break-ins, damage and failures. The potential for fraud and security problems is likely to persist and there can be no assurance that these security measures will be adequate or successful successful in view of the dynamic and evolving transformation of cybercrimes. The bank is engaging external cyber security partners to conduct vulnerability testing and compromise assessments and is hiring skilled IT personnel that will translate to additional expenditures in maintaining such security measures and may also increase substantially given the rising concern on potential information security violations. Failure in security measures could have a material adverse effect on the Bank's business, financial condition and results of operations as well as the reputation of the bank.

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.

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 in all areas of its business from other Philippine banks and branches of foreign banks, including competitors which, in some instances, have greater financial and other capital resources, a greater market share, and greater name recognition than the Bank. The banking industry in the Philippines has, in recent years, been subject to consolidation and liberalization, including liberalization of foreign ownership regulations. According to the BSP, as of 31 December 2016, 42 universal and commercial banks operated in the Philippines.

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

- Other large Philippine banking and financial institutions with significant presence in Metro Manila and large country-wide branch networks;
- Increased presence of foreign banks;
- Domestic banks entering into strategic alliances with foreign banks with significant financial and management resources; and
- Continued consolidation in the banking sector.

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 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 margins, results of operations and financial condition and inhibit the Bank's ability to implement its growth strategy.

The Bank may face increased capital requirements under the new Basel Rules

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. In December 2010, the Basel Committee on Banking Supervision issued new standards that modified the structure of the Bank's regulatory capital. After further impact assessment and observation periods, the Basel Committee on Banking Supervision began implementing the new set of measures, referred to as Basel III in 2013. On 15 January 2013, BSP Circular No. 781 was issued which required all Philippine universal and commercial banks to adopt in full the capital adequacy standards under Basel III starting 1 January 2014. The implementation of Basel III in the Philippines may have a significant effect on the capital requirements of Philippine financial institutions, including the Bank.

As part of Basel III, certain international large and important financial institutions were identified as systemically important financial institutions ("SIFIs"), where their failure or insolvency may trigger a financial crisis. In addressing this issue, higher and specific capital adequacy targets were set by the BSP for SIFIs. Most of the SIFIs are larger banks or financial institutions with a global network of branches and presence. In the event that the Bank is categorized as a SIFI, then it may be required to hold even higher minimum capital levels.

On 20 October 2014, the BSP issued an announcement relating to a further increase of the minimum capital requirement for all banks in the Philippines. This is a separate effort by the BSP to further enhance the integrity and sustainability of the domestic banks, on-top of the Basel III requirements as mentioned in the BSP Circular No. 781 and BSP Circular No. 822. Under the new regulation, universal banks' minimum capital level will be tiered based on each bank's network size in terms of the number of branches. The minimum capital level requirement will increase as the banks' tiers and the number of branches in its network increases.

On 21 October 2014, the BSP issued another announcement relating to the identification and classification of domestic systemically important banks ("D-SIBs"). This is an added effort to further strengthen the domestic financial market and to remove the possibility that publicly-funded bailouts will be required in the future to save the D-SIBs from insolvency. The categories for D-SIBs are measured in terms of the domestic bank's or financial institution's size, interconnectedness, substitutability or financial institution infrastructure and its complexity. The D-SIBs are classified with a tier system, where banks at the higher tier will have a higher CET 1 requirement. The BSP is implementing this new regulation in phases beginning in 2015, and those who are identified as D-SIBs will be informed by BSP of their classification confidentially. The identified D-SIBs will have to comply with the new standard by 1 January 2019.

Furthermore, banks 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 percent which will then be increased to 100 percent beginning 1 January 2019. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. This is being finalized and the BSP said that the exposure draft may be issued within the year. Compliance with these ratios may also further increase competition among banks for deposits as well as high quality liquid assets.

Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital or liquidity requirement due to the implementation of Internal Capital Adequacy Assessment ("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. 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.

Any future changes in PFRS may affect the financial reporting of the Bank

PFRS continues to evolve as standards and interpretations promulgated effective January 1, 2016 and onwards come into effect. PFRS 9 replaces PAS 39, Financial Instruments: Recognition and Measurement and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at: (a) amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal; or (b) at fair value through other comprehensive income if the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the outstanding principal. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

PFRS 9 also introduced a new, expected loss impairment model that will require more timely recognition of expected credit losses. Under the impairment approach on PFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognized. Instead, an entity always accounts for expected credit losses, and changes in those expected credit losses. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition and, consequently, more timely information is provided about expected credit losses.

PFRS 9 also replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship. PFRS 9 is effective for annual periods beginning on or after January 1, 2018. The window for early adoption of PFRS 9 by banks and other BSP-supervised financial institutions was closed in 2016 under BSP Circular No. 912 (s. 2016).

The adoption of PFRS 9 will have an effect on the classification and measurement of the Bank's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Bank's financial liabilities. The Bank is currently assessing the impact of adopting this standard.

The following PFRS will become 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 Bank is still assessing the potential effect of the amendments on its consolidated 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 overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9. The Bank is still assessing which approach it will use and the potential impact of the chosen approach in its consolidated financial statements.

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 Bank is currently assessing the impact of adopting this standard.

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 terms 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 Bank is currently assessing the impact of adopting PFRS 16.

There can be no assurance as to the implementation of new accounting standards in the Philippines and the significance of the impact it may have on the Bank's financial statements in the future.

Considerations Relating to the Philippines

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

From mid-1997 to 1999, the economic crisis in Asia adversely affected the Philippine economy, causing a significant depreciation of the peso, increases in interest rates, increased volatility and the downgrading of the Philippine local currency rating and the ratings outlook for the Philippine banking sector. These factors had a material adverse impact on the ability of many Philippine companies to meet their debt-servicing obligations. The Philippine economy has generally registered positive economic growth since 1999.

The economy faced a significant budget deficit, limited foreign currency reserves and a relatively weak banking sector until early this decade. Since then, the government implemented reforms in the banking sector by allowing banks to set up special purpose vehicles to address the nonperforming loans and to improve capitalization through the issuance of Tier II capital. Government also addressed the chronic budget deficit and implemented a fiscal consolidation program to improve the fiscal deficit. Prudent belt-tightening measures coupled with additional tax measures enabled the government to improve its fiscal condition and attract much-needed foreign investments.

The government has experienced an average growth rate of 6.5% over the last 5 years despite the continued slowdown in global markets and geopolitical turmoil in the Middle East. The country's growth has been driven by stable domestic consumption and remittances, low inflation and a growing manufacturing, services and business process outsourcing sectors. GDP growth for 2016 stood at 6.8%. The government expects GDP to grow between 6.5-7.5% in 2017.

Considering the Philippines' strong economic growth, fiscal and monetary consolidations, the three major credit rating agencies, Fitch Ratings, Standard & Poor's and Moody's raised the country's rating outlook to investment grade. In 21 April, 2016, Standard & Poor's Financial Services (S&P) reaffirmed the BBB Stable long-term sovereign credit rating of the Philippines. Aside from S&P, Fitch Ratings (Fitch) kept a BBB- Positive rating in 8 April 2016 and Moody's Investors Service (Moody's) reaffirmed the Philippines a Baa2 Stable Investment Grade rating in 14 December 2015. In their announcements, the rating agencies cited expectations of sound growth in jobs, increasing inward remittance flows and adequately performing financial system for some of the reasons behind their decision. However, no assurance can be given that international credit rating agencies will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Group. Any of such downgrades could have an adverse impact on the liquidity in the Philippine financial markets, the ability of the Government and Philippine companies, including the Group, to raise additional financing and the interest rates and other commercial terms at which such additional financing is available.

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 persistent low oil prices, the United Kingdom's exit from the European Union, slowdown in China's economic growth, and weaker than expected economic growth of the United States. 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 6.8% in 2016, 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. 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.

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 Scarborough Shoal. China bases its claim on historical ownership, while the Philippines supports its claim by asserting that Scarborough Shoal is located 124 nautical miles west of Zambales, and therefore it is part of the 200-nautical mile exclusive economic zone (EEZ) and continental shelf of the Philippines. The Philippines also asserts its rights on the United Nations Convention on the Law of the Sea. The Permanent Court of Arbitration in Hague has ruled in favour of the Philippines over territorial disputes in the South China 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. To date, there has been no resolution of this issue as talks between the involved parties dubbed cordial, at best.

Considerations Relating to the CDs

Limited right to accelerate

The CDs constitute direct, unconditional, unsecured and unsubordinated obligations of the Issuer, enforceable according to the 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.

The rights of the Holders are limited in certain respects. If any one or more Acceleration Events (as defined in the Terms and Conditions; these include loss of the Issuer's primary corporate franchise or other material licenses, payment default, insolvency or dissolution, and cross-default) shall have occurred and be continuing, then any Holder may, by notice to Issuer and the Registry and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the CD held by such Holder and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders. If any one or more of the Events of Default not constituting an Acceleration Event (as defined in the Terms and Conditions) shall have occurred and be continuing, after any applicable cure period shall have lapsed, then only Holders representing at least a majority of the then aggregate outstanding principal amount of the CDs may, by notice to Issuer and the Registry and Paying Agent, declare the principal and all accrued interest (including default interest, as specified in the Terms and Conditions) on the CDs and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable by the Issuer, without need for any further presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders. See "Terms and Conditions of the CDs" for further details.

PDIC Coverage

While the CDs will be insured with the PDIC, the coverage will be subject to PDIC's applicable rules and regulations, among others, on maximum insurance coverage per depositor, currently at ₱500,000.00. In determining the insured deposit, they shall be added together with all deposits in the Bank maintained in the same right and capacity for the depositor's benefit either in his own name or in the name of others.

Liquidity of the CDs

The Issuer intends to list the CDs for trading in PDEx on the Issue Date of this third Tranche. No assurance can be given that an active trading market for the CDs will develop. Even if such a market were to develop, the CDs could trade at prices that may be higher or lower than the price at which the CDs are issued depending on many factors, among them:

- prevailing interest rates,
- the Bank's results of operations and financial condition,
- political development in the Philippines,
- market for similar securities, and
- financial condition and stability of the banking sector.

Upon listing of the CDs 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. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of CDs 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 CDs 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 LTNCD Holder would receive sales proceeds lower than his initial investment should a LTNCD Holder decide to sell his CDs prior to maturity.

Subject to the "Events of Default" in the Terms and Conditions, the CDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date.. However, the Bank may, subject to the General Banking Law of 2000, Subsection X233.9 of the Manual of Regulations for Banks 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.

Secondary Transfers

All transfers or assignments of the LTNCDs shall be coursed through a PDEx Trading Participant, subject to PDEx Rules. Consequently, the parties to a transfer may be subject to the guidelines of Exchange and the payment to the relevant fixed income exchange and the Registrar and Paying Agent of any reasonable fees and applicable taxes. There is no assurance that the secondary trading of the CDs may not be affected given these restrictions.

Any transfer between investors with a different tax status with respect to the CDs will be subject to applicable rules as may be issued from time to time by the Exchange.

Issuance and Transfer Restrictions

The CDs may not be issued or transferred to (i) the Bank; (ii) the subsidiaries or affiliates of the Bank; (iii) wholly or majority-owned or controlled entities of such subsidiaries and affiliates of the Bank; or (iv) any other Prohibited Holders as defined in the Terms and Conditions of the CDs. The Registrar is authorized to refuse any transfer or transaction in the Registry Book that may be in violation of these restrictions. There is no assurance that the secondary trading of the CDs may not be affected given these restrictions.

Taxation of the CDs

If, because of new or changes in the interpretations or conventions regarding current taxes, such that any payments of principal and/or interest under the CDs shall be subject to deductions or withholdings for

or on account of any present taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "Taxes"), then such Taxes shall be for the account of the Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of the Holder concerned; provided, however, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer through the Registrar and Paying Agent (see "Philippine Taxation" section for a discussion on the taxation of the CDs).

As issuer of the CDs, the withholding of final tax on the interest due on the CDs is the responsibility of the Issuer pursuant to Section 57 of the National Internal Revenue Code, Section 2.57 of Revenue Regulations No. 2-98, BIR Revenue Regulations No. 14-2012 and Revenue Memorandum Circular No. 81-2012. The Bank shall be required to abide by the terms of the BIR accreditation of the PDS Group Corporate Action Auto-Claim (CAAC) System to the extent of its applicability, and to the extent that it affects information processed by the CAAC system in relation to the Bank's listed issues.

5 PURPOSE OF ISSUANCE

The purpose of the issuance is to extend the maturity profile of the Bank's liabilities as part of overall liability management and raise long-term funds for general corporate purposes.

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 30 June 2017.

The following table should be read in conjunction with the unaudited interim condensed consolidated financial statements included elsewhere in this Offering Circular.

(₱ millions)	As at 30 June 2017	
	Actual	**As Adjusted**
Liabilities		
Deposit liabilities[1]	624,701	624,701
New long term negotiable certificates of time deposit due April 2023	-	6,350
Financial liabilities at fair value through profit or loss	492	492
Bills and acceptances payable	42,841	42,841
Accrued taxes, interest and other expenses	5,064	5,064
Subordinated debt	-	-
Income tax payable	374	374
Other liabilities	35,454	35,454
Total liabilities	**708,926**	715,276
Equity		
Capital Stock	49,966	49,966
Capital paid in excess of par value	31,331	31,331
Surplus reserves	598	598
Surplus	33,297	33,297
Others[2]	(3,722)	(3,722)
	111,470	111,470
Non-controlling interest in a subsidiary	2,724	2,724
Total Equity	**114,194**	**114,194**
Total Liabilities and Equity	**823,120**	**829,470**

[1] *Demand, Savings, Time Deposits*
[2] *Others include: Remeasurement Losses on Retirement Plan, Accumulated Translation Adjustment, Net Unrealized Loss on Available-for-Sale Investments, and Other Equity adjustment*

7 TERMS AND CONDITIONS OF THE CDS

The statements of the terms and conditions of the CDs set out in these Terms and Conditions do not purport to be complete listing of all the rights, obligations and privileges of the CDs. The rights, obligations and privileges of the CDs are set out in the Terms and Conditions, which provisions prevail in case of conflict with the terms and conditions of this Offering Circular.

Philippine National Bank (the "*Issuer*") shall pay the holders of its Long-Term Negotiable Certificates of Time Deposit the principal and interest due thereon under the terms and conditions set out in these Terms and Conditions. Unless otherwise specifically defined herein or the context otherwise requires, capitalized terms shall have the meanings given to them in **Schedule 1** to the Registry and Paying Agency Agreement dated as of 14 November 2016, as amended by the supplemental agreements dated 6 April 2017 and 10 October 2017 (the "*Registry and Paying Agency Agreement*") executed between the Issuer and the Philippine Depository & Trust Corp. as Registrar and Paying Agent (the "*Registrar*" or "*Paying Agent*", which expression shall, wherever the context permits, include all other persons or companies for the time being acting as registrar and paying agent under the Registry and Paying Agency Agreement).

The issue of up to Twenty Billion Pesos (₱20,000,000,000) worth of Long-Term Negotiable Certificates of Time Deposit (the "*CDs*") in one or more tranches over the course of one year was authorized by resolutions adopted by the board of directors of Philippine National Bank (the "*Issuer*") on July 22, 2016 and by Resolution No. 1934 of the Monetary Board of the Bangko Sentral ng Pilipinas (the "*BSP Approval*").

The CDs shall be issued in one or more tranches (each a "*Tranche*"). The initial Tranche of the CDs with an aggregate principal amount of Five Billion Three Hundred Eighty Million Pesos (₱5,380,000,000.00) was issued on 6 December 2016. A second Tranche of the CDs with an aggregate principal amount of Three Billion Seven Hundred Sixty-Five Million Pesos (₱3,765,000,000.00) was issued on 27 April 2017. The third Tranche of the CDs with an aggregate principal amount of up to Ten Billion Eight Hundred Fifty-Five Million Pesos (₱10,855,000,000.00) shall be issued on 26 October 2017 or such other date as may be agreed by the Issuer, The Hongkong and Shanghai Banking Corporation Limited and ING Bank N.V. (an "*Issue Date*") (acting in their capacity as arrangers under the Arrangement and Selling Agency Agreement with the Issuer dated as of 10 October 2017, the "*Joint Lead Arrangers*").

Each Tranche of the CDs shall be entitled to interest at the Interest Rate specified by the Issuer in the relevant Tranche Certificate from and including the Issue Date of such Tranche, up to and excluding the Early Redemption Date or Maturity Date (whichever occurs earlier), less the amount of any applicable withholding taxes.

The issuance of the CDs shall be made pursuant to and under the terms and conditions of the Registry and Paying Agency Agreement and the Arrangement and Selling Agency Agreement dated as of 10 October 2017 (the "*Arrangement and Selling Agency Agreement*") among the Issuer, the Joint Lead Arrangers and the Selling Agents (collectively, the "*CD Agreements*").

These Terms and Conditions may be qualified by, and are subject to, the detailed provisions of the CD Agreements and the BSP Rules. Copies of the CD Agreements, these Terms and Conditions and the Offering Circular and Tranche Certificate for each Tranche are available for inspection during regular business hours at the offices of the Issuer at PNB Financial Center, President Diosdado Macapagal Blvd. Pasay City, Philippines.

The Holders are entitled to the benefits of, are bound by and are deemed to have notice of, these Terms and Conditions and all the provisions of the CD Agreements applicable to them.

1. Eligible Holders and Minimum Purchase

(a) *Eligible Holders*

All prospective purchasers of the CDs other than those specified as Prohibited Holders (each such prospective purchaser, an "*Eligible Holder*") may invest in the CDs.

As used herein, a "Prohibited Holder" means the Issuer, its subsidiaries and affiliates, wholly- or majority-owned or -controlled entities of such subsidiaries and affiliates, non-resident alien not engaged in trade or business in the Philippines, and non-resident foreign corporation. For purposes of this definition, (1) a

"subsidiary" of the Issuer is 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 Issuer and/or one or more of its subsidiaries or affiliates and (2) an "affiliate" of the Issuer is an entity at least twenty percent (20%) but not more than fifty percent (50%) of the outstanding voting stock of which is owned by the Issuer.

(b) *Documentary Requirements*

In addition to a duly executed Application to Purchase, each Eligible Holder shall submit the following documents to the Selling Agents:

(i) Documents to be provided by individuals:

(1) photocopy of at least one valid and subsisting identification card issued by an official authority, *e.g.*, the applicant's (a) passport; (b) driver's license; (c) Social Security System identification card; (d) Government Service and Insurance System e-Card; (e) Professional Regulatory Commission identification card; and (e) company identification cards issued by private entities or institutions registered with or supervised or regulated by the BSP, the Securities and Exchange Commission, or the Insurance Commission;

(2) two fully-executed specimen signature cards in the form attached to the Application to Purchase; and

(3) in the case of foreign individual applicants, Alien Certificate of Registration duly issued by the Bureau of Immigration and consularized proof of tax domicile issued by the tax authority of the applicant.

(ii) Documents to be provided by corporate and institutional applicants:

(1) copies, certified by the Securities and Exchange Commission (or equivalent regulatory body) or corporate secretary of the applicant, of the certificate of incorporation, articles of incorporation and by-laws or equivalent charter or constitutive documents of the applicant, as amended to date;

(2) copies, certified by the corporate secretary or other appropriate officer of the applicant, of the resolutions adopted by the applicant's board of directors or equivalent body, authorizing the applicant to purchase the CDs, and certifying names and specimen signatures of the applicant's duly authorized signatories for that purpose; and

(3) two fully executed specimen signature cards of authorized signatories in the form attached to the Application to Purchase.

(iii) Documents to be provided by Tax-Exempt Holders

(1) valid original or certified true copy of the tax exemption certificate, letter, ruling or opinion issued by the BIR confirming the Holder's exemption from taxation of interest income from fixed income securities; and

(2) indemnity undertaking executed by the Holder in the form attached as **Schedule 4** to the Registry and Paying Agency Agreement, upon the terms of which the Holder claiming the tax-exemption shall instruct the Issuer and the Registrar and Paying Agent not to withhold any taxes from interest payments due to such holder, and shall undertake to indemnify the Issuer and the Registrar and Paying Agent for any tax or other charges that may later on be assessed against the Issuer by the BIR on account of the non-withholding of taxes on the CDs held by the Holder.

In addition, the Joint Lead Arrangers and the Selling Agents may each request such other documents from an Eligible Holder in order to establish his/her/its eligibility as Holder of the CDs, his/her/its exemption from taxation of interest income from fixed income securities or to comply with applicable requirements of the AMLA or the BSP Rules.

2. Form and Denomination; Listing

(a) The CDs will be issued in scripless form and will be maintained in electronic form with the Registry, subject to the payment by the Holder of applicable fees to the Registry, and in compliance with the provisions of Republic Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of assurances on the integrity, reliability, and authenticity of the CDs in electronic form. A Registry Confirmation will, however, be issued by the Registrar in favor of the Holders in accordance with the BSP Rules and shall be subject to the relevant fees of PDEx and PDTC.

(b) Each Tranche of the CDs will be represented by a Tranche Certificate to be issued in an amount equivalent to the aggregate principal amount of such Tranche. Not later than 11:00 a.m. of the Issue Date, the Issuer shall deliver the duly executed Tranche Certificate to the Registrar to be authenticated and retained by the latter in custody

(c) In accordance with BSP Rules, the Issuer shall list the CDs for trading through the facilities of the Exchange. Secondary market trading in PDEx shall follow the applicable PDEx rules, conventions, and guidelines governing trading and settlement between Holders of different tax status.

3. Payment

Applications to Purchase must be accompanied by payment for the CDs applied for. Payment may be in the form of deposits of cash, manager's checks payable to "**PNB LTNCD – APRIL 2023"**, or debit instructions, and must cover the entire purchase price.

4. Interest

(a) Each Tranche of the CDs shall bear interest 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), at the applicable Interest Rates.

(b) Interest in respect of the CDs will be calculated by the Registrar on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period (each such day, an "*Interest Payment Date*").

(c) Interest shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each month and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

(d) Interest shall be paid to the Holders recorded in the Registry as of the Record Date.

5. Redemption at Maturity

Unless earlier redeemed accordance with Clause 6, on the relevant Maturity Date (as specified in the Tranche Certificate for each Tranche), the CDs shall be redeemed by the Issuer at an amount equal to one hundred percent (100%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon.

6. Early Redemption Option

(a) Subject to the BSP Rules, for each Tranche, the Issuer shall have the option (the "*Early Redemption Option*"), but not the obligation, to redeem all (but not less than all) of the CDs comprising such Tranche on any Interest Payment Date (such date, the "*Early Redemption Date*") at an amount equal to the aggregate issue price thereof, plus accrued and unpaid interest thereon as of the Early Redemption Date (the "*Early Redemption Amount*").

(b) In exercising the Early Redemption Option, the Issuer shall give not less than 30 but not more than 60 days' prior notice (the "*Early Redemption Notice*") to the Holders, the Exchange, the Registrar and the appropriate supervision and examination department of the BSP. The Issuer shall also

cause the publication of such notice at least once a week for two consecutive weeks in at least two newspapers of general circulation in the Philippines. Such notice shall be irrevocable and shall be binding on the Issuer.

(c) After the issuance of the Early Redemption Notice, the Issuer shall be obliged to repay all of the CDs to be redeemed (the "*Early Redemption CDs*") at the Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the Registrar shall transfer all of the interests of the Holders in the Early Redemption CDs to the Issuer. All Early Redemption CDs shall then be deemed fully redeemed and cancelled. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption CDs shall be subjected to incremental taxes, such taxes shall be for the account of the Issuer.

7. No Pre-termination

(a) Except as otherwise permitted under Clause 16 below, no Holder shall have the right to require the Issuer to redeem and repay any or all of the CDs before the Maturity Date.

(b) The CDs cannot be terminated by the Holders before their respective Maturity Dates. However, holders may transfer or assign their CDs to another Holder who is not a Prohibited Holder. Negotiations or transfers of CDs from one Holder to another do not constitute pre-termination, but will be subject to: (i) the pertinent provisions of the National Internal Revenue Code, as amended; and (ii) applicable BSP Rules.

(c) The Issuer may exercise the Early Redemption Option and redeem the CDs prior to the Maturity Date, subject to the conditions set out in Clause 6.

8. Manner of Payment

(a) Any payment of principal or interest under the CDs shall be made through the Paying Agent based on the Registry Book.

(b) On each Payment Date, the Issuer shall deposit into the Payment Account the amounts then payable on the CDs

(c) In their respective Applications to Purchase, Holders must specify the Cash Settlement Accounts to which the Paying Agent shall remit payments of principal and interest on the CDs. If the Registrar is unable to credit or is prevented from causing the crediting of the account of any Holder due to a reason attributable to such Holder (such as but not limited to a situation where the details of the payment option information indicated in the Sales Report are incomplete or erroneous), the Registrar shall, within five Banking Days upon the Registrar and Paying Agent's receipt of advice from the relevant Cash Settlement Bank on the relevant Payment Date, through email or such other manner practical and convenient for the Registrar, inform the affected Holder (through such Holder's Selling Agent or the relevant Trading Participant, as applicable) of such failure of payment. Thereafter, such Holder (through its Selling Agent or the relevant Trading Participant, as applicable) must correct or update the details of its mode of receiving payments with the Registrar.

(d) None of the Issuer, Registrar and Paying Agent or any of the Selling Agents or Trading Participants shall be liable to any Holder for any failure or delay in effecting any payment due under the CDs, where such failure or delay in payment arises from or in connection with any failure or delay by such Holder in correcting or updating the details of its mode of receiving payments as contemplated by Clause 8(b).

(e) No amounts due to but not claimed by a Holder on a Payment Date shall bear any interest.

9. Taxation

(a) If any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any present taxes, duties, assessments, or governmental charges of

whatever nature that may be levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having the power to tax, including but not limited to documentary stamp, income, value-added or similar taxes, including interest, surcharges, and penalties thereon (the "*Taxes*"), then all such Taxes shall be for the account of the Holder concerned, and if the Issuer shall be required by law or regulation to deduct or withhold such Taxes, then the Issuer shall make the necessary withholding or deduction for the account of such Holder; *provided*, that all sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for Taxes or other duties, assessments or government charges, subject to the submission by the relevant Holder claiming the exemption of reasonable and acceptable evidence of such exemption to the Issuer and relevant Selling Agent; and *provided, further*, that documentary stamp tax for the primary issue of the CDs, if any, shall be for the Issuer's account.

(b) In the event that: (i) due to a change in tax treatment of the CDs because of changes of tax laws (and not merely a change in the interpretation of present tax laws and regulations), any payments of principal and/or interest under the CDs shall be subject to deductions or withholding for or on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed by or within the Philippines or any authority therein or thereof having power to tax; and (ii) the Issuer does not redeem the CDs prior to the Maturity Date pursuant to Clause 6 and the BSP Rules, then the amount of such new taxes, duties, assessments or governmental charges in excess of the Taxes for the Holder's account under Clause 9(a) (such excess amount, as well as any and all interest, surcharges, and penalties thereon, the "*New Taxes*") shall be for the Issuer's account, and all payments of principal and interest in respect of the CDs shall be made free and clear of, and without withholding or deduction for, any such New Taxes. In that event, the Issuer shall pay to the Holders concerned such additional amount as will result in the receipt by the Holders of such amounts as would have been received by them had no such withholding or deduction for New Taxes been required. For the avoidance of doubt, any and all taxes, duties, assessments, or governmental charges referred to in Clause 9(a) shall be for the account of the Holders, and the Issuer shall have no liability in respect thereof.

(c) The Issuer shall list the CDs on the Exchange. The Holder agrees to comply with any conditions and provide information and documents that may be required by the BIR in relation to and as a consequence of the listing of the CDs.

10. Status and Ranking: Insurance

(a) The CDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, enforceable according to the terms and conditions set out in 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.

(b) The CDs are insured by the Philippine Deposit Insurance Corporation up to a maximum amount of ₱500,000, subject to applicable law, rules and regulations, as the same may be amended from time to time.

11. Title and Transfer

(a) *Registration*

The beneficial interest of each Holder in and to the CDs or Tranche thereof will be shown on and recorded in the Registry Book maintained by the Registrar. The Registrar shall issue a Registry Confirmation in respect of each Tranche of the CDs to each Registered Holder as recorded in the Registry Book.

(b) *Transfer*

(i) All secondary trading of the CDs arising from Trade-Related Transactions and Non-Trade-Related Transactions shall be coursed through or effected using the trading facilities of the Exchange, subject to compliance with the applicable rules of such Exchange and the

payment of the Holder of applicable fees to the Exchange and the Registrar and Paying Agent. All transfers of CDs shall only be effective upon the receipt by the Registrar of a duly accomplished Trade-Related Transfer Form or Non-Trade Related Transfer Form (as applicable) in the forms attached to the Registry and Paying Agency Agreement from the relevant Trading Participant and other required documentation and the registration and recording by the Registrar of such assignment or transfer in the Registry Book; *provided*, that no such registration and recording shall be allowed during the Closed Period.

(ii) Where a transfer or assignment of the CDs will result in a change in the tax treatment of the interest income derived from the CDs (such as but not limited to transfers between a taxable and non-taxable person), and is deemed a pre-termination solely for withholding tax purposes, the transferor Holder shall be liable for any and all taxes that may be due on interest income earned on the CDs. The amount of such taxes shall be calculated by the Exchange based on the length of time the transferor Holder shall have held such CDs, and an amount equal to such taxes will be deducted from the purchase price due to the transferor Holder. Thereafter, the interest income of a transferee CD Holder who is an individual shall not be treated as income from long-term deposit or investment certificates, unless the purchased CDs have a remaining term to maturity of at least five years. For purposes of this Clause 11(b)(ii), a transfer or assignment will be deemed to result in a change in the tax treatment of interest income derived from the CDs if such transfer or assignment: (1) is made by a Holder who is a citizen, resident individual, non-resident individual engaged in trade or business in the Philippines, or a trust which complies with the conditions for exemption as specified in Revenue Regulations No. 14-12 (or the tax regulations applicable at the time of determination); (2) under the BSP Rules, is not considered a pre-termination of the CDs; and (3) under relevant tax laws or revenue regulations then prevailing, will result in the interest income on the CDs being subject to the graduated tax rates imposed on long-term deposit or investment certificates on the basis of the holding period of the investment instrument.

(iii) No partial transfers of title, interest and rights of the Holder in or to any CDs shall be allowed unless as a result thereof: (1) the transferor shall either retain CDs with an aggregate principal amount equal to any applicable minimum investment levels (or cease to be a registered holder of the CDs altogether); and (2) the transferee shall have CDs with an aggregate principal amount equal to any applicable minimum investment levels.

(iv) Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid by the Issuer) that may be imposed by the Exchange or relevant Trading Participant (as applicable) and the Registrar and Paying Agent in respect of any transfer or change of beneficial title to the CDs, including the settlement of documentary stamp taxes, if any, shall be for the account of the transferring Holder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant transfer agreement executed between the transferring Holder and its transferee.

(v) The following documents shall be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:

(1) the Purchase Advice provided to the transferee;

(2) the Registry Confirmations of both the transferor and the transferee (if any);

(3) the relevant Trade-Related Transfer Form or Non-Trade-Related Transfer Form, as the case may be, duly accomplished by the transferor and endorsed by the Trading Participant, substantially in the forms set out in **Schedules 9** and **10** of the Registry and Paying Agency Agreement, respectively;

(4) the Written Consent of the transferee, substantially in the form set out in **Schedule 11** of the Registry and Paying Agency Agreement;

(5) the Investor Registration Form, substantially in the form set out in **Schedule 12** of the Registry and Paying Agency Agreement;

(6) if either the transferor or the transferee is a corporation or other juridical entity, a notarized certificate of the corporate secretary or other authorized officer of such party: (a) attesting to its authority to transfer (or acquire, as the case may be) its interests in the CDs (whether by assignment or donation), and (b) certifying the names, titles, signing procedures and specimen signatures of its authorized signatories for such transfer; and

(7) from the transferee, the documents listed in sub-clauses (i), (ii) or (iii) of Clause 1(b) of these Terms and Conditions, as applicable.

(vi) In case of Non-Trade-Related Transactions, the following documents shall also be submitted to the Registrar through the relevant Trading Participant in order to effect the transfer of the CDs:

(1) in the case of succession, a court order of partition or deed of extrajudicial settlement, together with the proper documentation evidencing the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;

(2) in case of donations, a valid deed of donation presented by the donor and proof of acceptance of the donation; *provided*, that if the donee is a minor, the acceptance of the donation of the CDs should be made by the transferee's parents or legal guardian on his or her behalf, in which case documents showing the relationship between the transferee and his or her parents or guardians must likewise be submitted, together with documents to evidence the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the CDs;

(3) in the case of requests for recording or annotation of interests or liens on the CDs, a proper contract of pledge or escrow agreement presented by the pledgor or the beneficiary of the escrow agreement, respectively;

(4) such other documents that may be required by the Registrar and Paying Agent for transfers arising from "free-of-payment" transactions; *provided*, that such transfer is not in violation of any law or regulation or made in circumvention thereof; *provided, further*, that the burden of proving the validity of a "free of payment" transaction rests with the transferor of the CDs; and

(5) such other documents as may reasonably be required by the Registrar.

(c) *Determination of Qualifications*

(i) Each Selling Agent (in the case of initial issuance of the CDs) and the relevant Trading Participant (in the case of secondary trading of the CDs) shall verify the identity and other relevant details of each prospective investor and ascertain that the proposed holder or transferee of a CD is not a Prohibited Holder. The Registrar shall also monitor compliance with the prohibition against Prohibited Holders owning any CDs, as required by the BSP Rules.

(ii) Each Trading Participant shall verify the respective aggregate amounts of the CDs held by the transferor and the transferee to determine compliance with Clause 11(b)(ii) through the Registry Confirmations to be provided by each of the transferor and the transferee.

(iii) Prospective investors in CDs shall immediately submit any and all information reasonably required by the Selling Agents or Trading Participants (as applicable) and Registrar in order to determine that such prospective investor is not a Prohibited Holder.

12. Representations and Warranties

The Issuer hereby makes the following representations and warranties in favor of the Holders:

(a) No order preventing or suspending the use of any Offering Circular has been issued by the BSP. Each Offering Circular: (i) is compliant and will remain compliant in all material

respects with relevant BSP Rules; (ii) contains all material information and particulars required to be provided to potential investors in order to make an informed assessment of the financial position and prospects of the Issuer in its entirety and the rights attaching to the CDs; and (iii) does not contain any untrue statement of a material fact nor omit to state a material fact required to be stated or necessary to make the statements not misleading under the circumstances. All reasonable enquiries have been made by the Issuer to ascertain such facts and to verify the accuracy of all such information and statements.

(b) No order suspending the effectiveness of the BSP Approval has been issued, and no proceeding for that purpose has been instituted or, to the best knowledge of the Issuer, threatened by the BSP. The application for authority and additional requirements set forth in the BSP Rules, at the time they were rendered effective: (i) complied, and as of the effective date of any of their supplements, amendments or modifications, will comply, in all material respects with the BSP Rules; and (ii) do not and will not, as of the effective date of any of their amendments, supplements, or modifications, contain any untrue statement of a material fact nor omit to state any material fact required to be stated or necessary to make the statements not misleading.

(c) The statements, forecasts, estimates and expressions of opinion contained in each Offering Circular including but not limited to the profits, prospects, dividends, indebtedness, assets, liabilities, cash flow and working capital of the Issuer have been made after due and proper consideration, and represent reasonable and fair expectations honestly held based on facts known to the Issuer.

(d) All information supplied or provided by the Issuer to the Joint Lead Arrangers for the due diligence review and other purposes is true, correct, complete and binding on the Issuer, and may be fully relied upon by the Joint Lead Arrangers without any obligation or liability on each of it to ascertain their truth, validity, enforceability, legality, or binding effect on the Issuer. No material information has been withheld or otherwise not made available by the Issuer to the Joint Lead Arrangers.

(e) Since the respective dates as of which information is given in each Offering Circular, there has not been any material change, or any development involving a prospective material change, in or affecting the general affairs, business, prospects, management, financial position, stockholders' equity, or results of operations of the Issuer otherwise than as disclosed in such Offering Circular. Except as disclosed in the relevant Offering Circular, the Issuer has not, since the dates indicated, entered into any material transaction or agreement (whether or not in the ordinary course of business) which would have a material adverse effect in its financial position, stockholders' equity, or operations.

(f) The Issuer and each of its subsidiaries and affiliates is a corporation duly organized, validly existing, and in good standing under and by virtue of the laws of its place of incorporation, has its principal office at the address indicated in the Offering Circulars, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary, and has the corporate power and authority 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.

(g) All corporate authorizations, approvals, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer and issuance by the Issuer of the CDs, the circulation by the Issuer of the preliminary and final Offering Circulars for this third Tranche of the CDs and the Issuer's compliance with its obligations under the CD Agreements and the CDs have been obtained or effected and are in full force and effect.

(h) All government authorizations, approvals, rulings, registrations, and other acts legally necessary for the execution and delivery by the Issuer of the CD Agreements, the offer, issuance, and payment by the Issuer of the CDs, and the Issuer's compliance with its obligations under the CD Agreements and the CDs, have been obtained and are in full force and effect.

(i) All conditions imposed or required under the BSP Rules and other applicable laws and regulations in respect of the execution and delivery of the CD Agreements and the offer,

issuance, and payment of the CDs have been complied with by the Issuer as of the date and/or time that they are required to be complied with.

(j) None of the information, data, or submissions provided or made by the Issuer to any government agency, or to the Joint Lead Arrangers, Selling Agents, Registrar or Holders in connection with the CDs violates any applicable statute, rule, or regulation. Such information, data, and submissions are true, complete, and accurate in all material respects. There is no fact, matter or circumstance which has not been disclosed to the Joint Lead Arrangers, Selling Agents, Registrar or Holders which renders any such information, data or submissions untrue, inaccurate or misleading in any material respect, or which might reasonably affect the willingness of such parties to proceed with the transactions contemplated by the CDs and these Terms and Conditions.

(k) The obligations of the Issuer under the CD Agreements and (upon their issuance) the CDs constitute the Issuer's legal, valid, binding, direct, and unconditional obligations, enforceable in accordance with their terms, and the compliance by the Issuer with its obligations under the CD Agreements and the CDs will not conflict with, nor constitute a breach or default of, the articles of incorporation, by-laws, or any resolution of the board of directors of the Issuer, or any rights of the stockholders of the Issuer, or any contract or other instrument by which the Issuer or its properties is bound, or any law of the Republic of the Philippines, or any regulation, or judgment or order of any office, agency, or instrumentality applicable to the Issuer.

(l) The CDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, enforceable according to the terms and conditions in 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.

(m) Except as disclosed in the relevant Offering Circular, there are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Issuer or its subsidiaries or affiliates which, if adversely determined, would have a material adverse effect on the business operations, properties, assets, or financial or other conditions of the Issuer, or which would enjoin or otherwise adversely affect the execution, delivery or performance of the CD Agreements or the offer, issuance or performance of the CDs. To the best of the Issuer's knowledge, no such proceedings are threatened or contemplated by government authorities or threatened by others.

(n) The audited financial statements of the Issuer as of 31 December 2015 and 2016 are complete and correct in all material respects. The audited financial statements of the Issuer as of 31 December 2015 and 2016 have been prepared in accordance with accounting principles generally accepted in the Philippines for banks ("*Philippine GAAP for Banks*") applied on a consistent basis and fairly represent the Issuer's financial condition and results of operations as of the dates indicated. Since 31 December 2016, there has been no material change in the financial condition or results of operations of the Issuer sufficient to impair its ability to perform its obligations under the CDs according to their terms.

(o) Except as may be disclosed in the Offering Circular and its audited financial statements as of and for the year ended 31 December 2016 the Issuer has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.

(p) Since the issuance of the BSP Approval, there has been no change in the financial condition, assets, and liabilities of the Issuer, other than changes that do not materially and adversely affect the Issuer's ability to discharge its obligations under the CDs.

(q) No event has occurred and is continuing which constitutes a default by the Issuer under or in respect of any agreement binding upon the Issuer or its properties, and no event has occurred

which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Issuer under or in respect of such agreement, which default shall materially and adversely affect the Issuer's ability to comply with the terms of the CDs and pay the principal and interest that may be due on the CDs.

(r) The Issuer has good and marketable title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges, 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 2016; (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, as contemplated by Section 12 of the Registry and Paying Agency Agreement; and (viii) any extension, renewal or replenishment in whole or in part of the foregoing liens.

(s) The Issuer and each of its subsidiaries and affiliates is conducting its business and operations in compliance with applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings.

(t) The Issuer and each of its subsidiaries and affiliates is compliant with all Philippine laws, statutes, regulations, and circulars, including without limitation the circulars, rules, regulations, and orders issued by the BSP.

(u) The Issuer has in good faith complied with, corrected, and successfully and effectively implemented, to the satisfaction of the BSP, all final findings and recommendations of the BSP resulting from all past audits and examinations conducted by the BSP on the Issuer.

(v) The Issuer and each of its subsidiaries and affiliates has obtained all the necessary authorizations, approvals, licenses, permits or privileges required from all governmental and regulatory bodies for the conduct of its business and operations as well as those of its subsidiaries and affiliates as currently conducted, and shall have free and continued use thereof.

(w) The Issuer and each of its subsidiaries and affiliates maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in similar business and owning similar properties in the same geographical areas as those in which the Issuer operates. There are no claims pending or threatened against the Issuer or any of its subsidiaries and affiliates by any employee or third party, in respect of any accident or injury not fully covered by insurance.

(x) Neither the Issuer nor any of its subsidiaries or affiliates, or their respective directors or officers nor any agent, employee, affiliate or other person acting on behalf of any of them, is aware of or has taken or will take any action, directly or indirectly, that would result in a violation by such persons of any applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices, including, without limitation, making any offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give or authorization of the giving of anything of value to any government official or any political party or official thereof or any candidate for political

office, to influence official action or secure an improper advantage, or in contravention of any applicable anti-bribery or anti-corruption laws. The Issuer and its subsidiaries and affiliates have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, compliance therewith, and will not use the proceeds of the offering, directly or indirectly, in violation of applicable anti-bribery or anti-corruption laws. There are no pending or (to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry) threatened actions, suits or proceedings by or before any court or governmental agency, authority or body or any arbitrator alleging such corrupt practices against any of the Issuer and its subsidiaries and affiliates.

(y) The operations of the Issuer and its subsidiaries and affiliates are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of all applicable laws, and in compliance with all applicable anti-money laundering and anti-terrorism financing statutes, the rules and regulations thereunder, and to the extent applicable to the Issuer and its subsidiaries and affiliates or any of their respective properties, any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "*Anti-Money Laundering and Anti-Terrorism Financing Laws*") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any of the Issuer or its subsidiaries or affiliates with respect to the Anti-Money Laundering and Anti-Terrorism Financing Laws is pending or, to the best knowledge of the Issuer and its subsidiaries and affiliates after due and careful inquiry, threatened. The proceeds hereof shall not be used directly or indirectly in violation of the Anti-Money Laundering and Anti-Terrorism Financing Laws.

(z) None of the Issuer or its subsidiaries and affiliates, or their respective directors or officers nor, to the best of their knowledge after making due enquiry, any agent, employee, affiliate or other person acting on behalf of any of the Issuer and its subsidiaries and affiliates, is, or is owned or controlled by an individual or entity that is (i) currently subject to any sanctions administered or enforced by, or based upon the obligations or authorities of, the United Nations Security Council, the European Union, Her Majesty's Treasury, the Office of Foreign Assets Control of the U.S. Treasury Department ("*OFAC*") (including, but not limited to the designation as a "specially designated national or blocked person" thereunder), the U.S. Treasury Department, the U.S. Department of State or any other relevant U.S. government authority, including, but not limited to, sanctions issued under the authority of the Trading with the Enemy Act, the International Emergency Economic Powers Act, the United Nations Participation Act, the Iran Sanctions Act of 1996, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, the Burmese Freedom and Democracy Act of 2003, the Syria Accountability and Lebanese Sovereignty Act, the National Defense Authorization Act for Fiscal Year 2012, Iran Threat Reduction and Syria Human Rights Act of 2012, each as amended, and including all regulations issued by OFAC, as well as any order, or licenses issued under the authority of any of the foregoing (collectively, "*Sanctions*") or (ii) in violation of or subject to investigation relating to Sanctions, or (ii) transacting business, located, organized or resident in a country or territory that is the subject of any Sanctions (including, without limitation, Cuba, Iran, North Korea, Sudan, Syria, Libya and Crimea); and the entry into this Agreement or the performance of any transactions contemplated herein will not cause any of the Parties or any of their subsidiaries and affiliates or any of the Parties' advisers (including the Initial Purchasers) to violate any Sanctions applicable to such person. None of the Issuer and its subsidiaries or affiliates will, directly or indirectly, use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other individual or entity (i) to fund or facilitate any activities or business of or with any individual or entity or in any country or territory that, at the time of such funding or facilitation, is the subject of Sanctions; or (ii) in any other manner that will result in a violation of Sanctions by any individual or entity (including any individual or entity participating in the offering, whether as an underwriter, advisor, investor or otherwise). For the past five years, the Issuer and its subsidiaries and affiliates have not engaged in, and are not now engaged in, and will not engage in, any dealings or transactions with any individual or entity, or in any country or territory, that at the time of the dealing or transaction is or was the subject of Sanctions.

(aa) The Issuer and each of its subsidiaries maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with accounting principles generally accepted in the Philippines and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (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) the Issuer and each of its subsidiaries 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 Issuer's consolidated financial statements in accordance with generally accepted accounting principles of the Philippines; and the Issuer's current management information and accounting control system has been in operation for at least 12 months during which none of the Issuer nor any of its subsidiaries has experienced any material difficulties with regard to (i) through (v) above;

(bb) The Issuer and its subsidiaries have no outstanding guarantees or contingent payment obligations in respect of indebtedness of third parties except those issued in the ordinary course of business or as described in the Offering Circular for this third Tranche of the CDs; the Issuer and its subsidiaries are in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circulars;

(cc) The Offering Circular for this third Tranche of the CDs accurately and fully describes: (i) all material trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, which the Issuer 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 Issuer nor any of its subsidiaries 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 Issuer or any other subsidiary, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Issuer or its subsidiaries or the availability thereof or the requirements of the Issuer or its subsidiaries for capital resources;

(dd) All information provided by the Issuer to its external auditors required for the purposes of their comfort letters in connection with the offering and sale of this third Tranche of the CDs 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;

(ee) Except as otherwise disclosed in the Offering Circular for this third Tranche of the CDs, the Issuer has, as of the Issue Date, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or, to the best of Issuer's knowledge, to become due, and whether incurred in respect of or measured by any income for any period to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Issuer's ability to discharge its obligations under this third Tranche of the CDs;

(ff) Except as specifically described in the Offering Circular for this third Tranche of the CDs, the Issuer and its subsidiaries legally and validly own or possess, 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 they have not received any 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 its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an material adverse effect; and

(gg) Each of the Issuer and its subsidiaries 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 its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) it is able to realize 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) it is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) it 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 it is engaged; (v) it will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) it is not a defendant in any action that would result in a judgment that it is or would become unable to satisfy.

These representations and warranties are true and correct as of the relevant Issue Date and shall remain true and correct as long as the CDs remain outstanding, by reference to the facts and circumstances then existing.

13. Covenants

For as long as the CDs or any portion thereof remain outstanding, the Issuer shall:

(a) pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed thereto; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of the properties of the Issuer; and take such steps as may be necessary in order to prevent its properties or any part thereof from being subjected to the possibilities of loss, forfeiture, or sale; *provided*, that the Issuer shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings or as could not reasonably be expected to have a material adverse effect on the condition, business, or properties of the Issuer. The Registrar shall be notified by the Issuer within 30 days from the date of the receipt of written notice of the resolution of such proceedings.

(b) preserve and maintain its corporate existence or, in the case of a merger, consolidation, reorganization, reconstruction or amalgamation, ensure that the surviving corporation or the corporation formed thereby effectively assumes without qualification or condition, the entire obligations of the Issuer under the CDs and for such corporation to preserve and maintain its corporate existence.

(c) maintain adequate financial records and prepare all financial statements in accordance with Philippine GAAP for Banks, consistently applied and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period before the proposed date of inspection, permit a Holder or its duly designated representatives to inspect the books of accounts and records pertinent to the compliance by the Issuer of the Terms and its obligations under the CDs.

(d) comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business or its assets may be subject, or by which it, its business, or its assets are legally bound where non-compliance would have a material adverse effect on the business, assets, condition, or operations of the Issuer, or would materially and adversely affect the Issuer's ability to duly perform and observe its obligations and duties under the CDs.

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

(f) promptly and satisfactorily pay all indebtedness and other liabilities and perform all contractual obligations pursuant to all agreements to which it is a party to or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not

reasonably be regarded to have a material adverse effect on its business, assets, condition, or operations.

(g) pay all amounts due under the CDs at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the CDs.

(h) exert its best efforts to obtain at its sole expense the withdrawal of any order delaying, suspending or otherwise materially and adversely affecting the transactions with respect to the CDs at the earliest time possible.

(i) ensure that any documents related to the CDs 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.

(j) make available to the Holders financial and other information regarding the Issuer by filing with the Securities and Exchange Commission ("*SEC*"), the Philippine Dealing & Exchange Corp. ("*PDEx*") and/or the Philippine Stock Exchange ("*PSE*") at the time required or within any allowed extension, the reports required by the SEC, PDEX and/or PSE, as the case may be, from listed companies in particular and from corporations in general.

(k) maintain the services of its current external auditor and where the current external auditor of the Issuer shall cease to be the external auditor of the Issuer for any reason, the Issuer shall appoint another reputable, responsible and internationally accredited external auditor.

(l) not permit any creditor with indebtedness which shall be or purport to be unsecured and unsubordinated obligations of the Issuer to receive any priority or preference arising under Article 2244(14) of the Civil Code of the Philippines over the claims of the Holders hereunder, which claims shall at all times rank *pari passu* in all respects with all other unsecured unsubordinated obligations of the Issuer; *provided*, that the term "lien" as used in this paragraph shall not include liens, pledges, mortgages, or encumbrances in existence on the date hereof;

(m) not engage in any business except that authorized by its articles of incorporation;

(n) except with the consent of the Majority Holders, or if the Issuer is the surviving entity and provided that such event will have no material adverse effect on the financial condition of the Issuer, not effect any merger, consolidation, or other material change in its ownership, corporate set-up or management or character of business;

(o) not sell, transfer, convey, lend, or otherwise dispose of all or substantially all of its assets;

(p) except as may be allowed under existing Issuer policies and practices pursuant to benefits, compensation, reimbursements, and allowances and BSP Rules and regulations, not extend any loan or advances to its directors and officers;

(q) not assign, transfer, or otherwise convey or encumber any right to receive any of its income or revenues unless in its ordinary course of business;

(r) not declare or pay any dividends (other than stock dividends) during an Event of Default or if declaration or payment of such dividends would result to an Event of Default;

(s) not voluntarily suspend all or substantially all of its business operations;

(t) not grant, in any of its future loan or credit agreements, any creditor any right, above and beyond what is required under Philippine law, to apply amounts on deposit with or in possession of any such creditor by way of set-off in reduction of any amount owing under any loan or credit agreements;

(u) not enter into any management contracts, profit-sharing, or any similar contracts or arrangements whereby its business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar

contracts or arrangements will materially and adversely affect the Issuer's ability to perform its material obligations under the CDs;

(v) not amend its articles of incorporation or by-laws if such amendments have the effect of changing the general character of its business from that being carried on at the date hereof;

(w) not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of the CDs or other transaction(s) contemplated by these Terms and Conditions and the CD Agreements to fund any trade, business or other activities: (i) involving or for the benefit of any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Issuer or any party to the CD Agreements being in breach of any Sanctions (if and to the extent applicable to either of them) or becoming a Restricted Party; and

(x) as long as any obligations under the CDs remain outstanding, not create, issue, assume, guarantee, or otherwise incur any bond, note, debenture, or similar security which shall be or purport to be unsecured and unsubordinated obligations of the Issuer, unless such obligations rank *pari passu* with, or junior to, the Issuer's obligations under the CDs in any proceedings in respect of the Issuer for insolvency, winding up, liquidation, receivership, or other similar proceedings.

The covenants of the Issuer shall survive the issuance of the CDs and shall be performed fully and faithfully by the Issuer at all times while the CDs or any portion thereof remain outstanding.

14. Events of Default

The Issuer shall be considered in default under the CDs and the Registry and Paying Agency Agreement in case any of the following events (each an "*Event of Default*") shall occur and is continuing:

(a) *Non-payment*. The Issuer defaults in the repayment of any principal in respect of the CDs on the due date for payment thereof or default is made in the payment of any amount of interest in respect of the CDs within 10 days of the due date of payment thereof.

(b) *Insolvency Default*. The Issuer: (i) is (or could be deemed by law or a court or the BSP to be) insolvent or bankrupt or unable to pay its debts; (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due); or (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts. In addition, if a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer, such agreement or declaration shall also constitute an Event of Default under this Clause 14(b).

(c) *Cross-default*. The Issuer: (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract (other than the CDs) executed by the Issuer with any bank, financial institution or other person, corporation or entity for the payment of borrowed money 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 Issuer within 15 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*) or is otherwise not contested by the Issuer, 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.

(d) *Winding-Up Proceedings*. The Issuer takes any corporate action or other steps are taken or legal proceedings are started for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Issuer under the CDs or for the appointment of a receiver, administrator, administrative receiver, Registrar or similar officer of it or of any or all of its revenues and assets).

(e) *Illegality*. Any act or condition or thing required to be done, fulfilled, or performed at any time in order (i) to enable the Issuer lawfully to enter into, exercise its rights and perform the obligations expressed to be assumed by it under the CDs, or (ii) to ensure that the obligations expressed to be assumed by the Issuer hereunder are legal, valid and binding, is not done, fulfilled or performed at such time.

(f) *Representation/Warranty Default*. Any representation and warranty of the Issuer or any certificate or opinion submitted by the Issuer in connection with the issuance of the CDs is untrue, incorrect, or misleading in any material respect.

(g) *Covenant Default*. The Issuer fails to perform or violates its covenants under the CDs, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of 15 days from notice sent to the Issuer in accordance with Clause 15 (*Notice of Default*).

(h) *License Default*. Any governmental consent, license, approval, authorization, declaration, filing, or registration which is granted or required in connection with the CDs expires or is terminated, revoked, or modified and the result thereof is to make the Issuer unable to discharge its obligations hereunder or thereunder.

(i) *Expropriation Default*. The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Issuer, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Issuer or any substantial portion of its properties or assets.

(j) *Judgment Default*. Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty is entered against the Issuer and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within 30 days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement and such final judgment, decree or award shall have a material adverse effect on the Issuer's ability to perform its obligations under the CDs.

(k) *Writ and Similar Process Default*. Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Issuer's assets, singly or in the aggregate, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within 30 days after its issue or levy.

(l) *Closure Default*. The Issuer voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of 30 days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure; *provided*, that in any such event, there is no material adverse effect on the business operations or financial condition of the Issuer.

15. Notice of Default

(a) The Registrar shall, no later than the Banking Day immediately following its receipt through personal delivery from a Holder of written notice of the occurrence of any Acceleration Event (in the form prescribed as Schedule 16 to the RPAA) or Event of Default (in the form prescribed as Schedule 17 to the RPAA), send a copy of such notice to the Issuer, also through personal delivery; *provided*, that the relevant Selling Agent or Trading Participant shall have verified in writing that based on its own records, the person executing the notice is a Holder or its authorized representative. Upon the delivery of such notice to the Issuer by the Registrar, Clause 15(b) shall apply.

(b) The Issuer covenants that upon:

(i) its receipt from the Registrar of the notice referred to in Clause 15(a); or

(ii) its receipt from any Holder of notice of the occurrence of any Acceleration Event or Event of Default; or

(iii) the occurrence of any event or circumstance which would, with the giving of any notice or with the lapse of time (or both), constitute a default by the Issuer under the CD Agreements or any other agreements of the Issuer with any other party;

then the Issuer shall promptly and in no event later than five Banking Days from the occurrence of any of the foregoing, deliver written notice to the Registrar and Paying Agent via personal delivery, advising the latter of the Issuer's receipt of such notice or the occurrence of such default (as applicable), and specifying the details and the steps which the Issuer is taking or proposes to take for the purpose of curing the default, including the Issuer's estimate of the length of time to correct the same or the fact that the Issuer has cured or addressed such default.

(c) The Registrar shall, no later than the Banking Day immediately following the lapse of the five-Banking Day period contemplated by Clause 15(b), forward the notice of the occurrence of any Acceleration Event or Event of Default (together with any notice sent by the Issuer to the Registrar pursuant to Clause 15(b)) to the BSP via personal delivery. The parties hereby acknowledge and agree that the Registrar shall be required to forward to the BSP's Supervision and Examination Sector any notice it may receive from a Holder under Clause 15(a) and any notice it may receive from the Issuer under Clause 15(b), regardless of whether the Issuer responds as contemplated by Clause 15(b) and notwithstanding any instructions to the contrary by the Issuer.

For this purpose, the Issuer hereby agrees that upon its receipt of a copy of any notice referred to in Clause 15(a) or 15(b), the Issuer will be deemed to have irrevocably instructed the Registrar to forward a copy of such notice to the BSP Supervision and Examination Sector, in accordance with this Clause 15(c). For the avoidance of doubt, the Registrar shall not be liable for any delivery of notice to the BSP Supervision and Examination Sector in accordance with this Clause 15, and the Issuer hereby agrees to indemnify and hold the Registrar free and harmless from any and all claims or damages arising from the Registrar's compliance with its obligations under this Clause 15, except to the extent such claims or damages arise solely as a result of the Registrar's own bad faith or gross negligence.

(d) The Registrar shall advise the Issuer in writing if the Holders sending notice of the occurrence of an Acceleration Event or other Event of Default under Clause 15(a) constitute the Majority Holders. The Issuer shall likewise confirm whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders. The Registrar agrees that if (and only if) instructed to do so by the Issuer, the Registrar shall cause the publication in a newspaper of general circulation once a week for two consecutive weeks (at the expense of the Issuer) of a notice to the Holders that an important notice regarding the CDs is available for pick up by the Holders or their authorized representatives at the principal office of the Registrar during reasonable hours on Banking Days upon presentation of sufficient and acceptable identification. To the extent commercially allowable, the first publication shall be done no later than three Banking Days from the date the Registrar receives the instructions to publish from the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on an occurrence of an Acceleration Event or other Event of Default.

(e) The Issuer agrees to indemnify PDTC, and to hold PDTC free and harmless against all charges, costs, damages, losses, claims, liabilities, expenses, fees and disbursements, that PDTC may suffer or incur, whether direct or indirect, for or in respect of any action taken or omitted to be taken or anything suffered by it in full reliance upon any notice, direction, consent, certificate, affidavit, statement or other document, or any telephone or other oral communication, relating to its duties set out in this Clause 15 reasonably believed by it to be genuine and correct and to have been delivered, signed, sent, sworn or made by or on behalf of the Issuer.

16. Consequences of Default

(a) If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, then:

(i) In the case of a breach of any of the Issuer's covenants referred to in Clauses 13(b) and 13(g) above or any of the Events of Default referred to in Clauses 14(a), 14(b), 14(c), 14(d) and 14(h) above (any such breach or Event of Default, an "*Acceleration Event*"), a Holder

may, without need of any notice, demand, presentment, waiver, consent, or approval from any other Holder, by notice personally delivered to the Issuer and the Registrar stating the Event of Default relied upon, declare the principal and all accrued interest (including default interest, as specified below) and other charges (including any incremental tax that may be due on the interest income already earned under the CDs), if any, insofar as the particular CDs registered under such Holder's name in the Registry Book are concerned, to be immediately due and payable.

Upon any such declaration of default under this Clause 16(a)(i), the particular CDs registered under such Holder's name in the Registry Book shall be immediately due and payable by the Issuer, notwithstanding anything contained in the Transaction Documents (as defined below) to the contrary, without need for any further presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Issuer, and, without prejudice to the other remedies available to the other Holders.

For the avoidance of doubt, a Holder need not be joined with any other Holder to declare the Issuer in default under this Clause 16(a)(i) with respect to the particular CDs registered under its name as appearing in the Registry Book. Nothing herein, however, shall be construed as conveying upon a Holder the right and privilege to declare the principal or accrued interest including default interest, as specified below, or other charges (including any incremental tax that may be due on the interest income already earned under the relevant CDs), if any, on any or all other CDs as immediately due and payable.

(ii) Upon the occurrence of any Event of Default other than an Acceleration Event, then at any time thereafter, if any such event shall not have been waived by the Majority Holders as set out below, the Majority Holders may, by notice to the Issuer and the Registrar stating the Event of Default relied upon, declare the principal and all accrued interest (including default interest, as specified below) on all the CDs and other charges thereon (including any incremental tax that may be due on the interest income already earned under the CDs), if any, to be immediately due and payable; *provided*, that the Majority Holders may, by written notice to the Issuer thereafter rescind and annul such declaration and its consequences or waive any past default of the Issuer under the CDs (other than a breach of any Acceleration Event), upon such terms, conditions and agreements, if any, as they may determine; but no such rescission and annulment shall extend or shall affect any subsequent default or shall impair any right arising therefrom. Any such waiver shall be conclusive and binding upon all the Holders and upon all future holders and owners of such CDs, or of any CD issued in lieu thereof or in exchange therefor, irrespective of whether or not notation of such waiver is made upon the CDs.

(b) In case any amount payable by the Issuer under the CDs, whether for principal, interest, or otherwise, is not paid on due date, the Issuer shall, without prejudice to its obligations to pay the said principal, interest, and other amounts, pay interest on the defaulted amount(s) at the rate of twelve percent (12%) per annum, net of applicable withholding taxes (the "*Default Interest*") from the time the amount falls due until it is fully paid.

17. Payment in the Event of Default

Subject to the applicable laws of the Philippines on bankruptcy, winding-up or liquidation and the preferences established by law and under these Terms and Conditions, the Issuer covenants that, upon the occurrence of any Event of Default, then in any such case, the Issuer will pay to the Holders entitled to such payment, through the Registrar and Paying Agent, the whole amount which shall then have become due and payable on all such outstanding CDs with interest at the rate borne by the CDs on the overdue principal, net of applicable withholding taxes, and with Default Interest thereon, when applicable, and, in addition thereto, the Issuer will pay to the Registrar and Paying Agent the actual amounts to cover the cost and expenses of collection, including reasonable compensation to the Registrar and Paying Agent, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without gross negligence or bad faith by the Registrar and Paying Agent hereunder.

18. Application of Payments

Upon the occurrence of an Event of Default, any money collected or delivered to the Registrar and any other funds held by it, subject to any other provision of the CD Agreements relating to the disposition of such money and funds, shall be applied by the Registrar in the order of preference as follows:

(a) *first*: to the pro-rata payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Registrar and Paying Agent, PDEx, Joint Lead Arrangers, Selling Agents, and their respective agents, attorneys and counsel, and all reasonable expenses and liabilities incurred or disbursement made by them without gross negligence or bad faith;

(b) *second*: to the payment of all outstanding interest (including any Default Interest and incremental tax thereon), in the order of maturity of such interest;

(c) *third*: to the payment of the whole amount then due and unpaid on the CDs for principal; and

(d) *fourth*: the remainder, if any, shall be paid to the Issuer, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

19. Remedies

(a) All remedies conferred by the CD Agreements and these Terms and Conditions upon the Holders shall be cumulative and not exclusive and shall not be so construed as to deprive the Holders of any legal remedy by judicial or extrajudicial proceedings appropriate to enforce the CD Agreements, subject to the provisions of Clause 20 below.

(b) No delay or omission by the Holders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the CD Agreements to the Holders may be exercised from time to time and as often as may be necessary or expedient.

20. Ability to File Suit

No Holder shall have any right, by virtue of or by availing of any provision of the CD Agreements or these Terms and Conditions, to institute any suit, action or proceeding for the collection of any sum due from the Issuer hereunder on account of principal, interest, and other charges, or for the appointment of a receiver or Registrar, or for any other remedy hereunder unless: (a) such Holder previously shall have given to the Issuer and the Registrar and Paying Agent written notice of the occurrence of an Acceleration Event or an Event of Default; (b) the event subject of the notice is an Acceleration Event or, if not an Acceleration Event, the Majority Holders shall have accelerated payment under the CDs pursuant to Clause 16(a)(ii);; and (c) such Acceleration Event or Event of Default shall not have been waived by the Majority Holders pursuant to Clause 21(a), it being understood and intended, and being expressly covenanted by every Holder with every other Holder and the Registrar, that no one or more Holders shall have any right in any manner whatever by virtue of or by availing of any provision of the Registry and Paying Agency Agreement or these Terms and Conditions, to affect, disturb or prejudice the rights of the holders of any other such CDs or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Registry and Paying Agency Agreement and these Terms and Conditions, except in the manner herein provided and for the equal, ratable and common benefit of all the Holders.

21. Waiver of Default by the Holders

(a) The Majority Holders may, on behalf of the Holders, waive any past default, except the Events of Default referred to in Clauses 14(a) (*Non-payment*), 14(b) (*Insolvency*), 14(c) (*Cross-Default*), 14(d) (*Winding-up Proceedings*), 14(h) (*License Default*), 14(i) (*Expropriation Default*), or 14(l) (*Closure Default*), and their respective consequences.

(b) In case of any such waiver, the Issuer and the Holders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any

right consequent thereto. Any such waiver by the Majority Holders shall be conclusive and binding upon all Holders 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 CDs.

22. Notices

(a) *To the Registrar and the Issuer*

Except for a notice of the occurrence of an Acceleration Event, an Event of Default or a Notice of Meeting which must be personally delivered to the Registrar and Paying Agent, all documents required to be submitted to the Registrar or the Issuer pursuant to the Registry and Paying Agency Agreement and these Terms and Conditions and all correspondence, addressed to such parties shall be delivered to the following addresses:

To the Registrar:

Philippine Depository and Trust Corporation
37th Floor Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City, Metro Manila, Philippines

Attention:	Josephine Dela Cruz *Director*
Telephone no.:	(632) 884-4425
Fax no.:	(632) 757-6025
E-mail:	baby_delacruz@pds.com.ph

Attention:	Patricia Camille Garcia *Registry Officer*
Telephone no.:	(632) 884-4413
Fax no.:	(632) 884-5097
E-mail:	peachy.garcia@pds.com.ph

To the Issuer:

Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Blvd.
Pasay City, Philippines

Attention:	Marilou M. Ramos *Assistant Vice President* Treasury Services Center
Tel. No.:	832-2546
Fax No.:	526-3032
E-mail:	ramosmm@pnb.com

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Any requests for documentation or certification and other similar matters available within the records of the Registrar must be communicated by the Holders to the Registrar in writing and shall be subject to review, acceptance, and approval by the Registrar. Upon such acceptance and approval, the Holder shall pay to the Registrar the amount as per the Registrar's pay schedule plus the costs of legal review, courier and the like. The fees may be adjusted from time to time, at the discretion of the Registrar.

(b) *To the Holders*

Notices to Holders shall be sent to their mailing address as set forth in the Registry Book. Except where a specific mode of notification is provided for herein (including with respect to a notice of the occurrence of an

Acceleration Event, an Event of Default or a Notice of Meeting which must be disseminated by publication), notices to Holders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii) electronic mail (iv) by one-time publication in a newspaper of general circulation in the Philippines; or (v) personal delivery to the address of record in the Registry Book. The Registrar shall rely on the Registry Book in determining the Holders entitled to notice. All notices shall be deemed to have been received: (i) 10 days from posting, if transmitted by registered mail; (ii) 15 days from mailing, if transmitted by ordinary mail; (iii) on the date of delivery for electronic mail; (iv) on date of publication; or (v) on date of delivery, for personal delivery.

(c) *Binding and Conclusive Nature*

Except as provided in the Registry and Paying Agency Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Registrar for the purposes of the provisions of the Registry and Paying Agency Agreement, will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer and all Holders, and the Registrar shall not be liable to the Issuer or the Holders in connection with the exercise or non-exercise by the Registrar of its powers, duties and discretion under the Registry and Paying Agency Agreement.

23. Meetings of the Holders

A meeting of the Holders may be called at any time and from time to time for the purpose of taking any action authorized to be taken by or on behalf of the Holders of any specified aggregate principal amount of CDs under any other provisions of the Registry and Paying Agency Agreement or under the law and such other matters related to the rights and interests of the Holders under the CDs.

(a) *Notice of Meetings*

(i) Meetings of the Holders may be called by: (1) the Issuer, or (2) the Majority Holders (reckoned on the basis of the Registry Book as of the date on which notice to the Registrar is given), by giving written instructions to issue a notice of such meeting to the Registrar, which instructions must include the proposed time, place and (in reasonable detail) purpose of the meeting.

(ii) The Registrar shall no later than the Banking Day immediately following its receipt of notice from the Majority Holders of a request for a meeting, send a copy of such notice to the Issuer by personal delivery together with information on the total amount of the CDs required to reach the threshold for Majority Holders and, whether or not based on its calculations, the request for the meeting was signed by the Majority Holders. The Issuer shall promptly and in no event later than five Banking Days from its receipt of such notice from the Registrar, deliver written notice to the Registrar and Paying Agent confirming whether or not it agrees with the determination that the Holders calling the meeting constitute the Majority Holders.

(iii) If the Issuer is the party calling the meeting or has confirmed that its agrees with the determination that the Holders calling the meeting constitute the Majority Holders, the Registrar shall, within 20 days of its receipt of such instructions or confirmation, cause the publication of the notice received from the Issuer or the Majority Holders (as applicable) of such meeting to the Holders (with a copy to the Issuer, if the Issuer is not the party calling for such meeting) in accordance with Clause 22(b) above, which notice shall state the time and place of the meeting and the purpose of such meeting in reasonable detail. The date of the meeting shall not be more than 45 days nor less than 15 days from the date such notice is issued. All reasonable costs and expenses incurred by the Registrar for the proper dissemination of the requested meeting shall be reimbursed by the Issuer within 10 days from receipt of the duly supported billing statement.

(iv) If the Majority Holders are the party calling the meeting, the Registrar shall, no later than the Banking Day immediately following the lapse of five Banking Days from the date on which the Registrar sent copy of such notice of meeting to the Issuer, forward a copy of such written notice of meeting to the BSP Supervision and Examination Sector. The parties hereby acknowledge and agree that the Registrar shall be required to forward to the BSP Supervision and Examination Sector any notice of meeting it may receive from the

Majority Holders under Clause 23(a)(i), regardless of whether the Issuer responds as contemplated by Clause 23(a)(ii) and notwithstanding any instructions to the contrary by the Issuer. For the avoidance of doubt, the Registrar shall not accumulate notices from individual holders until the threshold for Majority Holders is reached for purposes of notifying other holders on the Notice of Meeting.

For this purpose, the Issuer hereby agrees that upon its receipt of a copy of any notice from the Registrar under Clause 23(a)(ii), the Issuer will be deemed to have irrevocably instructed the Registrar to forward a copy of such notice to the BSP Supervision and Examination Sector. For the avoidance of doubt, the Registrar shall not be liable for any delivery of notice to the BSP in accordance with this Clause 23, and the Issuer hereby agrees to indemnify and hold the Registrar free and harmless from any and all claims or damages arising from the Registrar's compliance with its obligations under this Clause 23, except to the extent such claims or damages arise solely as a result of the Registrar's own bad faith or gross negligence.

(b) *Failure of the Registrar to Call a Meeting*

In case at any time the Issuer or the Majority Holders (reckoned on the basis of the Registry Book as of the date on which instructions to call a meeting are given to the Registrar), requested the Registrar to call a meeting of the Holders by written notice setting forth in reasonable detail the purpose of the meeting, and the Registrar shall not have issued, in accordance with the notice requirements, the notice of such meeting within 20 days after receipt of such request, then the Issuer or the Majority Holders may determine the time and place for such meeting and may call such meeting by issuing notice thereof in accordance with Clause 22(b) above.

For the avoidance of doubt, the Registrar shall not be liable for any failure to call a meeting notwithstanding the receipt of instructions to do so from the Issuer or the Majority Holders, save when such failure is due to willful default or gross negligence.

(c) *Quorum*

The presence of the Majority Holders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Holders. For the avoidance of doubt, it shall be the responsibility of the party calling the meeting to determine whether or not a quorum has been achieved (based on a list of the registered Holders as of the Banking Day immediately preceding the meeting, as certified by the Registrar), and the Registrar shall not have any obligation to determine compliance with quorum requirements.

(d) *Procedure for Meetings*

(i) The Issuer or the Holders calling the meeting, as the case may be, shall, in like manner, move for the election of the chairman and secretary of the meeting.

(ii) Any meeting of the Holders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of six months 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 CDs represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

(e) *Voting Rights*

To be entitled to vote at any meeting of the Holders, a person shall be a registered holder of one or more CDs, or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Holders shall be the persons entitled to vote at such meeting and any representatives of the Issuer and its legal counsel.

(f) *Voting Requirement*

All matters presented for resolution by the Holders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Holders. Any resolution of the Holders which has been

duly approved with the required number of votes of the Holders as herein provided shall be binding upon all the Holders and the Issuer as if the votes were unanimous.

(g) *Regulations*

The party calling the meeting of the Holders may make such reasonable regulations as it may deem advisable for such meeting, in regard to the appointment of proxies by registered Holders of the CDs, 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. Proof of ownership of the CDs shall be based on a list of the registered Holders as of the Banking Day immediately preceding the meeting, as certified by the Registrar.

24. Evidence Supporting the Action of the Holders

Wherever in the Registry and Paying Agency Agreement it is provided that the Holders of a specified percentage of the aggregate outstanding principal amount of the CDs may take any action (including the making of any demand or requests, 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 Holders in person or by the agent or proxy appointed in writing; or (ii) the record of voting in favor thereof at the meeting of the Holders duly called and held in accordance herewith, as duly authenticated by the person selected to preside over the meeting of the Holders under Clause 23(d)(i); or (iii) a combination of such instrument and any such record of meeting of the Holders.

25. Governing Law

The CDs and the CD Agreements are governed by and are construed solely in accordance with Philippine law.

26. Dispute Resolution

Any legal action or proceeding arising out of, or connected with, the CDs and the CD Agreements shall be brought exclusively in the proper courts of Makati City, each of the parties expressly waiving any other venue.

27. Waiver of Preference

The obligations created under the CD Agreements and the CDs shall not enjoy any priority of preference or special privileges whatsoever over any other indebtedness or obligations of the Issuer. Accordingly, whatever priorities or preferences that the CD Agreements or the CDs may have or any person deriving a right hereunder may have under Article 2244, paragraph 14 of the Civil Code of the Philippine are hereby absolutely and unconditionally waived and renounced. This waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall be revoked if it be shown that an indebtedness of the Issuer for borrowed money has a priority or preference under the said provision.

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 Overseas Filipino Workers ("OFWs").

As of 31 December 2016, the Bank was the fourth largest privately-owned Philippine commercial bank in terms of total assets, with total assets of ₱753.8 billion. As of 30 June 2017, the Bank remained the fourth largest privately-owned Philippine commercial bank in terms of total assets, with total assets of ₱823.1 billion. The Bank is also the fourth largest local private commercial bank in the Philippines in terms of local branches. As of 30 June 2017, the Bank had 685 branches and offices and 1,143 ATMs located throughout the Philippines. The Bank has the largest overseas network among Philippine banks with 73 branches, representative offices, remittance centers and subsidiaries in key cities in the United States, Canada, Europe, the Middle East and Asia. As of 30 June 2017, the Bank also maintained correspondent relationships with 951 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, the Bank also engages in a number of diversified financial and related businesses such as remittance servicing in the United States, Canada, Guam, Hong Kong, Italy, France and Spain, full-service banking in the United Kingdom, investment banking, non-life insurance, stock brokerage, leasing and financing and freight forwarding services.

To assist the Bank in recovering from the liquidity and asset-quality problems following the Asian financial crisis, the Bank undertook a Rehabilitation Program pursuant to a Memorandum of Agreement ("MOA") signed by the Government, the Philippine Deposit Insurance Corporation ("PDIC") and the Lucio Tan Group ("LTG") on 3 May 2002 and a Memorandum of Understanding ("MOU") between the BSP and the Bank on 16 September 2003. As part of the Rehabilitation Program, the Bank embarked on a number of initiatives to reduce Non-Performing Loans ("NPLs") and dispose of Real and Other Properties Acquired ("ROPA"). The Bank concluded its 5-year Rehabilitation Plan as approved by the BSP in May 2007. The Bank also settled its ₱6.1 billion loan with PDIC in June 2007, more than four (4) years ahead of the loan's due date.

As of 30 June 2017, 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 14.89% and 15.69%, respectively. The Bank has been listed on the Philippine Stock Exchange ("PSE") since June 1989. The market capitalization of the Bank on 30 June 2017 (based on the closing price of the shares of the Bank on the PSE on that date of ₱66.75 per Share) was ₱83.4 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 ended 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 LTG (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 Allied Banking Corporation (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.

Last April 2015, PNB 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 July 2016, Fitch upgraded the Long-Term Issuer Default Rating ("IDR") of the Bank to 'BB+' from 'BB' and its Viability Rating ("VR") to 'bb+' from 'bb'. Fitch also upgraded the National Long-Term Rating on PNB to 'AA-(phl)'. According to the Fitch report the IDR and National Long-Term Ratings of the Bank are driven by its VR. The upgrade of PNB's National Long-Term Rating reportedly reflects an improved credit profile relative to those of other Philippine entities.

PNB also currently has a Baa3 Long Term Rating, Foreign LT Bank Deposits Rating and Local LT Bank Deposits Rating from Moody's.

As of 31 December 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.38% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation (PCDNC). The remaining 22.79% of the Parent Company's shares were held by other stockholders holding less than 10.00% each of the Parent Company's shares.

In affirmation of the Bank's well-managed operations, PNB received awards from the Bangko Sentral ng Pilipinas (BSP) and other international award-giving bodies. In 2012 and 2013, the BSP awarded PNB as the Top Commercial Bank in Generating Remittances from Overseas Filipinos for two years in a row. In the 2014 BSP Stakeholders' Ceremony, the Bank was recognized as the Outstanding PhilPass REMIT Participant. In recognition of PNB's innovative products, the Bank together with PNB Life was also accorded the Excellence in Business Model Innovation Award during the 2014 Retail Banker International Asian Trailblazer Awards for its Healthy Ka Pinoy Emergency Card which was launched in 2013 in the market. PNB was also awarded by the Asian Banking and Finance Awards as the "Best Website for 2015 Philippines" in honor of the Bank's concerted efforts to address the ever-evolving needs of its clients. BancNet on its 25th Anniversary also awarded PNB as the "Top Inter-Bank Fund Transfer (IBFT) Transferee." Last 2 October 2015, PNB was awarded the Excellence in Retail Financial Services award under the "Best Remittance Business in the Philippines" category by The Asian Banker. This is in recognition of the value-added differentiation that the Bank provides to the overseas Filipinos beyond remittance to include financial services such as Own-a-Philippine Home Loan, Pangarap Loan and Overseas Bills Payable System as well as other innovative products like Healthy Ka Pinoy medical card and ATM Safe insurance.

As a clear demonstration of the Bank's commitment in offering competitive financing structures to clients while contributing to economic development and nation building, PNB and its wholly-owned subsidiary PNB Capital and Investment Corporation were recognized internationally last 30 October 2015 when they won four awards from The Asset Triple A Asia Infrastructure Awards in Hong Kong. The awards were given for the following deals: a) Best Project Finance Deal of the Year and Best Transport Deal, both for the P31 billion project finance syndicated term loan facility for Metro Manila Skyway Stage 3 Project; b) Best Transport Deal, Highly Commended for the P23.3 billion financing facility for GMR Megawide Cebu Airport Corporation Project; and c) Best Power Deal for the ₱33.3 billion financing facility for Pagbilao Energy Corporation Project.

Last 26 February 2016, PNB was honored with a Silver Anvil for its 2014 Annual Report during the Public Relations Society of the Philippines' (PRSP) Gabi ng Parangal 51st Anvil Awards held at the Makati Shangri-La Hotel with the theme, "Exemplifying Filipino Banking Excellence." The 2014 Annual Report showcased the improved business and financial results brought about by an enhanced customer focus, improved profitability, higher asset quality, and a strengthened synergy between PNB and the former Allied Banking Corporation in its second year of merger.

PNB's Bank on Wheels was likewise recognized by three (3) international award-giving bodies: a) the Most Innovative Banking Service - Philippines 2016 award from the Global Business Outlook Awards; b) the Most Innovative Bank, Philippines 2016 award from International Finance Magazine (IFM) Awards; and c) the Most Innovative Banking Product Philippines 2016 from the Global Banking and Finance Review Awards. PNB relaunched the Bank on Wheels in December 2015 to meet the evolving needs of its customers and provide them with banking services when and where they need it most.

Last 20 July 2016, PNB received the "New Consumer Lending Product of the Year Award" for its SSS Pension Loan Program in the Asian Banking and Finance Retail Banking Awards 2016, held in Singapore.

During the SSS Balikat ng Bayan Award Ceremonies last 2 September 2016, PNB was awarded as Best OFW Collecting Partner. At the same time, PNB Savings Bank was awarded as Best Collecting Partner in the thrift bank category. The Best Collection Partner distinction is awarded to financial institutions that are consistently among the top with the highest collections; have the biggest volume of transactions and widest coverage.

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 undertake the following strategic initiatives for 2016:

1. Increase core business:

   a) 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. Consumer lending will be boosted by introducing Online/Mobile applications and offering innovative payment scheme aligned to the borrowers' cash flow and bundled amortized insurance program. Likewise, the Bank intends to leverage on its extensive customer base of OFWs to expand its consumer lending business. The Bank's subsidiary, PNB Savings Bank will play a pivotal role in strengthening the Bank's foothold on the retail and consumer segment.

   b) 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.

   c) 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. 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. Likewise, the Bank will aggressively dispose of ROPAs as well as maximize recoveries from asset sales and income potential of acquired assets.

3. Enhance the profitability of the Bank's subsidiaries:

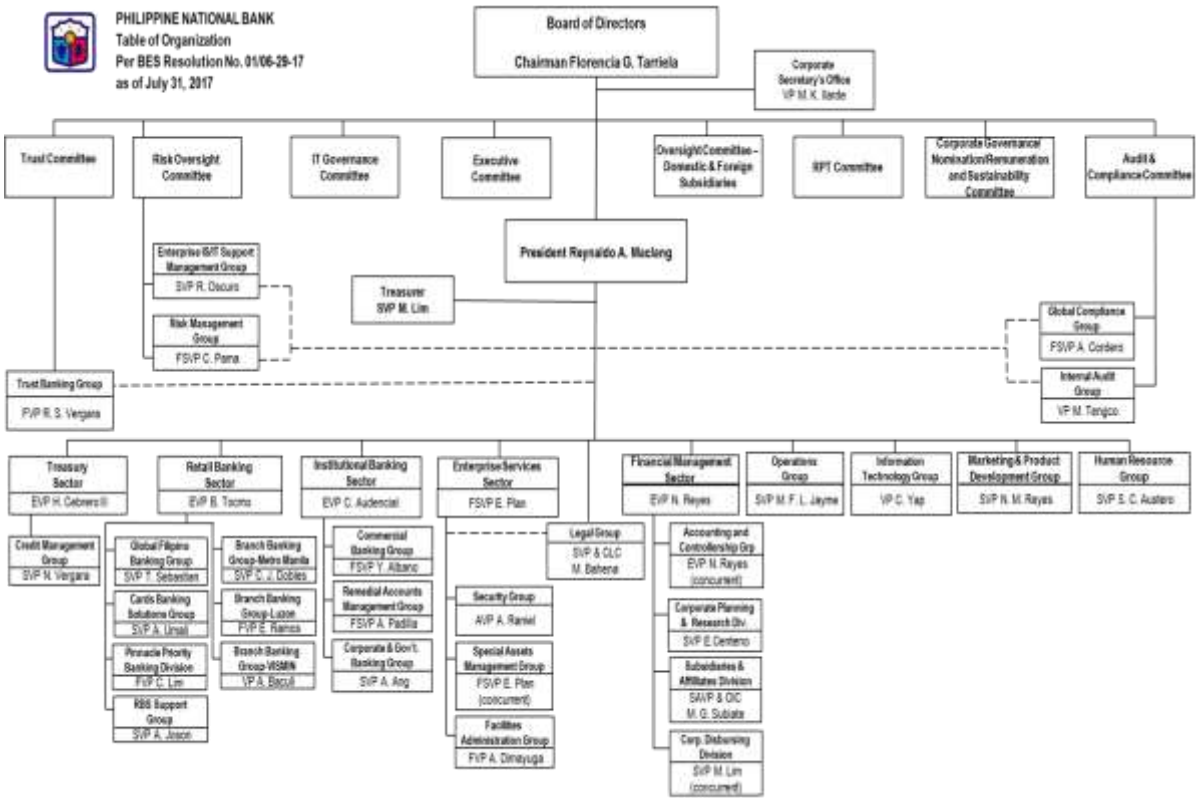
   The Bank will undertake a proactive approach in closely monitoring its subsidiaries to ensure that the return on its equity investments from these subsidiaries will be maximized. Along this line, the Bank's subsidiaries will implement strategic initiatives that will ensure achievement of business targets 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.

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

(in percentages except earnings per share)	As of 31 December			As of 30 June
	2014	2015	2016	2017
Net interest margin on average earning assets [1]	3.1%	3.2%	3.2%	3.0%
Cost-income ratio [2]	65.7%	69.3%	63.8%	72.5%
Return on average assets [3]	0.9%	1.0%	1.0%	0.7%
Return on average equity [4]	6.1%	6.2%	6.7%	4.8%
NPL ratio [5]	0.9%	0.2%	0.2%	0.2%
Total equity to total assets [6]	15.8%	15.4%	14.6%	13.9%
Loans to deposits [7]	66.2%	71.9%	71.3%	69.1%
Liquidity ratio [8]	39.5%	34.0%	35.1%	37.0%
Basic / Diluted Earnings per share attributable to equity holders of the Parent Company [9]	₱4.6	₱4.9	₱5.7	₱2.1

[1] *Net interest income divided by average interest-earning assets.*
[2] *Total operating expenses (excluding provision for impairment, credit and other losses) divided by operating income.*
[3] *Net income divided by average total assets for the period indicated.*
[4] *Net income divided by average total equity for the period indicated.*
[5] *Total non-performing loans (net) divided by total adjusted loan portfolio of the Parent Company.*
[6] *Total equity divided by total assets.*
[7] *Receivables from customers, net of unearned and other deferred income and allowance for credit losses divided by total deposits.*
[8] *Total liquid assets divided by total assets*
[9] *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.

The IBS is subdivided into six distinct business divisions, namely, the Corporate Banking Group ("CBG"), the Government Banking Group ("GBG"), the Commercial Banking Group ("ComBG") which is composed of the Metro Manila and Provincial Commercial Banking Divisions, and the Financial Institutions Division ("FID").

Corporate Banking Group

The CBG provides a whole range of corporate banking products and services to large corporates, including term loans, revolving credit lines, foreign currency loans and trade finance. Cash management solutions such as disbursement, collection and liquidity management facilities are also offered.

Loans to large corporate customers (comprising the Philippines' top 100 corporations by revenue according to Business World online magazine (the "Top 100 Corporations") are managed by CBG.

The Bank also provides omnibus credit lines to top corporate customers, allowing the customer to draw on such credit lines in the form of short-term loans or to secure trade financing or other forms of credit. The CBG also offers a wide variety of trade finance-related products and services, including letters of credit, export advances, commercial and export bills discounting, documentary credits, negotiating bills under documentary credits and bills collection. Remaining at the forefront of the debt capital markets, CBG also originates and delivers structured solutions to large corporates, which raised project financing deals for power and infrastructure industries.

Government Banking Group

The GBG is responsible for providing loans, credit and other banking services to the National Government, NGAs, LGUs (comprising of cities, municipalities and provinces), water districts and electric cooperatives and GOCCs. This specialized group caters to the banking needs of the Government and Government-related entities, which continue to be a significant source of profitability and growth prospects for PNB. Government loans include loans to finance infrastructure projects as well as bridge-financing of certain operating expenditures.

Commercial Banking Group

Metro Manila Commercial Banking Division

The Metro Manila Commercial Banking Division ("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 Provincial Commercial Banking Division ("PCBD") provides a wide 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.

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 31 December 2016, the Bank had 956 relationship banks located in various regions, namely Asia, Australia, Europe, the Middle East, Africa, the USA, Canada and Latin America. As of 30 June 2017, these correspondent banks number 951 and continue to receive and process trade and payments for PNB in foreign jurisdictions, as well as handle OFW remittances for PNB. With these correspondent banks in place, the Bank is able to service customers in these regions more effectively.

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., 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 30 June 2017, the Bank's total deposit liabilities amounted to ₱624.7 billion compared to ₱485.9 billion and ₱ 570.5 billion as of 31 December 2015 and 2016, respectively. As of 30 June 2017, 82% of total deposit liabilities were denominated in Pesos while 18% where denominated in foreign currency, principally in U.S. dollars. As of 31 December 2016 and 2015, 81.6% and 81.3%, respectively, of total deposit liabilities were denominated in Pesos while 18.4% and 18.7%, 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 30 June 2017 was 63:37 compared to 67:33 and 65:35, as of 31 December 2016 and 2015, respectively. By sector, as of 30 June 2017, approximately 96.8% of the Bank's total deposits were generated from the private sector, while the remaining 3.2% were accounted for by NGAs, LGUs, and GOCCs. As of 31 December 2016 and 2015, the private sector accounted for 97% and 94%, respectively, of total deposits while the balance of 3% and 6% had been from the government sector.

In terms of customer base, the Bank had approximately 4.34 million deposit accounts as of 30 June compared to 4.17 million deposit accounts as of 31 December 2016.

Branch Banking

As of 31 December 2016, the Parent Bank's domestic branch network consisted of 630 branches and offices. Approximately 39% of the Bank's branches and offices are located in Metro Manila while the rest are strategically located in other key cities or areas in the provincial areas. As of 30 June 2017, the Parent Bank's domestic branch network numbered 631, of which 39% are located in Metro Manila. 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.

The Bank is embarking on a rebranding program to improve customer experience at its branches. Significant investments were poured into the renovation of PNB branches nationwide. A total of 100 branches are expected to be re-branded up to year-end 2017 and another 200 between 2018 to 2019. The Bank opened three (3) new branches in Bonifacio Global City and the fringe areas of Taguig City as of 30 September 2017. Another seven (7) new branches are slated to open by year-end 2017 in Taguig City and Davao City. In 2018, the Bank targets to open five (5) additional branches in Metro Manila and the countryside.

As of 31 December 2016, the Parent Bank operated a network of 1,000 ATMs at its branch premises and off-site locations. Since then, PNB has installed 83 new ATMs in 2017.

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

	As of 31 December			**As of 30 June**
	2014	**2015**	**2016**	**2017**
Number of Branches				
Metro Manila	244	244	244	245
Rest of Luzon	196	196	196	196
Visayas	97	97	99	99
Mindanao	93	93	91	91
ATMs	850	900	1,000	1,085
Total	**1,480**	**1,530**	**1,630**	**1,716**

The Bank's branch managers 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 manager 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 84 banks whose ATMs have been pooled for the common use of their respective customers. As of June 2017, the Bank's customers had access to approximately 20,970[1] ATMs through the BancNet system.

Security is an important consideration in the Philippine banking industry. All of the Bank's branches employ time delay security devices and closed circuit televisions 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. 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

[1] Source: Bancnet

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 2015 and 2016, consumer loan levels were at ₱36.2 billion and ₱46.7 billion, respectively. As of 30 June 2017, consumer loan levels reached ₱48.0 billion.

Set out below is a summary of PNB's consumer loans by type for the periods indicated.

	As of 31 December			As of 30 June
(In ₱ millions)	**2014**	**2015**	**2016**	**2017**
Consumer Finance[1] Loans by Type				
Housing Loan[2]	15,231	20,893	21,045	22,766
Credit Card	4,467	5,440	7,102	7,992
Motor Vehicle Loan	2,901	4,289	5,925	6,531
Multi-Purpose Personal	7,530	5,592	12,645	10,740
Total	**30,129**	**36,214**	**46,717**	**48,029**

1 Based on FRP Consolidated basis

2 Excludes contract-to-sell accounts

In the second half of 2016, PNBSB introduced new marketing initiatives which are "firsts in the market" such as PNB Smart Home Insurance and PNB Smart Auto Insurance or the amortizing insurance for auto and housing, PNB Smart Auto Upgrade Loan and by forging a contract to implement Lender-Voyager as a medium for SSS pension and salary loans.

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 2016, home mortgage loan portfolio was ₱21.0 billion and accounted for 45% of the total consumer loan portfolio. As of 30 June 2017, the home mortgage loan portfolio reached ₱22.8 billion, accounting for 47% of the total consumer loan portfolio.

Credit Cards

The Credit Card Group continued to grow, with total cards in force reaching 316,073 as of 30 June 2017, a 7.75% increase from the 293,332 level as of 31 December 2016. Credit Card Receivables surged to ₱8 billion which is a huge 12.7% increase from its December 2016 level of ₱7.1 billion. Billings also increased to ₱18.2 billion as of June 2017 which is on the right track of meeting its full year 2017 target of ₱34.6 billion, a 10% projected growth vs. 2016 level of ₱31.6 billion.

To increase business volume, the Group implemented major installment promos with competitive rates, and fostered new merchant tie-ups and launched usage campaigns. Acquisition efforts were also intensified through implementation of incentive programs to its major distribution channel, the Bank's branch network.

PNB Credit Cards also implemented a thematic campaign entitled, "Experience More Firsts." The objective of the said campaign is to further boost brand awareness for PNB Cards. It also aims to attract new customers and to further encourage existing cardholders to continue using their PNB Cards and take advantage of its perks and privileges. The campaign was strategically placed in TV, cinema, print, radio, out-of-home and digital channels.

The Group also completed the card personalization EMV certifications for MasterCard, Visa, and Union Pay and required system enhancement implementation. It completed re-carding "magnetic strip only cards" to EMV dual interface cards.

As of 31 December 2016, total credit card portfolio was ₱7.1billion and accounted for 15% of the consumer loans of the bank. As of 30 June 2017, total credit card portfolio was ₱8.0 billion and accounted for 17% of the consumer loan portfolio of the Bank.

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 2016, motor vehicle loan portfolio stood at ₱5.9 billion representing 12% of the total consumer loan portfolio. As of 30 June 2017, PNB's motor vehicle loan portfolio was ₱6.5 billion and accounted for 14.0% of the consumer loan portfolio of the Bank.

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 30 June 2017, the Bank's personal and salary loans portfolio stood at ₱11.0 billion and accounted for 22.0% of the consumer loans of the bank. As of 31 December 2016, it stood at to ₱12.6 billion and accounted for 27% of the total consumer loan portfolio. 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 and financials for the RBU book and in FX denominated ROP issues, quasi-government, Philippine corporates and financials as well as other governments, foreign corporations and financials. 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 (IRS) 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

As of 30 June 2017, the Bank 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 maintains correspondent relationships with 951 banks and financial institutions worldwide.

The Bank is one of the leading providers of OFW remittance services in the market. The Bank derives income from OFW remittances principally through fees and foreign exchange margin. Its remittance business continued its growth with 15% market share as of 30 June 2017 from 19% market share as of 31 December 2016.

The Bank already offers several modes of remittance, namely, on-line credit to accounts, Door-to-Door Delivery, Credit to other Banks and Cash Pick-up, and plans to continue expanding the range of its OFW services. Its range of services catering to OFWs and Filipinos abroad includes:

- *Phone Remit* — a service allowing the Bank remitters to send money to their beneficiaries in the Philippines with the use of a phone. Users need only call the assigned Phone Remit number and give the remittance instructions to a phone agent to debit their overseas accounts as a source of the funds for the money to be sent to the beneficiary. This service is currently available in Europe and the United States.

- *Web Remit* — a service allowing customers to send remittances via the PNB Web Remit site. This service is available in Europe and will soon be offered in the United States, Canada and Singapore.

- *7-Eleven Card* — is a remittance card that allows PNB Hong Kong customers to send money to beneficiaries in the Philippines through the Bank's partner merchant outlet, such as 7-Eleven. The cardholder simply presents their card in any of the 7-Eleven retail outlets and tenders the money to be remitted to the cashier, and the beneficiary's PNB account will be credited within 24 to 48 hours.

- *Take One Account Opening Kit* — this kit, which includes deposit application forms and an inactive ATM card, provides customers with a simple and quick way to open accounts at the Bank's local branches. This product is available in the United States, Canada, Europe, the Middle East, Hong Kong and Singapore.

- *Overseas Bills Payment* — a service that allows payment of overseas remitters to various institutions in the Philippines for the settlement of financial obligations in the form of membership contribution, loan amortization, and insurance premium, among others. Participating billers include SSS, Pag-ibig, various real estate companies, insurance companies, schools, retail

stores, to name a few.

- *Food Remittance* — a service which allows overseas remitters to order food packages for delivery to or pick-up by their beneficiaries in the Philippines.

- *Global Filipino Card* — reloadable prepaid card which now includes the following additional benefits for cardholders: ATM Safe, which protects remittances from ATM theft; unlimited international calls for 30 days using Globe Telecom's network; and free Puregold Perks Cards, which is the loyalty card of Puregold.

- *Cash Pick Up* — Beneficiaries without bank accounts may claim their remittances in any of PNB's over 600 domestic branches or through PNB's over 12,000 pay out centers throughout the Philippines. PNB Payout partners include, M. Lhuillier, Cebuana Lhuillier, Palawan Pawnshop, Globe GXI, and Global Access.

The Bank likewise intends to expand its international presence through the passporting license of PNB Europe Plc in the EU states and by establishing tie-ups in the Middle East and North America.

Aside from its own offices and correspondent bank associations, the Bank has a number of remittance arrangements and tie-ups with banks and money transfer companies in regions with high concentrations of OFWs. As of 30 June 2017, the Bank had a total of 198 overseas agents and tie-up partners from 232 as of 31 December 2016.

In addition to providing remittance services, the Bank also offers a number of lending facilities geared specifically for overseas Filipinos and OFWs:

- "PNB Pangarap Loan" is an all-purpose credit facility available to OFWs in Hong Kong, Singapore;

- "Own-a-Philippine-Home Loan" is a loan extended to OFWs for the acquisition of real estate properties in the Philippines and is offered at the Bank's overseas branches.

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, and life insurance trust. Corporate trust services and products include corporate trusteeship, securitization, portfolio management, administration of employee benefit plans, pension and retirement plans, and trust indenture services. Trust agency services include such roles as bond registrar, collecting and paying agent, loan facility agent, escrow agent, share transfer agent, and receiving bank.

In accordance with regulations governing the conduct of trust business by banks, the Trust Banking Group (TBG) reports directly to the Bank's Trust Committee, which is composed of three directors, plus the President and the Chief Trust Officer/Head of TBG. The Trust Committee, in turn, reports to the Bank's Board of Directors. All investment policy decisions of the Trust Banking Group are approved and authorized by the Trust Committee.

PNB TBG manages twelve 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 (GFF) offered exclusively to Overseas Filipino (OFs) 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 30 June 2017, the total assets under management by PNB TBG stood at ₱87.9 billion from ₱75.2 billion as of 31 December 2016.

PNB TBG intends to support the business by leveraging on its unique UITF products and facilities namely its themed equity funds, the UITF Online Facility, and the UITF ATM Facility. Likewise, it continues to grow its high net worth individual client base through its end-to-end wealth management suite of services, beginning from fund management, tax planning, retirement planning, to comprehensive estate planning services to expand its high net worth client base. 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 broad-range and highly diversified investment outlets.

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 30 June 2017, customer deposits accounted for 83.4%, from 82.5% as of 31 December 2016, 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. Customer Deposits under Savings are tightly tracked and approximately 78.1% are historically classified under core deposits. As of 31 December 2015 and 2016, the Bank had total deposit liabilities amounting to ₱485.9 billion, and ₱570.5 billion, respectively. As of 30 June 2017, deposit liabilities had grown to ₱624.7 billion.

As of 30 June 2017, the Bank had total bills and acceptances payables amounting to ₱42.8 billion from ₱35.9 billion and ₱25.8 billion as of 31 December 2016 and 2015, respectively.

As of 31 December 2015 and 2016, the Bank had total equity (including non-controlling interest) of ₱104.8 billion and ₱109.9 billion, respectively. By 30 June 2017, total equity stood at ₱114.2 billion.

For the years ended 31 December 2014, 2015, and 2016 the Bank's average cost of funding for deposits was 0.6%, 0.6%, and 0.7%, respectively. As of 30 June 2017, the Bank's average cost of funding for deposits was 0.9%.

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

(₱ millions, except percentages)	As of 31 December						As of 30 June	
	2014		2015		2016		2017	
	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]	Volume	Ave Cost of Funding[1]
Deposits by type:								
Demand	101,562	0.1%	110,030	0.1%	117,329	0.1%	123,309	0.1%
Savings	293,201	0.6%	315,355	0.6%	368,798	0.6%	410,826	0.3%
Time	52,881	1.9%	60,552	2.1%	84,376	2.2%	90,565	4.3%
Total	**447,644**	0.6%	**485,937**	0.6%	**570,503**	0.7%	**624,701**	**0.9%**

(₱ millions, except percentages)	As of 31 December			As of 30 June
	2014	2015	2016	2017
Deposits by currency:				
Peso	361,775	393,289	462,980	512,390
Foreign	85,869	92,648	107,523	112,311
Total	**447,644**	**485,937**	**570,503**	**624,701**
Deposits by classification:				
Low Cost	263,641	284,855	319,518	392,619
Term	184,003	201,082	250,985	232,082
Total	**447,644**	**485,937**	**570,503**	**624,701**
Bills and Acceptances Payable:				
Peso	435	372	32	20
Foreign	18,615	25,380	35,854	42,820

(₱ millions, except percentages)	As of 31 December			As of 30 June
	2014	2015	2016	2017
Total	**19,050**	**25,752**	**35,886**	**42,841**
Unsecured Subordinated Debt				
	9,969	**9,986**	**3,498**	**-**
Capital Funds				
Capital stock	49,966	49,966	49,966	49,966
Capital paid in excess of par value	31,331	31,331	31,331	31,331
Total	**81,297**	**81,297**	**81,297**	**81,297**
TOTAL	**557,960**	**602,972**	**691,184**	**748,839**

[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 2014, 2015 and 2016, the Bank had total deposits amounting to ₱447.6 billion, ₱485.9 billion and ₱570.5 billion, respectively. As of 30 June 2017, total deposits amounted to ₱624.7 billion.

As a proportion of the Bank's total main sources of funding, deposits accounted for 80.2%, 80.6% and 82.5% as of 31 December 2014, 2015 and 2016, respectively. As of 30 June 2017, it was 83.4%.

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 2014, 2015 and 2016, 80.8%, 80.9% and 81.2%, respectively, of the Bank's deposits were denominated in Pesos. As of 30 June 2017, 82.0% of deposits were denominated in Pesos.

According to type of deposits, on the other hand, approximately 88.2% and 87.5% and 85.2% of the Bank's outstanding deposits as of 31 December 2014, 2015 and 2016, respectively, comprised of demand and savings deposits. As of 30 June 2017, demand and savings deposits constituted 85.5% of total. 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			As of 30 June
(in ₱ millions)	**2014**	**2015**	**2016**	**2017**
Deposit by Type				
Demand	101,562	110,030	117,329	123,309
Savings	293,201	315,355	368,798	410,826
Time	52,881	60,552	84,376	90,565
30 – 90 days	22,790	31,755	28,395	33,000
91 – 180 days	5,555	5,271	8,177	9,541
181 days and longer	24,537	23,526	47,804	48,024
Total	**447,644**	**485,937**	**570,503**	**624,701**

Bills and acceptances payable

As of 31 December 2014, 2015 and 2016, bills and acceptances payables amounted to ₱19.1 billion, ₱25.8 billion and ₱35.9 billion, respectively. As of 30 June 2017, bills and acceptances payables amounted to ₱42.8 billion.

As of December 31 2014, 2015 and 2016 and 30 June 2017, approximately 2.3%, 1.4%, 0.1%, and 0.05% 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			As of 30 June
(in ₱ millions)	**2014**	**2015**	**2016**	**2017**
Bills Payables				
Due within one year	9,731	5,496	23,407	25,865
Due beyond one year	8,952	19,911	10,820	15,411
Total Bills Payables	18,683	25,407	34,227	41,276
Acceptances	367	345	1,659	1,565
Total	**19,050**	**25,752**	**35,886**	**42,841**

Capital funds

As of 31 December 2015 and 2016, the Bank's capital stock of ₱50.0 billion, consisted of 1.2 billion common shares with par value of ₱40 each. As of 30 June 2017, 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 50.0% liquidity floor requirement, inclusive of the 20.0% 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 2015 and 2016 and 30 June 2017, the Bank's liquid assets amounted to ₱231.3 billion, ₱264.3 billion and ₱304.7 billion, respectively, representing 34.0%, 35.1% and 37.0%, respectively, of the Bank's total assets as of those dates. For the year ended 31 December 2016, the Bank's unified reserves on the Peso book stood at 19.2% of total Peso liabilities while the Bank's liquid asset cover stood at 50.9% of total FCDU liabilities. As of 30 June 2017, the Bank's unified reserves on the Peso book stood at 19.2% of total Peso liabilities while the Bank's liquid asset cover stood at 46.6% 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			As of 30 June
(₱ millions, except percentages)	**2014**	**2015**	**2016**	**2017**
Liquid Assets	**247,077**	**231,305**	**264,255**	**304,656**
Cash and Other Cash Items	14,628	15,221	11,015	13,728
Due from BSP	105,774	81,363	127,338	136,955
Due from Other Banks	15,591	18,287	22,710	28,463
Interbank Loans Receivable	7,671	5,800	7,791	26,469
Securities Held Under Agreements to Resell	-	14,550	1,972	5,636
Financial Assets at Fair Value Through P/L	17,352	4,511	1,914	3,341
Available-for-Sale Investments	63,091	68,341	67,341	65,497
Held-to-Maturity Investments	22,970	23,232	24,174	24,567
Total Assets	**625,446**	**679,688**	**753,765**	**823,120**
Total Deposits	**447,644**	**485,937**	**570,503**	**624,701**
Net Loans*	**296,372**	**349,176**	**406,534**	**431,665**
Financial Ratios				
Liquid Assets to Total Assets	39.5%	34.0%	35.1%	37.0%
Liquid Assets to Total Deposits	55.2%	47.6%	46.3%	48.8%
Net Loans to Total Deposits	66.2%	71.9%	71.3%	69.1%

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

Loan Portfolio

Overview

As of 31 December 2014, 2015 and 2016, 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 ₱337.6 billion, ₱401.3 billion and ₱454.2billion, respectively, representing 54.0%, 59.0% and 60.3% of total assets as of those dates. As of 30 June 2017, the bank's gross loan portfolio amounted to ₱503.4 billion, representing 61.2% of total assets as of that date.

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:

(₱ millions, except percentages)	As of 31 December 2014 Amount	%	2015 Amount	%	2016 Amount	%	As of 30 June 2017 Amount	%
Financial intermediaries	37,941	12.5	38,910	10.9	64,806	15.6	62,787	14.3
Manufacturing (various)	40,790	13.4	42,116	11.8	39,940	9.6	50,961	11.6
Real estate, renting business activities	39,672	13.1	45,723	12.8	59,701	14.3	61,092	13.9
Wholesale and retail	44,260	14.6	51,741	14.5	61,414	14.7	65,687	14.9
Electricity, gas and water	43,112	14.2	49,944	13.9	49,815	12.0	63,913	14.5
Public administration and defense	23,464	7.7	26,129	7.3	24,677	5.9	29,201	6.6
Transport, storage and communication	19,343	6.4	29,358	8.2	36,543	8.8	23,953	5.4
Agriculture, fishing and forestry	4,344	1.4	6,211	1.7	5,491	1.3	6,489	1.5
Construction	8,508	2.8	11,697	3.3	16,819	4.1	13,955	3.2
Others	42,012	13.9	55,812	15.6	57,192	13.7	62,288	14.1
Total	**303,446**	**100.0**	**357,641**	**100.0**	**416,398**	**100.0**	**440,326**	**100.0**

The wholesale and retail trade, electricity, gas and water, real estate, renting and business activities and financial intermediaries, represent the largest sectors of the Bank's loan portfolio. As of 30 June 2017, these sectors represented 14.9%, 14.5%, 13.9% and 14.3%, respectively of the Bank's receivable from customers vs. 14.7%, 12.0%, 14.3%, and 15.6% respectively, as of 31 December 2016.

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 and to SMEs. 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, and to allocate 6.0% of their loan portfolios to small-sized, and 2.0% to medium-sized, enterprises.

Maturity

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

(₱ millions, except percentages)	As of 31 December 2014 Amount	%	2015 Amount	%	2016 Amount	%	As of 30 June 2017 Amount	%
Receivables from Customers								
Due within one year	117,572	38.7	141,899	39.7	164,952	39.6	198,181	45.0
Due beyond one year	185,874	61.3	215,742	60.3	251,446	60.4	242,145	55.0
Total	**303,446**	**100.0**	**357,641**	**100.0**	**416,398**	**100.0**	**440,326**	**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**						**As of 30 June**	
	2014		**2015**		**2016**		**2017**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Philippine Peso	259,256	85.4	317,733	88.8	367,271	88.2	386,849	87.9
Foreign Currency	44,190	14.6	39,908	11.2	49,127	11.8	53,477	12.1
Total	**303,446**	**100.0**	**357,641**	**100.0**	**416,398**	**100.0**	**440,326**	**100.0**

As of 30 June 2017, 87.9% of the Bank's receivables from customers was Peso-denominated and 12.1% was in foreign currency. As of 31 December 2016, 88.2% of the Bank's receivable from customers had been denominated in Pesos with 11.8% 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) 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.

As of 30 June 2017, ₱390.0 billion or 88.59% of the Bank's ₱440.3 billion receivables from customers was subject to re-pricing compared to ₱313.3 billion or 75.24% of the ₱416.4 billion receivables from customers as of 31 December 2016. 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 30 June 2017:

Principal Amount	**Percentage**
Less than 1,000,000	2.3
1,000,000 to 2,500,000	2.7
2,500,000 to 5,000,000	2.2
5,000,000 to 10,000,000	2.7
10,000,000 to 50,000,000	9.3
50,000,000 to 100,000,000	5.4
More than 100,000,000	75.3
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 30 June 2017, the Bank has complied with the single borrower's limit for all of its loans.

As of 30 June 2017, the Bank's single largest corporate borrower is a GOCC accounting for ₱18.6 billion, or 4.2% of the Bank's outstanding receivable from customers.

As of 30 June 2017, the Bank's 10 largest borrowers in the aggregate accounted for ₱118.8 billion, or 30.8%, 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						As of 30 June	
(₱ millions, except	**2014**		**2015**		**2016**		**2017**	
percentages)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Secured								
Real Estate Mortgage	68,911	22.7	57,029	15.9	62,258	15.0	53,392	12.1
Bank Deposit Hold-Out	6,337	2.1	1,925	0.5	14,035	3.4	3,936	0.9
Shares of Stock	36	-	889	0.2	1,681	0.4	-	-
Chattels	10,341	3.4	17,162	4.8	33,532	8.0	14,292	3.2
Others	39,355	13.0	30,353	8.5	38,700	9.3	30,010	6.8
Unsecured	178,466	58.8	250,283	70.1	266,192	63.9	338,696	77.0
Total	**303,446**	**100.0**	**357,641**	**100.0**	**416,398**	**100.0**	**440,326**	**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 2015, 15.9% was backed by real estate mortgages. As of 31 December 2016, 36.1% of total loans was extended on a secured basis, of which 15.0% was backed by real estate mortgages. On the other hand, as of 30 June 2017, 23% of total loans was secured, of which 12.1% 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 P100.0 million are for approval of the SMCC.

Any request for approval of credit accommodations and trade transactions of over P100.0 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 BSP (as required under the General Banking Law of the Philippines), 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 "Manual"), 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. The General Banking Law and 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. 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 ₱7.7 billion or 2.1% of the Bank's total receivables from customers as of 31 December 2015. As of 31 December 2016, DOSRI loans accounted for ₱11.9 billion or 2.9% of PNB's receivables from customers. On the other hand, as of 30 June 2017, DOSRI loans accounted for ₱14.6 billion or 3.3% of PNB's receivables from customers.

Loan Loss Management and Provisioning

Overview

The Parent Company has successfully managed to reduce its NPL ratio from 51.6% in 2002 to 4.5% in 2010 and further to 0.2% as of 31 December 2016. The Parent Company's NPLs, as defined by BSP Circular No. 772 dated 16 October 2012, amounted to ₱8.8 billion as of 31 December 2016, which is ₱0.2 billion lower compared as of 31 December 2015. However, while NPLS remain unchanged from year-end 2016 levels, the Bank's NPL ratio was slightly higher at 0.25% as of 30 June 2017 due to a slight increase in NPL level by ₱305.0 million. According to the data from the BSP, net NPL ratios for local banks in the Philippine banking system were 0.67%, 0.57% and 0.64% as of 30 June 2017, 31 December 2016 and 31 December 2015, respectively.

For the period ended 30 June 2017, the Bank's reversal of credit losses for loans and receivables was ₱82.1 million, representing (0.6%) of its gross interest income for the period. For the year ended 31 December 2016, the Bank's provision for credit losses for loans and receivables was ₱2.7 billion, representing 11.1% of the Bank's gross interest income for the same period. For the year ended 31 December 2015, the Bank's provision for credit losses was ₱0.9 billion, which represented 4.0% of the Bank's gross interest income for the same period. For the year ended 31 December 2014, the Bank's provision for credit losses for loans and receivables was ₱1.9 billion, representing 9.5% of the Bank's gross interest income for the same period. Loan loss coverage for NPLs of the Parent Company stood at 129.8%, 135.2%, 125.6% and 99.2% as of 30 June 2017 and 31 December 2016, 2015 and 2014, 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. PAS 39, which applies to the Bank from 1 January 2005, requires the Bank to evaluate allowances for loan loss based principally on the discounted cash flows to be derived from loans and other receivables. This has resulted, and may in the future result, in the Bank recognizing higher provisions for loan loss as a result of lower future discounted cash flows to be received in respect of NPLs. For prudential reporting purposes, the loan-loss provision shall be the valuation reserves computed in accordance with the BSP guidelines or the required provisioning based on PAS 39, whichever is higher. Thus, in cases where the allowance for credit losses under PAS 39 is higher, the same shall be used for prudential reporting purposes.

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 2014, 2015 and 2016 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. Those loans and other credit accommodations which do not have a greater than normal credit risk, and for which no loss in ultimate collection is anticipated, are classified as "pass" account. 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						As of 30 June	
(₱ millions, except percentages)	**2014**		**2015**		**2016**		**2017**	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Risk Classifications								
Especially Mentioned	2,465	0.8	1,975	0.6	3,751	0.9	1,925	0.4
Substandard								
Secured	3,927	1.3	2,259	0.6	986	0.2	831	0.2
Unsecured	1,376	0.5	685	0.2	700	0.2	1,032	0.2
Doubtful	1,759	0.6	883	0.2	638	0.2	1,068	0.2
Loss	4,767	1.6	5,592	1.6	6,904	1.7	5,913	1.3
Total Classified	14,294	4.7	11,394	3.2	12,979	3.1	10,769	2.4
Unclassified	289,152	95.3	346,247	96.8	403,419	96.9	429,556	97.6
Total	**303,446**	**100.0**	**357,641**	**100.0**	**416,398**	**100.0**	**440,326**	**100.0**
Allowance for credit losses	**5,812**		**6,630**		**8,374**		**7,277**	

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.

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 BSP guidelines, loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non- performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

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 2014, 2015 and

2016 and period ended 30 June 2017:

	As of 31 December			As of 30 June
(₱ millions, except percentages)	**2014**	**2015**	**2016**	**2017**
Non-performing loans (NPLs), gross[1]	9,921	8,979	8,772	8,741
Non-performing loans (NPLs), net[2]	2,652	843	701	1,006
Adjusted loan portfolio[3]	289,719	343,807	379,676	406,008
Total non-performing loans to adjusted loan portfolio[4]	3.4%	2.6%	2.3%	2.2%
Non-accruing loans	8,633	7,940	8,369	8,849
Receivable from customers	303,446	357,641	416,398	440,326
Non-accruing loans to receivable from customers	2.8%	2.2%	2.0%	2.0%
ROPA, Gross	25,863	18,277	21,372	21,026
ROPA, Net	20,248	13,230	16,341	15,777
Total assets	625,446	679,688	753,765	823,120
Non-performing assets (NPAs)	35,784	27,256	30,144	29,767
NPAs to total assets	5.7%	4.0%	4.0%	3.6%
Allowance for impairment and credit losses (total)[5]	17,810	18,953	20,064	19,707
Allowance for credit losses (loans)[4]	9,840	11,275	11,645	11,349
Allowance for impairment losses (ROPA)[5]	3,757	3,294	3,296	3,487
Allowance for credit losses (loans)[3] to total non-performing loans, gross	99.2%	125.6%	132.8%	129.8%
Allowance for impairment and credit losses (total) to total non-performing assets	49.8%	69.5%	67.4%	66.0%
Total restructured loans	1,818	1,557	1,537	1,486
Restructured loans to receivable from customers	0.6%	0.4%	0.4%	0.3%
Loans - written off[6]	1,212	254	330	29

[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 non-performing loans (gross of allowance for impairment losses) was unchanged at ₱8.8 billion as of 30 June 2017 from 31 December 2016. However, NPL ratios of the Bank based on BSP guidelines, net of valuation reserves was slightly higher at 0.25% vs. 0.18% as at December 31, 2016. Nonetheless, PNB's Net NPL ratio of 0.25% is better than the industry (universal and commercial banks) average Net NPL ratio of 0.40% as of 30 June 2017. Gross NPL ratio was at 2.15% as of 30 June 2017 from 2.31% at end 2016 and 2.61% at end of 2015.

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 30 June 2017, the Bank had approximately ₱1.5 billion of restructured loans which were treated as current. The figures remained unchanged from 31 December 2016.

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 ₱2.2 billion and ₱8.1 billion of ROPA for the years ended 31 December 2016 and 2015, respectively. As of 30 June 2017, the Bank has sold approximately ₱371.0 million 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						As of 30 June	
(₱ millions, except	**2014**		**2015**		**2016**		**2017**	
percentages)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Manufacturing (various)	2,122	21.4	1,909	21.3	3,098	35.3	3,066	35.1
Real estate, renting and business activities	3,573	36.0	3,440	38.3	3,448	39.3	2,482	28.4
Wholesale and retail trade	2,784	28.1	2,307	25.7	1,044	11.9	1,118	12.8
Community, social and personal activities	592	6.0	696	7.8	581	6.6	705	8.1
Agriculture, fishing and forestry	248	2.5	203	2.3	117	1.3	90	1.0
Transport, storage and communication	90	0.9	43	0.5	17	0.2	40	0.5
Utilities	16	0.2	16	0.2	11	0.1	10	0.1
Financial intermediaries	2	0.0	2	0.0	14	0.2	24	0.3
Construction	65	0.7	100	1.1	82	0.9	402	4.6
Public administration and defense	191	1.9	70	0.8	131	1.5	131	1.5
Others	236	2.4	192	2.1	229	2.6	6,743	7.6
Total	**9,921**	**100.0**	**8,979**	**100.0**	**8,772**	**100.0**	**8,741**	**100.0**

Top 10 non-performing loans

As of 30 June 2017, the Parent Company's exposure from its 10 largest NPLs range from ₱145 million to ₱1.8 billion, and amounted to approximately ₱5.2 billion in aggregate. These 10 largest NPLs accounted for 1.0% of the Parent Company's total gross loans and 59.6% of its gross NPLs to customers. On the other hand, as of 31 December 2016, the Parent Company's exposure from its 10 largest NPLs range from ₱94 million to ₱1.8 billion, and amounted to approximately ₱4.9 billion in aggregate. These 10 largest NPLs accounted for 1.3% of the Parent Company's total gross loans and 55.4% of its gross NPLs to customers.

Special Assets Management Group

The Special Assets Management Group ("SAMG") 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 30 June 2017, SAMG was able to systematically manage and dispose the 5,280 properties, which has an aggregate market value of ₱17.35 billion. These properties are classified into:

Classification	Number of Items	Aggregate Market Value (in ₱ billion)	Number of Items	Aggregate Market Value (in ₱ billion)
Commercial	1,014	7.56	421	6.00
Residential	4,584	9.09	4,413	9.77
Industrial	50	0.65	48	0.69
Others	575	1.15	398	0.89

For the past three (3) years, SAMG has generated an average annual ROPA disposal of ₱3.64 billion, which yielded a weighted average of 38% premium to book value. SAMG expects to end the year 2017 with total sales of ₱2.52 billion.

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

pool assets:

Pools	Focus
1	Pabahay Bonanza (ROPA < ₱5 million in market value)
2	Litigated ROPA / For possible compromise settlements
3	Clean
4	Partially Impeded
5	Joint Ventures

The Bank's strategy in the disposal of its ROPA for 2017 and onwards shall be the following:

- Traditional selling approach. The Bank's 634 branches and SAMG's 5,910 accredited brokers/referrers are utilized/activated to maximize exposure of Bank's ROPA and hasten the disposal of assets on a nationwide scale.
- Realize potential of properties through equity investments of selected ROPA for greater return.
- Adopt creative and aggressive initiatives coherent with evolving marketing trends and practices.
- Strengthening SAMG's sales support units for delivery of quality products for better/higher profit margins.

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 (ERM) Framework which creates the context for setting policies and standards, and establishing the right practices throughout the PNB Group. It defines the risk management processes and sets out the activities, tools, and organizational structure to ensure material risks are identified, measured, monitored and managed.

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 • Liquid Gap Analysis	• MCO Limits • Liquid Assets Monitoring • Stress testing • Large Fund Provider Analysis • Contingency Planning
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 Circular 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	• 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	• 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

	conglomerate where the financial institution belongs. *(BSP Circular 900)*		
Other Risk Categories:			
Reputational Risk (Customer Franchise 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.	• 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	• 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
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	• 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	• Institutionalization of corporate values, which includes INTEGRITY and CUSTOMER-CENTEREDNESS through the new hires seminar • Periodic meetings with investors and credit rating analysts • Engagement in activities that reinforces the Bank's corporate social responsibility • Security measures for mobile and internet banking • Social media analytics and content management • Management Profitability • Reports – Budgets vs Actuals • Benchmarking vis-a-vis Industry, Peers • Economic Forecasting • Annual Strategic Planning Exercise • Weekly financial market updates and market rates summary • Prioritization of

			Information Technology (IT) projects • Organizational Structure
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.)		• Information Asset Register • Incident Reporting Management • Information Security Policy Formulation • Risk Assessment • Information Security Management System Implementation • Continuous information security / cyber risk awareness campaigns • Network Security Protection • Limits on Access Privileges • Scanning of outbound and inbound digital traffic • Vulnerability Assessment and Penetration Testing

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 2016 and 30 June 2017, 4.0% and 18.1%, or approximately ₱21.7 billion and ₱106.9 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 2016 and 30 June 2017, of the loans and receivables from customers of the Bank, 39.6% and 45.5%, respectively, were represented by loans with remaining maturities of less than one year and the receivables from customers represented 58.7% and 56.7%, 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 ₱94.3 billion portfolio of gross trading and investment securities as of 31 December 2016, ₱3.8 billion, or 4.0%, was invested in securities with remaining maturities of one year or less. The gross trading and investment securities account amounted to 12.5% of the Bank's total assets at that time. As of 30 June 2017, the Bank's gross trading and investment securities portfolio amounted to ₱94.0 (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 20.1% and 3.2%, respectively, of the Bank's total assets as of 30 June 2017. Deposits with banks are made on a short-term basis, 100% of which is available on demand or within one month from 30 June 2017. Loans to banks with remaining maturities of a month or less accounted for 90.1% of the Bank's total lending to banks as of 30 June 2017.

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 Liquidity Contingency 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 30 June 2017, 73.0% of the Bank's receivable from customers subject to repricing is for a term of less than one year, and 27.0% 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 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	₱57,091,542	₱3,963,915	₱1,552,139	₱148,711	₱191,407	₱62,947,714
Interbank loans receivable	6,483,431	1,158,517	-	149,160	-	7,791,108
Receivable from customers and other receivables – gross**	112,589,715	69,561,736	13,940,309	3,330,898	66,612,092	266,034,750
Total financial assets	₱176,164,688	₱74,684,168	₱15,492,448	₱3,628,769	₱66,803,499	₱336,773,572
Financial Liabilities*						
Deposit liabilities						
Savings	₱87,934,546	₱30,744,080	₱19,341,869	₱26,083,607	₱14,471,705	₱178,575,807
Time	22,628,013	11,627,502	8,195,577	6,214,396	11,327,985	59,993,473
Bills and acceptances payable	11,916,653	13,623,760	5,416,933	1,084,673	3,843,929	35,885,948
Total Financial liabilities	₱122,479,212	₱55,995,342	₱32,954,379	₱33,382,676	₱29,643,619	₱274,455,228
Repricing gap	₱53,685,476	₱18,688,826	(₱17,461,931)	(₱29,753,907)	₱37,159,880	₱62,318,344
Cumulative gap	₱53,685,476	₱72,374,302	₱54,912,371	₱25,158,464	₱62,318,344	-

* 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 30 June 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	58,572,960	2,879,834	551,314	477,428	148,814	62,630,349
Interbank loans receivable	24,292,278	1,771,068	151,410	254,579		26,469,334
Receivable from customers and other receivables – gross**	119,615,611	55,687,653	14,969,931	11,923,430	75,799,182	277,995,807
Total financial assets	**202,480,849**	**60,338,554**	**15,672,655**	**12,655,437**	**75,947,996**	**367,095,491**

Financial Liabilities* **						
Deposit liabilities						
Savings	104,987,718	45,911,555	24,151,717	19,933,066	14,170,240	209,154,296
Time	31,001,943	11,717,399	6,589,049	4,929,235	11,289,580	65,527,207
Bills and acceptances payable	25,405,611	11,323,709	481,721	1,534,295	4,095,401	42,840,737
Total Financial liabilities	161,395,272	68,952,663	31,222,487	26,396,596	29,555,221	317,522,240
Repricing gap	41,085,577	(8,614,109)	(15,549,832)	(13,741,159)	46,392,775	49,573,251
Cumulative gap	41,085,577	32,471,468	16,921,635	3,180,476	49,573,251	

* 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 30 June**	
	2014		**2015**		**2016**		**2017**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**	**Statement of Income**	**Equity**	**Statement of Income**	**Equity**
+50 bps	248	248	358	358	410	410	289	289
-50 bps	(248)	(248)	(358)	(358)	(410)	(410)	(289)	(289)
+100 bps	496	496	716	716	820	820	577	577
-100 bps	(496)	(496)	(716)	(716)	(820)	(820)	(577)	(577)

Given the re-pricing position of the assets and liabilities of the Bank as of 30 June 2017, the Bank would expect annualized non-consolidated net interest income to increase by ₱577.5 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 ₱577.5 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 BOD and within existing regulatory guidelines.

Trading and investment securities

The Bank engages in fixed income securities trading. As of 30 June 2017, the Bank's gross trading and investment securities (which consist of financial assets at fair value through profit or loss, available- for-sale investments and held to maturity investments) amounted to ₱94.04 billion or 11.4% of total assets. As of the same period, approximately 59.4% of trading and investment portfolio are in Government securities while the balance is in privately issued securities. As of 30 June 2017, financial assets at FVPL amounted to ₱3.0 billion or 0.4% 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 equities and bonds and in currency and interest rate or for hedging open risk positions. The Bank places trading 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 an end-user, to enter into "Generally Authorized Derivatives Activities" which covers FX forwards, FX swaps, Currency Swaps, IRS & FRAs, FX Options, Structured Products (SPs) and CLNs. 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.

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 Cap"), 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 of 31 December 2016, it had an authorized and paid-up capital of ₱350.0 million or 3,500,000 shares at ₱100.0 par value. 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 Cap 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 2016 and 30 June 2017, total assets of PNB Cap were ₱713.2 million and ₱1.0 billion, respectively, while total capital was at ₱705.1 million and ₱872.7 million, respectively. For the year ended 31 December 2016 and the six months ended 30 June 2017, net income was ₱74.8 million and ₱170.9 million, respectively.

- **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 PNB Holdings 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 2016, PHC had an authorized capital of ₱500.0 million or 5,000,000 shares at ₱100 par value per share. As of 30 June 2017, 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 ₱337.4 million and ₱337.3 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 65.8% direct ownership in the company, while PNB Holdings Corporation, a wholly owned subsidiary of the Bank owns the remaining 34.2%. As of 30 June 2017, total assets and total capital of PNB Gen was at ₱6.8 billion and ₱906.7 million, respectively. As of the same period, its net income stood at ₱38.3 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 2016, total paid-up capital was at ₱100.0million. PNBSI is engaged in the

stockbrokerage business that deals in the trading of shares of stocks listed at the stock exchange. As of 30 June 2017, total assets and total capital were ₱252.7 million and ₱183.0 million, respectively. Net income for the six months ended 30 June 2017 was ₱5.4 million.

- **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 2016, 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 ₱600.0 million. As of 31 December 2016, PNB-IBJL Leasing's total consolidated assets and total consolidated capital stood at ₱6.8 billion and ₱610.6 million, respectively. Its consolidated net loss for the year ended 31 December 2016 was ₱125.1 million. As of 30 June 2017, PNB-IBJL Leasing's total consolidated assets and total consolidated capital stood at ₱5.9 billion and ₱593.0 million, respectively. Its consolidated net loss for the six months ended 30 June 2017 was ₱15.8 million.

- **PNB Forex, Inc.** ("PFI"), a wholly-owned subsidiary of the Bank which was incorporated on 13 October 1994 as a trading company, engaged in the buying and selling of foreign currencies in the spot market for its own account and on behalf of others. The company temporarily ceased operations on 1 January 2006. On 16 December 2013 the board of directors of PFI approved to shorten the term of the company's corporate existence from the date of incorporation until 31 December 2013, the effective date of dissolution. On the same date, the stockholders of the company confirmed and ratified the resolution approved by the PFI Board. The SEC approved the dissolution of PFI last 24 August 2017.

- **PNB Savings Bank** ("PNBSB") traces its roots from First Malayan Development Bank which Allied Banking Corporation (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.

  The year 2015 was the first full year of operations of PNBSB, formed through the consolidation of Allied Savings Bank and PNB Consumer Finance Group in 2014. The union paved the way for PNBSB to be a major market player in consumer lending with a focus on increasing the reach of the Bank across different industries and provinces.

  As of year-end 2016, PNBSB posted a net income of ₱305.0 million in 2016, higher by 80.7% or ₱136.2 million than the ₱168.7 million net income in 2015, mainly due to the increase in consumer loan portfolio. Its net interest income of ₱1.4 billion was up year-on-year by 44.1% while pre-tax profits improved by 42.7% to close at ₱446.9 million. Return-on-equity stood at 2.6%from 1.5% of the previous year. PNBSB closed 2016 with total resources of ₱37.0 billion, up 63.3% from the previous

year. Total deposits reached ₱24.2 billion, more than doubled from the ₱11.1 billion in 2015, and consisted mostly of high-cost funds maintained in Angat Savings, a special savings account, and Power Earner 5+1, a long-term deposit account. These 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 those segments of the market demanding no maintaining balances on their accounts as they relate to bank services such as payroll, transfer of funds for allowances, and remittances.
As of 30 June 2017, PNBSB posted a net income of ₱218.7 million, higher by 27%% than ₱183.0 million net income in the same period last year. Its net interest income of ₱926.6 million was up year-on-year by 43% while pre-tax profits improved by 31% to close at ₱289.0 million. The improvement in net income ₱50.0 million was mainly due to the increase in consumer loan portfolio. Return-on-equity stood at 4.04%, improved from the 3.24% of the previous year.

The Bank's loan portfolio registered at ₱37.8 billion by the end of the second quarter of 2017, an improvement by 61.0% from the ₱23.5 billion level as of the same period last year. Of the total loan portfolio, 83.0% 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 2.49% and 3.22% on net and gross basis, respectively. These levels compare favourably against industry average of 2.58%% and 5.10%, respectively.

The strong network of partner developers and dealers of PNBSB proved to be instrumental in the growth of housing loan referrals in 2016. The network of PNB 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 far-flung areas.

In 2016, a total of 33 partnerships with real estate organizations were forged, bringing the total developer network of PNBSB to 171, thus further augmenting its presence in the real estate industry.

As of 30 June 2017, PNBSB had 54 branches 2016 strategically located across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao. PNBSB will continue to expand its network by putting up additional 25 branches, with the "new look and feel", for 2017. PNBSB's thrust is to open new branches mainly in Luzon for better monitoring and control, although also opening some branches in Visayas and Mindanao to cover market opportunities in those areas.

In addition, PNBSB will establish Consumer Lending Centers in Dagupan, Cebu, Bacolod, Davao, Batangas City, Calamba and Marilao, among others, to cater to consumer needs in these areas. PNBSB will also continue to push for cross-selling opportunities for consumer loans particularly in areas covered by the branch networks of both PNB and PNBSB. PNBSB is also pushing for further enhancement of the automation of loan origination for more efficient processing.

PNBSB is likewise moving towards digitization, not only to offer clients convenient, simple and efficient processes, thus enhance customer satisfaction, but also to be at par with competition as regards servicing the next generation of tech-savvy bank customers.

- **Allied Leasing and Finance Corporation** ("ALFC"), is a corporation registered with the SEC in 1978 and operates as a leasing and financing entity under Republic Act No. 8556, otherwise known as the Financing Company Act of 1998. It caters to financing and leasing needs on various types of equipment, machineries and vehicles, receivables, financing and direct loans. On 17 December 2014, the company's board of directors approved to shorten the term of the company's corporate existence from the date of incorporation until 31 December 2015, the effective date of dissolution. On 25 November 2015, the stockholders of the company confirmed and ratified the resolution approved by its Board of Directors. ALFC is in the process of complying with the requirements of the SEC and other governmental regulatory agencies to effect the dissolution. As of 31 December 2016, ALFC had an authorized capital stock of ₱500.0 million of which ₱152.5 million has been subscribed and fully paid-up. The Bank owned 57.21% out of the subscribed and paid-up capital. As of 30 June 2017, its total assets and total capital were ₱145.4 million.

- **Allianz PNB Life Insurance, Inc.** ("PNB Life"), used to be a majority owned (80%) domestic subsidiary of the Philippine National Bank. 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 2003, Allied Banking Corporation 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 Allied Bank and its principals, making the company a majority-owned subsidiary of Allied Bank.

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.

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 more than 660 branches nationwide of Parent Company.

On 6 June 2016, the Bank sold 12,750 common shares of stock representing 51% of the total issued and outstanding capital stock of PNB Life Insurance Inc. to Allianz SE Singapore Branch ("Allianz"). Allianz subsequently appointed Mr. Olaf Kliesow as CEO of the new venture. This acquisition marked Allianz's entry into the fast-growing insurance market with an established distribution network, and enhances the Parent Company's position in Asia Pacific. A key part of the joint venture between Allianz and PNB is a 15-year bancassurance agreement that provides Allianz exclusive access to the Bank's branches in the Philippines.

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 30 June 2017, total assets and total capital (net worth) of PNB Life were ₱24.7 billion and ₱2.0 billion, respectively. For the six months ended 30 June 2017, net income was at ₱91.2 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 2016, 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 1 December 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 2016, PNB RCI has 17 branches in 5 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 is engaged in the business of transmitting money to the Philippines. 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 in Canada as of end-June 2017.

  PNB RCI is regulated by the U.S. Internal Revenue Service and the Department of Financial

Institutions of the State of California and other state regulators of financial institutions while PNBRCN is regulated by the Nevada Department of Business and Industry - Division of Financial Institutions. PNB RCC is regulated by the Office of the Superintendent of Financial Institutions of Canada and Financial Transactions and Reports Analysis Centre of Canada or FINTRAC.

PNB IIC does not actively compete for business, being a holding company only. PNB RCI, PNBRCN and PNB RCC have numerous competitors from local U.S. banks, the Bank affiliates doing business in North America, as well as other money transfer companies like the Non-Filipino owned Western Union, Money Gram, Lucky Money, Transfast and RIA and the Filipino-owned Iremit, Atin Ito, Mabini Express, Reliable Express, etc.

- **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. PNB Global operates as a money lender and a remittance company. As of 30 June 2017, it maintains seven (7) offices in Hong Kong inclusive of its office in Wan Chai District. PNB Global is regulated by the Hong Kong Customs and Excise Department.

  PNB Global's major competitors are the remittance subsidiaries of Metrobank, BDO, RCBC, and non-bank competitors such as Frankie Money Exchange, Czarina, Kabayan, I-Remit, LBC and Pacific Ace.

- **Philippine National Bank (Europe) PLC** ("PNBE") was originally set up as a PNB London Branch in 1976. In 1997, it was converted into PNB 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 18 member states of the European Economic Area ("EEA"). PNBE opened its branch in Paris, France but recently ceased the branch's operations as part of its revised long-term strategy, resulting from Brexit, for the whole of Europe.

  In April 2014, Philippine National Bank (Europe) Plc was merged with Allied Bank Philippines (UK) Plc.

  The major competitors of PNB Europe Plc are Metro Remittance UK Ltd., Bank of the Philippine Islands (Europe) Plc, I Remit, ABS CBN, Philrem, CBN, Gem and Sunrise. Competitors in Paris consist of CBN, BDO, ABS CBN and RIA.

- **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. A Branch in Chongqing was established in 2003.

  On January 16, 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 as follows:

  (1) To accept deposits from the banking public;
  (2) To extend short term, medium term and long-term loans;
  (3) To confirm and discount bills or other negotiable instruments;
  (4) To trade in government and financial debt instruments; to trade in foreign currency denominated securities except stocks;
  (5) To issue letters of credit and guarantees;
  (6) To engage in domestic and international settlements;
  (7) To trade in foreign exchange for own and for client's accounts;
  (8) To engage in inter-bank lending and borrowing;
  (9) To issue bank cards;
  (10) To offer safety deposit box services;
  (11) To offer credit investigation and information gathering services;
  (12) Other businesses approved by the banking regulatory agency of the State Council.

- **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 Allied Bank 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.

It 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 general 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.

There was no significant change in the nature of ABCKHL and its subsidiary's principal activities during the year.

Information Technology

The Bank's strategy is to increase the use of information technology in its business, including its front-office and back-office operations, in order to enhance its business capabilities, products and services. The Bank has embarked on the digital transformation and emerging technologies to provide customers with a convenient banking experience, to uplift employees' productivity and service delivery, to achieve operational efficiencies among its business divisions, and to ensure competitiveness in the market. The Bank is also dedicated to ensuring security and regulatory compliance in its information technology systems across local and foreign monetary bodies. The Bank maintains off-site backup data center to store vital records of the Bank and participates in annual disaster recovery exercises

Core-banking system

In 2009, the Bank replaced its Kirchman Bankway mainframe-based core banking system with an HP UX Superdome platform core-banking system from Oracle Financial Services called FLEXCUBE. FLEXCUBE was implemented for the Bank's domestic and international branches from its global data center located in the Philippines. In 2010, the Bank continued its focus to ensure stability, availability, and responsiveness of FLEXCUBE by upgrading its hardware, software, and network capacities. In 2012, the Bank replaced its Base24 ATM switch to Connex. In 2013, the Bank merged with Allied Banking Corporation, which is running on Systematics GN26 core banking system from Fidelity Information Services (FIS) that is installed on an IBM z10 mainframe. In addressing the expected growth in transaction volume and greater need for operation stability and reliability because of the merger, the Bank decided to convert and migrate both Flexcube and Systematics GN26 to the latest version of Systematics (212) running on the IBM z13 mainframe with 1,068 MIPS.

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.

As mentioned above, the Bank is focusing its attention on integrating the two banks' technology platforms, a project that is expected to be completed in 2017. In addition to this integration, major activities planned include improvements to the Bank's remittance system and its deployment to the Bank's overseas locations.

Capital Expenditure

The Bank's capital expenditures or acquisitions of property and equipment for the three years ended 31 December 2014, 2015 and 2016 and for the period ended 30 June 2017 are:

(₱ millions)	As of 31 December			As of 30 June
	2014	**2015**	**2016**	**2017**
Capital Expenditure	1,366	1,898	2,434	1,353

The Bank has budgeted ₱3.5 billion for capital expenditures in 2017 to be used mainly for the upgrading of the Bank's IT systems and infrastructure.

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 2016	As of 30 June 2017
Rest of Metro Manila	44	45
Luzon	74	73
Visayas	40	40
Mindanao	44	44
Total	202	202

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 2016	As of 30 June 2017
Rest of Metro Manila	200	200
Luzon	122	123
Visayas	59	59
Mindanao	47	47
Total	428	429

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 Tan Companies 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 30 June 2017, the Bank had a total of 8,260 employees wherein 3,928 are Bank officers and 4,332 are rank and file employees.

The average age of employees (i.e., officers and rank and file employees) is 37.49 years and the average tenure with the Bank is 12.06 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 30 June 2017	Effectivity
Philippine National Bank Employees' Union (PNBEU)	PNB Makati (original Allied Bank Employees, absorbed under the merged Bank)	83% of the total rank and file employees of PNB Makati (i.e. 1,141) are members of PNBEU	October 01, 2014 to June 30, 2017
Philnabank Employees Association (PEMA)	PNB Pasay (original PNB employees and new hires under the merged bank from February 9, 2013 and onwards)	86% of the total rank and file employees of PNB Pasay (i.e. 3,191) are members of PEMA	July 01, 2014 to June 30, 2017

Note: New CBAs have been concluded for a 3-year period (i.e. July 1, 2017 to June 30, 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.

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 fifteen (15) members. There should be at least two (2) 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 (2).

The following is a list of the Bank's Directors (as of 30 June 2017)

Position	Name	Age
Chairperson and Independent Director	Florencia G. Tarriela	70
Vice Chairman and Independent Director	Felix Enrico R. Alfiler	67
Director	Florido P. Casuela	75
Director	Leonilo G. Coronel	70
Independent Director	Edgar A. Cua	62
Director	Reynaldo A. Maclang	79
Director	Estelito P. Mendoza	87
Director	Christopher J. Nelson	58
Independent Director	Federico C. Pascual	74
Independent Director	Cecilio K. Pedro	63
Director	Washington Z. Sycip	96
Director	Carmen K. Tan	76
Director	Lucio C. Tan	82
Director	Lucio K. Tan, Jr.	51
Director	Michael G. Tan	51
The Board appointees are:		
Board Advisor	Joseph T. Chua	61
Board Advisor	Manuel T. Gonzales	80
Board Advisor	William T. Lim	76
Board Advisor	Harry C. Tan	71

The following is the list of the Bank's Executive Officers and Group Heads as of 30 June 2017

Position	Name	Age
President	Reynaldo A. Maclang	79
Executive Vice President & Head of Institutional Banking Sector	Cenon C. Audencial, Jr.	58
Executive Vice President & Head of Treasury Sector	Horacio E. Cebrero III	55
Executive Vice President & Chief Financial Officer & Head of Financial Management Sector	Nelson C. Reyes	53
Executive Vice President & Head of Retail Banking Sector	Bernardo H. Tocmo	55
First Senior Vice President & Head of Commercial Banking Group	Yolanda M. Albano	66
First Senior Vice President & Chief Compliance Officer & Head of the Compliance Group	Alice Z. Cordero	60
Senior Vice President, Chief Credit Officer and Head of the Credit Management Group	Nanette O. Vergara	57
Senior Vice President, Head of the Operations	Marie Fe Liza S. Jayme	55
Senior Vice President, Head of the Global Filipino Banking Group	Teresita U. Sebastian	56

Position	Name	Age
First Senior Vice President, Head of the Remedial Accounts Management Group	Aida M. Padilla	68
First Senior Vice President, Chief Risk Officer and Head of the Risk Management Group	Carmela Leticia A. Pama	60
First Senior Vice President, Head of the Acquired Assets Group	Emmanuel German V. Plan II	64
Senior Vice President, Head of the Corporate and Government Banking Group	Allan L. Ang	42
Senior Vice President, Chief Legal Counsel & Head of Legal Group	Manuel C. Bahena, Jr.	55
Senior Vice President, Head of the Human Resource Group	Schubert Caesar C. Austero	53
Senior Vice President, Head of the Corporate Planning and Research Division	Emeline C. Centeno	58
Senior Vice President, Head RBS Sales and Support Group	Ma. Adelia A. Joson	63
Senior Vice President, Chief Audit Executive & Head of the Internal Audit Group	Martin G. Tengco Jr.	51
Senior Vice President, Corporate Treasurer	Maria Paz D. Lim	56
Senior Vice President, Chief Marketing Officer and Head of the Marketing and Product Development Group	Norman Martin C. Reyes	51
Senior Vice President, Head of Cards Banking Solutions Group	Juanita Margarita O. Umali	62
First Vice President, Head of Facilities Administration Group	Augusto B. Dimayuga	58
First Vice President, Chief Trust Officer and Head of Trust Banking Group	Roberto S. Vergara	65
Vice President, Head of Information Technology Group	Constantino T. Yap	53
Vice President, Corporate Secretary	Maila Katrina Y. Ilarde	34
Senior Assistant Vice President, Head of the Subsidiaries and Affiliates Division	Ma. Gemma G. Subiate	51
First Vice President, Head of Pinnacle Priority Banking Division	Candice T. Lim	47
Assistant Vice President, Head of Security Group	Archivald S. Raniel	38
Senior Vice President, Head of Branch Banking Group – Metro Manila	Christian Jerome O. Dobles	49
First Vice President, Head of Branch Banking Group – Luzon	Edilberto S. Ramos	55
Vice President, Head Branch Banking Group – VISMIN	Antonio T. Baculi	54
Senior Vice President, Chief Information Security Officer, Data Privacy Officer, Head of Enterprise IS/IT Support Management Group	Roland V. Oscuro	53

The following is a profile of the Bank's Board of Directors (as of 30 June 2017):

Name	**FLORENCIA G. TARRIELA**
Age	70
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	Chairman of the Board/Independent Director
Date of First Appointment	* 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 Corporation * 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 TSPI Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc. * Co-author of several inspirational books - "Coincidence or Miracle? Books I, II, III ("Blessings in Disguise"), IV ("Against All Odds"), and V ("Beyond All Barriers"), and gardening books - "Oops-Don't Throw Those Weeds Away!" and "The Secret is in the Soil" * Environmentalist and practices natural ways of gardening
Other Previous Positions	* Undersecretary of Finance * Alternate Monetary Board Member of the Bangko Sentral ng Pilipinas, 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	67
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. and PNB RCI Holdings Co., Ltd. * Independent Director of PNB Savings Bank and PNB International Investments Corp.
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 Bangko Sentral ng Pilipinas * 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 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	75
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
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. * Director of PNB Savings Bank, PNB International Investments Corporation, PNB RCI Holdings Co., Ltd., and Surigao Micro Credit Corporation * Senior Adviser of the Bank of Makati, Inc.
Other Previous Positions	* Director of PNB Life Insurance Inc. * President of Maybank Philippines, Inc., Land Bank of the Philippines, and Surigao Micro Credit Corporation * Vice-Chairman of Land Bank of the Philippines and Maybank Philippines, Inc. * Director of Meralco * Trustee of Land Bank of the Philippines Countryside Development Foundation, Inc. * Director, 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 Bangko Sentral ng Pilipinas * Audit Staff of Joaquin Cunanan, CPAs
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	70
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	61
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
Other Current Positions	* Independent Director of PNB Capital and Investment Corporation * 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	**REYNALDO A. MACLANG**
Age	78
Nationality	Filipino
Education	Bachelor of Laws from the Ateneo de Manila University
Current Position in the Bank	President of the Bank
Date of First Appointment	* February 9, 2013 (as Director) * May 27, 2014 (as President)
Directorship in Other Listed Companies	None
Other Current Positions	* Chairman of PNB (Europe) Plc. * Director of Allied Leasing & Finance Corporation, PNB Global Remittance and Financial Co., HK, Ltd., Bulawan Mining Corporation, PNB Management & Development Corporation and PNB Forex, Inc. * Director of the Bankers Association of the Philippines, Asian Bankers Association, LGU Guarantee Corporation, and BancNet, Inc., where he is also a Treasurer.
Other Previous Positions	* Director of PNB Savings Bank * President of Allied Savings Bank from 1986 to 2001 * President of Allied Banking Corporation (ABC) from 2001 to 2009 * Director of ABC, PNB Life Insurance, Inc., PNB Italy SpA, PNB International Investments Corporation, PNB Holdings Corporation, PNB Securities, Inc., PNB Forex, Inc., and Eton Properties Philippines, Inc.
Name	**ESTELITO P. MENDOZA**
Age	87
Nationality	Filipino
Education	* Bachelor of Laws (cum laude) from the University of the Philippines * Master of Laws from the 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, 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	57
Nationality	British
Education	* Bachelor of Arts and Masters of Arts in History from 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, Bellagio 3 Condominium Association, Inc., and Greenlands Community * 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
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	74
Nationality	Filipino
Education	* Bachelor of Arts, Ateneo de Manila University * Bachelor of Laws (Member, Law Honors Society), University of the Philippines * Master of Laws, Columbia University
Current Position in the Bank	Independent Director
Date of First Appointment	May 27, 2014
Directorship in Other Listed Companies	None
Other Current Positions	* Independent Director of Allianz PNB Life Insurance, Inc., PNB-IBJL Leasing and Finance Corporation, PNB International Investments Corporation and PNB Holdings Corporation * President/Director of Tala Properties, Inc. and Woldingham Realty, Inc. * Chairman of San Antonio Resources Incorporated

	* Director of Global Energy Growth System and Apo Reef World Resort * Proprietor of Green Grower Farm * Partner of the University of Nueva Caceres in Bataan
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 * 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 and PNOC-AFC * Co-Chairman of the Industry Development Council of the Department of Trade and Industry * Treasurer of BAP-Credit Guarantee * Director of 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, Philippine National Oil Corporation and Certified Data Centre Professional

Name	**CECILIO K. PEDRO**
Age	63
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
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 Deaf Evangelistic Alliance Foundation, Inc. * Vice President of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. * Chairman of Asian Theological Seminary
Other Previous Positions	* CEO/President of Aluminum Container, Inc. * Director of DBS Philippines, Inc. (formerly Bank of Southeast Asia, 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, and PLDT SME Nation and Go Negosyo's Grand MVP Bossing 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	**WASHINGTON Z. SYCIP**
Age	95
Nationality	Filipino-American
Education	* Bachelor of Science in Commerce from the University of Sto. Tomas * Masters in Commerce from the University of Sto. Tomas and Columbia University
Current Position in the Bank	Director
Date of First Appointment	December 8, 1999
Directorship in Other Listed Companies	* Chairman of Cityland Development Corporation * Independent Director of Belle Corporation, First Philippine Holdings Corporation, Lopez Holdings Corporation, and Metro Pacific Investments Corporation * Director of LT Group, Inc. and MacroAsia Corporation
Other Current Positions	* Founder of SGV Group * One of the founders and Chairman Emeritus of the Asian Institute of Management * Member of the Board of Overseers of the Graduate School of Business at Columbia University * Honorary Chairman of the Euro-Asia Centre of INSEAD in Fontainebleau, France * Honorary Life Trustee of The Asia Society * Member of the Board of Directors of a number of other major corporations in the Philippines and other parts of the world
Other Previous Positions	* President of the International Federation of Accountants * Member of the International Advisory Board of the Council on Foreign Relations * Vice Chairman of the Board of Trustees of The Conference Board * Chairman of the Asia Pacific Advisory Committee of the New York Stock Exchange * Served in the international boards of the American International Group, AT&T, Australia & New Zealand Bank, Caterpillar, Chase Manhattan Bank, Owens-Illinois, Pacific Dunlop and United Technologies Corporation, among others. * Board of Trustees of the Ramon Magsaysay Award Foundation and Eisenhower Exchange Fellowship
Awards/Citations	* Most Outstanding Professional in the field of Accountancy given by the Professional Regulation Commission on June 2015 * Arangkada Lifetime Achievement Award conferred by the Joint Foreign Chambers of the Philippines on March 3, 2015 * Lifetime Achievement Award given by Asia Society, New York on November 8, 2012 * Ramon V. del Rosario Award for Nation Building conferred by Junior Chamber of International Philippines Manila and the Asian Institute of Management's Ramon V. del Rosario, Sr. Center for Corporate Social Responsibility on May 2012 * Order of Lakandula, Rank of Grand Cross, conferred by Philippine President Benigno S. Aquino, III on June 30, 2011 * Lifetime Achievement Award given by Columbia Business School and Asia Society * Ramon Magsaysay Award for International Understanding * Management Man of the Year given by the Management Association of the Philippines * Officer's Cross of the Order of Merit given by the Federal Republic of Germany * Star of the Order of Merit Conferred by the Republic of Australia * Officer First Class of the Royal Order of the Polar Star awarded by H.M. the King of Sweden

Name	**CARMEN K. TAN**
Age	75
Nationality	Filipino
Education	
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: Asia Brewery, Tanduay Distillers, Inc., The Charter House, 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	82
Nationality	Filipino
Education	Bachelor of Science in Chemical Engineering degree from Far Eastern University and later from the University of Sto. Tomas 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: 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: Tangent Holdings Corporation and Lucky Travel Corporation * Chairman: 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: Basic Holdings Corporation, Himmel Industries, Inc., and Grandspan Development Corporation * Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. * Founder and Vice Chairman of the Foundation for Upgrading the

	Standard of Education, Inc. * Founded the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President
Other Previous Positions	* Chairman: Allied Banking 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	50
Nationality	Filipino
Education	* Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics), University of California Davis, U.S.A. * Executive Masters in Business Administration, Hong Kong University of Science and Technology (Business School) and J.L. Kellogg School of Management of Northwestern University, 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
Other Current Positions	* President/Director of Tanduay Distillers, Inc. and Eton Properties Philippines, Inc. * Director of Bulawan Mining Corporation, PNB Capital and Investment Corporation, PNB Forex, Inc., PNB Management and Development Corporation, PNB Savings Bank, Allied Commercial Bank, Allied Leasing and Finance Corporation, PNB Global Remittance and Financial Company (HK) Ltd., and Allied Banking Corporation (HK) Limited * Director of PMFTC, Inc., Philippine Airlines, 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
	∗ EVP and Director of Fortune Tobacco Corporation
Other Previous Positions	∗ President and Chief Executive Officer of MacroAsia Corporation ∗ Director of Tanduay Distillers, Inc. ∗ Executive Vice President of Fortune Tobacco Corporation

Name	**MICHAEL G. TAN**
Age	50
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 Corporation
Other Current Positions	∗ Chairman of PNB Management and Development Corporation ∗ Director of PNB Forex, Inc., Bulawan Mining Corporation, 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 Allied Banking Corporation (ABC) from January 30, 2008 until the ABC's merger with PNB on February 9, 2013

The following are the profiles of the Board Advisors of the Bank as of December 31, 2016:

Name	**JOSEPH T. CHUA**
Age	59
Nationality	Filipino
Education	∗ Bachelor of Arts in Economics and Bachelor of Science in Business Management from the De La Salle University ∗ Masters in International Finance from the University of Southern California
Current Position in the Bank	Board Advisor
Date of First Appointment	May 26, 2015
Current Positions	∗ Chairman of Watergy Business Solutions, Inc. ∗ Chairman of Cavite Business Resources, Inc. ∗ Chairman of J.F. Rubber Philippines ∗ President of Goodwind Development Corporation ∗ President of MacroAsia Mining Corporation ∗ President of MacroAsia Corporation ∗ Director of PNB General Insurers Co., Inc. ∗ Director of Bulawan Mining Corporation ∗ Director of PNB Management and Development Corp.

	∗ Director of Philippine Airlines ∗ Director of Eton Properties Philippines, Inc. ∗ Member of the Management Association of the Philippines, Philippine Chamber of Commerce and Industry, Chamber of Mines of the Philippines, German Philippine Chamber of Commerce and Rubber Association of the Philippines
Other Previous Positions	∗ Chairman of MacroAsia Mining Corporation ∗ Director of Philippine National Bank ∗ Director/Chief Operating Officer of MacroAsia Corporation ∗ Managing Director of Goodwind Development Corporation

Name	**MANUEL T. GONZALES**
Age	79
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
Current Positions	∗ Director of PNB Securities, Inc. ∗ Director of PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation ∗ Director of Allied Leasing and Finance Corporation ∗ Director of Alliedbankers Insurance Corporation
Other Previous Positions	∗ Director of Allied Banking 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	76
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
Current Positions	∗ Director of PNB Holdings Corporation
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 ∗ President of Jas Lordan, Inc. ∗ Worked with Equitable Banking Corporation for 30 years, occupying various positions, including as VP & Head of the Foreign Department

Name	**HARRY C. TAN**
Age	70
Nationality	Filipino
Education	Bachelor of Science in Chemical Engineering, Mapua Institute of Technology
Current Position in the Bank	Board Advisor

Date of First Appointment	May 31, 2016
Directorship in Other Listed Companies	Director of LT Group, Inc.
Other Current Positions	∗ Chairman of Bulawan Mining Corporation, PNB Management and Development Corporation, and PNB Global Remittance and Financial Company (HK) Limited ∗ Director of PNB Savings Bank ∗ Chairman for the Tobacco Board of Fortune Tobacco International 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., MacroAsia Corporation, Tanduay Brands International Inc., Allied Bankers Insurance Corp., Allied Banking Corporation (Hong Kong) Limited, PMFTC, Inc., and Allied Commercial Bank
Other Previous Positions	∗ Director of Philippine National Bank ∗ Director of Allied Banking Corporation ∗ Director of Philippine Airlines ∗ Director of MacroAsia Corporation

The following table shows the total direct and indirect shareholdings of each Director in the Bank as of 30 June 2017:

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
Reynaldo A. Maclang	155	0
Estelito P. Mendoza	1,150	0
Christopher J. Nelson	100	0
Federico C. Pascual	39	0
Cecilio K. Pedro	5,000	0
Washington Z. Sycip	39,111	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

The aggregate compensation paid by the Bank to its Directors, executive officers and all other officers for the year ended 31 December 2015 was ₱4,215,800,000.00 and for the year ended 31 December 2016 was ₱4,496,431,306.

As of 31 December 2016 and 30 June 2017, loans from the Bank to DOSRI totaled ₱10.852 billion. 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 37,711 shareholders as of 30 June 2017, 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:

No.	Stockholders	Number of Shares	Percentage
1.	Key Landmark Investments, Ltd.	109,115,864	8.735
2.	PCD Nominee Corporation (Non-Filipino)	108,931,401	8.721
3.	PCD Nominee Corporation (Filipino)	107,476,098	8.604
4.	Solar Holdings Corporation	67,148,224	5.376
5.	Caravan Holdings Corporation	67,148,224	5.376
6.	True Success Profits Ltd.	67,148,224	5.376
7.	Prima Equities & Investments Corporation	58,754,696	4.704
8.	Leadway Holdings, Inc.	53,470,262	4.281
9.	Infinity Equities, Inc.	50,361,168	4.032
10.	Pioneer Holdings Equities, Inc.	28,044,239	2.245
11.	Multiple Star Holdings Corporation	25,214,730	2.019
12.	Donfar Management Ltd.	25,173,588	2.015
13.	Uttermost Success, Ltd.	24,752,272	1.982
14.	Mavelstone Int'l Ltd.	24,213,463	1.938
15.	Kenrock Holdings Corporation	21,301,405	1.705
16.	Fil-Care Holdings, Inc.	20,836,937	1.668
17.	Fairlink Holdings Corporation	20,637,854	1.652
18.	Purple Crystal Holdings, Inc.	19,980,373	1.600
19.	Kentron Holdings & Equities Corporation	19,944,760	1.597
20.	Fragile Touch Investments, Ltd.	18,581,537	1.488

10 PHILIPPINE BANKING INDUSTRY

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.

As of 30 June 2017, 42 universal and commercial banks operated in the Philippines. These banks comprised three domestic Government-owned banks, 17 private domestic banks and 22 banks that are either branches or subsidiaries of foreign banks, all of which compete with the Bank in at least certain of its targeted sectors and products.

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 June 2017, there were 57 thrift banks in the Philippines.

Rural banks are organized 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 of 30 September 2016, based on BSP data, there were 144 rural banks in the Philippines.

Specialized Government banks are organized to serve a particular purpose. The existing specialized banks are DBP, 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 may 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 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. On 11 October 2012, BSP Circular No. 771 was issued in order to grant incentives for investors who purchase a controlling stake in a bank. Accordingly, the coverage of relief incentives for mergers and consolidations now includes the purchase and acquisition of a majority of or all of the outstanding shares of stock in a bank. On 21 December 2016, BSP issued Memorandum No. M-2016-023 listing the possible regulatory incentives that may be requested by merging/consolidating banks and Quasi-Banks ("QBs"). The granting of regulatory incentives for consolidating banks and QBs is in support of the BSP's goal of strengthening the financial capabilities and enhancing overall competitiveness of banks and QBs. Under the Philippine Competition Act, parties to a transaction must notify the Philippine Competition Commission ("PCC"), if (i) a threshold value of PhP one billion with respect to aggregate Philippine annual gross revenue or Philippine assets and value of the transaction is met and (ii) there is an acquisition of shares with a voting power of at least 35% in the acquired corporation (50% if the acquiring corporation already owns more than 35% of the shares in the acquired corporation). The parties must then wait for the PCC to act or not take action within a prescribed period.

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 30 June 2017, based on banks' SEC 17-Q reports to the Philippine Stock Exchange, the Bank ranks 4th 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 30 June 2017. The Bank's data is presented on consolidated basis.

(₱ Billions)	**As of 30 June 2017**			
Consolidated	**Total Assets**	**Total Capital**	**Total Loans & Receivables**	**Total Deposits**
BDO Unibank, Inc.	2,470.7	289.2	1,657.5	1,979.7
Metropolitan Bank and Trust Co.	1,964.5	216.4	1,118.3	1,459.8
Bank of the Philippine Islands	1,715.9	173.5	1,056.9	1,432.5
Philippine National Bank	823.9	113.9	455.1	624.7
Security Bank Corp	774.7	101.0	340.2	379.7

**Source: SEC17-Q Disclosures with the Philippine Stock Exchange*

11 BANKING REGULATION AND SUPERVISION

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 Manual of Regulations for Banks is the principal source of rules and regulations that must be complied with by banks in the Philippines. The Manual of Regulations for Banks 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 Manual of Regulations for Banks are rules and regulations disseminated through various circulars, memoranda, circular letters and other directives issued by the Monetary Board of the BSP.

The Manual of Regulations for Banks 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 Manual of Regulations for Banks, 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 Manual of Regulations for Banks and various BSP regulations impose the following restrictions on universal, commercial and thrift banks.

Minimum capitalization

Under the Manual of Regulations for Banks, 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 Manual of Regulations for Banks 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 15 January 2013, the BSP issued Circular No. 781, which prescribes the new capital adequacy standards in accordance with Basel III, effective 1 January 2014. The Basel III capital standards set by the BSP are as follows: the CET1 ratio at a regulatory minimum of 6.0% of risk-weighted assets and the Total Tier 1 ratio at a minimum of 7.5%. Both ratios are more stringent and higher than the minimum international norms of 4.5% and 6%, respectively. The total Capital Adequacy Requirement remains at 10%, which is higher than the international regulatory minimum of 8%. A capital conservation buffer of 2.5% above the regulatory minimum levels will also be implemented.

On January 2013, the BSP issued Circular No. 781 entitled the Basel III Implementing Guidelines on Minimum Capital Requirements, which took effect last January 2014. 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 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 (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 (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%. During the monitoring period up to end-2017, sanctions will not be imposed on covered institutions falling below the 5% 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 percent which will then be increased to 100 percent 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 (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% 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.

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 Subsection X253.1 of the Manual of Regulations for Banks, commercial banks (including the Bank) are required to maintain regular reserves of 20.0% 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 (2001), 7.0% against long-term negotiable certificate of time deposits issued under BSP Circular No. 824 (2014), 4.0% against deposit substitutes evidenced by repo agreements, and 6.0% against bonds.

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. Currently, the applicable ceiling is 25.0%. A circular 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 Manual of Regulations for Banks, 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 20.0% 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 6 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.

Trust Regulation

The Manual of Regulations for Banks 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 Manual of Regulations for Banks. The Bank may, under its Articles of Incorporation, accept and manage trust funds and properties and carry on the business of a trust corporation.

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. Commercial banks which meet the net worth or combined capital accounts and profitability requirements prescribed by the Monetary Board of the BSP may be authorized to operate an expanded FCDU and thrift banks with a net worth or combined capital accounts of at least PhP325 million if their head offices are located in Metro Manila, and PhP52 million if their head offices are located outside Metro Manila, may be authorized to operate an FCDU. 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 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. FCDUs of universal and commercial banks and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign exchange cover.

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 Manual of Regulations for Banks 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 (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.

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 Manual of Regulations for Banks, 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 R.A. 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 the Manual of Regulations for Banks, 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 related companies of the bank's majority stockholder; (c) is not 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 relative (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, and is independent of the management and free from any business or other relationship.

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 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 (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 Manual of Regulations for Banks 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% 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 forty percent (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 Anti-Money Laundering Act was passed on 29 September 2001 and was amended on 23 March 2003. Under its provisions, as amended, (i) certain financial intermediaries including banks, offshore banking units, quasi-banks, trust entities, non-stock savings and loan associations, and all other institutions including their subsidiaries and affiliates supervised and/or regulated by the BSP, (ii) insurance companies and/or institutions regulated by the Insurance Commission, and (iii) securities brokers, dealers, salesmen, associated persons of brokers and dealers, investment banks, mutual funds, foreign exchange corporations and certain other entities regulated by the SEC, are required to submit a "covered" transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱0.50 million within one Banking Day.

These institutions are also required to submit a "suspicious" transaction report if any of the circumstances mentioned in Section 3 of the Anti-Money Laundering Act exists or if there is a reasonable ground to believe that any amounts processed are the proceeds of money laundering activities.

BSP regulations also require all banks in the Philippines to have an electronic money laundering transaction monitoring system in place by October 2007. Each system will be required to detect and bring to the relevant institution's attention all transactions and/or accounts that either qualify as "covered transactions" or "suspicious transactions".

The AMLC has also enumerated certain transactions considered red flags that would obligate covered institutions to exercise extra diligence, such as instances where a client was reported in the news to be involved in or is under investigation for terrorist activities.

These transactions are reported to the AMLC within five banking days from the discovery the transaction by the covered institution. The Court of Appeals, upon application by the AMLC, has the authority to order the freezing of any accounts that it suspects are being used for money laundering. When directed by the AMLC, supervising authorities may also require all suspicious transactions with covered institutions, irrespective of the amounts involved, to be reported to the AMLC when there is a reasonable belief that any money laundering activity or any money laundering offense or any violation of the law is being or has been committed.

BSP Memorandum No.M2012-017 (April 2012) likewise requires all covered banking institutions to comply with the Anti-Money Laundering Risk Rating System ("ARRS"), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention program duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation.

Institutions that are subject to the Anti-Money Laundering Act are also required to establish and record the identities of their clients based on official documents. Covered institutions are required to develop clear customer acceptance policies and procedures when conducting business relations or specific transactions. Anonymous accounts, accounts under fictitious names, and all other similar accounts are absolutely prohibited. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In June 2012, the Senate ratified Senate Bill No. 3009 and Senate Bill No. 3127, which would later be known as Republic Act No. 10167 ("RA 10167") and Republic Act No. 10168 ("RA 10168") upon signing by the President of the Philippines. Both bills were aimed to amend and strengthen the present AMLA laws of the Philippines. RA 10167 allows an ex-parte inquiry into the account of persons when there is probable cause that the funds therein are related to money laundering or an unlawful activity or a predicate crime. It also empowers the Anti-Money Laundering Council (AMLC) to inquire into not just the main account but also related accounts, defined as "other bank deposits, investments, or other monetary instruments, owned or controlled by the person whose account is the subject of freeze order, or the funds which it originated from, or which were transferred to such account" without consent of the suspected money launderers. RA 10168 penalizes any person who assisted the principal of the crime by concealing or destroying the effects of the crime, or by harboring or assisting the escape of criminals. The penalty for these offenses is two degrees lower than the prescribed for the principals of terror financing.

On 15 February 2013, the President of the Philippines signed into law Republic Act No. 10365 (An Act Further Strengthening the Anti-Money Laundering Law, Amending for the Purpose Republic Act No. 9160, Otherwise Known as the "Anti-Money Laundering Act of 2001", As Amended), which act expanded the AMLA covered institutions and crimes. This law took effect on 07 March 2013.

Under Republic Act No. 10365, jewelry dealers will now be required to report transactions worth in excess of ₱1 Million. The law also required the Land Registration Authority to submit to the Anti-Money Laundering Council reports covering real estate purchases worth in excess of ₱500,000.

Aside from this, predicate crimes- or those criminal acts where the law may also be applied if money is involved- were also expanded to cover 20 additional offenses or crimes, including bribery, extortion, malversation of public funds, fraud and financing of terrorism. The original law only mentioned 14 offenses or crimes connected to money laundering such as kidnapping, piracy on high seas, smuggling, robbery and plunder.

On 21 September 2016, the AMLC approved the 2016 Revised Implementing Rules and Regulations of the AMLA. On March 15, 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions.

Designated non-financial businesses and professions such as (a) jewelry dealers, dealers in precious metals, and dealers in precious stones, (b) company service providers which, as a business, provide any of the following services to third parties: (i) acting as a formation agent of juridical persons; (ii) acting as (or arranging for another person to act as) a director or corporate secretary of a company, a partner of a partnership, or a similar position in relation to other juridical persons; (iii) providing a registered office; business address or accommodation, correspondence or administrative address for a company, a partnership or any other legal person or arrangement; and (iv) acting as (or arranging for another person to act as) a nominee shareholder for another person, and (c) persons, including lawyers and accountants, who provide any of the following services: (i) managing of client money, securities or other assets; (ii) management of bank, savings, securities or other assets; (iii) organization of contributions for the creation, operation or management of companies; and (iv) creation, operation or management of juridical persons or arrangements, and buying and selling business entities, are now included as covered persons.

Furthermore, covered persons are required to establish and record the true and full identity of Politically Exposed Persons as well as their immediate family members and entities related to them. "Politically Exposed Person" (PEP) refers to an individual who is or has been entrusted with prominent public position in (a) the Philippines with substantial authority over policy, operations or the use or allocation of government-owned resources; (b) a foreign State; or (c) an international organization. Moreover, covered persons are required to adopt policies and procedures to prevent correspondent banking activities from being utilized for money laundering or terrorist financing activities.

In addition, if the covered person fails to satisfactorily complete the enhanced due diligence procedures or reasonably believes that performing the enhanced due diligence process will tip-off the customer, it shall file a suspicious transaction report, and closely monitor the account and review the business relationship. This is in stark contrast to the procedure under the previous regulations, where the covered person was directed to immediately close the account and refrain from further conducting business relationship with the customer.

The new regulations also added a new procession on the non-discrimination against certain types of customers, and clarified that for suspicious transactions, "occurrence" refers to the date of determination of the suspicious nature of the transaction, which determination should be made not exceeding ten calendar days from the date of the transaction.

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 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.

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. As of date, the Monetary Board has not come up with its rules and regulations to implement the provisions of RA 10641.

Data Privacy

The Data Privacy Act was signed into law on August 15, 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 August 24, 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 ninety (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 06 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 March 15, 2017, the BSP issued BSP Circular No. 950, series of 2017 prescribing the amendments to Part Eight (Anti-Money Laundering Regulations) of the Manual of Regulations for Banks and the Manual of Regulations for Non-Bank Financial Institutions.

On March 20, 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 April 17, 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 June 27, 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	Fifteen (15) days from date of purchase
Usance EB	Term of draft but not to exceed sixty (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
	Bangko Sentral overnight (O/N) lending rate plus term premium:
1-90 days	Bangko Sentral O/N lending rate +0.0625
91-180 days	Bangko Sentral O/N lending rate +0.1250

On July 5, 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 August 22, 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 August 22, 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.

12 PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the CDs. It is based on the laws, regulations, and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the CDs. Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the CDs.

Taxation of Interest Income

Under the National Internal Revenue Code of the Philippines, as amended (the "Tax Code"), interest income earned by individual citizens (resident or non-resident), resident aliens, and nonresident aliens engaged in trade or business in the Philippines as holders of the CDs will generally be subject to a 20% final withholding tax. However, the CDs may qualify as long-term deposits or investments, in which case, interest income derived by said individuals may be exempt from the 20% final withholding tax, provided the investment is not pre-terminated before the 5th year. Additionally, for interest income derived from the CDs held by common or individual trust funds or investment management accounts to be exempt from income tax: (a) the CDs should registered in the name of the individual and not under the name of the bank or the trust department/unit administering the common or individual trust funds or investment management accounts; (b) the investment of the individual investor in the common or individual trust fund or investment management account must be held/managed by a duly licensed bank for at least five years; and (b) the common or individual trust account or investment management account must hold on to such CDs for at least five years.

Should the holder pre-terminate the CD before the 5th year, or (in the case of CDs held by a common or individual trust fund or investment management account, the other requirements mentioned above are not met) a final tax shall be imposed on the entire income and shall be deducted and withheld by the Bank from the proceeds of the CDs based on the remaining maturity thereof:

Four years to less than five years – 5%
Three years to less than four years – 12%
Less than three years – 20%

Interest income received by domestic and resident foreign corporations shall be subject to a final withholding tax of 20%. Interest income received by nonresident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%. Interest income received by non-resident foreign corporations shall be subject to a final withholding tax of 30%.

The foregoing rates may be reduced under an applicable tax treaty. Availment of treaty provisions should be preceded by approved application of treaty relief.

Documentary Stamp Taxes

The issuance of the CDs will be subject to documentary stamp taxes at the rate of ₱1.00 for every ₱200.00 of the issue value of the CDs. The Bank is liable for the payment of the documentary stamp tax on the original issuance of the CDs. No documentary stamp tax is imposed on the secondary transfer of the CDs.

Taxation on Gains upon the Sale or Other Disposition of the CDs

A holder will recognize gains or losses upon the sale or other disposition (including a redemption at maturity) of a Note in an amount equal to the difference between the amount realized from such disposition and the value of such holder's interest in the Note. Under the Tax Code, any gain realized from the sale, exchange, or retirement of bonds, debentures, and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures, or other certificates of indebtedness) is exempt from income tax. Since the CDs have maturity of more than five years from the date of issuance, any gains realized by a holder from the sale of the CDs will be exempt from Philippine income tax.

Value-Added Tax and Gross Receipts Tax

The gross income from the sale or transfer of the CDs in the Philippines by dealers in securities is subject to VAT at the rate of 12.0%. Banks and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax as 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

The transfer of the CDs as part of the estate of a deceased individual to his heirs, whether or not such individual was resident in the Philippines at the time of his death, will be subject to an estate tax which is levied on the net estate of the deceased at progressive rates ranging from 5% to 20% if the value of the net estate exceeds ₱200,000. A holder of such CDs will be subject to donor's tax upon the donation of the CDs to strangers at a flat rate of 30.0% of the net gifts. A stranger is defined as any person who is not a brother, sister (whether by whole-or half-blood), spouse, ancestor and lineal descendant or relative by consanguinity in the collateral line within the fourth degree of relationship to the Holder. A donation to a non-stranger will be subject to a donor's tax at progressive rates ranging from 2% to 15% based on net gifts made during the calendar year in excess of ₱100,000. The estate tax as well as the donor's tax in respect of the CDs shall not be collected (i) if the deceased at the time of death or the donor at the time of the 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 (ii) if the laws of the foreign country of which the deceased or the 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.

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 CDs. 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 Arrangement and Selling Agency Agreement and the Registry and Paying Agency Agreement dated as of 14 November 2016, as amended by supplemental agreements dated 6 April 2017 and 10 October 2017, entered into by the Issuer with the relevant counterparties, the CDs shall be offered for sale through the Selling Agents during the Offer Period.

Prior to the Offer Period

The Issuer entered into the Registry and Paying Agency Agreement with the Registry and Paying Agency Agreement with the Registry and Paying Agent and the Arrangement and Selling Agency Agreement with the Joint Lead Arrangers and the Selling Agents.

The Offer Period

During the relevant Offer Period, the Issuer, the Joint Lead Arrangers and the Selling Agents shall solicit subscriptions for the CDs. There shall be no limitation on the amount of CDs that an Applicant may apply for. Each interested investor (an "Applicant") will be required to execute an Application to Purchase in four 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 for the CDs applied for. Payment may be in the form of cash, checks made out to the order of "**PNB LTNCD – APRIL 2023**", debit instructions or other instructions acceptable to the Issuer or the relevant Selling Agent, and must cover the entire purchase price. Each of the Issuer and the Selling Agents shall determine its own settlement procedure for its 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 CDs.

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 CDs applied for by their respective Applicants and summarizes the details of the latter. Each of the Issuer and the Selling Agents shall deliver their Applications Schedule (together with a copy of each of the completed Applications to Purchase) to the Joint Lead Arrangers no later than 5:00 p.m. of the last day of the Offer Period.

Allocation Period

Based on the aggregate amount of CDs applied for, the Issuer and the Joint Lead Arrangers shall consult with each other and agree on the total size of the issue.

Each Joint Lead Arranger may, at its discretion, reject any Application to Purchase. In addition, if the CDs are insufficient to accommodate all Applications to Purchase, the Joint Lead Arrangers may, in consultation with the Issuer, allocate the CDs among the Issuer and the Selling Agents by accepting or reducing the aggregate amount of CDs covered by the Issuer's and each Selling Agent's Applications Schedule. The Joint Lead Arrangers shall prepare a report which summarizes the total amount of Applications to Purchase accepted and the allocation of CDs among the Issuer and the various Selling Agents (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 the Issuer and the Selling Agents shall implement the allocation set out in the Allocation Report and establish its own policies and procedures regarding the allocation of CDs among their respective Applicants. The Issuer and Selling Agents shall then accept the corresponding Applications to Purchase, prepare a schedule of purchase advices (each a "Sales Report") which summarizes the allocations made among the various Applicants, and execute and issue Purchase Advices in accordance with the Sales

Report to the corresponding Applicants. The Issuer and Selling Agents shall: (a) deliver the 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 CDs with the aggregate Issue Price set out in the Allocation Report and complete and execute the Tranche Certificate (indicating therein the relevant Issue Date and Interest Rate), and deliver such executed Tranche Certificate to the Registrar

The Registrar and Paying Agent shall record the initial issuance of the CDs in the Registry Book and thereafter issue and distribute the relevant Registry Confirmation to the Holders in accordance with the 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.

14 SUMMARY OF REGISTRY FEES

SCHEDULE OF FEES

The Registry shall be entitled to charge the Noteholders and/or their counterparties fees as the Registry shall prescribe in line with the services that the Registry shall perform such as, but not limited to, the opening and maintaining of accounts, the maintenance of the records of the Noteholders in the Registry Book, the issuance, cancellation and replacement of any Registry Confirmation. The Registry will charge the following fees to Noteholders:

PDTC REGISTRY FEE SCHEDULE FOR THE
PNB LONG-TERM NEGOTIABLE CERTIFICATES OF TIME DEPOSITS DUE APRIL 2023

Transfer Fees in the Secondary Trading of the CDs:

1. Transfer Fee of ₱100.00 to be paid each by the transferring Holder and the buyer/transferee prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer. For transfers from a registry account to the depository, the full charge of ₱200.00 per transfer shall be charged to the transferring Holder.
2. Account Opening Fee of ₱100.00 to be paid upfront by a CD transferee who has no existing account in the Registry.
3. Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a Holder.

Transfer Fees due to Non-Trade Related Transactions:

1. Transaction Fee of ₱100.00 to be paid each by the transferring Holder and the requesting party prior to the registration of any transfer of the CDs in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer.
2. Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).

Other Fees charged to the Holder:

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Holders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

1. Fee of ₱200.00 to be paid upon each application for a certification or request of holding.
2. Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Holder free of charge).
3. Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
4. The fee for Special Reports varies depending on request.
   A report that is not available from back-up CD-ROMs and will thus require system personnel intervention to generate.

Other Fees charged to the Selling Agent:

For every day of delay in the submission of the requirements enumerated in Section 2.4.3.1 to 2.4.3.5, the Registrar shall charge the Selling Agent an administrative fee of ₱10,000.

15 INDEX TO THE FINANCIAL STATEMENTS

Philippine National Bank and Subsidiaries

Financial Statements
December 31, 2016 and 2015
and Years Ended December 31, 2016, 2015 and 2014

and

Independent Auditor's Report

SGV
Building a better working world

A member firm of Ernst & Young Global Limited

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2016 and 2015 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, 2016, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

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, 2016 and 2015, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2016 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 (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 56.79% and 53.15% of the total assets of the Group and the Parent Company, respectively. The Group determines the allowance for credit losses on 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 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 recoverable amount of loans receivables involves various assumptions and factors including the financial condition of the borrower, 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

We obtained an understanding of the specific and collective impairment process and tested the related controls over impairment data and calculations. For loans and receivables subjected to specific impairment, we obtained an understanding of the basis for measuring the impairment. We selected samples of individually impaired loans and inquired of the latest developments about the borrowers. We tested the key inputs to the impairment calculation by assessing whether the forecasted cash flows are based on the borrower's current financial condition, inspecting recent appraisal reports to determine the fair value of collateral held and checking whether the discount rates used are based on the original effective interest rate or the last repriced rate. For loans and receivables subjected to collective impairment, we tested inputs in the historical loss and net flow rate models such as, for consumer loans, agreeing the past due aging reports per consumer loan product type while for business loans, agreeing the groupings of business loans based on their internal credit risk ratings to the Group's records and subsidiary ledgers. We examined whether the assumptions and parameters in the collective impairment calculation, such as historical losses of default and recovery rate, are based on historical data. We also reperformed the calculation of historical loss rates.

Assessment of goodwill

As at December 31, 2016, the Group and the Parent Company has goodwill amounting to ₱13.4 billion and ₱13.5 billion, respectively, as a result of its merger with 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 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 obtained an understanding of the Group's impairment assessment process and related controls. We involved our internal specialist to assist in evaluating the assumptions and methodology used by the Group, in particular those relating to long-term growth rate of the future cash flows and the discount rate used in determining the present value of the future cash flows. We compared the interest margin and long-term growth rate of the future cash flows to the historical performance of the CGUs. We also compared long-term growth rate of the future cash flows to economic and industry forecasts. We assessed the discount rate applied in determining the value in use whether these represent current market assessment of risk associated with the future cash flows.

Valuation of retirement benefit liability

As at December 31, 2016, the present value of pension obligation of the Group and the Parent Company amounted to ₱7.5 billion and ₱7.3 billion, respectively, while the fair value of plan assets amounted to ₱4.4 billion and ₱4.3 billion, respectively. Accumulated remeasurement losses amounted to ₱2.8 billion which accounts for 2.57% and 2.63% of the Group and Parent Company's total equity, respectively, as at December 31, 2016. 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 involves significant management judgment in the use of assumptions. The valuation also requires the assistance of an external actuary whose calculation depends on 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 by the Group's external actuary. We also considered the internal specialist's professional qualifications and objectivity. 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 and available market data. We compared the fair value of the retirement plan assets to market price information.

Accounting for the disposal of Allianz-PNB Life Insurance, Inc. (APLII) and the remaining interest in APLII

In 2016, the Parent Company completed the sale of its 51.00% ownership interest in APLII for a consideration amounting to 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, for over a period of 15 years (the Exclusive Distribution Rights). 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 51.00% ownership interest in APLII and the Exclusive Distribution Rights. The sale of the 51.00% ownership interest in APLII resulted in the loss of control of the Parent Company. Under PFRS, the Parent Company is required to remeasure the remaining interest in APLII to its fair value at date of disposal. The accounting for the disposal of 51.00% ownership interest in APLII and the remaining interest in APLII is significant to our audit because of the amount involved in the transaction and the significant judgment of the management for the valuation of the 51.00% interest in APLII, the Exclusive Distribution Rights and the remaining interest in APLII. The Parent Company engaged a third party valuer in determining the fair values of the shares of APLII and the Exclusive Distribution Rights. The disclosures related to the disposal of APLII are included in Notes 12 and 37 of the financial statements.

Audit response

We read the key agreements related to the disposal of APLII such as the share purchase and distribution agreement. Likewise, we also reviewed the accounting for the consideration received and the allocation made between the 51.00% interest in APLII and the Exclusive Distribution Rights. We considered the competence, capabilities and objectivity of the valuer engaged by the Parent Company to perform the valuation. We performed an understanding of the valuation techniques used by the valuer. We involved our internal specialist to assist us in evaluating the valuation methodology and the data and valuation multiples used by the third party valuer. For key assumptions related to the valuation of the 51.00% ownership interest in APLII, we compared the data and the valuation multiples used to available market or industry data. We also compared the discount rate and growth rate used on future cash flows to publicly available data on market participants that are comparable to the business of APLII. For key assumptions related to the valuation of the Exclusive Distribution Rights, we compared the data and valuation multiples (i.e., number of customers and number of branches) used in the valuation to available market or industry data and to the internal data of the Parent Company.

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, 2016, 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, 2016 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 audits 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 consolidated and parent company financial statements or our knowledge obtained in the audits, 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 consolidated and parent company 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 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 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 consolidated and parent company 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 consolidated and parent company 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 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 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 to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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 consolidated and parent company 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 Vicky Lee Salas.

SYCIP GORRES VELAYO & CO.

Vicky Lee Salas
Partner
CPA Certificate No. 86838
SEC Accreditation No. 0115-AR-4 (Group A),
May 1, 2016, valid until May 1, 2019
Tax Identification No. 129-434-735
BIR Accreditation No. 08-001998-53-2015,
March 17, 2015, valid until March 16, 2018
PTR No. 5908709, January 3, 2017, Makati City

February 24, 2017

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(In Thousands)

	Consolidated		Parent Company		
	December 31				January 1
	2016	2015	**2016**	2015 (As Restated - Note 2)	2015 (As Restated - Note 2)
ASSETS					
Cash and Other Cash Items	**₱11,014,663**	₱15,220,536	**₱10,626,525**	₱12,598,715	₱13,865,078
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**127,337,861**	81,363,444	**123,799,952**	79,203,948	95,415,467
Due from Other Banks (Note 34)	**22,709,805**	18,287,308	**12,831,514**	11,450,573	5,013,357
Interbank Loans Receivable (Notes 8 and 34)	**7,791,108**	5,800,383	**7,907,366**	5,958,526	7,671,437
Securities Held Under Agreements to Resell (Note 8)	**1,972,310**	14,550,000	**1,972,310**	14,550,000	–
Financial Assets at Fair Value Through Profit or Loss (Note 9)	**1,913,864**	4,510,545	**1,880,071**	4,492,864	6,695,950
Available-for-Sale Investments (Note 9)	**67,340,739**	68,341,024	**65,819,735**	66,734,752	55,411,588
Held-to-Maturity Investments (Note 9)	**24,174,479**	23,231,997	**24,074,898**	23,137,643	21,559,631
Loans and Receivables (Notes 10 and 34)	**428,027,471**	365,725,146	**378,198,738**	328,300,238	289,021,394
Property and Equipment (Note 11)	**18,097,355**	22,128,464	**16,505,047**	19,144,198	18,683,415
Investments in Subsidiaries and an Associate (Note 12)	**2,532,755**	–	**28,359,871**	26,497,732	26,554,857
Investment Properties (Notes 13 and 35)	**16,341,252**	13,230,005	**15,975,130**	14,666,831	19,752,903
Deferred Tax Assets (Note 31)	**1,482,214**	1,173,575	**1,014,308**	936,492	1,029,423
Intangible Assets (Note 14)	**2,562,369**	2,442,878	**2,471,451**	2,346,246	2,200,102
Goodwill (Note 14)	**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)	**7,091,458**	6,780,268	**6,552,874**	5,417,287	4,178,455
TOTAL ASSETS	**₱753,765,110**	₱679,687,737	**₱711,505,555**	₱630,124,773	₱580,568,822
LIABILITIES AND EQUITY					
LIABILITIES					
Deposit Liabilities (Notes 17 and 34)					
Demand	**₱117,329,019**	₱110,029,680	**₱115,391,610**	₱108,667,550	₱100,322,249
Savings	**368,798,751**	315,355,056	**364,067,427**	311,090,518	284,837,113
Time	**84,375,617**	60,552,445	**62,731,586**	50,736,320	47,287,301
	570,503,387	485,937,181	**542,190,623**	470,494,388	432,446,663
Financial Liabilities at Fair Value Through Profit or Loss (Note 18)	**232,832**	135,193	**231,977**	135,009	44,264
Bills and Acceptances Payable (Notes 19, 34 and 36)	**35,885,948**	25,752,222	**33,986,698**	24,629,887	18,526,044
Accrued Taxes, Interest and Other Expenses (Note 20)	**4,943,626**	5,875,228	**4,231,615**	5,371,733	5,035,156
Subordinated Debt (Note 21)	**3,497,798**	9,986,427	**3,497,798**	9,986,427	9,969,498
Income Tax Payable	**195,240**	134,720	**60,898**	55,180	70,001
Liabilities of Disposal Group Classified as Held for Sale (Note 37)	–	21,452,621	–	–	–
Other Liabilities (Note 22)	**28,565,373**	25,658,284	**20,027,960**	17,669,131	18,629,173
	643,824,204	574,931,876	**604,227,569**	528,341,755	484,720,799
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
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	**31,331,251**	31,331,251	31,331,251
Surplus Reserves (Notes 25 and 33)	**573,658**	554,263	**573,658**	554,263	537,620
Surplus (Note 25)	**30,678,189**	24,799,259	**30,678,390**	24,799,358	18,702,394
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**(3,469,939)**	(3,030,588)	**(3,469,939)**	(3,030,588)	(2,336,142)
Remeasurement Losses on Retirement Plan (Note 29)	**(2,821,853)**	(2,364,215)	**(2,821,853)**	(2,364,215)	(2,292,833)
Accumulated Translation Adjustment (Note 25)	**915,222**	612,468	**915,222**	612,468	(59,854)
Other Equity Reserves (Note 25)	**105,670**	–	**105,670**	–	–
Other Equity Adjustment (Note 12)	**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)	–	–	–
	107,291,744	101,738,539	**107,277,986**	101,783,018	95,848,023
NON-CONTROLLING INTERESTS (Note 12)	**2,649,162**	3,017,322	–	–	–
	109,940,906	104,755,861	**107,277,986**	101,783,018	95,848,023
TOTAL LIABILITIES AND EQUITY	**₱753,765,110**	₱679,687,737	**₱711,505,555**	₱630,124,773	₱580,568,822

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 34)	**₱19,686,409**	₱17,137,657	₱15,172,464	**₱16,923,864**	₱15,151,263	₱13,994,793
Trading and investment securities (Note 9)	**4,026,594**	3,742,036	2,992,864	**3,975,682**	3,705,138	2,938,727
Deposits with banks and others (Notes 7 and 34)	**597,500**	785,414	1,919,443	**440,664**	596,592	1,616,415
Interbank loans receivable (Note 8)	**33,862**	36,746	19,218	**34,174**	36,316	19,219
	24,344,365	21,701,853	20,103,989	**21,374,384**	19,489,309	18,569,154
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 34)	**3,780,242**	2,980,019	2,788,400	**3,356,866**	2,773,720	2,614,956
Bills payable and other borrowings (Notes 19, 21 and 34)	**997,621**	1,029,995	856,927	**959,609**	1,003,173	801,114
	4,777,863	4,010,014	3,645,327	**4,316,475**	3,776,893	3,416,070
NET INTEREST INCOME	**19,566,502**	17,691,839	16,458,662	**17,057,909**	15,712,416	15,153,084
Service fees and commission income (Notes 26 and 34)	**3,569,958**	4,312,898	3,546,449	**2,731,258**	3,355,972	2,872,162
Service fees and commission expense (Note 34)	**914,527**	716,849	670,033	**480,549**	292,724	351,287
NET SERVICE FEES AND COMMISSION INCOME	**2,655,431**	3,596,049	2,876,416	**2,250,709**	3,063,248	2,520,875
Net insurance premium (Note 27)	**629,826**	540,464	408,273	–	–	–
Net insurance benefits and claims (Note 27)	**255,698**	436,887	96,138	–	–	–
NET INSURANCE PREMIUM	**374,128**	103,577	312,135	–	–	–
OTHER INCOME						
Net gains on sale or exchange of assets (Note 13)	**2,510,361**	1,595,518	1,453,047	**2,517,861**	1,581,385	1,435,726
Gain on remeasurement of a previously held interest (Note 12)	**1,644,339**	–	–	**1,644,339**	–	–
Foreign exchange gains - net (Note 23)	**1,487,740**	1,207,840	1,295,318	**926,529**	973,680	1,007,476
Trading and investment securities gains net (Note 9)	**1,378,321**	574,321	1,267,706	**1,369,514**	569,778	1,234,347
Equity in net earnings of subsidiaries and an associate (Note 12)	**49,325**	–	–	**255,292**	251,852	1,007,198
Miscellaneous (Note 28)	**1,542,367**	1,719,759	2,141,415	**1,194,947**	1,499,673	1,351,797
TOTAL OPERATING INCOME	**31,208,514**	26,488,903	25,804,699	**27,217,100**	23,652,032	23,710,503
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 29 and 34)	**8,569,994**	8,234,957	7,429,876	**7,370,977**	7,173,327	6,582,719
Provision for impairment, credit and other losses (Note 16)	**3,212,694**	568,180	2,264,615	**1,707,494**	94,435	2,155,199
Taxes and licenses	**2,172,042**	1,910,735	1,826,963	**1,952,291**	1,723,421	1,693,907
Depreciation and amortization (Note 11)	**1,554,645**	1,452,221	1,481,931	**1,343,583**	1,305,779	1,342,210
Occupancy and equipment-related costs (Note 30)	**1,473,342**	1,430,048	1,462,540	**1,262,952**	1,219,156	1,257,625
Miscellaneous (Note 28)	**6,142,744**	5,319,544	4,740,602	**5,604,188**	4,911,986	3,950,882
TOTAL OPERATING EXPENSES	**23,125,461**	18,915,685	19,206,527	**19,241,485**	16,428,104	16,982,542
INCOME BEFORE INCOME TAX	**8,083,053**	7,573,218	6,598,172	**7,975,615**	7,223,928	6,727,961
PROVISION FOR INCOME TAX (Note 31)	**1,517,030**	1,619,554	1,367,288	**1,228,372**	1,110,321	1,369,207
NET INCOME FROM CONTINUING OPERATIONS	**6,566,023**	5,953,664	5,230,884	**6,747,243**	6,113,607	5,358,754
NET INCOME FROM DISCONTINUED OPERATIONS NET OF TAX (Notes 12 and 37)	**619,563**	357,931	264,161	**400,323**	–	–
NET INCOME	**₱7,185,586**	₱6,311,595	₱5,495,045	**₱7,147,566**	₱6,113,607	₱5,358,754

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company	**₱7,147,464**	₱6,113,508	₱5,358,669			
Non-controlling Interests	**38,122**	198,087	136,376			
	₱7,185,586	₱6,311,595	₱5,495,045			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱5.72**	₱4.89	₱4.60			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 32)	**₱5.24**	₱4.67	₱4.42			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
NET INCOME	**₱7,185,586**	₱6,311,595	₱5,495,045	**₱7,147,566**	₱6,113,607	₱5,358,754
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)	**(193,484)**	(824,011)	1,257,552	**(185,603)**	(822,826)	1,115,369
Income tax effect (Note 31)	**286**	2,887	9,059	**–**	2,887	9,059
Share in changes in net unrealized gains (losses) on available for sale investments of subsidiaries and an associate (Note 12)	**(245,867)**	–	–	**(253,748)**	51,906	121,295
	(439,065)	(821,124)	1,266,611	**(439,351)**	(768,033)	1,245,723
Accumulated translation adjustment	**420,381**	823,525	(368,697)	**282,601**	86,110	(156,991)
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	**–**	–	–	**20,153**	586,212	(194,234)
	(18,684)	2,401	897,914	**(136,597)**	(95,711)	894,498
Items that do not recycle to profit or loss in subsequent periods:						
Remeasurement losses on retirement plan (Note 29)	**(458,740)**	(94,267)	(1,024,067)	**(464,207)**	(90,249)	(996,265)
Income tax effect (Note 31)	**2,204**	2,277	9,334	**–**	2,277	9,334
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**1,208**	–	–	**6,569**	5,071	(27,530)
	(455,328)	(91,990)	(1,014,733)	**(457,638)**	(82,901)	(1,014,461)
OTHER COMPREHENSIVE LOSS, NET OF TAX	**(474,012)**	(89,589)	(116,819)	**(594,235)**	(178,612)	(119,963)
TOTAL COMPREHENSIVE INCOME	**₱6,711,574**	₱6,222,006	₱5,378,226	**₱6,553,331**	₱5,934,995	₱5,238,791
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱6,553,229**	₱5,886,502	₱5,238,706			
Non-controlling interests	**158,345**	335,504	139,520			
	₱6,711,574	₱6,222,006	₱5,378,226			

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)	**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, 2016	**₱49,965,587**	**₱31,331,251**	**₱554,263**	**₱24,799,259**	**(₱3,030,588)**	**(₱2,364,215)**	**₱612,468**	**₱–**	**(₱133,500)**	**₱13,959**	**(₱9,945)**	**₱101,738,539**	**₱3,017,322**	**₱104,755,861**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**7,147,464**	**(439,351)**	**(457,638)**	**302,754**	**–**	**–**	**–**	**–**	**6,553,229**	**158,345**	**6,711,574**
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)	**–**	**–**	**–**	**(1,249,139)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,249,139)**	**–**	**(1,249,139)**
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**	**₱30,678,189**	**(₱3,469,939)**	**(₱2,821,853)**	**₱915,222**	**₱105,670**	**₱–**	**₱13,959**	**₱–**	**₱107,291,744**	**₱2,649,162**	**₱109,940,906**
Balance at January 1, 2015	₱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
Total comprehensive income (loss) for the year	–	–	–	6,113,508	(809,876)	(89,452)	672,322	–	–	–	–	5,886,502	335,504	6,222,006
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	₱24,799,259	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	(₱133,500)	₱13,959	(₱9,945)	₱101,738,539	₱3,017,322	₱104,755,861
Balance at January 1, 2014	₱43,448,337	₱26,499,909	₱524,003	₱13,357,342	(₱3,581,865)	(₱1,278,372)	₱291,371	₱–	₱–	₱–	₱–	₱79,260,725	₱3,078,228	₱82,338,953
Total comprehensive income (loss) for the year	–	–	–	5,358,669	1,245,723	(1,014,461)	(351,225)	–	–	–	–	5,238,706	139,520	5,378,226
Issuance of capital stock (Note 25)	6,517,250	5,050,869	–	–	–	–	–	–	–	–	–	11,568,119	–	11,568,119
Transaction costs of shares issuance	–	(219,527)	–	–	–	–	–	–	–	–	–	(219,527)	–	(219,527)
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(4,889)	(4,889)
Transfer to surplus reserves (Note 33)	–	–	13,617	(13,617)	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2014	₱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

	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** (Notes 12 and 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)	**Total Equity**
Balance at January 1, 2016, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱554,263**	**₱22,219,098**	**₱–**	**₱–**	**(₱3,022,853)**	**(₱2,326,283)**	**₱154,713**	**₱98,875,776**
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	–	**2,580,260**	**(85,106)**	–	**(7,735)**	**(37,932)**	**457,755**	**2,907,242**
Balance at January 1, 2016, as restated	**49,965,587**	**31,331,251**	**554,263**	**24,799,358**	**(85,106)**	–	**(3,030,588)**	**(2,364,215)**	**612,468**	**101,783,018**
Total comprehensive income (loss) for the year	–	–	–	**7,147,566**	–	–	**(439,351)**	**(457,638)**	**302,754**	**6,553,331**
Declaration of Cash Dividends	–	–	–	**(1,249,139)**	–	–	–	–	–	**(1,249,139)**
Sale of direct interest in a subsidiary (Note 37)	–	–	–	–	**85,106**	–	–	–	–	**85,106**
Other equity reserves (Note 25)	–	–	–	–	–	**105,670**	–	–	–	**105,670**
Transfer to surplus reserves (Note 33)	–	–	**19,395**	**(19,395)**	–	–	–	–	–	–
Balance at December 31, 2016	**₱49,965,587**	**₱31,331,251**	**₱573,658**	**₱30,678,390**	**₱–**	**₱105,670**	**(₱3,469,939)**	**(₱2,821,853)**	**₱915,222**	**₱107,277,986**
Balance at January 1, 2015, as previously reported	₱49,965,587	₱31,331,251	₱537,620	₱16,019,048	₱–	₱–	(₱2,276,501)	(₱2,249,830)	₱68,603	₱93,395,778
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	–	2,683,346	–	–	(59,641)	(43,003)	(128,457)	2,452,245
Balance at January 1, 2015, as restated	49,965,587	31,331,251	537,620	18,702,394	–	–	(2,336,142)	(2,292,833)	(59,854)	95,848,023
Total comprehensive income (loss) for the year	–	–	–	6,113,607	–	–	(768,033)	(82,901)	672,322	5,934,995
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	(85,106)	–	73,587	11,519	–	–
Transfer to surplus reserves (Note 33)	–	–	16,643	(16,643)	–	–	–	–	–	–
Balance at December 31, 2015	₱49,965,587	₱31,331,251	₱554,263	₱24,799,358	(₱85,106)	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱101,783,018
Balance at January 1, 2014, as previously reported	₱43,448,337	₱26,499,909	₱524,003	₱11,613,316	₱–	₱–	(₱3,400,929)	(₱1,262,899)	₱225,594	₱77,647,331
Effect of retroactive application of PAS 27 (Amendment) (Note 2)	–	–	–	1,743,941	–	–	(180,936)	(15,473)	65,777	1,613,309
Balance at January 1, 2014, as restated	43,448,337	26,499,909	524,003	13,357,257	–	–	(3,581,865)	(1,278,372)	291,371	79,260,640
Total comprehensive income (loss) for the year	–	–	–	5,358,754	–	–	1,245,723	(1,014,461)	(351,225)	5,238,791
Issuance of capital stock (Note 25)	6,517,250	5,050,869	–	–	–	–	–	–	–	11,568,119
Transaction costs on shares issuance	–	(219,527)	–	–	–	–	–	–	–	(219,527)
Transfer to surplus reserves (Note 33)	–	–	13,617	(13,617)	–	–	–	–	–	–
Balance at December 31, 2014	₱49,965,587	₱31,331,251	₱537,620	₱18,702,394	₱–	₱–	(₱2,336,142)	(₱2,292,833)	(₱59,854)	₱95,848,023

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱8,083,053**	₱7,573,218	₱6,598,172	**₱7,975,615**	₱7,223,928	₱6,727,961
Income before income tax from discontinued operations (Note 37)	**826,061**	402,236	307,333	**681,228**	–	–
Income before income tax	**8,909,114**	7,975,454	6,905,505	**8,656,843**	7,223,928	6,727,961
Adjustments for:						
Provision for impairment, credit and other losses (Notes 16 and 37)	**3,212,694**	600,945	2,264,615	**1,707,494**	94,435	2,155,199
Net gain on sale or exchange of assets (Note 13)	**(2,510,361)**	(1,595,518)	(1,453,047)	**(2,517,861)**	(1,581,385)	(1,435,726)
Gain on remeasurement of a previously held interest (Note 12)	**(1,644,339)**	–	–	**(1,644,339)**	–	–
Depreciation and amortization (Notes 11 and 37)	**1,554,645**	1,462,925	1,495,970	**1,343,583**	1,305,779	1,342,210
Realized trading gain on available-for-sale investments (Notes 9 and 37)	**(1,362,477)**	(782,065)	(1,174,153)	**(1,350,468)**	(756,777)	(1,128,511)
Amortization of premium (discount) on investment securities	**1,144,317**	(911,967)	(694,846)	**1,137,513**	(872,123)	1,099,979
Loss (gain) on mark-to-market of derivatives (Note 23)	**698,071**	583,375	(105,244)	**698,071**	583,358	(105,087)
Loss (gain) from sale of previously held interest (Note 12)	**(681,228)**	–	–	**(681,228)**	13,247	(1,917)
Recoveries on receivable from special purpose vehicle (Note 28)	**(500,000)**	(353,000)	(27,000)	**(500,000)**	(353,000)	(27,000)
Amortization of fair values of HTM reclassified to AFS (Note 9)	**145,727**	139,372	124,145	**140,332**	126,531	102,615
Loss on mark-to-market of held for trading securities (Note 9)	**88,436**	314,836	233,439	**88,436**	314,846	233,506
Equity in net earnings of subsidiaries and an associate (Note 12)	**(49,325)**	–	–	**(255,292)**	(251,852)	(1,007,198)
Amortization of transaction costs (Note 17)	**36,640**	33,836	38,600	**36,640**	33,836	38,600
Amortization of fair value adjustments	**21,137**	63,519	222,245	**21,137**	63,519	222,245
Gain on mark-to-market of financial assets and liabilities designated at fair value through profit or loss (Notes 9 and 18)	**3,202**	(210)	(1,751)	–	–	–
Loss on write-off of software cost (Note 14)	**894**	–	2,648	–	–	852
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**(547,222)**	178,898	(178,898)	**(508,224)**	132,596	(178,898)
Financial assets at fair value through profit or loss	**1,904,611**	(1,691,607)	(5,768,722)	**1,923,254**	1,304,882	(2,978,696)
Loans and receivables	**(66,333,237)**	(49,881,768)	(44,553,319)	**(52,436,762)**	(38,729,690)	(35,839,430)
Other assets	**(1,643,070)**	238,353	(3,022,695)	**(743,644)**	666,991	(2,357,544)
Increase (decrease) in amounts of:						
Financial liabilities at fair value through profit or loss	**–**	2,998,489	2,787,130	–	90,745	(118,819)
Deposit liabilities	**84,510,588**	38,196,138	(14,994,164)	**71,640,617**	37,950,439	(16,258,325)
Accrued taxes, interest and other expenses	**729,486**	595,696	(82,174)	**520,970**	336,577	25,993
Other liabilities	**1,204,703**	538,654	(2,565,604)	**651,404**	(294,584)	(3,314,173)
Net cash generated from (used in) operations	**28,893,006**	(1,295,645)	(60,547,320)	**27,928,476**	7,402,298	(52,802,164)
Income taxes paid	**(784,682)**	(718,496)	(899,599)	**(715,203)**	(516,503)	(696,006)
Net cash provided by (used in) operating activities	**28,108,324**	(2,014,141)	(61,446,919)	**27,213,273**	6,885,795	(53,498,170)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (As Restated - Note 2)
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale of:						
Available-for-sale investments	**₱83,143,335**	₱66,348,222	₱63,379,326	**₱81,843,119**	₱60,096,798	₱56,615,134
Investment properties	**2,387,170**	4,050,406	2,849,775	**2,255,377**	3,918,919	2,830,358
Property and equipment (Note 11)	**142,129**	499,529	451,212	**418,869**	432,469	457,352
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	–
Proceeds from maturities of :						
Available-for-sale investments	**–**	21,848,096	368,050	**–**	21,848,096	–
Held-to-maturity investments	**–**	115,397	40,000	–	–	–
Collection of receivables from special purpose vehicle	**500,000**	353,000	27,000	**500,000**	353,000	27,000
Share in dividends from subsidiaries (Note 12)	–	–	–	**66,125**	180,000	67,793
Acquisitions of:						
Available-for-sale investments	**(83,486,942)**	(100,599,843)	(65,706,781)	**(82,272,241)**	(92,903,772)	(59,016,667)
Property and equipment (Note 11)	**(2,028,339)**	(1,907,386)	(981,458)	**(1,740,338)**	(1,577,147)	(835,152)
Software cost (Note 14)	**(406,053)**	(571,768)	(384,951)	**(404,837)**	(558,372)	(380,474)
Held-to-maturity investments	**–**	(976,403)	(571,602)	–	(892,200)	(571,602)
Additional investments in subsidiaries (Note 12)	–	–	–	**(292,416)**	(601,772)	(10,600,000)
Closure of subsidiaries (Note 12)	–	–	–	–	–	2,035
Net cash provided by(used in) investing activities	**3,482,266**	(10,840,750)	(529,429)	**3,604,624**	(9,601,358)	(11,404,223)
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of:						
Bills and acceptances payable	**180,747,610**	116,889,829	42,300,489	**175,375,030**	112,249,710	39,296,399
Capital stock	**–**	–	11,568,119	–	–	11,568,119
Proceeds from sale of non-controlling interest in subsidiaries (Note 12)	**–**	102,623	–	–	–	–
Settlement of:						
Bills and acceptances payable	**(169,839,126)**	(111,139,760)	(36,442,592)	**(165,576,107)**	(107,605,128)	(34,286,795)
Subordinated debt	**(6,500,000)**	–	–	**(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	**(43,209)**	(17,933)	(4,889)	**–**	–	–
Payments for transaction cost of issuance of shares	**–**	–	(219,527)	–	–	(219,527)
Net cash provided by (used in) financing activities	**2,823,720**	5,232,987	17,201,600	**2,049,784**	4,644,582	16,358,196
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**34,414,310**	(7,621,904)	(44,774,748)	**32,867,681**	1,929,019	(48,544,197)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**15,863,080**	14,628,489	11,804,746	**12,598,715**	13,865,078	9,700,005
Due from Bangko Sentral ng Pilipinas	**81,363,444**	105,773,685	153,169,330	**79,203,948**	95,415,467	146,079,249
Due from other banks	**18,287,308**	15,591,406	14,881,541	**11,450,573**	5,013,357	6,146,134
Interbank loans receivable	**5,800,383**	7,492,539	8,405,250	**5,912,224**	7,492,539	8,405,250
Securities held under agreements to resell	**14,550,000**	–	–	**14,550,000**	–	–
	135,864,215	143,486,119	188,260,867	**123,715,460**	**121,786,441**	**170,330,638**
CASH AND CASH EQUIVALENTS AT END 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 (Note 8)	**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
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱4,620,623**	₱3,881,864	₱3,387,941	**₱4,254,991**	₱3,628,149	₱3,150,615
Interest received	**23,544,207**	20,208,489	22,270,498	**20,653,077**	17,952,107	22,147,995
Dividends received	**17,593**	22,190	2,409	**80,841**	198,338	79,744

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) 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, 2016 and 2015, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.38% of the Parent Company's shares were held by Philippine Central Depository (PCD) Nominee Corporation. The remaining 22.79% 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 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 675 and 665 domestic branches as of December 31, 2016 and 2015, respectively.

The Parent Company has the largest overseas network among Philippine banks with 73 and 75 branches, representative offices, remittance centers and subsidiaries as of December 31, 2016 and 2015, 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.

The Parent Company previously operated under a rehabilitation program pursuant to the memorandum of agreement signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002. In May 2007, the Parent Company concluded its 5-year Rehabilitation Plan as approved by the Bangko Sentral ng Pilipinas (BSP).

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.

The merger of the Parent Company and ABC enabled the two banks to advance their long-term strategic business interests as they capitalized on their individual strengths and markets.

On April 26, 2013, the Group filed a request for a ruling from the 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). As of December 31, 2016, the ruling request is still pending with the Law Division of the BIR. The Group believes that the BIR will issue such confirmation on the basis of 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.

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 (FVPL) 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 year except for the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2016. Except as otherwise indicated, the changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- PFRS 10, PFRS 12 and PAS 28, *Investment Entities: Applying the Consolidation Exception* (Amendments)
- PFRS 11, *Accounting for Acquisitions of Interests in Joint Operations* (Amendments)
- PFRS 14, *Regulatory Deferral Accounts*
- Philippine Accounting Standards (PAS) 1, *Disclosure Initiative (*Amendments)
- PAS 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization* (Amendments)
- PAS 16 and PAS 41, *Agriculture: Bearer Plants* (Amendments)

Annual Improvements to PFRSs (2012-2014 cycle)

- PFRS 5, *Non-current Assets Held-for-Sale and Discontinued Operations - Changes in Methods of Disposal* (Amendments)
- PFRS 7, *Financial Instruments: Disclosures - Servicing Contracts*(Amendments)
- PFRS 7, *Applicability of the Amendments to PFRS to Condensed Interim Financial Statements* (Amendments)
- PAS 19, *Employee Benefits - regional market issue regarding discount rate* (Amendments)
- PAS 34, *Interim Financial Reporting - disclosure of information elsewhere in the interim financial report* (Amendments)

In 2016, the Parent Company adopted the amendments to PAS 27, *Separate Financial Statements*, *Equity Method in Separate Financial Statements*, following the guidelines provided by the BSP. The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures, and associates in their separate financial statements. The Parent Company elected to use the equity method in its separate financial statements. These amendments do not have any impact on the Group's consolidated financial statements.

Additional statement of financial position as at January 1, 2015 is presented in the separate financial statements due to retrospective application of the change in accounting policy.
The effects of retrospective restatement of items in the financial statements are detailed below:

	December 31, 2015		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Investments in subsidiaries and an associate	₱23,821,982	₱2,675,750	₱26,497,732
Deferred tax assets	1,031,948	(95,456)	936,492
Assets of a disposal group classified as held for sale	846,015	326,948	1,172,963
Surplus	22,219,098	2,580,260	24,799,358
Net unrealized loss on available-for-sale investments	(3,022,853)	(7,735)	(3,030,588)
Remeasurement losses on retirement plan	(2,326,283)	(37,932)	(2,364,215)
Accumulated translation adjustment	154,713	457,755	612,468
Reserves of a disposal group classified as held for sale	–	(85,106)	(85,106)

	For the year ended December 31, 2015		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Miscellaneous income	₱1,759,155	(₱259,482)	₱1,499,673
Equity in net earnings of subsidiaries and an associate	–	69,307	69,307
Provision for income tax	1,014,865	95,456	1,110,321
Net income from discontinued operations	–	182,545	182,545

(Forward)

	For the year ended December 31, 2015		
	As previously reported	Effect of restatement	As restated
Other comprehensive income			
Share in changes in net unrealized gains on available-for-sale investments of subsidiaries and an associate	₱–	₱51,906	₱51,906
Share in changes in accumulated translation adjustment of subsidiaries and an associate	–	586,212	586,212
Share in changes in remeasurement gains on retirement plan of subsidiaries and an associate	–	5,071	5,071

	January 1, 2015		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Investments in subsidiaries and an associate	₱24,102,612	₱2,452,245	₱26,554,857
Surplus	16,019,048	2,683,346	18,702,394
Net unrealized loss on available-for-sale investments	(2,276,501)	(59,641)	(2,336,142)
Remeasurement losses on retirement plan	(2,249,830)	(43,003)	(2,292,833)
Accumulated translation adjustment	68,603	(128,457)	(59,854)

	For the year ended December 31, 2014		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Miscellaneous income	₱1,419,591	(₱67,794)	₱1,351,797
Equity in net earnings of subsidiaries and an associate	–	1,007,198	1,007,198
Other comprehensive income			
Share in changes in net unrealized gains on available-for-sale investments of subsidiaries and an associate	–	121,295	121,295
Share in changes in accumulated translation adjustment of subsidiaries and an associate	–	(194,234)	(194,234)
Share in changes in remeasurement gains on retirement plan of subsidiaries and an associate	–	(27,530)	(27,530)

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.

Non-current Assets and Disposal Group Held for Sale and Discontinued Operations
The Group classifies non-current assets and disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. As such non-current assets and disposal groups are measured at the lower of their carrying 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.

For financial options and guarantees which are not closely related to the host insurance contract, bifurcation is required to measure these embedded financial derivatives separately as financial assets or liabilities at fair value through profit or loss (FVPL). Bifurcation is not required if the embedded derivative is itself an insurance contract or when the host insurance contract itself is measured as financial assets or liabilities at FVPL. The options and guarantees within the

insurance contracts issued by the Group are treated as derivative financial instruments which are closely related to the host insurance and therefore not bifurcated subsequently. As such, the Group does not separately measure options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). Likewise, the embedded derivative in unit-linked insurance contracts linking the payment on the contract to units of internal investment funds meets the definition of an insurance contract and is therefore not accounted for separately from the host insurance contract.

Based on the Group guidelines, all products in its portfolio meet the definition of insurance contracts, including unit-linked products, which contain features that make use of funds specifically segregated for the benefit of unit-linked policyholders.

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 FVPL 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 FVPL, the initial measurement of financial instruments includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, 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 FVPL

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 FVPL' or 'Financial Liabilities at FVPL') 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 FVPL
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 FVPL 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 consolidated 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 FVPL 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 FVPL, 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 FVPL 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

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
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 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 end of reporting

period are accounted for as provision for unearned premiums and presented as part of 'Insurance contract liabilities' in the 'Other Liabilities' section of the consolidated statement of financial position. The change in the provision for unearned premiums is taken to the consolidated 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.

Claims provision and IBNR losses
Outstanding claims provisions are based on the estimated ultimate cost to all claims incurred but not settled at the reporting date, whether reported or not, together with the 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 reporting date. The liability is not discounted for the time value of money and includes provision for IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract is discharged or cancelled or has expired.

Liability Adequacy Test
Liability adequacy tests on life insurance contracts are performed annually to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows, claims handling and policy administration expenses are used. Any deficiency is immediately charged against profit or loss initially by establishing a provision for losses arising from the liability adequacy tests. The adequacy of the liability on insurance contracts is tested based on the pricing assumptions set out at the inception of the contract. When the liability adequacy test requires the adoption of a new set of revised best estimate assumptions, such assumptions are used for the subsequent measurement of these liabilities.

For nonlife insurance contracts, liability adequacy tests are performed at the end of each reporting date to ensure the adequacy of insurance contract liabilities, net of related Deferred Acquisition Cost (DAC). 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.

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.

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.

Policy Loans
Policy loans included under loans and receivables are carried at their unpaid balances plus accrued interest and are fully secured by the policy values on which the loans are made.

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 '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
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 capital 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 Gain (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, 2017

PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)* (Amendments)
The amendments clarify that the disclosure requirements in PFRS 12, other than those relating to summarized financial information, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The amendments do not have any impact on the Group's financial position and results of operation. The Group will include the required disclosures in its 2017 consolidated financial statements.

PAS 7, *Statement of Cash Flows, Disclosure Initiative* (Amendments)
The amendments to PAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendments, entities are not required to provide comparative information for preceding periods. Early application of the amendments is permitted.

Application of amendments will result in additional disclosures in the 2017 consolidated financial statements of the Group.

PAS 12, *Income Taxes, Recognition of Deferred Tax Assets for Unrealized Losses* (Amendments)
The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognized in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application of the amendments is permitted.

These amendments are not expected to have any impact on the Group.

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 consolidated 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 overlay approach and the deferral approach will only be available to an entity if it has not previously applied PFRS 9.

The Group is assessing which approach it will use and the potential impact of the chosen approach in its consolidated financial statements.

PFRS 9, *Financial Instruments*
PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, Financial Instruments: Recognition and Measurement, and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. PFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The adoption of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets and impairment methodology for financial assets, but will have no impact on the classification and measurement of the Group's financial liabilities. The adoption will also have an effect on the Group's application of hedge accounting and on the amount of its credit losses. The Group is currently assessing the impact of adopting this standard.

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 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 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 consolidated 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, goodwill 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 a 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 management framework. As delegated by the BOD, the Risk Oversight Committee (ROC) is mandated to set risk appetite, approve frameworks, policies and processes for managing risk, and accept risks beyond the approval discretion provided to management. The ROC advises on the overall current and future risk appetite and strategy and assists in overseeing the implementation of those strategies and business plans by senior management. Details of the Parent Company's risk framework are discussed under the Risk Management Disclosure Section of the Parent Company's annual report.

The Group's activities are principally related to the development, delivery, servicing and use of financial instruments. Risk is inherent in these activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability.

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either 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			
	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).*

	Consolidated			
	2015			
	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱14,550,000	₱14,516,223	₱33,777	₱14,516,223
Loans and receivables:				
Receivable from customers*:				
Business loans	290,095,409	251,693,476	232,049,711	58,045,698
Consumers	33,615,950	46,755,806	15,652,016	17,963,934
GOCCs and NGAs	23,037,919	27,561,404	3,941,304	19,096,615
LGUs	7,792,655	1,430,738	7,050,998	741,657
Fringe benefits	552,079	829,780	246,613	305,466
Unquoted debt securities	4,245,069	3,434,914	810,155	3,434,914
Other receivable	19,101,758	8,553,573	14,856,651	4,245,107
	₱392,990,839	₱354,775,914	₱274,641,225	₱118,349,614

**Receivables from customers exclude residual value of the leased asset (Note 10).*

	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**

	Parent Company
	2015

	Gross Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under repurchase agreement	₱14,550,000	₱14,516,223	₱33,777	₱14,516,223
Loans and receivables:				
Receivable from customers				
Business loans	277,692,524	231,128,278	232,161,031	45,531,493
Consumers	14,033,577	25,514,598	6,384,992	7,648,585
GOCCs and NGAs	23,037,919	27,561,404	3,941,304	19,096,615
LGUs	7,792,655	1,430,738	7,050,998	741,657
Fringe benefits	538,887	820,321	242,878	296,009
Unquoted debt securities	4,245,069	3,434,914	810,155	3,434,914
Other receivable	13,820,335	8,544,352	9,584,448	4,235,887
	₱355,710,966	₱312,950,828	₱260,209,583	₱95,501,383

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			
	2016			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱388,503,018**	**₱78,723,534**	**₱131,622,446**	**₱598,848,998**
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**

(Forward)

	Consolidated			
	2016			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Other European Union Countries	**₱1,425,522**	**₱942,855**	**₱4,643,448**	**₱7,011,825**
Oceania	**3,594,610**	**–**	**–**	**3,594,610**
United Kingdom	**42,086**	**843,737**	**1,568,364**	**2,454,187**
Middle East	**7,707**	**–**	**31,042**	**38,749**
	₱427,319,579	**₱93,429,082**	**₱160,379,351**	**₱681,128,012**

* *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			
	2015			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱346,480,786	₱76,378,062	₱98,334,288	₱521,193,136
Asia (excluding the Philippines)	17,732,943	12,884,161	14,081,917	44,699,021
USA and Canada	776,838	957,062	5,079,342	6,813,242
Other European Union Countries	–	5,725,103	1,640,140	7,365,243
United Kingdom	20,893	139,178	1,156,311	1,316,382
Middle East	1,365	–	12,108	13,473
	₱365,012,825	₱96,083,566	₱120,304,106	₱581,400,497

* *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			
	2016			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱366,510,639**	**₱77,371,752**	**₱127,423,155**	**₱571,305,547**
Asia (excluding the Philippines)	**11,011,491**	**12,715,714**	**10,154,230**	**33,881,435**
USA and Canada	**–**	**843,276**	**4,053,526**	**4,896,802**
Oceania	**668,901**	**–**	**4,135,016**	**4,803,917**
Other European Union Countries	**–**	**843,737**	**1,244,950**	**2,088,687**
Middle East	**7,707**	**–**	**31,042**	**38,749**
United Kingdom		**225**	**–**	**225**
	₱378,198,738	**₱91,774,704**	**₱147,041,919**	**₱617,015,362**

* *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			
	2015			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱319,220,646	₱74,835,244	₱94,995,277	₱489,051,167
Asia (excluding the Philippines)	8,509,086	12,883,954	9,035,854	30,428,894
USA and Canada	569,141	862,708	4,801,070	6,232,919
Other European Union Countries	–	5,725,103	1,639,322	7,364,425
Middle East	1,365	–	12,108	13,473
United Kingdom	–	58,250	814,433	872,683
	₱328,300,238	₱94,365,259	₱111,298,064	₱533,963,561

* *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			
	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**	**58,532,665**	**609,197**	**494,820**	**59,636,682**
	₱427,319,579	**₱93,429,082**	**₱160,379,351**	**₱681,128,012**

* *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			
	2015			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱38,776,292	₱8,420,062	₱24,088,110	₱71,284,464
Wholesale and retail	50,575,572	–	5,579	50,581,151
Electricity, gas and water	49,526,664	1,799,906	3,591	51,330,161
Transport, storage and communication	28,872,881	1,661	599	28,875,141
Manufacturing	40,697,028	30,611	27	40,727,666
Public administration and defense	25,294,475	–	–	25,294,475
Agriculture, hunting and forestry	5,996,258	–	75	5,996,333
Secondary target industry:				
Government	625,802	72,457,525	95,913,444	168,996,771
Real estate, renting and business activities	43,751,147	5,488,738	27,671	49,267,556
Construction	11,516,779	–	371	11,517,150
Others**	69,379,927	7,885,063	264,639	77,529,629
	₱365,012,825	₱96,083,566	₱120,304,106	₱581,400,497

* *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			
	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**	**54,403,614**
Electricity, gas and water	**49,626,635**	**4,771,510**	**5,469**	**56,601,293**
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).*

	Parent Company			
	2015			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱38,440,318	₱8,173,172	₱17,409,518	₱64,023,008
Wholesale and retail	46,788,392	–	5,579	46,793,971
Electricity, gas and water	49,463,182	1,799,906	3,591	51,266,679
Transport, storage and communication	27,034,887	1,661	599	27,037,147
Manufacturing	37,203,799	30,611	27	37,234,437
Public administration and defense	25,294,475	–	–	25,294,475
Agriculture, hunting and forestry	5,519,770	–	75	5,519,845
Secondary target industry:				
Government	625,802	71,244,398	93,753,948	165,624,148
Real estate, renting and business activities	36,160,266	5,488,738	27,671	41,676,675
Construction	9,793,549	–	371	9,793,920
Others*	51,975,798	7,626,773	216,319	59,818,890
	₱328,300,238	₱94,365,259	₱111,417,698	₱534,083,195

* *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 and 30.00% for power industry 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-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 ₱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 - Fair

These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Marginal

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, 2016 and 2015, but net of residual values of leased assets.

	Consolidated			
	2016			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 – Excellent	**₱9,426,928**	**₱791**	**₱–**	**₱9,427,719**
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 - Fair	**21,057,009**	**–**	**–**	**21,057,009**
9 - Marginal	**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**	**655,932**	**3,502,163**	**4,161,298**
	354,110,873	**1,377,146**	**4,675,591**	**360,163,610**
Unrated Receivable from Customers				
Consumers	**37,548,926**	**802,828**	**27,440**	**38,379,194**
Business Loans	**8,026,179**	**465,016**	**567,575**	**9,058,770**
LGUs	**7,196,440**	**9,950**	**130,523**	**7,336,913**
Fringe Benefits	**560,534**	**12,484**	**–**	**573,018**
GOCCs and NGAs	**178,153**	**–**	**–**	**178,153**
	53,510,232	**1,290,278**	**725,538**	**55,526,048**
	₱407,621,105	**₱2,667,424**	**₱5,401,129**	**₱415,689,658**

	Consolidated			
	2015			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	₱4,090,408	₱–	₱–	₱4,090,408
2 - Super Prime	65,177,554	–	–	65,177,554
3 - Prime	55,509,700	193	–	55,509,893
4 - Very Good	29,059,432	467	–	29,059,899
5 - Good	53,997,893	159	76,066	54,074,118
6 - Satisfactory	31,701,037	8,355	85,648	31,795,040
7 - Average	19,304,040	1,260	–	19,305,300
8 - Fair	24,464,636	2,076	139,333	24,606,045
9 - Marginal	9,846,975	1,864	49,351	9,898,190
10 - Watchlist	18,884,955	89	3,000	18,888,044
11 - Special Mention	2,311,620	87,930	148,456	2,548,006
12 - Substandard	613,275	191,601	647,968	1,452,844
13 - Doubtful	–	26,301	1,306,189	1,332,490
14 - Loss	–	1,364,422	2,263,739	3,628,161
	314,961,525	1,684,717	4,719,750	321,365,992

(Forward)

	Consolidated			
	2015			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Unrated Receivable from Customers				
Consumers	₱7,943,525	₱1,398,624	₱32,199	₱9,374,348
Business Loans	15,144,231	150,695	46,282	15,341,208
GOCCs and NGAs	2,455,069	–	47,060	2,502,129
Fringe Benefits	518,923	10,725	25,994	555,642
LGUs	7,697,189	26,597	65,424	7,789,210
	33,758,937	1,586,641	216,959	35,562,537
	₱348,720,462	₱3,271,358	₱4,936,709	₱356,928,529

	Parent Company			
	2016			
	Neither Past Due nor Individually Impaired	**Past Due and not Individually Impaired**	**Individually Impaired**	**Total**
Rated Receivable from Customers				
1 - Excellent	**₱9,356,313**	**₱791**	**₱–**	**₱9,357,104**
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**
7 - Average	**25,168,489**	**5,085**	**–**	**25,173,574**
8 - 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**
	339,521,145	**792,621**	**3,845,321**	**344,159,087**
Unrated Receivable from Customers				
Business Loans	**9,186,145**	**403,791**	**567,575**	**10,157,511**
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**	**–**	**545,756**
GOCCs and NGAs	**178,153**	**–**	**–**	**178,153**
	25,752,320	**1,057,490**	**713,601**	**27,523,411**
	₱365,273,465	**₱1,850,111**	**₱4,558,922**	**₱371,682,498**

	Parent Company			
	2015			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivable from Customers				
1 - Excellent	₱3,944,861	₱–	₱–	₱3,944,861
2 - Super Prime	64,243,898	–	–	64,243,898
3 - Prime	54,377,704	193	–	54,377,897
4 - Very Good	27,568,487	467	–	27,568,954
5 - Good	33,868,924	159	–	33,869,083
6 - Satisfactory	23,798,683	3,019	23,432	23,825,134
7 - Average	18,649,361	1,260	–	18,650,621
8 - Fair	24,060,879	2,076	139,333	24,202,288
9 - Marginal	9,751,289	1,864	49,351	9,802,504
10 - Watchlist	17,897,858	–	3,000	17,900,858
11 - Special Mention	2,262,084	32,004	32,915	2,327,003
12 - Substandard	613,275	159,680	436,856	1,209,811
13 - Doubtful	–	15,218	1,025,278	1,040,496
14 - Loss	–	1,364,422	2,152,444	3,516,866
	281,037,303	1,580,362	3,862,609	286,480,274
Unrated Receivable from Customers				
Business Loans	17,735,218	150,695	46,282	17,932,195
Consumers	7,871,087	1,390,262	19,204	9,280,553
LGUs	7,697,189	26,597	65,424	7,789,210
Fringe Benefits	505,730	10,725	22,520	538,975
GOCCs and NGAs	2,455,069	–	47,060	2,502,129
	36,264,293	1,578,279	200,490	38,043,062
	₱317,301,596	₱3,158,641	₱4,063,099	₱324,523,336

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				
	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**

	Consolidated				
	2015				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱59,704	₱10,508	₱26,437	₱1,685,805	₱1,782,454
Consumers	172,194	95,601	238,854	944,934	1,451,583
Fringe benefits	904	98	1,294	8,428	10,724
LGUs	–	–	–	26,597	26,597
Total	₱232,802	₱106,207	₱266,585	₱2,665,764	₱3,271,358

	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**

	Parent Company				
	2015				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱12,079	₱9,841	₱26,437	₱1,681,269	₱1,729,626
Consumers	113,519	95,452	237,789	944,934	1,391,694
Fringe benefits	904	98	1,294	8,428	10,724
LGUs	–	–	–	26,597	26,597
Total	₱126,502	₱105,391	₱265,520	₱2,661,228	₱3,158,641

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					
	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
Derivative assets[2/]	43,510	28,097	9,974	81,581	337,541	419,122
Private debt securities	–	–	–	–	120,589	120,589
Equity securities	–	–	27,415	27,415	27,194	54,609
Investment in unit investment trust funds (UITFs)	–	–	6,144	6,144	–	6,144
AFS investments:						
Government securities	1,548,376	–	36,202,024	37,750,400	84,159	37,834,559
Private debt securities	4,299,497	2,880,154	4,964,387	12,144,038	16,697,032	28,841,070
Quoted equity securities	–	–	54,139	54,139	439,819	493,958
Unquoted equity securities	16,837	–	536	17,373	153,779	171,152
HTM investments						
Government securities	99,580	–	22,842,219	22,941,799	1,232,680	24,174,479
Loans and receivables:						
Unquoted debt securities[3/]	–	–	–	–	3,285,222	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/ As of December 31, 2016 and 2015, financial assets that are unrated are neither past due nor impaired.

	Consolidated					
	2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱81,363,444	₱81,363,444
Due from other banks	5,973,964	3,770,982	7,700,508	17,445,454	841,854	18,287,308
Interbank loans receivables	1,814,131	3,525,011	461,192	5,800,334	49	5,800,383
Securities held under agreements to resell	–	–	–	–	14,550,000	14,550,000
Financial assets at FVPL:						
Government securities	–	–	3,723,377	3,723,377	244,837	3,968,214
Derivative assets[2/]	12,391	10,458	35,242	58,091	123,257	181,348
Private debt securities	–	–	113,196	113,196	30,604	143,800
Equity securities	–	–	69	69	199,853	199,922
Investment in Unit Investment Trust Funds (UITFs)	–	–	–	–	17,261	17,261
AFS investments:						
Government securities	1,829,038	–	28,625,851	30,454,889	14,805,508	45,260,397
Private debt securities	3,320,989	397,000	10,938,756	14,656,745	7,596,235	22,252,980
Quoted equity securities	–	–	203,182	203,182	450,749	653,931
Unquoted equity securities	–	–	508	508	173,208	173,716
HTM investments						
Government securities	94,354	4,706	23,132,937	23,231,997	–	23,231,997

(Forward)

	Consolidated					
	2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Loans and receivables:						
Unquoted debt securities[3/]	₱–	₱–	₱75,394	₱75,394	₱550,408	₱625,802
Others[4/]	–	–	–	–	15,923,079	15,923,079

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/ As of December 31, 2016 and 2015, 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**
Derivative assets[2/]	**43,510**	**28,097**	**9,974**	**81,581**	**337,238**	**418,819**
Private debt securities	**–**	**–**	**–**	**–**	**120,589**	**120,589**
Equity securities	**–**	**–**	**69**	**69**	**27,194**	**27,263**
AFS investments:						
Government securities	**730,311**	**–**	**36,170,619**	**36,900,930**	**–**	**36,900,930**
Private debt securities	**3,835,425**	**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/]	**–**	**–**	**–**	**–**	**3,227,376**	**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/ As of December 31, 2016 and 2015, financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱–	₱–	₱79,203,948	₱79,203,948
Due from other banks	5,856,006	3,770,856	981,857	10,608,719	841,854	11,450,573
Interbank loans receivables	1,814,131	3,525,011	461,192	5,800,334	158,192	5,958,526
Securities held under agreements to resell	–	–	–	–	14,550,000	14,550,000
Financial assets at FVPL:						
Government securities	–	–	3,723,377	3,723,377	244,837	3,968,214
Derivative assets[2/]	12,228	10,415	35,242	57,885	123,257	181,142
Private debt securities	–	–	113,197	113,197	30,603	143,800
Equity securities	–	–	69	69	199,639	199,708

(Forward)

	Parent Company					
	2015					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
AFS investments:						
Government securities	₱727,525	₱–	₱28,542,175	₱29,269,700	₱14,805,509	₱44,075,209
Private debt securities	3,222,933	397,000	10,819,417	14,439,350	7,596,235	22,035,585
Quoted equity securities	–	–	–	–	450,749	450,749
Unquoted equity securities	–	–	–	–	173,209	173,209
HTM investments						
Government securities	–	4,706	23,132,937	23,137,643	–	23,137,643
Loans and receivables:						
Unquoted debt securities[3/]	–	–	75,394	75,394	550,408	625,802
Others[4/]	–	–	–	–	10,943,494	10,943,494

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/ As of December 31, 2016 and 2015, 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					
	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	150,054,162	–	–	–	–	150,054,162
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	–	–	–	–	665,898	665,898
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	₱231,531,478	₱67,175,432	₱26,172,236	₱24,700,368	₱460,650,151	₱810,229,665
Financial Liabilities						
Deposit liabilities:						
Demand	₱117,329,019	₱–	₱–	₱–	₱–	₱117,329,019
Savings	291,611,443	31,169,095	12,960,373	18,753,987	15,868,774	370,363,672
Time	23,861,628	17,470,857	8,226,400	6,371,654	33,651,214	89,581,753
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	₱467,339,268	₱50,093,302	₱25,936,449	₱30,947,270	₱68,601,725	₱642,918,014

	Consolidated					
	2015					
	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	₱15,220,536	₱–	₱–	₱–	₱–	₱15,220,536
Due from BSP and other banks	99,653,689	–	–	–	–	99,653,689
Interbank loans receivable	5,384,320	416,335	2	–	–	5,800,657
Securities held under agreements to resell	14,583,112	–	–	–	–	14,583,112
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,979,182	–	–	–	–	3,979,182
Private debt securities	143,800	–	–	–	–	143,800
Equity securities	199,922	–	–	–	–	199,922
Derivative assets:						
Gross contractual receivable	16,817,945	2,059,068	28,125	41,474	348,870	19,295,482
Gross contractual payable	(16,752,755)	(2,040,301)	(18,692)	(27,122)	(275,264)	(19,114,134)
	65,190	18,767	9,433	14,352	73,606	181,348
Designated at FVPL:						
Investment in UITFs	17,261	–	–	–	–	17,261
AFS investments:						
Government securities	1,059,295	520,629	951,709	1,001,232	56,959,465	60,492,330
Private debt securities	183,767	534,094	307,439	11,562	27,717,072	28,753,934
Equity securities	–	–	–	–	827,647	827,647
HTM investments:						
Government securities	180,144	180,557	258,803	678,216	38,629,314	39,927,034
Loans and receivables:						
Receivables from customers	66,383,185	52,578,247	14,540,326	22,197,081	271,348,146	427,046,985
Unquoted debt securities	–	944	7,228	76,792	4,178,634	4,263,598
Other receivables	2,726,391	573,776	1,451,743	346,294	14,761,243	19,859,447
Other assets	247,521	2,300	1,405	1,141	50,605	302,972
Total financial assets	₱210,027,315	₱54,825,649	₱17,528,088	₱24,326,670	₱414,545,732	₱721,253,454
Financial Liabilities						
Deposit liabilities:						
Demand	₱110,029,680	₱–	₱–	₱–	₱–	₱110,029,680
Savings	260,880,163	25,250,869	11,251,179	5,732,360	13,745,867	316,860,438
Time	14,063,900	9,319,023	6,449,528	3,815,186	27,445,340	61,092,977
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	5,543,024	2,890,536	255,308	41,235	283,752	9,013,855
Gross contractual receivable	(5,500,389)	(2,829,870)	(246,017)	(27,122)	(275,264)	(8,878,662)
	42,635	60,666	9,291	14,113	8,488	135,193
Bills and acceptances payable	4,075,366	1,437,194	89,661	538,023	20,204,285	26,344,529
Subordinated debt	–	161,094	161,094	102,813	10,102,813	10,527,814
Accrued interest payable and accrued other expenses payable	1,019,379	158,692	17,574	23,423	1,564,522	2,783,590
Other liabilities	16,994,824	336,090	397,086	126,790	1,432,971	19,287,761
Total financial liabilities	₱407,105,947	₱36,723,628	₱18,375,413	₱10,352,708	₱74,504,286	₱547,061,982

	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	286,307,746	31,169,095	12,960,373	18,753,987	15,868,774	365,059,975
Time	16,846,800	10,047,816	5,080,280	5,038,937	26,252,632	63,266,465
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	₱442,391,465	₱43,074,817	₱23,304,738	₱29,442,864	₱59,940,572	₱598,154,456

	Parent Company					
	2015					
	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	₱12,598,715	₱–	₱–	₱–	₱–	₱12,598,715
Due from BSP and other banks	90,656,132	–	–	–	–	90,656,132
Interbank loans receivable	5,508,484	441,255	9,061	–	–	5,958,800
Securities held under agreements to resell	14,583,112	–	–	–	–	14,583,112
Financial assets at FVPL:						
Held-for-trading:						
Government securities	3,979,182	–	–	–	–	3,979,182
Private debt securities	143,800	–	–	–	–	143,800
Equity securities	199,708	–	–	–	–	199,708
Derivative assets:						
Gross contractual receivable	15,866,204	2,057,068	20,125	41,474	348,870	18,333,741
Gross contractual payable	(15,801,188)	(2,038,302)	(10,723)	(27,122)	(275,264)	(18,152,599)
	65,016	18,766	9,402	14,352	73,606	181,142
AFS investments:						
Government securities	909,573	369,261	752,825	620,595	56,246,178	58,898,432
Private debt securities	183,767	534,094	269,017	994	27,546,996	28,534,868
Equity securities	–	–	–	–	623,958	623,958
HTM investments:						
Government securities	180,144	180,557	258,803	614,748	38,598,427	39,832,679
Loans and receivables:						
Receivables from customers	63,179,932	50,212,435	13,042,482	19,528,423	244,008,754	389,972,026
Unquoted debt securities	–	944	7,228	76,792	4,178,634	4,263,598
Other receivables	1,568,082	425,558	1,345,612	140,576	11,047,327	14,527,155
Other assets	215,207	2,300	1,405	1,142	34,597	254,651
Total financial assets	₱193,970,854	₱52,185,170	₱15,695,835	₱20,997,622	₱382,358,477	₱665,207,958
Financial Liabilities						
Deposit liabilities:						
Demand	₱108,667,550	₱–	₱–	₱–	₱–	₱108,667,550
Savings	256,194,773	25,250,869	11,251,179	5,732,360	13,745,867	312,175,048
Time	13,863,388	5,855,896	4,550,162	3,557,448	23,433,015	51,259,909
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	4,710,062	2,655,236	20,008	41,235	283,751	7,710,292
Gross contractual receivable	(4,667,535)	(2,594,639)	(10,723)	(27,122)	(275,264)	(7,575,283)
	42,527	60,597	9,285	14,113	8,487	135,009
Bills and acceptances payable	3,035,251	1,418,949	84,838	436,855	20,204,285	25,180,178
Subordinated debt	–	161,094	161,094	102,813	10,102,813	10,527,814
Accrued interest payable and accrued other expenses payable	991,128	156,705	14,717	23,239	1,564,522	2,750,311
Other liabilities	11,541,802	423,937	165,079	148,918	662,967	12,942,703
Total financial liabilities	₱394,336,419	₱33,328,047	₱16,236,354	₱10,015,746	₱69,721,956	₱523,638,522

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, 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*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2015	₱1.99	₱296.83	₱8.81	₱307.63
Average Daily	3.67	306.33	8.99	318.99
Highest	14.52	420.79	10.50	392.93
Lowest	0.92	144.96	7.19	170.35

* *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):

	2016	2015
End of year	**₱1,399.01**	₱1,303.05
Average Daily	**1,261.85**	1,249.75
Highest	**1,575.39**	1,444.14
Lowest	**859.08**	797.87

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 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 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					
	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	₱57,091,542	₱3,963,915	₱1,552,139	₱148,711	₱191,407	₱62,947,714
Interbank loans receivable	6,483,431	1,158,517	–	149,160	–	7,791,108
Receivable from customers and other receivables - gross**	112,589,715	69,561,736	13,940,309	3,330,898	66,612,092	266,034,750
Total financial assets	₱176,164,688	₱74,684,168	₱15,492,448	₱3,628,769	₱66,803,499	₱336,773,572
Financial Liabilities*						
Deposit liabilities:						
Savings	₱87,934,546	₱30,744,080	₱19,341,869	₱26,083,607	₱14,471,705	₱178,575,807
Time	22,628,013	11,627,502	8,195,577	6,214,396	11,327,985	59,993,473
Bills and acceptances payable	11,916,653	13,623,760	5,416,933	1,084,673	3,843,929	35,885,948
Total financial liabilities	₱122,479,212	₱55,995,342	₱32,954,379	₱33,382,676	₱29,643,619	₱274,455,228
Repricing gap	₱53,685,476	₱18,688,826	(₱17,461,931)	(₱29,753,907)	₱37,159,880	₱62,318,344
Cumulative gap	53,685,476	72,374,302	54,912,371	25,158,464	62,318,344	–

**Financial instruments that are not subject to repricing/rollforward were excluded.*
***Receivable from customers excludes residual value of leased assets (Note 10).*

	Consolidated					
	2015					
	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					
	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	**₱49,531,514**	**₱–**	**₱–**	**₱–**	**₱–**	**₱49,531,514**
Interbank loans receivable	**6,599,689**	**1,158,517**	**–**	**149,160**	**–**	**7,907,366**
Receivable from customers and other receivables – gross	**112,589,715**	**69,561,736**	**13,940,309**	**3,330,898**	**66,612,092**	**266,034,750**
Total financial assets	**₱168,720,918**	**₱70,720,253**	**₱13,940,309**	**₱3,480,058**	**₱66,612,092**	**₱323,473,630**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱84,396,897**	**₱30,689,495**	**₱19,260,425**	**₱25,923,172**	**₱14,471,705**	**₱174,741,694**
Time	**18,593,842**	**5,798,198**	**5,112,195**	**4,903,355**	**3,941,853**	**38,349,443**
Bills and acceptances payable	**15,207,904**	**13,045,275**	**4,877,709**	**152,588**	**703,222**	**33,986,698**
Total financial liabilities	**₱118,198,643**	**₱49,532,968**	**₱29,250,329**	**₱30,979,115**	**₱19,116,780**	**₱247,077,835**
Repricing gap	**₱50,522,275**	**₱21,187,285**	**(₱15,310,020)**	**(₱27,499,057)**	**₱47,495,312**	**₱76,395,795**
Cumulative gap	**50,522,275**	**71,709,560**	**56,399,540**	**28,900,483**	**76,395,795**	**–**

**Financial instruments that are not subject to repricing/rollforward were excluded.*

	Parent Company					
	2015					
	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, 2016 and 2015:

	Consolidated			
	2016		2015	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱410,056**	**₱410,056**	₱358,163	₱358,163
-50bps	**(410,056)**	**(410,056)**	(358,163)	(358,163)
+100bps	**820,112**	**820,112**	716,326	716,326
-100bps	**(820,112)**	**(820,112)**	(716,326)	(716,326)

	Parent Company			
	2016		2015	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱396,673**	**₱396,673**	₱371,372	₱371,372
-50bps	**(396,673)**	**(396,673)**	(371,372)	(371,372)
+100bps	**793,346**	**793,346**	742,744	742,744
-100bps	**(793,346)**	**(793,346)**	(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					
	2016			2015		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱2,439,520**	**₱364,532**	**₱2,804,052**	₱2,442,421	₱367,924	₱2,810,345
Due from other banks	**6,963,920**	**12,842,915**	**19,806,835**	8,864,214	8,878,761	17,742,975
Interbank loans receivable and securities held under agreements to resell	**2,465,839**	**1,650,496**	**4,116,335**	2,309,227	1,207,330	3,516,557
Loans and receivables	**13,443,688**	**697,144**	**14,140,832**	17,533,276	508,518	18,041,794
Financial assets at FVPL	**–**	**–**	**–**	103	31,488	31,591
AFS investments	**1,876,850**	**1,958,502**	**3,835,352**	483,785	942,936	1,426,721
HTM investments	**8,026**	**–**	**8,026**	3,183	–	3,183
Other assets	**92,922**	**82,444**	**175,366**	47,315	49,465	96,780
Total assets	**27,290,765**	**17,596,033**	**44,886,798**	31,683,524	11,986,422	43,669,946
Liabilities						
Deposit liabilities	**9,857,351**	**3,679,624**	**13,536,975**	9,778,371	3,354,614	13,132,985
Derivative liabilities	**427**	**529**	**956**	92	169	261
Bills and acceptances payable	**4,931,773**	**225,866**	**5,157,639**	2,968,079	292,304	3,260,383
Accrued interest payable	**41,222**	**105,904**	**147,126**	1,591,617	39,457	1,631,074
Other liabilities	**1,070,134**	**520,406**	**1,590,540**	677,965	409,194	1,087,159
Total liabilities	**15,900,907**	**4,532,329**	**20,433,236**	15,016,124	4,095,738	19,111,862
Net Exposure	**₱11,389,858**	**₱13,063,704**	**₱24,453,562**	₱16,667,400	₱7,890,684	₱24,558,084

* *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					
	2016			2015		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱134,521**	**₱236,225**	**₱370,746**	₱351,524	₱267,197	₱618,721
Due from other banks	**2,342,535**	**8,514,773**	**10,857,308**	2,145,720	7,254,596	9,400,316
Interbank loans receivable and securities held under agreements to resell	**1,816,463**	**1,449,239**	**3,265,702**	1,432,622	1,006,287	2,438,909
Loans and receivables	**11,638,723**	**452,175**	**12,090,898**	14,306,521	288,917	14,595,438
Financial assets at FVPL	**–**	**–**	**–**	–	31,427	31,427
AFS investments	**1,876,314**	**1,891,150**	**3,767,464**	483,277	862,008	1,345,285
HTM investments	**8,026**	**–**	**8,026**	3,183	–	3,183
Other assets	**92,922**	**268**	**93,190**	47,212	247	47,459
Total assets	**17,909,504**	**12,543,830**	**30,453,334**	18,770,059	9,710,679	28,480,738
Liabilities						
Deposit liabilities	**1,990,870**	**3,308,204**	**5,299,074**	2,081,030	2,984,574	5,065,604
Derivative liabilities	**–**	**529**	**529**	–	169	169
Bills and acceptances payable	**4,763,163**	**70,183**	**4,833,346**	2,706,703	143,323	2,850,026
Accrued interest payable	**34,342**	**19,023**	**53,365**	1,584,964	17,546	1,602,510
Other liabilities	**914,852**	**104,947**	**1,019,799**	663,161	249,935	913,096
Total liabilities	**7,703,227**	**3,502,886**	**11,206,113**	7,035,858	3,395,547	10,431,405
Net Exposure	**₱10,206,277**	**₱9,040,944**	**₱19,247,221**	₱11,734,201	₱6,315,132	₱18,049,333

* *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, 2016 and ₱1.2 billion (sold) and ₱3.9 billion (bought) as of December 31, 2015.

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, 2016 and 2015follow:

	2016	2015
US dollar - Philippine peso exchange rate	**₱49.72 to USD1.00**	₱47.06 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, 2016 and 2015:

	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)**

	2015			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱161,836	₱166,674	₱112,509	₱117,342
-1.00%	(161,836)	(166,674)	(112,509)	(117,342)

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
APLII's and 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 APLII and PNB Gen to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Insurance Code, APLII and 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.

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). APLII has fully complied with the relevant capital requirements having an estimated statutory net worth amounting to ₱1.5 billion and ₱1.4 billion as of December 31, 2016 and 2015, respectively, and RBC ratio of 185.00% and 187.00% as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, PNB Gen has an estimated statutory net worth amounting to ₱484.3 million and ₱374.0 million, respectively. PNB Gen's RBC ratio as of December 31, 2016 and 2015 is 72.00% and 21.55%, respectively.

In a letter dated January 11, 2017 addressed to the Parent Company, the BSP approved on December 28, 2016 the request of the Parent Company 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.

PNB Gen expects its financial performance to continue to improve in 2017 through strategy of profitable growth, effective claims management and more efficient collection of both premiums receivable and claims recoverable. These will have positive impact on the RBC ratio, not to mention on the new RBC formula which is presently under consideration.

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 2.70% to 6.75% and from 2.66% to 3.77% as of December 31, 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					
	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	₱84,375,617	₱–	₱–	₱86,109,334	₱86,109,334
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
		₱122,100,023	₱–	₱–	₱128,129,550	₱128,129,550

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses (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					
	2015					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/2015	₱3,968,214	₱2,636,413	₱1,331,801	₱–	₱3,968,214
Derivative assets	12/29/2015	181,348	–	118,016	63,332	181,348
Private debt securities	12/29/2015	143,800	143,800	–	–	143,800
Equity securities	12/29/2015	199,922	199,752	170	–	199,922
Investment in UITFs	12/29/2015	17,261	–	17,261	–	17,261
AFS investments:						
Government securities	12/29/2015	45,260,397	33,499,835	11,760,562	–	45,260,397
Private debt securities	12/29/2015	22,252,980	21,614,280	638,700	–	22,252,980
Equity securities*	12/29/2015	653,931	560,272	93,659	–	653,931
Assets of a Disposal Group						
Classified as Held for Sale:						
Financial assets at FVPL:						
Segregated fund assets	12/29/2015	13,634,687	7,854,450	–	5,780,237	13,634,687
AFS Investments						
Government securities	12/29/2015	2,485,902	2,485,902	–	–	2,485,902
Other debt securities	12/29/2015	3,604,065	3,604,065	–	–	3,604,065
Equity securities*	12/29/2015	1,378,686	1,378,686	–	–	1,378,686
		₱93,781,193	₱73,977,455	₱13,960,169	₱5,843,569	₱93,781,193
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/2015	₱135,193	₱–	₱135,193	₱–	₱135,193
Liabilities of Disposal Group						
Classified as Held for Sale						
Financial Liabilities at FVPL:						
Segregated fund liabilities****	12/29/2015	13,634,687	7,854,450	–	5,780,237	13,634,687
		₱13,769,880	₱7,854,450	₱135,193	₱5,780,237	₱13,769,880
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/2015	₱23,231,997	₱18,729,222	₱5,887,982	₱–	₱24,617,204
Loans and Receivables:**						
Receivables from customers	12/29/2015	349,176,265	–	–	360,136,440	360,136,440
Unquoted debt securities	12/29/2015	625,802	–	–	648,046	648,046
Assets of a Disposal Group						
Classified as Held for Sale:						
HTM investments	12/29/2015	1,269,398	1,336,814	–	–	1,336,814
		₱374,303,462	₱20,066,036	₱5,887,982	₱360,784,486	₱386,738,504
Nonfinancial Assets						
Investment property:***						
Land	2015	₱11,432,653	₱–	₱–	₱21,012,616	₱21,012,616
Buildings and improvements	2015	1,797,352	–	–	3,584,585	3,584,585
		₱13,230,005	₱–	₱–	₱24,597,201	₱24,597,201
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/2015	₱60,552,445	₱–	₱–	₱60,762,710	₱60,762,710
Bills payable	1229/2015	25,407,406	–	–	25,033,940	25,033,940
Subordinated debt	12/29/2015	9,986,427	–	–	10,241,659	10,241,659
		₱95,946,278	₱–	₱–	₱96,038,309	₱96,038,309

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses (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					
	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
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	₱62,731,586	–	–	₱62,154,985	₱62,154,985
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
		₱98,556,742	–	–	₱98,347,727	₱98,347,727

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses (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					
	2015					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/2015	₱3,968,214	₱2,636,413	₱1,331,801	₱–	₱3,968,214
Derivative assets	12/29/2015	181,142	–	117,810	63,332	181,142
Private debt securities	12/29/2015	143,800	143,800	–	–	143,800
Equity securities	12/29/2015	199,708	199,708	–	–	199,708
AFS investments:						
Government securities	12/29/2015	44,075,209	32,314,647	11,760,562	–	44,075,209
Private debt securities	12/29/2015	22,035,585	21,396,885	638,700	–	22,035,585
Equity securities*	12/29/2015	450,749	357,090	93,659	–	450,749
		₱71,054,407	₱57,048,543	₱13,942,532	₱63,332	₱71,054,407
Liabilities measured at fair value:						
Financial Liabilities						
Derivative liabilities	12/29/2015	₱135,009	₱–	₱135,009	₱–	₱135,009

(Forward)

	Parent Company					
	2015					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/2015	₱23,137,643	₱18,634,867	₱5,887,982	₱–	₱24,522,849
Loans and Receivables:**						
Receivables from customers	12/29/2015	316,730,942	–	–	325,917,837	325,917,837
Unquoted debt securities	12/29/2015	625,802	–	–	648,046	648,046
		₱340,494,387	₱18,634,867	₱5,887,982	₱326,565,883	₱351,088,732
Nonfinancial Assets						
Investment properties:***						
Land	2015	₱13,045,427	₱–	₱–	₱21,290,540	₱21,290,540
Buildings and improvements	2015	1,621,404	–	–	2,912,787	2,912,787
		₱14,666,831	₱–	₱–	₱24,203,327	₱24,203,327
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/2015	₱50,736,320	₱–	₱–	₱50,946,585	₱50,946,585
Bills payable	12/29/2015	24,285,071	–	–	23,904,966	23,904,966
Subordinated debt	12/29/2015	9,986,427	–	–	10,241,659	10,241,659
		₱85,007,818	₱–	₱–	₱85,093,210	₱85,093,210

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses (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, 2016 and 2015, 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**	
	2016	2015	**2016**	2015
Financial assets				
Balance at beginning of year	**₱5,843,569**	₱5,339,628	**₱63,332**	₱71,160
Fair value changes recognized in profit or loss	**(1,787)**	503,941	**(1,787)**	(7,828)
Change arising from sale of direct interest in a subsidiary	**(5,780,237)**	–	**–**	–
Balance at end of year	**₱61,545**	₱5,843,569	**₱61,545**	₱63,332

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities				
Balance at beginning of year	**₱5,780,237**	₱5,268,468	**₱–**	₱–
Fair value changes recognized in profit or loss	**–**	511,769	**–**	–
Change arising from sale of direct interest in a subsidiary	**(5,780,237)**	–	**–**	–
Balance at end of year	**₱–**	₱5,780,237	**₱–**	₱–

Equity and/or Credit-Linked Notes are shown as 'Assets of Disposal Group Classified as Held for Sale' as of December 31, 2015 (Note 37).

The structured Variable Unit-Linked Notes can be decomposed into bond components and options components. The fair value of structured notes has been computed by counterparties using present value calculations and option pricing models, as applicable. The valuation requires management to make certain assumptions about the model inputs particularly the credit spread of the Issuer. The model also used certain market observable inputs including the counterparty's credit default swap (CDS), PHP interest rate swap (IRS) rates (for the Peso-denominated issuances) and ROP CDS rates (for the USD-denominated issuances).

Description of valuation techniques follow:

Structured Notes	Valuation Methods	Significant Unobservable Inputs	Significant Observable Inputs
Peso-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	PHP IRS
Dollar-denominated	DCF Method / Monte Carlo Simulation	Issuer's Funding rate / Issuer's CDS as proxy	ROP CDS / USD IRS

The sensitivity analysis of the fair market value of the structured notes as of December 31, 2015 is performed for the reasonable possible movement in the significant inputs with all other variables held constant, showing the impact to profit and loss follows:

Sensitivity of the fair value measurement to changes in unobservable inputs:

2015			
Structured Investments	Significant Unobservable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso - denominated	Bank CDS Levels	47.28 - 92.37 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462
Dollar - denominated	Bank CDS Levels	40.179 - 76.344 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱41,710,217

* *The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

Sensitivity of the fair value measurement to changes in observable inputs:

2015			
Structured Investments	Significant Observable Input	Range of Input	Sensitivity of the Input to Fair Value*
Peso - denominated	PHP IRS (3Y)	180.25 - 355.00 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱65,500,462
Dollar-denominated	ROP CDS (5Y)	126.15 - 193.33 bps	50 bps increase/(decrease) in change inputs would result in a (decrease) / increase in the market value of the note by ₱28,095,617

* *The sensitivity analysis is performed only on the fixed income portion of the Note, thus are based on assumptions that if changed may cause the value to fall out of range*

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:

	2016					
	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**	**(136,649)**	**11,642,012**
Segment revenue	**8,378,464**	**11,546,323**	**7,709,495**	**3,449,727**	**124,505**	**31,208,514**
Other expenses	**(8,207,826)**	**(3,611,997)**	**(200,330)**	**(3,423,737)**	**576,949**	**(14,866,941)**
Segment result	**₱170,638**	**₱7,934,326**	**₱7,509,165**	**₱25,990**	**₱701,454**	**₱16,341,573**
Unallocated expenses						**(8,258,520)**
Net income before income tax						**8,083,053**
Income tax						**1,517,030**
Net income from continuing operations						**6,566,023**
Net income from discontinued operations						**619,563**
Non-controlling interest						**(38,122)**
Net income for the year attributable to equity holders of the Parent Company						**₱7,147,464**
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**	**₱319,056**	**₱3,212,964**

** The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

2015

	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	545,862	9,950,800
Segment revenue	8,097,341	10,802,321	6,000,722	1,932,417	809,838	27,642,639
Other expenses	(7,808,713)	(935,445)	(118,411)	(3,061,754)	(1,076,767)	(13,001,090)
Segment result	₱288,628	₱9,866,876	₱5,882,311	(₱1,129,337)	(₱266,929)	14,641,549
Unallocated expenses						(7,068,331)
Net income before income tax						7,573,218
Income tax						(1,619,554)
Net income from continuing operations						5,953,664
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						₱6,113,508
Other segment information						
Capital expenditures	₱925,062	₱10,405	₱1,780	₱121,557	₱250,092	₱1,308,896
Unallocated capital expenditure						589,574
Total capital expenditure						₱1,898,470
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*

	2014					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,306,979	₱11,521,156	₱2,987,955	₱206,786	₱435,786	₱16,458,662
Inter-segment	3,928,385	(3,431,729)	(496,656)	–	–	–
Net interest margin after inter-segment transactions	5,235,364	8,089,427	2,491,299	206,786	435,786	16,458,662
Other income	2,026,365	4,062,801	1,122,246	2,946,655	(45,859)	10,112,208
Segment revenue	7,261,729	12,152,228	3,613,545	3,153,441	389,927	26,570,870
Other expenses	(7,131,047)	(3,677,796)	(217,934)	(2,158,368)	(628,280)	(13,813,425)
Segment result	₱130,682	₱8,474,432	₱3,395,611	₱995,073	(₱238,353)	12,757,445
Unallocated expenses						(6,159,273)
Net income before income tax						6,598,172
Income tax						(1,367,288)
Net income from continuing operations						5,230,884
Net income from discontinued operations						264,161
Non-controlling interest						(136,376)
Net income for the year attributable to equity holders of the Parent Company						₱5,358,669

(Forward)
Other segment information

	2014					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Capital expenditures	₱744,394	₱25,454	₱1,404	₱291,118	₱32,553	₱1,094,923
Unallocated capital expenditure						271,486
Total capital expenditure						₱1,366,409
Depreciation and amortization	₱140,607	₱110,966	₱5,562	₱720,041	₱276,170	₱1,253,346
Unallocated depreciation and amortization						228,585
Total depreciation and amortization						₱1,481,931
Provision for (reversal of) impairment, credit and other losses	₱545,281	₱859,782	(₱11,766)	₱355,627	₱515,691	₱2,264,615

* *The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2016					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱368,781,391**	**₱359,553,260**	**₱212,189,932**	**₱25,351,620**	**(₱213,533,306)**	**₱752,342,897**
Unallocated assets						**1,422,213**
Total assets						**₱753,765,110**
Segment liabilities	**₱528,797,409**	**₱57,719,741**	**₱64,033,215**	**₱37,602,324**	**(₱213,885,651)**	**₱474,267,038**
Unallocated liabilities						**169,557,166**
Total liabilities						**₱643,824,204**

* *The adjustments and eliminations column mainly represent the RAP to PFRS adjustments*

	As of December 31, 2015					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱70,842,231	₱278,330,998	₱192,617,758	₱273,895,363	(₱138,148,929)	₱677,537,421
Unallocated assets						2,150,316
Total assets						₱679,687,737
Segment liabilities	₱328,801,574	₱51,043,083	₱50,222,776	₱189,688,815	(₱137,664,873)	₱482,091,375
Unallocated liabilities						92,840,501
Total liabilities						₱574,931,876

* *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**	
	2016	2015	**2016**	2015	**2016**	2015
Philippines	**₱310,067,651**	₱297,495,756	**₱615,084,923**	₱550,838,120	**₱2,195,996**	₱1,879,019
Asia (excluding Philippines)	**6,225,748**	6,063,370	**24,392,446**	20,378,499	**232,949**	167
USA and Canada	**77,790,006**	74,359,768	**4,245,479**	3,661,259	**461**	19,284
United Kingdom	**2,649,627**	728,454	**101,356**	53,998	**4,986**	–
	₱396,733,032	₱378,647,348	**₱643,824,204**	₱574,931,876	**₱2,434,392**	₱1,898,470

* *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		
	2016	2015	**2016**	2015	2014
Philippines	**₱27,995,354**	₱16,083,883	**₱29,124,972**	₱25,580,852	₱24,650,375
Asia (excluding Philippines)	**467,830**	465,026	**1,267,659**	1,308,540	1,184,773
USA and Canada	**4,197**	796	**668,833**	598,662	534,838
United Kingdom	**–**	–	**147,050**	154,585	200,884
	₱28,467,381	₱16,549,705	**₱31,208,514**	₱27,642,639	₱26,570,870

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, 2016 and 2015, 30.11% and 8.69% of the Group's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Due from BSP bear annual interest rates ranging from 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015 and 2014.

As of December 31, 2016 and 2015, 29.64% and 7.32% of the Parent Company's Due from BSP are placed under the TDF with the BSP. TDFs bear annual interest rates ranging from 2.50% to 3.50% in 2016 and 2.00% to 2.50% in 2015 and 2014.

8. Interbank Loans Receivable and Securities Held Under Agreements to Resell

The Group's interbank loans receivable include foreign currency-denominated placements amounting to ₱7.8 billion as of December 31, 2016 and ₱5.8 billion as of December 31, 2015. The Group's and the Parent Company's peso-denominated interbank loans receivables bear interest ranging from 2.56% to 3.19% in 2015, and from 3.00% to 3.19% in 2014; and from 0.01% to 4.40%, 0.01% to 0.35%, and 0.08% to 0.25% for foreign-currency denominated placements in 2016, 2015 and 2014, 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	
	2016	2015	**2016**	2015
Interbank loans receivable	**₱7,791,108**	₱5,800,383	**₱7,907,366**	₱5,958,526
Less: Interbank loans receivable not considered as cash and cash equivalents	**547,222**	–	**554,526**	46,302
	₱7,243,886	₱5,800,383	**₱7,352,840**	₱5,912,224

Securities held under agreements to resell are peso-denominated placements with carrying value of ₱2.0 billion and ₱14.6 billion as of December 31, 2016 and 2015, respectively. The Group's and the Parent Company's peso-denominated securities held under repurchase agreements bear interest ranging from 3.00% to 4.00% in 2016 and 4.00% in 2015. The fair value of the treasury bills pledged under these agreements as of December 31, 2016 and 2015 amount to ₱2.0 billion and ₱14.5 billion, respectively.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial assets at FVPL	**₱1,913,864**	₱4,510,545	**₱1,880,071**	₱4,492,864
AFS investments	**67,340,739**	68,341,024	**65,819,735**	66,734,752
HTM investments	**24,174,479**	23,231,997	**24,074,898**	23,137,643
	₱93,429,082	₱96,083,566	**₱91,774,704**	₱94,365,259

Financial Assets at FVPL

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Government securities	**₱1,313,400**	₱3,968,214	**₱1,313,400**	₱3,968,214
Derivative assets (Notes 23 and 36)	**419,122**	181,348	**418,819**	181,142
Private debt securities	**120,589**	143,800	**120,589**	143,800
Equity securities	**54,609**	199,922	**27,263**	199,708
Investment in UITFs	**6,144**	17,261	–	–
	₱1,913,864	₱4,510,545	**₱1,880,071**	₱4,492,864

As of December 31, 2016 and 2015, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱66.9 million and ₱261.5 million, respectively.

The carrying amount of equity securities includes unrealized loss of ₱21.5 million and ₱53.3 million as of December 31, 2016 and 2015, respectively, for the Group and unrealized loss of ₱32.0 million and ₱12.0 million as of December 31, 2016 and 2015, respectively, for the Parent Company.

In 2016, 2015, and 2014, the nominal interest rates of government securities range from 2.75% to 10.63%, 2.13% to 10.63%, and 2.75% to 8.88%, respectively.

In 2016, 2015, and 2014, the nominal interest rates of private debt securities range from 5.50% to 7.38%, 4.80% to 7.38%, and 4.25% to 7.38%, respectively.

AFS Investments

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Government debt securities (Notes 19 and 33)	**₱37,834,559**	₱45,260,397	**₱36,900,930**	₱44,075,209
Private securities	**28,841,070**	22,252,980	**28,325,207**	22,035,585
Equity securities - net of allowance for impairment losses (Note 16)				
Quoted	**493,958**	653,931	**439,819**	450,749
Unquoted	**171,152**	173,716	**153,779**	173,209
	₱67,340,739	₱68,341,024	**₱65,819,735**	₱66,734,752

In 2016, the Group and the Parent Company recognized impairment losses on equity securities amounting to ₱15.9 million and ₱15.6 million, respectively. In 2015, the Group and the Parent Company recognized impairment losses on equity securities amounting to ₱0.2 million (Note 16).

The movements in net unrealized loss on AFS investments of the Group are as follows:

	2016			2015			2014		
	Parent Company	**NCI**	**Total**	Parent Company	NCI	Total	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,030,588)**	**₱168,630**	**(₱2,861,958)**	(₱2,336,142)	₱179,878	(₱2,156,264)	(₱3,581,865)	₱158,990	(₱3,422,875)
Changes in fair values of AFS investments	**1,009,783**	**–**	**1,009,783**	(171,907)	(9,641)	(181,548)	2,286,623	19,514	2,306,137
Provision for impairment (Note 16)	**15,856**	**–**	**15,856**	230	–	230	1,423	–	1,423
Realized gains	**(1,364,066)**	**(360)**	**(1,364,426)**	(777,890)	(4,175)	(782,065)	(1,171,221)	(2,932)	(1,174,153)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**144,657**	**1,079**	**145,736**	136,804	2,568	139,372	119,839	4,306	124,145
Share in net unrealized losses of an associate (Note 12)	**(245,867)**	**–**	**(245,867)**	–	–	–	–	–	–
Effect of disposal group classified as held-for-sale (Note 37)	**–**	**(169,349)**	**(169,349)**	115,430	–	115,430	–	–	–
	(439,637)	**(168,630)**	**(608,267)**	(697,333)	(11,248)	(708,581)	1,236,664	20,888	1,257,552
Income tax effect (Note 31)	**286**	**–**	**286**	2,887	–	2,887	9,059	–	9,059
Balance at end of year	**(₱3,469,939)**	**₱–**	**(₱3,469,939)**	(₱3,030,588)	₱168,630	(₱2,861,958)	(₱2,336,142)	₱179,878	(₱2,156,264)

The changes in the net unrealized loss in AFS investments of the Parent Company follow:

	2016	2015 (As restated)	2014 (As restated)
Balance at the beginning of the year	**(₱3,030,588)**	(₱2,336,142)	(₱3,581,865)
Changes in fair values of AFS investments	**1,008,908**	(192,809)	2,139,842
Provision for impairment (Note 16)	**15,601**	230	1,423
Realized gains	**(1,350,453)**	(756,777)	(1,128,511)
Amortization of net unrealized loss on AFS investments reclassified as HTM	**140,341**	126,531	102,615
Share in net unrealized losses of subsidiaries and an associate (Note 12)	**(253,748)**	51,906	121,295
Effect of disposal group classified as held-for-sale (Note 37)	**–**	73,586	–
	(3,469,939)	(3,033,475)	(2,345,201)
Income tax effect (Note 31)	**–**	2,887	9,059
Balance at end of year	**(₱3,469,939)**	(₱3,030,588)	(₱2,336,142)

As of December 31, 2016 and 2015, 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 ₱9.8 billion and ₱8.5 billion, respectively (Note 19). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the counterparties 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.

Included in the Group's AFS investments are pledged securities for the Surety Bond with face value amount of ₱800.0 million issued by PNB Gen. As of December 31, 2015, the carrying value and fair value of these securities amounted to ₱873.0 million and ₱974.4 million, respectively (Note 35). As of December 31, 2016, a compromise agreement on the settlement of loans has been made and said Surety Bond was no longer renewed by PNB Gen.

HTM Investments
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, 2015, HTM investments of the Group and the Parent Company consist of government securities and private debt securities amounting to ₱23.2 billion and ₱23.1 billion, respectively.

As of December 31, 2016 and 2015, 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 counterparties amounted to ₱15.3 billion and ₱7.5 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, 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. As of December 31, 2015, the carrying values and fair values of the reclassified investment securities amounted to ₱20.3 billion and ₱21.8 billion, respectively, for the Group and ₱20.2 billion and ₱21.7 billion, respectively, for the Parent Company. 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 ₱0.3 billion in 2016 and ₱0.8 billion in 2015.

Interest Income on Trading and Investment Securities
This account consists of:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
AFS investments	**₱2,262,857**	₱2,443,660	₱1,953,437	**₱2,212,466**	₱2,407,634	₱1,968,228
HTM investments	**926,652**	925,334	794,541	**926,131**	924,462	725,613
Financial assets at FVPL	**837,085**	373,042	244,886	**837,085**	373,042	244,886
	₱4,026,594	₱3,742,036	₱2,992,864	**₱3,975,682**	₱3,705,138	₱2,938,727

Effective interest rates range from 1.31% to 5.93%, 1.03% to 5.62%, and 2.58% to 5.62% in 2016, 2015 and 2014, respectively, for peso-denominated AFS investments.

Effective interest rates range from 1.29% to 5.30%, 1.10% to 5.39%, and 2.06% to 5.83% in 2016, 2015 and 2014, respectively, for foreign currency-denominated AFS investments.

HTM investments bear effective annual interest rates ranging from 3.60% to 5.64% in 2016, 2015 and 2014, respectively.

Trading and Investment Securities Gains (Losses) - net
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Financial assets at FVPL:						
Held-for-trading	**(₱6,113)**	(₱175,161)	₱197,224	**(₱6,113)**	(₱175,290)	₱196,597
Designated at FVPL	**(3,202)**	–	1,751	**–**	–	–
AFS investments	**1,362,462**	761,191	1,159,492	**1,350,453**	756,777	1,128,511
Derivative financial instruments (Note 23)	**25,174**	(11,709)	(90,761)	**25,174**	(11,709)	(90,761)
	₱1,378,321	₱574,321	₱1,267,706	**₱1,369,514**	₱569,778	₱1,234,347

10. Loans and Receivables

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Receivable from customers:				
Loans and discounts	**₱392,159,433**	₱333,910,923	**₱350,840,183**	₱305,051,911
Customers' liabilities on letters of credit and trust receipts	**8,830,606**	10,501,665	**8,600,938**	10,162,498
Credit card receivables	**7,102,207**	5,363,750	**7,102,207**	5,363,750
Bills purchased (Note 22)	**3,596,589**	3,832,905	**3,379,721**	3,498,652
Lease contracts receivable (Note 30)	**3,049,375**	3,686,791	**100,109**	101,709
Customers' liabilities on acceptances (Note 19)	**1,659,340**	344,816	**1,659,340**	344,816
	416,397,550	357,640,850	**371,682,498**	324,523,336
Less unearned and other deferred income	**1,489,955**	1,834,517	**1,116,929**	1,427,774
	414,907,595	355,806,333	**370,565,569**	323,095,562
Unquoted debt securities	**6,972,710**	4,245,069	**6,914,864**	4,245,069
Other receivables:				
Accounts receivable	**9,385,522**	8,212,190	**3,423,593**	3,102,573
Sales contract receivables	**7,449,020**	5,491,409	**7,397,664**	5,487,416
Accrued interest receivable	**3,703,763**	4,968,236	**3,485,881**	4,829,204
Miscellaneous	**501,675**	429,923	**443,289**	401,142
	21,039,980	19,101,758	**14,750,427**	13,820,335
	442,920,285	379,153,160	**392,230,860**	341,160,966
Less allowance for credit losses (Note 16)	**14,892,814**	13,428,014	**14,032,122**	12,860,728
	₱428,027,471	₱365,725,146	**₱378,198,738**	₱328,300,238

Below is the reconciliation of loans and receivables as to classes:

	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**
Customers' liabilities on letters of credit and trust receipts	**8,830,606**	–	–	–	–	–	–	**8,830,606**
Credit card receivables	**66,258**	–	–	**6,888,616**	**147,333**	–	–	**7,102,207**
Bills purchased (Note 22)	**3,383,938**	**212,651**	–	–	–	–	–	**3,596,589**
Lease contracts receivable (Note 30)	**3,049,375**	–	–	–	–	–	–	**3,049,375**
Customers' liabilities on acceptances (Note 19)	**1,659,340**	–	–	–	–	–	–	**1,659,340**
	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	–	–	–	–	–	–	**9,385,522**	**9,385,522**
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**	**21,039,980**	**442,920,285**
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**	**₱428,027,471**

	Consolidated							
	2015							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱274,314,706	₱22,920,494	₱7,804,678	₱28,398,408	₱472,637	₱–	₱–	₱333,910,923
Customers' liabilities on letters of credit and trust receipts	10,501,665	–	–	–	–	–	–	10,501,665
Credit card receivables	59,732	–	–	5,224,371	79,647	–	–	5,363,750
Bills purchased (Note 22)	3,142,231	690,674	–	–	–	–	–	3,832,905
Lease contracts receivable (Note 30)	3,686,791	–	–	–	–	–	–	3,686,791
Customers' liabilities on acceptances (Note 19)	344,816	–	–	–	–	–	–	344,816
	292,049,941	23,611,168	7,804,678	33,622,779	552,284	–	–	357,640,850
Less unearned and other deferred income	1,242,211	573,249	12,023	6,829	205	–	–	1,834,517
	290,807,730	23,037,919	7,792,655	33,615,950	552,079	–	–	355,806,333
Unquoted debt securities	–	–	–	–	–	4,245,069	–	4,245,069
Other receivables:								
Accounts receivable	–	–	–	–	–	–	8,212,190	8,212,190
Sales contract receivables	–	–	–	–	–	–	5,491,409	5,491,409
Accrued interest receivable	–	–	–	–	–	–	4,968,236	4,968,236
Miscellaneous	–	–	–	–	–	–	429,923	429,923
	290,807,730	23,037,919	7,792,655	33,615,950	552,079	4,245,069	19,101,758	379,153,160
Less allowance for credit losses (Note 16)	5,186,186	159,047	148,602	1,113,167	23,066	3,619,267	3,178,679	13,428,014
	₱285,621,544	₱22,878,872	₱7,644,053	₱32,502,783	₱529,013	₱625,802	₱15,923,079	₱365,725,146

	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**
Customers' liabilities on letters of credit and trust receipts	**8,600,938**	**–**	**–**	**–**	**–**	**–**	**–**	**8,600,938**
Credit card receivables	**66,258**	**–**	**–**	**6,888,617**	**147,332**	**–**	**–**	**7,102,207**
Bills purchased (Note 22)	**3,167,071**	**212,650**	**–**	**–**	**–**	**–**	**–**	**3,379,721**
Lease contracts receivable (Note 30)	**100,109**	**–**	**–**	**–**	**–**	**–**	**–**	**100,109**
Customers' liabilities on acceptances (Note 19)	**1,659,340**	**–**	**–**	**–**	**–**	**–**	**–**	**1,659,340**
	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**

	Parent Company							
	2015							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivable from customers:								
Loans and discounts	₱265,051,259	₱22,920,494	₱7,804,678	₱8,816,035	₱459,445	₱–	₱–	₱305,051,911
Customers' liabilities on letters of credit and trust receipts	10,162,498	–	–	–	–	–	–	10,162,498
Credit card receivables	59,732	–	–	5,224,371	79,647	–	–	5,363,750
Bills purchased (Note 22)	2,807,978	690,674	–	–	–	–	–	3,498,652
Lease contracts receivable (Note 30)	101,709	–	–	–	–	–	–	101,709
Customers' liabilities on acceptances (Note 19)	344,816	–	–	–	–	–	–	344,816
	278,527,992	23,611,168	7,804,678	14,040,406	539,092	–	–	324,523,336
Less unearned and other deferred income	835,468	573,249	12,023	6,829	205	–	–	1,427,774
	277,692,524	23,037,919	7,792,655	14,033,577	538,887	–	–	323,095,562
Unquoted debt securities	–	–	–	–	–	4,245,069	–	4,245,069
Other receivables:								
Accounts receivable	–	–	–	–	–	–	3,102,573	3,102,573
Sales contract receivables	–	–	–	–	–	–	5,487,416	5,487,416
Accrued interest receivable	–	–	–	–	–	–	4,829,204	4,829,204
Miscellaneous	–	–	–	–	–	–	401,142	401,142
	277,692,524	23,037,919	7,792,655	14,033,577	538,887	4,245,069	13,820,335	341,160,966
Less allowance for credit losses (Note 16)	5,038,887	159,047	148,602	995,020	23,064	3,619,267	2,876,841	12,860,728
	₱272,653,637	₱22,878,872	₱7,644,053	₱13,038,557	₱515,823	₱625,802	₱10,943,494	₱328,300,238

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, 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, 2016 and 2015, 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	
	2016	2015	**2016**	2015
Minimum lease payments				
Due within one year	**₱1,177,612**	₱1,428,529	**₱23,509**	₱17,909
Due beyond one year but not over five years	**1,127,371**	1,498,041	**40,100**	35,900
Due beyond five years	**36,500**	47,900	**36,500**	47,900
	2,341,483	2,974,470	**100,109**	101,709
Residual value of leased equipment				
Due within one year	**249,923**	225,590	–	–
Due beyond one year but not over five years	**457,969**	486,731	–	–
	707,892	712,321	–	–
Gross investment in lease contract receivables (Note 30)	**₱3,049,375**	₱3,686,791	**₱100,109**	₱101,709

Interest income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Receivable from customers and sales contract receivables	**₱19,635,249**	₱17,074,179	₱14,650,909	**₱16,874,365**	₱15,092,695	₱13,491,902
Unquoted debt securities	**51,160**	63,478	521,555	**49,499**	58,568	502,891
	₱19,686,409	₱17,137,657	₱15,172,464	**₱16,923,864**	₱15,151,263	₱13,994,793

As of December 31, 2016 and 2015, 75.24% and 82.84%, respectively, of the total receivable from customers of the Group were subject to interest repricing. As of December 31, 2016 and 2015, 76.23% and 76.18%, 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 2.30% to 8.75% in 2016, 1.10% to 7.00% in 2015, and 2.51% to 9.00% in 2014 for foreign currency-denominated receivables, and from 1.00% to 35.00% in 2016, 0.50% to 15.25% in 2015, and 0.03% to 23.04% in 2014 for peso-denominated receivables.

Sales contract receivables bear fixed interest rate per annum ranging from 5.00% to 21.00%, 3.30% to 21.00%, and 5.05% to 21.00% in 2016, 2015 and 2014, respectively.

Interest income accrued on impaired loans and receivable of the Group and Parent Company amounted to ₱103.7 million in 2016, ₱217.0 million in 2015, and ₱274.8 million in 2014. (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			
	2016		2015		**2016**		2015	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Financial intermediaries	**₱64,806,163**	**15.56**	₱38,910,047	10.88	**₱64,415,801**	**17.33**	₱38,565,876	11.88
Wholesale and retail	**61,414,279**	**14.75**	51,740,591	14.47	**57,682,565**	**15.52**	47,900,547	14.76
Electricity, gas and water	**49,814,968**	**11.96**	49,944,409	13.96	**49,687,531**	**13.37**	49,873,733	15.37
Manufacturing	**39,939,856**	**9.59**	42,115,959	11.78	**37,085,522**	**9.98**	38,252,329	11.79
Transport, storage and communication	**36,542,499**	**8.78**	29,358,316	8.21	**34,276,937**	**9.22**	27,136,991	8.36
Public administration and defense	**24,676,655**	**5.93**	26,128,861	7.31	**24,601,304**	**6.62**	26,128,860	8.05
Agriculture, hunting and forestry	**5,490,920**	**1.32**	6,211,092	1.74	**5,044,898**	**1.36**	5,690,508	1.76
Secondary target industry:								
Real estate, renting and business activities	**59,701,406**	**14.34**	45,723,378	12.78	**53,719,909**	**14.45**	38,240,191	11.78
Construction	**16,819,358**	**4.04**	11,697,215	3.27	**14,574,409**	**3.92**	9,898,467	3.05
Others	**57,191,446**	**13.73**	55,810,982	15.60	**30,593,622**	**8.23**	42,835,834	13.20
	₱416,397,550	**100.00**	₱357,640,850	100.00	**₱371,682,498**	**100.00**	₱324,523,336	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			
	2016		2015		**2016**		2015	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱62,257,711**	**14.95**	₱57,028,872	15.94	**₱45,697,957**	**12.30**	₱42,625,055	13.13
Chattel mortgage	**33,531,566**	**8.05**	17,162,402	4.80	**25,326,989**	**6.81**	10,723,203	3.30
Bank deposit hold-out	**14,034,793**	**3.38**	1,924,828	0.54	**13,938,107**	**3.75**	1,924,828	0.59
Shares of stocks	**1,681,531**	**0.40**	889,340	0.25	**1,681,531**	**0.45**	694,769	0.22
Others	**38,699,661**	**9.29**	30,352,753	8.49	**35,368,522**	**9.52**	26,431,424	8.15
	150,205,262	**36.07**	107,358,195	30.02	**122,013,106**	**32.83**	82,399,279	25.39
Unsecured	**266,192,288**	**63.93**	250,282,655	69.98	**249,669,392**	**67.17**	242,124,057	74.61
	₱416,397,550	**100.00**	₱357,640,850	100.00	**₱371,682,498**	**100.00**	₱324,523,336	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) of the Parent Company as to secured and unsecured follows:

	2016	2015
Secured	**₱4,918,225**	₱5,888,561
Unsecured	**3,853,334**	3,090,858
	₱8,771,559	₱8,979,419

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. Effective January 1, 2013, the exclusion of NPLs classified as loss but are fully covered by allowance was removed by the BSP through Circular No. 772. Previous banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for credit losses, provided that interest on said receivables shall not be accrued.

As of December 31, 2016 and 2015, based on the revised definition of NPLs under Circular No. 772, NPLs of ₱8.8 billion and ₱8.9 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱8.3 billion and ₱8.1 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2016 and 2015, gross and net NPL ratios of the Parent Company were 2.31% and 0.18%, and 2.61% and 0.25%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2016 and 2015 amounted to ₱1.5 billion and ₱1.6 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	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

	Consolidated						
	2015						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱13,294,729	₱6,716,569	₱4,027,169	₱536,081	₱238,083	₱702,604	₱25,515,235
Additions/transfers	2,259,224	217,072	1,082,544	–	431,635	175,953	4,166,428
Disposals/transfers/others	(1,187)	(36,121)	(382,562)	–	(328,352)	(24,033)	(772,255)
Cumulative translation adjustment	–	(3,102)	1,697	17,907	–	594	17,096
Effect of disposal group classified as held for sale (Note 37)	–	–	(42,134)	–	–	(14,066)	(56,200)
Balance at end of year	15,552,766	6,894,418	4,686,714	553,988	341,366	841,052	28,870,304
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,362,174	2,925,285	9,456	–	414,431	5,711,346
Depreciation and amortization	–	234,400	479,662	5,030	–	122,275	841,367
Disposals/transfers/others	–	49,010	(281,903)	–	–	(17,486)	(250,379)
Cumulative translation adjustment	–	(3,639)	(537)	9,109	–	150	5,083
Effect of disposal group classified as held for sale (Note 37)	–	–	(16,563)	–	–	(10,091)	(26,654)
Balance at end of year	–	2,641,945	3,105,944	23,595	–	509,279	6,280,763
Allowance for Impairment Losses (Note 16)	351,373	109,704	–	–	–	–	461,077
Net Book Value at End of Year	₱15,201,393	₱4,142,769	₱1,580,770	₱530,393	₱341,366	₱331,773	₱22,128,464

	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

	Parent Company					
	2015					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱13,292,296	₱6,653,863	₱3,377,862	₱238,083	₱595,174	₱24,157,278
Additions/transfers	89,806	217,072	780,849	431,635	147,591	1,666,953
Disposals/transfers/others	(1,187)	(39,510)	(222,528)	(328,352)	(16,542)	(608,119)
Balance at end of year	13,380,915	6,831,425	3,936,183	341,366	726,223	25,216,112
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,341,778	2,563,525	–	340,107	5,245,410
Depreciation and amortization	–	233,174	371,448	–	105,920	710,542
Disposals/transfers/others	–	46,721	(187,033)	–	(8,427)	(148,739)
Balance at end of year	–	2,621,673	2,747,940	–	437,600	5,807,213
Allowance for Impairment Losses (Note 16)	154,997	109,704	–	–	–	264,701
Net Book Value at End of Year	₱13,225,918	₱4,100,048	₱1,188,243	₱341,366	₱288,623	₱19,144,198

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 ₱234.9 million and ₱548.9 million as of December 31, 2016 and 2015, respectively.

Gain on disposal of property and equipment in 2016, 2015 and 2014 amounted to ₱1.2 million, ₱7.7 million, and ₱12.1 million, respectively, for the Group and ₱1.5 million, ₱3.7 million and ₱12.4 million, respectively, for the Parent Company (Note 13).

Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2016	2015	2014	**2016**	2015	2014
Continuing operations:						
Depreciation						
Property and equipment	**₱1,013,677**	₱830,663	₱795,065	**₱835,467**	₱710,542	₱674,965
Investment properties (Note 13)	**226,545**	162,097	190,727	**206,472**	149,309	183,382
Chattel mortgage	**22,000**	35,285	23,455	**22,001**	33,748	23,281
Amortization - Intangible assets (Note 14)	**292,423**	424,176	472,684	**279,643**	412,180	460,582
	1,554,645	1,452,221	1,481,931	**1,343,583**	1,305,779	1,342,210
Discontinued operations:						
Property and Equipment (Note 37)	**4,707**	10,704	14,039	–	–	–
	₱1,559,352	₱1,462,925	₱1,495,970	**₱1,343,583**	₱1,305,779	₱1,342,210

Certain property and equipment of the Parent Company with carrying amount of ₱178.5 million and ₱180.8 million are temporarily idle as of December 31, 2016 and 2015, respectively.

As of December 31, 2016 and 2015, property and equipment of the Parent Company with gross carrying amounts of ₱3.3 billion and ₱3.4 billion, respectively, 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			
				2016		2015	
Subsidiaries	Nature of Business	Country of Incorporation	Functional Currency	Direct	Indirect	Direct	Indirect
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–	100.00	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–	100.00	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–	100.00	–
PNB General Insurers Inc.(PNB Gen)	Insurance	- do -	Php	**65.75**	**34.25**	65.75	34.25
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–	100.00	–
PNB Corporation – Guam	Remittance	USA	USD	**100.00**	–	100.00	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–	100.00	–
PNB Remittance Centers, Inc. (PNB RCI) [a]	Remittance	- do -	USD	–	**100.00**	–	100.00
PNB Remittance Co. (Nevada) [b]	Remittance	-do-	USD	–	**100.00**	–	100.00
PNB RCI Holding Co. Ltd. [b]	Holding Company	- do -	USD	–	**100.00**	–	100.00
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–	100.00	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–	100.00	–
PNB Remittance Co. (Canada) [c]	Remittance	Canada	CAD	–	**100.00**	–	100.00
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–	100.00	–
Allied Commercial Bank (ACB)* [d]	Banking	People's Republic of China	USD	**99.04**	–	99.04	–
PNB-IBJL Leasing and Finance Corporation (PILFC)[e]	Leasing/Financing	Philippines	Php	**75.00**	–	75.00	–
PNB-IBJL Equipment Rentals Corporation[f]	Rental	- do -	Php	–	**75.00**	–	75.00
Allianz-PNB Life Insurance, Inc. (APLII) (formerly PNB LII) *[g]	Insurance	- do -	Php	**44.00**	–	80.00	–
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–	57.21	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL) *	Banking	Hong Kong	HKD	**51.00**	–	51.00	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**	–	51.00
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–	27.78	–

** 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] *Purchase of additional shares was approved by BSP and China Banking Regulatory Commission on June 4, 2014 and November 12, 20015, respectively. On November 27, 2015, the Parent company purchased 8.63% ownership interest from individual stockholders.*

[e] *Formerly Japan-PNB Leasing*

[f] *Formerly Japan-PNB Equipment Rentals Corporation. Owned through PILFC*

[g] *As of December 31, 2015, APLII was classified as a disposal group held for sale and as a discontinued operation. The acquisition of the shares of APLII by Allianz SE was completed on June 6, 2016. As of December 31, 2016, the Group owns 44.0% interest in APLII and is presented as investment in an associate in the statement of financial position.*

The details of this account follow:

	Consolidated		Parent Company		
	December 31				January 1
	2016	2015	**2016**	2015 (As restated)	2015 (As restated)
Investment in Subsidiaries					
PNB SB	**₱–**	₱–	**₱10,935,041**	₱10,935,041	₱10,935,041
ACB	**–**	–	**6,087,520**	6,087,520	5,485,747
PNB IIC	**–**	–	**2,028,202**	2,028,202	2,028,202
PNB Europe PLC	**–**	–	**1,006,537**	1,006,537	1,006,537
ABCHKL	**–**	–	**947,586**	947,586	947,586
PNB GRF	**–**	–	**753,061**	753,061	753,061
PNB Gen	**–**	–	**600,000**	600,000	600,000
PNB Holdings	**–**	–	**377,876**	377,876	377,876
PNB Capital	**–**	–	**350,000**	350,000	350,000
ABUK	**–**	–	**320,858**	320,858	320,858
OHBVI	**–**	–	**291,841**	291,841	291,840
PILFC	**–**	–	**181,942**	181,942	218,331
ALFC	**–**	–	**148,400**	148,400	148,400
PNB Securities	**–**	–	**62,351**	62,351	62,351
PNB Forex, Inc.	**–**	–	**50,000**	50,000	50,000
APLII	**–**	–	**–**	481,068	1,327,083
PNB Corporation - Guam	**–**	–	**7,672**	7,672	7,672
	–	–	**24,148,887**	24,629,955	24,910,585
Investment in an Associate	**2,728,089**	–	**2,728,089**	–	–
Accumulated equity in net earnings of subsidiaries and an associate:					
Balance at beginning of year	**–**	–	**1,455,689**	1,875,373	935,968
Equity in net earnings for the year	**49,325**	–	**255,292**	251,852	1,007,198
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)	–
	49,325	–	**1,363,958**	1,635,689	1,943,166
Dividends received for the year	**–**	–	**(66,125)**	(180,000)	(67,793)
	49,325	–	**1,297,833**	1,455,689	1,875,373
Accumulated share in:					
Net unrealized losses on available-for-sale investments (Note 9)	**(245,867)**	–	**(261,483)**	(7,735)	(59,641)
Remeasurement losses on retirement plan	**1,208**	–	**(31,363)**	(37,932)	(43,003)
Accumulated translation adjustments	**–**	–	**477,908**	457,755	(128,457)
	(244,659)	–	**185,062**	412,088	(231,101)
	₱2,532,755	₱–	**₱28,359,871**	₱26,497,732	₱26,554,857

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, 2016 and 2015, 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, 2016 and 2015 of subsidiaries which have 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	**2016**	2015	**2016**	2015	**2016**	2015
ABCHKL	Banking	**49.00%**	49.00%	**₱1,427,340**	₱1,322,771	**₱41,667**	₱80,376
APLII	Insurance	–	20.00%	–	414,828	–	71,586

The following tables present financial information of subsidiaries with material non-controlling interests as of December 31, 2016 and 2015:

	2016	2015	
	ABCHKL	APLII	ABCHKL
Statement of Financial Position			
Current assets	**₱7,528,024**	₱9,973,869	₱6,288,564
Non-current assets	**3,877,748**	13,552,891	4,309,709
Current liabilities	**8,244,753**	9,264,101	7,722,515
Non-current liabilities	**164,164**	12,188,520	176,225
Statement of Comprehensive Income			
Revenues	**345,376**	2,361,982	404,547
Expenses	**260,342**	2,004,051	240,514
Net income	**85,034**	357,931	164,033
Total comprehensive income (loss)	**134,237**	(61,693)	125,354
Statement of Cash Flows			
Net cash provided by operating activities	**116,786**	1,210,588	200,843
Net cash provided used in investing activities	**(69,200)**	(815,306)	(640)
Net cash used in financing activities	–	–	193,904

As of December 31, 2016 and 2015, 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" 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, 2016 are as follows:

Current assets	₱14,812,452
Noncurrent assets	9,602,162
Current liabilities	14,287,861
Noncurrent liabilities	7,995,855
Equity	2,130,898

Summarized statement of income of APLII for the seven months ended December 31, 2016 follows:

Revenues	₱1,164,407
Costs and expenses	(1,022,543)
Income before tax	141,684
Provision for income tax	(29,762)
Net income	112,101
Other comprehensive loss	(556,042)
Total comprehensive income	(₱443,941)
Group's share of comprehensive income for the period	(₱195,334)

Investment in ACB

In August 2009, the Parent Company acquired 39.41% ownership in ACB in Xiamen China for a total consideration of CNY394.1 million or USD57.7 million (equivalent to ₱2.8 billion).

With its merger with ABC in 2013 (Note 1), the Parent Company's equity interest in ACB increased from 39.41% to 90.41%. This resulted in change in accounting for such investment from an associate to a subsidiary. In accordance with PFRS 3, the step-up acquisition of investment in ACB is accounted for as a disposal of the equity investment in ACB and the line by line consolidation of ACB's assets and liabilities in the Group's financial statements. The fair value of consideration received from the step-up acquisition is equal to the carrying value of the disposed 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. As of December 31, 2016, PNB Forex is still in the process of complying with the requirements of regulatory agencies to effect the dissolution.

PNB SB

On November 28, 2014, the Parent Company infused additional capital to PNB SB amounting to ₱10.0 billion which will be used to build and refocus the Group's consumer lending business. The infusion of additional equity to PNB SB was approved by the BSP on February 28, 2014.

PILFC

On November 28, 2014, the BOD of the Parent Company approved the sell back by the Parent Company to IBJ Leasing (IBJL) of its 15.00% equity ownership in PILFC. Under the terms of the new and expanded partnership, IBJL increased its stake in PILFC from 10.00% to 25.00%, and the Parent Company's stake decreased from 90.00% to 75.00%. The total consideration from the sale

of 15.00% equity ownership amounted to ₱102.6 million and the Parent Company recognized loss from disposal amounting to ₱12.2 million in its statement of income. This sale was accounted for as an equity transaction which resulted in a decrease of other equity adjustment amounting to ₱0.5 million in the consolidated statement of financial position.

PNB Gen
The Parent Company contributed ₱600.0 million to PNB Gen in 2014 to acquire 65.75% direct interest ownership over the latter. In 2013, the Parent Company has indirect ownership over PNB Gen through PNB Holdings. The additional capital of PNB Gen is meant to strengthen the financial position of the subsidiary considering that it suffered a net loss in 2013. Further, the restructuring of relationships between the entities in the Group have no impact on the consolidated financial statements.

PNB Italy SpA (PISpA)
PISpA was liquidated on November 9, 2014. The Group will shift to an agent-arrangement to continue remittance business in Italy.

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, 2016 and 2015, the total assets of banking subsidiaries amounted to ₱59.8 billion and ₱57.1 billion, respectively; and ₱6.9 billion and ₱30.8 billion for insurance subsidiaries, respectively.

13. Investment Properties

Breakdown of investment properties:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Properties held for lease	**₱4,821,335**	₱–	**₱5,137,644**	₱1,974,560
Foreclosed assets	**11,519,917**	13,230,005	**10,837,486**	12,692,271
Total	**₱16,341,252**	₱13,230,005	**₱15,975,130**	₱14,666,831

The composition of and movements in this account follow:

	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**

(Forward)

	Consolidated		
	2016		
	Land	Buildings and Improvements	Total
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**

	Consolidated		
	2015		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱21,411,572	₱4,450,944	₱25,862,516
Additions	313,968	191,294	505,262
Disposals/transfers/others	(7,446,794)	(653,612)	(8,100,406)
Cumulative translation adjustments	9,000	1,010	10,010
Balance at end of year	14,287,746	3,989,636	18,277,382
Accumulated Depreciation			
Balance at beginning of year	–	1,856,814	1,856,814
Depreciation (Note 11)	–	162,097	162,097
Disposals/transfers/others	–	(265,343)	(265,343)
Cumulative translation adjustments	–	170	170
Balance at end of year	–	1,753,738	1,753,738
Allowance for Impairment Losses (Note 16)	2,855,093	438,546	3,293,639
Net Book Value at End of Year	₱11,432,653	₱1,797,352	₱13,230,005

	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**

	Parent Company		
	2015		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱21,108,095	₱4,218,699	₱25,326,794
Additions	261,352	172,600	433,952
Disposals/Transfers/Others	(5,272,551)	(630,305)	(5,902,856)
Balance at end of year	16,096,896	3,760,994	19,857,890

(Forward)

	Parent Company		
	2015		
	Land	Buildings and Improvements	Total
Accumulated Depreciation			
Balance at beginning of year	₱–	₱1,813,425	₱1,813,425
Depreciation (Note 11)	–	149,309	149,309
Disposals/Transfers/Others	–	(257,324)	(257,324)
Balance at end of year	–	1,705,410	1,705,410
Allowance for Impairment Losses (Note 16)	3,051,469	434,180	3,485,649
Net Book Value at End of Year	₱13,045,427	₱1,621,404	₱14,666,831

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 ₱155.4 million and ₱150.0 million, as of December 31, 2016 and 2015, 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 ₱7.0 billion and ₱7.5 billion as of December 31, 2016 and 2015, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱6.9 billion and ₱7.3 billion as of December 31, 2016 and 2015, 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 ₱13.6 million, ₱30.5 million and ₱26.4 million in 2016, 2015, and 2014, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱201.8 million, ₱192.4 million and ₱134.3 million in 2016, 2015, and 2014, 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 ₱8.3 million, ₱20.4 million and ₱23.3 million in 2016, 2015, and 2014, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱201.6 million, ₱182.7 million and ₱132.6 million in 2016, 2015, and 2014, respectively.

Net gains on sale or exchange of assets
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Net gains from sale of investment property (Note 34)	**₱2,343,634**	₱1,435,798	₱1,072,653	**₱2,387,472**	₱1,400,650	₱1,058,574
Net gains from foreclosure and repossession of investment property	**165,570**	152,061	368,341	**128,927**	152,553	364,745
Net gains from sale of property and equipment (Note 11)	**1,157**	7,659	12,053	**1,462**	3,741	12,407
Net gains from sale of receivables (Note 34)	**–**	–	–	**–**	24,441	–
	₱2,510,361	₱1,595,518	₱1,453,047	**₱2,517,861**	₱1,581,385	₱1,435,726

14. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	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**

	Consolidated				
	2015				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,254,343	₱3,544,075	₱13,375,407
Additions	–	–	571,768	571,768	–
Write-offs	–	–	(704)	(704)	–
Cumulative translation adjustment	–	–	5,550	5,550	–
Balance at end of year	1,897,789	391,943	1,830,957	4,120,689	13,375,407
Accumulated Amortization					
Balance at beginning of year	359,525	247,505	642,221	1,249,251	–
Amortization (Note 11)	189,779	130,648	103,749	424,176	–
Write-offs	–	–	(704)	(704)	–
Cumulative translation adjustment	–	–	5,088	5,088	–
Balance at end of year	549,304	378,153	750,354	1,677,811	–
Net Book Value at End of Year	₱1,348,485	₱13,790	₱1,080,603	₱2,442,878	₱13,375,407

	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**

	Parent Company				
	2015				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱1,142,782	₱3,432,514	₱13,515,765
Additions	–	–	558,372	558,372	–
Cumulative translation adjustment	–	–	70	70	–
Balance at end of year	1,897,789	391,943	1,701,224	3,990,956	13,515,765
Accumulated Amortization					
Balance at beginning of year	359,525	247,505	625,382	1,232,412	–
Amortization (Note 11)	189,779	130,648	91,753	412,180	–
Cumulative translation adjustment	–	–	118	118	–
Balance at end of year	549,304	378,153	717,253	1,644,710	–
Net Book Value at End of Year	₱1,348,485	₱13,790	₱983,971	₱2,346,246	₱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, 2016 and 2015 includes capitalized development costs amounting to ₱1.2 billion and ₱797.7 million, respectively, related to the Parent Company's new core banking system which is expected to be completed and available for use by 2017.

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 business combinations 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 in 2015 and 2014 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:

	2016			2015		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**11.17%**	**11.19%**	**8.99%**	11.21%	13.11%	7.82%
Projected growth rate	**6.50%**	**6.50%**	**6.50%**	6.03%	6.03%	6.03%

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	
	2016	2015	**2016**	2015
Financial				
Return checks and other cash items	**₱249,528**	₱103,667	**₱254,420**	₱95,886
Checks for clearing	**198,109**	119,134	**198,109**	119,134
Security deposits	**109,944**	78,922	**71,713**	38,775
Receivable from SPV	**500**	500	**500**	500
Others	**10,186**	748	**6,535**	356
	568,267	302,971	**531,277**	254,651
Non-financial				
Creditable withholding taxes	**4,193,254**	3,770,716	**4,187,074**	3,675,683
Real estate inventories held under development	**728,752**	1,235,530	**728,752**	1,235,530
Deferred reinsurance premium	**627,861**	786,287	**–**	–
Deferred benefits	**532,938**	401,231	**458,119**	326,380
Prepaid expenses	**470,882**	395,671	**330,930**	328,489
Documentary stamps on hand	**214,969**	221,088	**212,145**	134,459
Stationeries and supplies	**64,900**	78,764	**59,433**	72,798
Chattel mortgage properties-net of depreciation	**36,586**	51,086	**35,046**	47,848
Other investments	**22,201**	37,664	**18,862**	16,696
Miscellaneous	**401,510**	339,411	**729,324**	159,795
	7,293,853	7,317,448	**6,759,685**	5,997,678
	7,862,120	7,620,419	**7,290,962**	6,252,329
Less allowance for impairment losses (Note 16)	**770,662**	840,151	**738,088**	835,042
	₱7,091,458	₱6,780,268	**₱6,552,874**	₱5,417,287

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, 2016 and 2015.

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, 2016 and 2015, accumulated depreciation on chattel mortgage properties acquired by the Group and the Parent Company in settlement of loans amounted to ₱79.1 million and ₱36.5 million, respectively.

As of December 31, 2016 and 2015, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱2.1 million and ₱9.8 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, 2015 and 2014 amounting to ₱500.0 million, ₱353.0 million and ₱27.0 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		
	2016	2015	2014	**2016**	2015	2014
Continuing operations:						
Provision for impairment	**₱114,448**	₱449,698	₱293,384	**₱113,593**	₱322,649	₱495,674
Provision for credit losses	**2,696,693**	860,393	1,912,663	**1,192,348**	513,697	1,600,957
Provision for (reversal of) other losses (Note 35)	**401,553**	(741,911)	58,568	**401,553**	(741,911)	58,568
	3,212,694	568,180	2,264,615	**1,707,494**	94,435	2,155,199
Discontinued operations:						
Provision for credit losses (Note 37)	**4,704**	32,765	–	**–**	–	–
	₱3,217,398	₱600,945	₱2,264,615	**₱1,707,494**	₱94,435	₱2,155,199

Changes in the allowance for impairment and credit losses on financial assets follow:

	Consolidated					
	2016			2015		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱930,111**	**₱13,428,014**	**₱500**	₱929,881	₱12,435,509	₱500
Provisions	**15,856**	**2,680,837**	**–**	32,995	860,163	–
Accretion on impaired loans (Note 10)	**–**	**(103,715)**	**–**	–	(217,097)	–
Accounts charged-off	**–**	**(1,282,872)**	**–**	–	(543,736)	–
Transfers and others	**(70,492)**	**170,550**	**–**	–	893,175	–
Effect of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	(32,765)	–	–
Balance at end of year	**₱875,475**	**₱14,892,814**	**₱500**	₱930,111	₱13,428,014	₱500

**Pertains to 'Receivable from SPV'*

	Parent Company					
	2016			2015		
	AFS Investments	**Loans and Receivables**	**Other Assets***	AFS Investments	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱930,111**	**₱12,860,728**	**₱500**	₱929,881	₱11,946,142	₱500
Provisions	**15,601**	**1,176,747**	**–**	230	513,467	–
Accretion	**–**	**(103,715)**	**–**	–	(216,973)	–
Accounts charged-off	**–**	**(419,978)**	**–**	–	(463,112)	–
Transfers and others	**(70,492)**	**518,340**	**–**	–	1,081,204	–
Balance at end of year	**₱875,220**	**₱14,032,122**	**₱500**	₱930,111	₱12,860,728	₱500

**Pertains to 'Receivable from SPV'*

Movements in the allowance for impairment losses on nonfinancial assets follow:

	Consolidated					
	2016			2015		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱461,077**	**₱3,293,639**	**₱839,651**	₱229,506	₱3,757,220	₱457,646
Provisions (reversals)	**–**	**141,740**	**(27,292)**	5,372	319,880	124,446
Disposals	**–**	**(331,094)**	**–**	–	(475,243)	(90)
Transfers and others	**(232,844)**	**192,056**	**(42,197)**	226,199	(308,218)	257,649
Balance at end of year	**₱228,233**	**₱3,296,341**	**₱770,162**	₱461,077	₱3,293,639	₱839,651

	Parent Company					
	2016			2015 (As restated - Note 2)		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱264,701**	**₱3,485,649**	**₱834,542**	₱228,453	₱3,760,466	₱452,324
Provisions (reversals)	**–**	**140,883**	**(27,290)**	5,372	315,514	1,763
Disposals	**–**	**(331,094)**	**–**	–	(475,243)	(90)
Transfers and others	**(36,468)**	**5,634**	**(69,664)**	30,876	(115,088)	380,545
Balance at end of year	**₱228,233**	**₱3,301,072**	**₱737,588**	₱264,701	₱3,485,649	₱834,542

The movements in allowance for credit losses for loans and receivables by class follow:

	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

	Consolidated							
	2015							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱4,530,880	₱189,270	₱62,462	₱1,012,637	₱17,109	₱3,619,267	₱3,003,884	₱12,435,509
Provisions (reversals)	803,832	(1,556)	(56,009)	176,565	(376)	(166,627)	104,334	860,163
Accretion on impaired loans (Note 10)	(195,847)	(100)	(10,595)	(10,398)	(157)	–	–	(217,097)
Accounts charged off	(314,705)	–	–	(19,915)	–	–	(209,116)	(543,736)
Transfers and others	362,026	(28,567)	152,744	(45,722)	6,490	166,627	279,577	893,175
Balance at end of year	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Individual impairment	₱3,191,973	₱47,060	₱50,582	₱79,743	₱22,520	₱3,619,267	₱2,111,427	₱9,122,572
Collective impairment	1,994,213	111,987	98,020	1,033,424	546	–	1,067,252	4,305,442
	₱5,186,186	₱159,047	₱148,602	₱1,113,167	₱23,066	₱3,619,267	₱3,178,679	₱13,428,014
Gross amounts of loans and receivables subject to individual impairment	₱4,427,469	₱47,060	₱65,424	₱370,763	₱25,993	₱3,694,435	₱2,682,529	₱11,313,673

	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
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

	Parent Company							
	2015							
	Receivable from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱4,266,298	₱189,270	₱62,462	₱963,545	₱17,105	₱3,619,267	₱2,828,195	₱11,946,142
Provisions (reversals)	739,770	(1,556)	(56,009)	45,803	(375)	(166,627)	(47,539)	513,467
Accretion on impaired loans (Note 10)	(195,847)	(100)	(10,594)	(10,275)	(157)	–	–	(216,973)
Accounts charged off	(234,454)	–	–	(19,774)	–	–	(208,884)	(463,112)
Transfers and others	463,120	(28,567)	152,743	15,721	6,491	166,627	305,069	1,081,204
Balance at end of year	₱5,038,887	₱159,047	₱148,602	₱995,020	₱23,064	₱3,619,267	₱2,876,841	₱12,860,728
Individual impairment	₱3,121,354	₱47,060	₱50,582	₱1,950	₱22,520	₱3,619,267	₱1,884,127	₱8,746,860
Collective impairment	1,917,533	111,987	98,020	993,070	544	–	992,714	4,113,868
	₱5,038,887	₱159,047	₱148,602	₱995,020	₱23,064	₱3,619,267	₱2,876,841	₱12,860,728
Gross amounts of loans and receivables subject to individual impairment	₱3,908,379	₱47,060	₱65,424	₱19,716	₱22,520	₱3,694,435	₱2,390,837	₱10,148,371

17. Deposit Liabilities

As of December 31, 2016 and 2015, noninterest-bearing deposit liabilities amounted to ₱19.9 billion and ₱23.8 billion, respectively, for the Group and ₱15.8 billion and ₱23.6 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.00% to 6.23% in 2016, 0.05% to 5.00% in 2015 and 0.05% to 6.11% in 2014 for peso-denominated deposit liabilities, and from 0.00% to 3.71% in 2016, 0.00% to 2.25% in 2015 and 0.02% to 2.26% in 2014 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 6.23% in 2016, 0.10% to 5.00% in 2015, and 0.10% to 6.11% in 2014 for peso-denominated deposit liabilities, and from 0.02% to 4.00% in 2016, 0.00% to 2.25% in 2015 and 0.02% to 2.26% in 2014 for foreign-currency denominated deposit liabilities.

On March 29, 2012, BSP issued Circular No. 753 which provides for the unification of the statutory and liquidity reserve requirement, non-remuneration of the unified reserve requirement, exclusion of cash in vault and demand deposits as eligible forms of reserve requirement compliance, and reduction in the unified reserve requirement ratios.

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:

	2016	2015
Parent Company	**₱87,099,952**	₱73,403,945
PNB SB	**1,895,909**	886,496
	₱88,995,861	₱74,290,441

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	
					2016	2015
December 6, 2016	June 6, 2022	₱5,380,000	3.25%	Quarterly	**₱5,343,041**	₱–
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,967,077**	₱6,958,411
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,986,777**	3,981,365
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,985,977**	4,979,615
November 18, 2011	February 17, 2017	3,100,000	5.18%	Quarterly	**3,099,272**	3,094,836

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		
	2016	2015	2014	**2016**	2015	2014
Savings	**₱2,124,979**	₱1,677,307	₱1,680,386	**₱2,074,446**	₱1,646,552	₱1,677,129
Time	**798,894**	463,980	354,016	**431,161**	292,707	196,795
LTNCDs	**764,230**	752,562	637,957	**764,230**	752,563	637,957
Demand	**92,139**	86,170	116,041	**87,029**	81,898	103,075
	₱3,780,242	₱2,980,019	₱2,788,400	**₱3,356,866**	₱2,773,720	₱2,614,956

In 2016, 2015 and 2014, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱25.3 million, ₱16.9 million and ₱22.8 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱97.9 million and ₱85.8 million as of December 31, 2016 and 2015, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Derivative liabilities (Notes 23 and 36)	**₱232,832**	₱135,193	**₱231,977**	₱135,009

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Bills payable to:				
BSP and local banks (Note 34)	**₱26,575,781**	₱17,580,304	**₱23,121,171**	₱14,784,750
Foreign banks	**7,632,548**	7,676,238	**9,188,027**	9,269,456
Others	**18,279**	150,864	**18,160**	230,865
	34,226,608	25,407,406	**32,327,358**	24,285,071
Acceptances outstanding (Note 10)	**1,659,340**	344,816	**1,659,340**	344,816
	₱35,885,948	₱25,752,222	**₱33,986,698**	₱24,629,887

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.05% to 2.00%, 0.01% to 2.50% and 0.03% to 2.50% in 2016, 2015 and 2014, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.63% in 2016 and from 0.38% to 0.63% and 0.63% to 2.00% in 2015 and 2014, 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 and ₱7.0 billion as of December 31, 2016 and 2015, respectively.

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 and 2015, the Parent Company has complied with the above debt covenants.

As of December 31, 2016 and 2015, the unamortized transaction cost of the syndicated borrowing amounted to ₱32.7 million and ₱54.9 million, respectively.

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).

As of December 31, 2015, bills payable with a carrying amount of ₱12.8 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱8.5 billion and HTM investments with carrying value and fair value of ₱7.0 billion and ₱7.5 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		
	2016	2015	2014	**2016**	2015	2014
Subordinated debt (Note 21)	**₱416,871**	₱661,304	₱757,000	**₱416,871**	₱661,304	₱660,222
Bills payable	**526,755**	321,128	94,741	**492,650**	296,399	139,741
Others	**53,995**	47,563	5,186	**50,088**	45,470	1,151
	₱997,621	₱1,029,995	₱856,927	**₱959,609**	₱1,003,173	₱801,114

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Accrued taxes and other expenses	**₱4,281,609**	₱3,845,382	**₱3,664,288**	₱3,340,821
Accrued interest	**662,017**	2,029,846	**567,327**	2,030,912
	₱4,943,626	₱5,875,228	**₱4,231,615**	₱5,371,733

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Financial liabilities:				
Promotional expenses	**₱405,651**	₱284,281	**₱405,651**	₱284,281
Rent and utilities payable	**324,878**	103,043	**284,826**	90,454
Information technology-related expenses	**122,039**	194,974	**120,719**	193,889
Management, directors and other professional fees	**110,611**	148,935	**93,689**	128,855
Repairs and maintenance	**60,640**	22,511	**60,640**	21,920
	1,023,819	753,744	**965,525**	719,399

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**₱1,506,395**	₱1,441,417	**₱1,475,124**	₱1,416,521
PDIC insurance premiums	**517,145**	470,701	**494,466**	459,901
Employee benefits	**373,167**	298,183	**343,008**	282,674
Other taxes and licenses	**243,134**	398,455	**86,610**	81,966
Reinstatement premium	**56,922**	9,676	**–**	–
Other expenses	**561,027**	473,206	**299,555**	380,360
	3,257,790	3,091,638	**2,698,763**	2,621,422
	₱4,281,609	₱3,845,382	**₱3,664,288**	₱3,340,821

The Parent Company's accrued interest payable includes the transferred liabilities from Maybank amounting to ₱1.6 billion as of December 31, 2015 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	
					2016	2015
June 15, 2011	June 15, 2021	₱6,500,000	6.750%	Quarterly	**₱–**	₱6,494,324
May 9, 2012	May 9, 2022	3,500,000	5.875%	Quarterly	**3,497,798**	3,492,103
		₱10,000,000			**₱3,497,798**	₱9,986,427

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 will be 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 (Call Option Amount). The Call Option Amount shall be paid to

all noteholders on record as of April 25, 2017. No transfers shall be allowed from April 25 to May 9, 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 and 2015, the unamortized transaction cost of subordinated debt amounted to ₱2.2 million and ₱13.6 million, respectively.

In 2016, 2015 and 2014, amortization of transaction costs amounting to ₱11.4 million, ₱16.9 million and ₱15.8 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	
	2016	2015	**2016**	2015
Financial				
Accounts payable	**₱7,652,222**	₱6,825,663	**₱6,375,193**	₱6,179,304
Insurance contract liabilities	**4,581,800**	4,719,336	**–**	–
Bills purchased - contra (Note 10)	**3,260,308**	3,418,002	**3,254,224**	3,411,729
Manager's checks and demand drafts outstanding	**1,174,872**	937,799	**1,003,755**	915,764
Other dormant credits	**928,582**	753,338	**918,217**	734,346
Due to other banks	**923,777**	461,100	**763,046**	517,261
Deposits on lease contracts	**805,377**	854,817	**35,769**	37,448
Accounts payable - electronic money	**791,223**	556,618	**791,223**	556,618
Payment order payable	**292,336**	407,196	**292,336**	407,196
Margin deposits and cash letters of credit	**174,206**	182,640	**162,972**	168,820
Commission payable	**94,618**	132,059	**–**	–
Transmission liability	**31,732**	24,976	**–**	–
Deposit for keys on safety deposit boxes	**14,140**	14,217	**14,140**	14,217
	20,725,193	19,287,761	**13,610,875**	12,942,703

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Nonfinancial				
Retirement benefit liability (Note 29)	**₱3,138,824**	₱2,955,003	**₱3,063,243**	₱2,889,735
Provisions (Note 35)	**1,300,290**	898,737	**1,300,290**	898,737
Reserve for unearned premiums	**1,075,732**	1,191,405	**–**	–
Other deferred revenue (Note 12)	**939,672**	–	**939,672**	–
Due to Treasurer of the Philippines	**543,002**	438,943	**542,501**	438,451
Withholding tax payable	**230,044**	224,523	**220,859**	209,567
Deferred tax liabilities (Note 31)	**152,532**	152,585	**–**	–
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**28,327**	29,092	**27,404**	24,237
Miscellaneous	**431,757**	480,235	**323,116**	265,701
	7,840,180	6,370,523	**6,417,085**	4,726,428
	₱28,565,373	₱25,658,284	**₱20,027,960**	₱17,669,131

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 2016, amortization of other deferred revenue amounting to ₱36.6 million was 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, 2016 and 2015 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	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.*

Consolidated

	2015			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱42	₱5,210	47.37	155,521
EUR	122	–	1.09	898
HKD	–	66	7.75	13,012
CAD	–	170	0.72	1,385
GBP	–	168	1.36	1,104
SELL:				
USD	66,932	–	47.31	374,421
CAD	520	34	0.72	3,444
GBP	₱455	₱139	1.49	5,700
SGD	411	190	1.41	4,600
HKD	86	184	7.75	63,733
EUR	4	11	1.10	2,200
JPY	–	86,305	0.39	4,492,495
AUD	–	149	0.72	450
Interest rate swaps	49,444	42,567		
Warrants	63,332	–		
	₱181,348	₱135,193		

**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	**46,155**	**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	**483**	**–**	**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.*

	Parent Company			
	2015			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱42	₱5,210	47.37	155,521
CAD	–	170	0.72	1,385
GBP	–	168	1.36	1,104
HKD	–	66	7.75	13,012
JPY	–	–	120.34	1,330
SELL:				
USD	66,932	–	47.31	374,421
CAD	520	34	0.72	3,444
GBP	455	139	1.49	5,700

(Forward)

	Parent Company			
	2015			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
SGD	₱411	₱190	1.41	4,600
EUR	4	11	1.10	2,200
HKD	2	–	7.75	6,633
JPY	–	86,305	0.39	4,492,495
AUD	–	149	0.72	450
Interest rate swaps	49,444	42,567		
Warrants	63,332	–		
	₱181,142	₱135,009		

**The notional amounts and average forward rates pertain to original currencies.*

As of December 31, 2016 and 2015, the Parent Company holds 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.2 million and USD1.3 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2016 and 2015:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Balance at the beginning of the year:				
Derivative assets	**₱181,348**	₱136,551	**₱181,142**	₱135,929
Derivative liabilities	**135,193**	44,903	**135,009**	44,264
	46,155	91,648	**46,133**	91,665
Changes in fair value				
Currency forwards and spots*	**(723,245)**	(571,666)	**(723,245)**	(571,649)
Interest rate swaps and warrants**	**25,174**	(11,709)	**25,174**	(11,709)
	(698,071)	(583,375)	**(698,071)**	(583,358)
Availments (Settlements)	**838,206**	537,882	**838,780**	537,826
Balance at end of 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

* *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					
	2016			2015		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱11,014,663**	**₱–**	**₱11,014,663**	₱15,220,536	₱–	₱15,220,536
Due from BSP	**127,337,861**	**–**	**127,337,861**	81,363,444	–	81,363,444
Due from other banks	**22,709,805**	**–**	**22,709,805**	18,287,308	–	18,287,308
Interbank loans receivable	**7,791,108**	**–**	**7,791,108**	5,800,383	–	5,800,383
Securities held under agreements to resell	**1,972,310**	**–**	**1,972,310**	14,550,000	–	14,550,000
Financial assets at FVPL	**1,913,864**	**–**	**1,913,864**	4,510,545	–	4,510,545
AFS investments - gross (Note 9)	**1,891,137**	**66,325,077**	**68,216,214**	2,915,170	66,355,965	69,271,135
HTM investments	**–**	**24,174,479**	**24,174,479**	68,173	23,163,824	23,231,997

(Forward)

	Consolidated					
	2016			2015		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Loans and receivables - gross (Note 10)	**₱176,048,393**	**₱267,653,955**	**₱443,702,348**	₱159,032,473	₱221,242,883	₱380,275,356
Other assets - gross (Note 15)	**482,548**	**85,719**	**568,267**	252,366	50,605	302,971
	351,161,689	**358,239,230**	**709,400,919**	302,000,398	310,813,277	612,813,675
Nonfinancial Assets						
Property and equipment - gross (Note 11)	**–**	**24,495,308**	**24,495,308**	–	28,870,304	28,870,304
Investments in Subsidiaries and an Associate - gross (Note 12)	**–**	**2,532,755**	**2,532,755**	–	–	–
Investment properties - gross (Note 13)	**–**	**21,371,531**	**21,371,531**	–	18,277,382	18,277,382
Deferred tax assets	**–**	**1,482,214**	**1,482,214**	–	1,173,575	1,173,575
Goodwill (Note 14)	**–**	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	**–**	**4,528,994**	**4,528,994**	–	4,120,689	4,120,689
Residual value of leased assets (Note 10)	**249,923**	**457,969**	**707,892**	225,590	486,731	712,321
Other assets - gross (Note 15)	**5,620,466**	**1,673,387**	**7,293,853**	5,787,465	1,529,983	7,317,448
	5,870,389	**69,917,565**	**75,787,954**	6,013,055	67,834,071	73,847,126
Assets of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	23,526,757	–	23,526,757
Less: Allowance for impairment and credit losses (Note 16)			**20,063,525**			18,952,992
Unearned and other deferred income (Note 10)			**1,489,955**			1,834,517
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**9,870,283**			9,712,312
			₱753,765,110			₱679,687,737
Financial Liabilities						
Deposit liabilities	**₱537,325,097**	**₱33,178,290**	**₱570,503,387**	₱446,102,751	₱39,834,430	₱485,937,181
Financial liabilities at FVPL	**232,832**	**–**	**232,832**	126,075	9,118	135,193
Bills and acceptances payable	**25,066,507**	**10,819,441**	**35,885,948**	5,836,838	19,915,384	25,752,222
Subordinated debt	**–**	**3,497,798**	**3,497,798**	–	9,986,427	9,986,427
Accrued interest payable (Note 20)	**662,017**	**–**	**662,017**	465,324	1,564,522	2,029,846
Accrued other expenses payable (Note 20)	**1,023,819**	**–**	**1,023,819**	753,744	–	753,744
Other liabilities (Note 22):						
Accounts payable	**7,624,523**	**27,699**	**7,652,222**	6,825,663	–	6,825,663
Insurance contract liabilities	**4,565,925**	**15,875**	**4,581,800**	4,528,298	191,038	4,719,336
Bills purchased – contra	**3,260,308**	**–**	**3,260,308**	3,418,002	–	3,418,002
Managers' checks and demand drafts outstanding	**1,174,872**	**–**	**1,174,872**	937,799	–	937,799
Dormant credits	**11,744**	**916,838**	**928,582**	116,337	637,001	753,338
Due to other banks	**923,777**	**–**	**923,777**	461,100	–	461,100
Deposit on lease contracts	**268,754**	**536,623**	**805,377**	249,885	604,932	854,817
Accounts payable – electronic money	**791,223**	**–**	**791,223**	556,618	–	556,618
Payment order payable	**292,336**	**–**	**292,336**	407,196	–	407,196
Margin deposits and cash letters of credit	**174,206**	**–**	**174,206**	182,640	–	182,640
Commission payable	**94,618**	**–**	**94,618**	132,059	–	132,059
Transmission liability	**31,732**	**–**	**31,732**	24,976	–	24,976
Deposit for keys on safety deposit boxes	**14,140**	**–**	**14,140**	14,217	–	14,217
	583,538,430	**48,992,564**	**632,530,994**	471,139,522	72,742,852	543,882,374
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,257,790**	**–**	**3,257,790**	1,177,015	1,914,623	3,091,638
Income tax payable	**195,240**	**–**	**195,240**	134,720	–	134,720
Other liabilities (Note 22)	**2,882,530**	**4,957,650**	**7,840,180**	2,799,195	3,571,328	6,370,523
	6,335,560	**4,957,650**	**11,293,210**	4,110,930	5,485,951	9,596,881
Liabilities of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	21,452,621	–	21,452,621
	₱589,873,990	**₱53,950,214**	**₱643,824,204**	₱496,703,073	₱78,228,803	₱574,931,876

	Parent Company					
	2016			2015 (As Restated - Note 2)		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱10,626,525**	**₱–**	**₱10,626,525**	₱12,598,715	₱–	₱12,598,715
Due from BSP	**123,799,952**	**–**	**123,799,952**	79,203,948	–	79,203,948
Due from other banks	**12,831,514**	**–**	**12,831,514**	11,450,573	–	11,450,573
Interbank loans receivable	**7,907,366**	**–**	**7,907,366**	5,958,526	–	5,958,526
Securities held under agreements to resell	**1,972,310**	**–**	**1,972,310**	14,550,000	–	14,550,000
Financial assets at FVPL	**1,880,071**	**–**	**1,880,071**	4,492,864	–	4,492,864
AFS investments - gross (Note 9)	**1,612,001**	**65,082,954**	**66,694,955**	2,026,914	65,637,949	67,664,863
HTM investments	**–**	**24,074,898**	**24,074,898**	4,706	23,132,937	23,137,643
Loans and receivables - gross (Note 10)	**158,852,021**	**234,495,768**	**393,347,789**	146,526,387	196,062,353	342,588,740
Other assets - gross (Note 15)	**467,146**	**64,131**	**531,277**	220,054	34,597	254,651
	319,948,906	**323,717,751**	**643,666,657**	277,032,687	284,867,836	561,900,523
Nonfinancial Assets						
Property and equipment– gross (Note 11)	**–**	**22,275,776**	**22,275,776**	–	25,216,112	25,216,112
Investment properties– gross (Note 13)	**–**	**20,968,723**	**20,968,723**	–	19,857,890	19,857,890
Deferred tax assets	**–**	**1,014,308**	**1,014,308**	–	936,492	936,492
Investments in Subsidiaries and an Associate (Note 12)	**–**	**28,359,871**	**28,359,871**	–	26,497,732	26,497,732
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765
Intangible assets (Note 14)	**–**	**4,395,964**	**4,395,964**	–	3,990,956	3,990,956
Other assets– gross (Note 15)	**6,123,328**	**636,357**	**6,759,685**	5,470,227	527,451	5,997,678
	6,123,328	**91,166,764**	**97,290,092**	5,470,227	90,542,398	96,012,625
Asset of disposal group classified as held for sale (Note 37)	**–**	**–**	**–**	1,172,963	–	1,172,963
Less: Allowance for impairment and credit losses (Note 16)			**19,174,735**			18,376,231
Unearned and other deferred income (Note 10)			**1,116,929**			1,427,774
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**9,159,530**			9,157,333
			₱711,505,555			₱630,124,773
Financial Liabilities						
Deposit liabilities	**₱501,442,928**	**₱40,747,695**	**₱542,190,623**	₱434,664,563	₱35,829,825	₱470,494,388
Financial liabilities at FVPL	**231,977**	**–**	**231,977**	125,891	9,118	135,009
Bills and acceptances payable	**21,876,831**	**12,109,867**	**33,986,698**	4,714,503	19,915,384	24,629,887
Subordinated debt	**–**	**3,497,798**	**3,497,798**	–	9,986,427	9,986,427
Accrued interest payable (Note 20)	**567,327**	**–**	**567,327**	466,390	1,564,522	2,030,912
Accrued other expenses payable (Note 20)	**965,525**	**–**	**965,525**	719,399	–	719,399
Other liabilities (Note 22):						
Accounts payable	**6,375,193**	**–**	**6,375,193**	6,179,304	–	6,179,304
Bills purchased - contra	**3,254,224**	**–**	**3,254,224**	3,411,729	–	3,411,729
Managers' checks and demand drafts outstanding	**1,003,755**	**–**	**1,003,755**	915,764	–	915,764
Dormant credits	**1,731**	**916,486**	**918,217**	108,827	625,519	734,346
Accounts payable - electronic money	**791,223**	**–**	**791,223**	556,618	–	556,618
Due to other banks	**763,046**	**–**	**763,046**	517,261	–	517,261
Payment order payable	**292,336**	**–**	**292,336**	407,196	–	407,196
Margin deposits and cash letters of credit	**162,972**	**–**	**162,972**	168,820	–	168,820
Deposit on lease contracts	**–**	**35,769**	**35,769**	–	37,448	37,448
Deposit for keys on safety deposit boxes	**14,140**	**–**	**14,140**	14,217	–	14,217
	537,743,208	**57,307,615**	**595,050,823**	452,970,482	67,968,243	520,938,725
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**₱2,698,763**	**₱–**	**₱2,698,763**	₱824,541	₱1,796,881	₱2,621,422
Income tax payable	**60,898**	**–**	**60,898**	55,180	–	55,180
Other liabilities	**1,619,827**	**4,797,258**	**6,417,085**	1,373,445	3,352,983	4,726,428
	4,379,488	**4,797,258**	**9,176,746**	2,253,166	5,149,864	7,403,030
	₱542,122,696	**₱62,104,873**	**₱604,227,569**	₱455,223,648	₱73,118,107	₱528,341,755

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	2016	2015	**2016**	2015
Common - ₱40 par value				
Authorized	**1,750,000,001**	1,750,000,001	**₱70,000,000**	₱70,000,000
Issued and outstanding				
Balance at the beginning of the year	**1,249,139,678**	1,249,139,678	**49,965,587**	49,965,587
	1,249,139,678	1,249,139,678	**₱49,965,587**	₱49,965,587
Parent Company Shares Held by a Subsidiary	**–**	(120,000)	**–**	(9,945)
	1,249,139,678	1,249,019,678	**₱49,965,587**	₱49,955,642

The Parent Company shares are listed in the PSE. As of December 31, 2016 and 2015, the Parent Company had 29,853 and 29,985 stockholders, respectively.

Pursuant to the 1986 Revised Charter of the Parent Company, the Parent Company's authorized capital stock was ₱10.0 billion divided into 100,000,000 common shares with a par value of ₱100.0 per share. Its principal stockholder was the NG which owned 25,000,000 common shares.

To foster a financial intermediation system that is both competitive and efficient, the partial privatization of the Parent Company was carried out through the following public offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
June 1989	Initial Public Offering	10,800,000 common shares	₱100.0	₱100.0	250,000,000 common shares	36,011,569 common shares
April 1992	Second Public Offering	8,033,140 common shares	₱100.0	₱265.0	250,000,000 common shares	80,333,350 common shares
December 1995	Third Public Offering	7,200,000 common shares and 2,400,000 covered warrants	₱100.0	₱260.0	250,000,000 common shares	99,985,579 common shares

After the three (3) public offerings, the NG sold a total of 54.41% of its shareholdings to both the Philippine public and international investors.

On May 27, 1996, the privatization of the Parent Company was completed when the Parent Company's new Articles of Incorporation and By-Laws were approved by the SEC under SEC Registration No. AS096-005555. As of May 27, 1996, the NG owned 45.59% of the outstanding shares of the Parent Company. The Parent Company's authorized capital stock was increased to ₱25.0 billion pesos divided into 250,000,000 common shares with a par value of ₱100.0 per share.

As part of the Parent Company's capital build-up program, the Parent Company also completed the following rights offerings:

Date of Offering	Type of Offering	No. of Shares Offered	Basis of Subscription	Par Value	Offer Price	Authorized Number of Shares	Issued and Outstanding Shares
September 1999	Stock Rights Offering	68,740,086 common shares	One (1) Right Share for every two common shares	₱100.0	₱137.8	250,000,000 common shares	206,220,257 common shares
September 2000	Pre-emptive Rights Offering	71,850,215 common shares with 170,850,215 warrants	Five (5) Right Shares for every Six (6) common shares	₱100.0	₱60.0	833,333,334 common shares	206,220,257 common shares
February 2014	Stock Rights Offering	162,931,262 common shares	Fifteen (15) Right Shares for every 100 common shares	₱40.0	₱71.0	1,750,000,001 common shares	1,249,139,678 common shares

On August 18, 2000, the SEC approved the decrease of the capital stock of the Parent Company from ₱25.0 billion divided into 250,000,000 common shares with a par value of ₱100.0 per share to ₱15.0 billion divided into 250,000,000 common shares with a par value of ₱60.0 per share. Subsequently on November 7, 2000, the SEC approved the increase of the capital stock of the Parent Company from ₱15.0 Billion divided into 250,000,000 common shares with a par value of ₱60.0 per share to ₱50,000,000,040 divided into 833,333,334 shares with a par value of ₱60.0 per share.

On July 23, 2002, the SEC approved the decrease of the capital stock of the Parent Company from ₱50,000,000,040.0 divided into 833,333,334 shares with a par value of ₱60.0 per share to ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share. On the same day, the SEC also approved the increase of the capital stock of the Parent Company from ₱33,333,333,360.0 divided into 833,333,334 shares with a par value of ₱40.0 per share to ₱50,000,000,040.0 divided into 1,054,824,557 common shares and 195,175,444 preferred shares both with a par value of ₱40.0 each.

In July 2007, the Parent Company made a primary and secondary offering of up to 160,811,091 common shares. The Offer consisted of: (i) primary offer by the Parent Company of up to 89,000,000 new shares from the Parent Company's authorized but unissued common share capital, and (ii) secondary offer of up to an aggregate of 71,811,091 existing shares, comprising (a) 17,453,340 shares offered by the NG, and (b) 54,357,751 shares which were owned by the PDIC in the form of convertible preferred shares. The Primary Offer Shares and Secondary Offer Shares were offered at the Offer Price of ₱59.0 per share.

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, 2016 and 2015 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:

	2016	2015
Reserve for trust business (Note 33)	**₱493,658**	₱474,263
Reserve for self-insurance	**80,000**	80,000
	₱573,658	₱554,263

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. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱105.7 million in 2016 in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position as of December 31, 2016 based on ₱70.0 per share, the projected fair value at grant date based on an independent, short-term forecast by a stock broker.

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, 2016 and 2015, 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).

	2016		2015	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱104,103.60**		₱97,272.25	
Less: Regulatory Adjustments to CET 1	**24,454.28**		22,978.47	
Total CET1 Capital	**79,649.32**		74,293.78	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**79,649.32**		74,293.78	
Add: Tier 2 Capital	**4,308.03**		13,763.24	
Total qualifying capital	**₱83,957.35**	**₱50,410.11**	₱88,057.03	₱45,766.26
Risk weighted assets	**₱504,101.07**		₱457,662.62	
Tier 1 capital ratio	**15.80%**		16.23%	
Total capital ratio	**16.65%**		19.24%	

	2016		2015	
Parent			Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱101,545.14**		₱94,044.29	
Less: Regulatory Adjustments to CET 1	**49,874.81**		47,596.44	
Total CET1 Capital	**51,670.33**		46,447.86	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**51,670.33**		46,447.86	
Add: Tier 2 Capital	**3,866.45**		13,417.01	
Total qualifying capital	**₱55,536.78**	**₱45,131.25**	₱59,864.87	₱41,504.86
Risk weighted assets	**₱451,312.51**		₱415,048.57	
Tier 1 capital ratio	**11.45%**		11.19%	
Total capital ratio	**12.31%**		14.42%	

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 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.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos.709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *Real Estate Stress Test (REST) Limit for Real Estate Exposure*, which set a prudential limit for real estate exposures and other real estate properties of universal, commercial and thrift banks. REST will be undertaken for real estate exposure at an assumed write-off of 25.00%. The prudential REST limit which shall be complied at all times are 6.00% of CET1 ratio and 10.00% of CAR. The Circular is effective July 19, 2014.

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, 2016 and 2015 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 ₱2.7 billion and ₱2.6 billion as of December 31, 2016 and 2015, 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**		
	2016	2015	2014	**2016**	2015 (As Restated)	2014 (As Restated)
Return on average equity (a/b)	**6.69%**	6.19%	6.06%	**6.84%**	6.19%	6.18%
a) Net income	**₱7,185,586**	₱6,311,595	₱5,495,045	**₱7,147,566**	₱6,113,607	₱5,358,754
b) Average total equity	**107,348,384**	101,908,372	90,699,918	**104,530,502**	98,815,521	86,747,677
Return on average assets (c/d)	**1.00%**	0.97%	0.89%	**1.07%**	1.01%	0.93%
c) Net income	**₱7,185,586**	₱6,311,595	₱5,495,045	**₱7,147,566**	₱6,113,607	₱5,358,754
d) Average total assets	**716,726,424**	652,566,785	620,860,726	**670,815,164**	605,346,798	578,081,537
Net interest margin on average earning assets (e/f)	**3.16%**	3.22%	3.13%	**3.01%**	3.16%	3.21%
e) Net interest income	**₱19,566,502**	₱17,691,839	₱16,458,662	**₱17,057,909**	₱15,712,416	₱15,153,084
f) Average interest earning assets	**618,625,074**	549,237,255	525,995,312	**567,286,721**	496,470,744	472,784,065

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		
	2016	2015	2014	**2016**	2015	2014
Remittance	**₱830,032**	₱739,779	₱735,420	**₱460,899**	₱363,822	₱344,045
Deposit-related	**643,991**	1,076,041	984,541	**618,972**	1,050,546	960,199
Credit-related	**503,891**	500,852	387,535	**498,514**	479,174	374,698
Commissions	**448,089**	820,497	641,216	**305,574**	685,396	539,146
Interchange fees	**389,179**	317,509	203,501	**389,179**	317,509	203,501
Trust fees (Note 33)	**311,882**	256,203	230,111	**311,882**	256,203	230,111
Underwriting fees	**187,133**	327,400	136,265	**-**	–	–
Credit card-related	**61,584**	62,071	84,899	**61,584**	62,071	84,899
Miscellaneous	**194,177**	212,546	142,961	**84,654**	141,251	135,563
	₱3,569,958	₱4,312,898	₱3,546,449	**₱2,731,258**	₱3,355,972	₱2,872,162

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:

	2016	2015	2014
Gross earned premiums	**₱2,356,996**	₱2,431,033	₱1,682,368
Reinsurers' share of gross earned premiums	**(1,727,170)**	(1,890,569)	(1,274,095)
	₱629,826	₱540,464	₱408,273

Net Insurance Benefits and Claims
This account consists of:

	2016	2015	2014
Gross insurance contract benefits and claims paid	**₱787,537**	₱1,653,355	₱1,453,605
Reinsurers' share of gross insurance contract benefits and claims paid	**(304,382)**	(1,045,150)	(1,109,404)
Gross change in insurance contract liabilities	**(69,051)**	(529,863)	(1,011,013)
Reinsurers' share of change in insurance contract liabilities	**(158,406)**	358,545	762,950
	₱255,698	₱436,887	₱96,138

28. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015 (As Restated – Note 2)	2014 (As Restated – Note 2)
Income from SPV	**₱500,000**	₱353,000	₱27,000	**₱500,000**	₱353,000	₱27,000
Recoveries	**405,363**	162,430	171,392	**251,805**	90,179	168,724
Rental income	**376,631**	338,055	634,397	**275,317**	266,067	363,956
Penalty charges	**40,388**	30,799	11,027	**40,388**	30,799	11,027
Customs Fees	**18,983**	14,801	11,702	**18,984**	14,801	11,702
Dividends	**17,854**	22,190	2,409	**14,716**	18,338	11,951
Sales deposit forfeiture	**15,772**	12,023	12,250	**15,772**	12,023	12,250
Referral and trust fees	**2,811**	2,382	1,993	**–**	–	–
Recovery from insurance claim (Note 34)	**–**	709,160	–	**–**	709,160	–
Gain on redemption of Victorias Milling common shares (Note 34)	**–**	–	622,983	**–**	–	622,983
Others	**164,565**	74,919	646,262	**77,965**	5,306	122,204
	₱1,542,367	₱1,719,759	₱2,141,415	**₱1,194,947**	₱1,499,673	₱1,351,797

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses
This account consists of:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Secretarial, janitorial and messengerial	**₱1,305,081**	₱1,105,946	₱1,031,126	**₱1,256,605**	₱1,066,364	₱997,624
Insurance	**1,128,939**	1,078,679	949,743	**1,044,959**	1,027,759	913,679
Marketing expenses	**1,064,993**	764,767	540,544	**988,160**	731,870	523,658
Information technology	**499,319**	489,036	396,818	**471,262**	465,872	375,945
Management and other professional fees	**433,398**	323,979	338,947	**374,649**	268,137	266,756
Litigation expenses	**323,726**	235,526	229,886	**304,783**	224,669	216,741
Travelling	**248,433**	229,251	222,552	**223,896**	209,116	201,922
Postage, telephone and cable	**207,828**	216,189	180,893	**158,841**	166,034	135,873
Entertainment and representation	**99,024**	86,095	146,950	**89,944**	72,799	126,698
Repairs and maintenance	**82,113**	81,711	79,664	**82,113**	81,711	79,664
Freight	**45,727**	34,195	46,723	**43,986**	32,556	35,043
Fuel and lubricants	**21,237**	25,476	54,721	**17,521**	24,275	54,027
Miscellaneous	**682,926**	648,694	522,035	**547,469**	540,824	23,252
	₱6,142,744	₱5,319,544	₱4,740,602	**₱5,604,188**	₱4,911,986	₱3,950,882

'Miscellaneous' 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	
	2016	2015	**2016**	2015
Retirement benefit liability (included in 'Other liabilities')	**₱3,138,824**	₱2,955,003	**₱3,063,243**	₱2,889,735
Net plan assets (included in 'Other assets')	**2,714**	3,045	**–**	–
	₱3,136,110	₱2,951,958	**₱3,063,243**	₱2,889,735

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, 2016 and 2015, 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, 2016. The following table shows the actuarial assumptions as of December 31, 2016 and 2015 used in determining the retirement benefit obligation of the Group:

			Parent Company					
	Consolidated		ABC		PNB		EIP	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
Discount rate	**4.65% - 5.01%**	4.31% - 4.62%	**4.81%**	4.38%	**4.81%**	4.38%	**4.81%**	4.38%
Salary rate increase	**5.00% - 8.00%**	5.00% - 8.00%	**6.00%**	5.00%	**6.00%**	5.00%	**–**	–

The changes in the present value obligation and fair value of plan assets are as follows:

	Consolidated												
	2016												
							Remeasurements in other comprehensive income						
		Net benefit costs*											
	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*

	Consolidated												
	2015												
							Remeasurements in other comprehensive income						
		Net benefit costs*											
	January 1, 2015	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, 2015
Present value of pension obligation	₱6,537,062	₱628,059	₱6,759	₱297,507	₱932,325	(₱473,928)	₱–	₱93,289	(₱334,797)	(₱241,508)	₱69,366	₱–	₱6,823,317
Fair value of plan assets	3,675,484	–	–	160,627	160,627	(473,928)	(335,775)	–	–	(335,775)	(34,084)	879,035	3,871,359
	₱2,861,578	₱628,059	₱6,759	₱136,880	₱771,698	₱–	₱335,775	₱93,289	(₱334,797)	₱94,267	₱103,450	(₱879,035)	₱2,951,958

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

** *Includes remeasurement losses of ₱4.4 million for APLII in 2015*

*** *Others consist of retirement of a disposal group classified as held for sale and retirement previously included in accrued expenses*

	Parent Company												
	2016												
							Remeasurement losses in other comprehensive income						
		Net benefit costs*											
	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	**₱6,666,412**	**₱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*

	Parent Company												
	2015												
							Remeasurement losses in other comprehensive income						
		Net benefit costs*											
	January 1, 2015	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, 2015
Present value of pension obligation	₱6,370,475	₱587,218	₱6,455	₱290,683	₱884,356	(₱469,129)	₱–	₱77,139	(₱321,702)	(₱244,563)	₱125,273	₱–	₱6,666,412
Fair value of plan assets	3,573,478	–	–	156,518	156,518	(469,129)	(334,812)	–	–	(334,812)	–	850,622	3,776,677
	₱2,796,997	₱587,218	₱6,455	₱134,165	₱727,838	₱–	334,812	₱77,139	₱(321,702)	₱90,249	₱125,273	(₱850,622)	₱2,889,735

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*
** *Others consist of retirement previously included in accrued expenses*

The Group and the Parent Company expect to contribute ₱934.5 million and ₱920.9 million, respectively, to the defined benefit plans in 2017. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2016 is 17.0 years.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Less than one year	**₱347,321**	₱330,098	**₱341,323**	₱325,319
More than one year to five years	**1,671,800**	1,632,402	**1,646,006**	1,599,833
More than five years to 10 years	**3,393,078**	3,371,760	**3,338,327**	3,291,709
More than 10 years to 15 years	**4,877,000**	4,557,857	**4,687,986**	4,421,078
More than 15 years	**22,189,610**	16,973,725	**20,268,606**	16,081,829

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Cash and cash equivalents	**₱2,101,820**	₱1,871,868	**₱2,042,229**	₱1,828,922
Equity investments				
Financial institutions (Note 34)	**491,884**	468,461	**491,884**	468,461
Others	**8,346**	13,382	**5,440**	5,263
Debt investment				
Private debt securities	**1,373,837**	1,050,312	**1,354,853**	1,026,929
Government securities	**261,749**	278,674	**244,533**	258,215
Investment in UITFs	**122,356**	175,228	**101,572**	175,228
Loans and receivables	**3,713**	4,006	**3,713**	4,006
Interest and other receivables	**14,699**	11,163	**14,299**	10,904
	4,378,404	3,873,094	**4,258,523**	3,777,928
Accrued expenses	**(1,972)**	(1,735)	**(1,505)**	(1,251)
	₱4,376,432	₱3,871,359	**₱4,257,018**	₱3,776,677

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, 2016 and 2015 includes investments in the Parent Company shares of stock with fair value amounting to ₱491.9 million and ₱468.5 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:

	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**

	2015			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱685,868)	+1.00%	(₱670,812)
	-1.00%	800,477	-1.00%	782,231
Salary increase rate	+1.00%	723,151	+1.00%	705,298
	-1.00%	(635,942)	-1.00%	(620,886)
Employee turnover rate	+10.00%	(54,767)	+10.00%	(42,004)
	-10.00%	54,767	-10.00%	42,004

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 32.22% 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 5.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱824.7 million, ₱881.5 million and ₱1.1 billion in 2016, 2015 and 2014, respectively, for the Group, of which ₱787.7 million, ₱727.6 million and ₱705.3 million in 2016, 2015, and 2014, respectively, pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱439,613**	₱470,777	**₱319,498**	₱396,330
Beyond one year but not more than five years	**988,042**	781,652	**766,990**	671,367
More than five years	**280,004**	118,186	**212,890**	22,183
	₱1,707,659	₱1,370,615	**₱1,299,378**	₱1,089,880

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 2016, 2015 and 2014, total rent income (included under 'Miscellaneous income') amounted to ₱376.6 million, ₱338.1 million and ₱634.4 million, respectively, for the Group and ₱275.3 million, ₱266.1 million and ₱364.0 million, respectively, for the Parent Company (Note 28).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Within one year	**₱313,458**	₱183,496	**₱164,501**	₱22,654
Beyond one year but not more than five years	**302,910**	169,379	**265,821**	12,110
More than five years	**34,849**	9,835	**16,155**	9,835
	₱651,217	₱362,710	**₱446,477**	₱44,599

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	
	2016	2015	**2016**	2015
Within one year	**₱1,738,954**	₱1,654,119	**₱23,509**	₱17,909
Beyond one year but not more than five years	**1,273,921**	1,984,772	**40,100**	35,900
More than five years	**36,500**	47,900	**36,500**	47,900

(Forward)

	Consolidated		Parent Company	
	2016	2015	**2016**	2015
Gross investment in finance lease contracts receivable (Note 10)	**₱3,049,375**	₱3,686,791	**₱100,109**	₱101,709
Less amounts representing finance charges	**355,743**	62,206	**56,880**	62,206
Present value of minimum lease payments	**₱2,693,632**	₱3,624,585	**₱43,229**	₱39,503

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		
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014
Continuing operations:						
Current						
Regular	**₱1,058,065**	₱756,033	₱767,085	**₱880,828**	₱501,682	₱652,067
Final	**665,615**	504,618	665,813	**429,058**	512,401	674,058
	1,723,680	1,260,651	1,432,898	**1,309,886**	1,014,083	1,326,125
Deferred	**(206,650)**	314,598	(108,782)	**(81,514)**	96,238	43,082
	1,517,030	1,575,249	1,324,116	**1,228,372**	1,110,321	1,369,207
Discontinued operations:						
Current						
Regular	**1,671**	5,839	5,084	**–**	–	–
Final	**296,126**	38,466	38,088	**276,748**	–	–
	297,797	44,305	43,172	**276,748**	–	–
Deferred	**(91,299)**	–	–	**–**	–	–
	206,498	44,305	43,172	**276,748**	–	–
Total	**₱1,723,528**	₱1,619,554	₱1,367,288	**₱1,505,120**	₱1,110,321	₱1,369,207

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2016	2015	**2016**	2015 (As Restated - Note 2)
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱5,142,623**	₱4,852,727	**₱4,695,139**	₱4,695,139
Accumulated depreciation on investment properties	**521,069**	512,973	**511,623**	511,623
Deferred revenue	**97,622**	–	**97,622**	–
Net retirement liability	**20,218**	16,474	**–**	–
Excess of net provision for unearned premiums per PFRS over tax basis	**7,498**	6,339	**–**	–
Deferred reinsurance on commission	**5,884**	20,560	**–**	–
Accrued expenses	**4,806**	1,060	**–**	–
Unamortized past service cost	**4,224**	–	**–**	–
Unrealized loss on AFS investment	**1,116**	830	**830**	830
NOLCO	**–**	94,944	**–**	–
Unrealized trading loss on FVPL	**–**	10	**–**	–
Others	**54,053**	10,655	**10,188**	10,556
	5,859,113	5,516,572	**5,315,402**	5,218,148
Deferred tax liability on:				
Fair value adjustment on investment properties	**1,448,798**	1,593,081	**1,448,798**	1,584,385
Fair value adjustments due to business combination	**1,043,112**	1,137,326	**1,043,112**	1,137,326
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Unrealized foreign exchange gains	**664,971**	578,555	**665,237**	577,007
Gain on remeasurement of a previously held interest	**160,272**	**–**	**164,429**	–
Unrealized trading gains on financial assets at FVPL	**105,646**	53,132	**105,646**	53,132
Lease income differential between finance and operating lease method	**45,662**	21,646	**–**	–
Deferred acquisition cost	**19,354**	17,835	**–**	–
Temporary difference associated with investments in disposal group classified as held for sale	**–**	91,299	**–**	95,456
Others	**152,648**	113,687	**137,436**	97,914
	4,376,899	4,342,997	**4,301,094**	4,281,656
	₱1,482,214	₱1,173,575	**₱1,014,308**	₱936,492

* *Balance includes deferred tax liability amounting to ₱736.4 million acquired from business combination*

As of December 31, 2016 and 2015, the Group's net deferred tax liabilities as disclosed in 'Other liabilities' (Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million and on accelerated depreciation on property and equipment amounting to ₱6.1 million.

Benefit from deferred tax charged directly to OCI during the year follows:

	Consolidated			Parent Company		
	2016	2015	2014	**2016**	2015	2014
Net unrealized losses (gains) on AFS investments	**₱286**	₱2,887	₱9,059	**₱–**	₱2,887	₱9,059
Remeasurement losses on retirement plan	**2,204**	2,277	9,334	–	2,277	9,334

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million in 2016 and 2015. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱3.7 million and ₱0.4 million in 2016 and 2015, respectively.

Based on the three-year financial forecast prepared by management and duly approved by the Executive Committee of the BOD, the Parent Company's gross deferred tax assets of ₱5.3 billion and ₱5.2 billion as of December 31, 2016 and 2015, respectively is expected to be realized from its taxable profits within the next three years.

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	
	2016	2015	**2016**	2015
Allowance for impairment and credit losses	**₱1,676,551**	₱1,193,391	**₱1,112,654**	₱1,060,122
Retirement liability	**919,382**	778,925	**918,973**	778,925
Unamortized past service cost	**603,280**	551,466	**603,280**	551,466
Accrued expenses	**442,562**	426,911	**442,537**	424,956
NOLCO	**439,659**	426,913	**–**	–
Unearned income	**122,269**	112,500	**122,269**	112,500
Derivative liabilities	**69,593**	40,503	**69,593**	40,503
Provision for IBNR	**65,000**	19,500	**–**	–
Conveyance of real estate inventories held for sale	**34,321**	–	**34,321**	–
Other equity reserves	**31,701**	–	**31,701**	–
Others	**4,244**	15,807	**4,242**	13,347
	₱4,408,562	₱3,565,916	**₱3,339,570**	₱2,981,819

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2013	₱942,021	₱942,021	₱–	2016
2014	170,349	–	170,349	2017
2015	289,320	–	289,320	2018
2016	3,204	–	3,204	2019
	₱1,404,894*	₱942,021	₱462,873	

**Balance includes NOLCO amounting to ₱277,952 acquired from business combination*

The Group has net operating loss carryforwards for US federal tax purposes of USD6.2 million as of December 31, 2016 and 2015, respectively, and net operating loss carryforwards for California state tax purposes of USD4.1 million as of December 31, 2016 and 2015, respectively.

Unrecognized Deferred Tax Liabilities
As of December 31, 2016, there was a deferred tax liability of ₱665.6 million (₱788.2 million in 2015) for temporary differences of ₱2.2 billion (₱2.6 billion in 2015) 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		
	2016	2015	2014	**2016**	2015 (As Restated - Note 2)	2014 (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	**(3.68)**	(4.62)	(6.05)	**(3.78)**	(5.10)	(6.19)
Net non-deductible expenses	**6.90**	10.14	16.34	**6.23**	8.12	19.91
Optional standard deduction	**(0.02)**	(0.38)	0.02	**–**	–	–
Tax-exempt income	**(7.82)**	(6.85)	(7.09)	**(9.22)**	(8.63)	(20.97)
Tax-paid income	**(2.19)**	(3.77)	(4.14)	**(1.91)**	(3.15)	(3.04)
Net unrecognized deferred tax assets	**(3.84)**	(3.66)	(8.65)	**(3.88)**	(5.87)	0.64
Effective income tax rate	**19.35%**	20.86%	20.43%	**17.44%**	15.37%	20.35%

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 ₱99.0 million in 2016, ₱86.1 million in 2015, and ₱147.0 million in 2014 for the Group, and ₱89.9 million in 2016, ₱72.8 million in 2015, and ₱126.7 million in 2014 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:

		2016	2015	2014
a)	Net income attributable to equity holders of the Parent Company	**₱7,147,464**	₱6,113,508	₱5,358,669
b)	Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,020	1,163,938
c)	Basic/Diluted earnings per share (a/b)	**₱5.72**	₱4.89	₱4.60

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

		2016	2015	2014
a)	Net income attributable to equity holders of the Parent Company	**₱6,551,658**	₱5,827,163	₱5,147,340
b)	Weighted average number of common shares for basic earnings per share (Note 25)	**1,249,140**	1,249,020	1,163,938
c)	Basic/Diluted earnings per share (a/b)	**₱5.24**	₱4.67	₱4.42

As of December 31, 2016, 2015 and 2014, 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 ₱75.2 billion and ₱78.7 billion as of December 31, 2016 and 2015, respectively (Note 35). In connection with the trust functions of the Parent Company, government securities amounting to ₱924.8 million and ₱747.8 million (included under 'AFS Investments') as of December 31, 2016 and 2015, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2016, 2015 and 2014 amounting to ₱311.9 million, ₱256.2 million and ₱230.1 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 ₱19.4 million, ₱16.6 million and ₱13.6 million in 2016, 2015 and 2014, 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, 2016 and 2015, 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	
	2016	2015	**2016**	2015
Total Outstanding DOSRI Accounts*	**₱11,900,939**	₱7,681,274	**₱11,900,939**	₱7,681,274
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**2.89%**	2.14%	**3.23%**	2.36%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**2.89%**	2.14%	**3.23%**	2.36%
Percent of DOSRI accounts to total loans	**2.89%**	2.14%	**3.23%**	2.36%
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 ₱178.7 million as of December 31, 2016 and ₱291.5 million as of December 31, 2015.*

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.

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
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

(Forward)

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
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**		
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	**13,803,372**		
Loan Collections	**12,567,911**		
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

(Forward)

	2016		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
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
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

	2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit liabilities		₱230,659	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
Interest expense	₱16,406		Interest expense on deposit liabilities
Net withdrawals	4,743,187		Net withdrawals during the period

(Forward)

	2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Subsidiaries			
Receivables from customers		₱1,878,667	Term loan maturing in 2017 with 3.85% nominal rate;
Loan releases	₱5,650,750		Revolving credit lines with interest rate of 3.00
Loan collections	9,982,760		maturity of three months; Unsecured
Loan commitments		566,497	Money market line; pre-settlement risk
Interbank loans receivable		158,192	Foreign currency-denominated interbank term loans
Availments	1,041,975		with interest rates ranging from 0.03% to 0.35% and
Settlements	940,815		maturity terms ranging from 15 to 150 days
Due from other banks		504,201	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		3,923	Interest accrual on receivables from customers and interbank loans receivable
Deposit liabilities		5,967,054	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 2.35% Foreign currency-denominated time deposits with annual interest rates ranging from 0.62% to 1.25% and maturity terms of 30 days
Net deposits	2,045,599		Net deposits during the period
Bills payable		1,902,466	Foreign currency-denominated bills payable with
Availments	3,296,949		interest rates ranging from 0.20% to 2.50% and
Settlements	3,648,952		maturity terms ranging from 30 to 365 days
Due to other banks		252,997	Foreign currency-denominated clearing accounts used for funding and settlements of remittances
Accrued interest payable		25,066	Accrued interest on deposit liabilities and bills payable
Rental deposit		10,637	Advanced rental and security deposits received for two and three months
Other liabilities		2	Various manager's check related to premium insurance
Interest income	57,385		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	112,529		Interest expense on deposit liabilities and bills payable
Rental income	61,616		Rental income from three years year lease agreement, with escalation rate of 10.00% per annum
Fees and commission income	130,082		Income from client referrals and professional fees on service agreements with Legal Group
Miscellaneous income	716,247		Proceeds from fire insurance claims on the Ever Gotesco property
Securities transactions:			
Purchases	3,141,507		Outright purchase of securities
Sales	3,410,775		Outright sale of securities
Trading gains	287		Gain from sale of investment securities
Affiliates			
Receivables from customers		18,168,623	Secured by hold-out on deposits, government
Loan releases	15,858,440		securities, real estate and mortgage trust indenture;
Loan collections	8,888,360		Unimpaired; With interest rates ranging from 2.82% to 6.00%, maturity terms ranging from 90 days to 12 years and payment terms ranging from monthly payments to quarterly payments
Loan commitments		6,340,087	Term loan with maturity in 2023; various short-term lines with expiry in 2016; counterparty line
Investment in non-marketable equity securities		269,719	Common shares with acquisition costs ranging from ₱5.0 to ₱100.00 per share

(Forward)

	2015		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Sales contract receivable		₱2,047,347	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00%, maturity term of five years.
Accrued interest receivable		27,861	Accrued interest on receivables from customers
Rental deposits		10,346	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		7,418,850	Peso-denominated and foreign currency-denominated demand and savings deposits with annual interest rates ranging from 0.10% to 1.50%; Peso-denominated and foreign currency-denominated time deposits with annual interest rates ranging from 0.88% to 1.75% and maturity terms ranging from 30 days to 365 days.
Net deposits	₱1,329,040		Net deposits during the period
Accrued interest payable		57,058	Accrued interest payable from various deposits
Other liabilities		666	Various manager's check related to EIP and premium insurance
Rental income	27,152		Rental income on operating lease with term of 10 years
Rental expense	51,006		Rent payments on operating leases with term ranging from 24 to 240 months
Interest income	337,899		Interest income on receivable from customers
Interest expense	35,288		Interest expense on deposit liabilities
Gain on sale of investment properties	369,000		20.00% to 30.00% downpayment; 80.00% to 70.00% balance payable in 5 years. Interest-bearing at 6.00%
Service fees and commission income	136,908		Income on insurance premiums collected
Service fees and commission expense	22,245		Claims expense, comprehensive insurance, service and referral fees
Securities transactions:			
Purchases	1,216		Outright purchase of securities
Sales	1,216		Outright sale of securities
Key Management Personnel			
Loans to officers		16,998	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan releases	3,170		Loan drawdowns
Loan collections	2,246		Settlement of loans and interest
Other expenses	2,910		Payment of legal fees
Transactions of subsidiaries with other related parties			
Receivable from customers		80,000	Short-term loan with interest rate of 3.00% with maturity of three months
Accrued interest receivable		44	Interest accrual on receivables from customers
Investment in marketable equity securities		39,898	Various investments under management account placed with the TBG; composed of cash assets, deposits with the Parent Company, deposits with other banks and AFS government securities
Bills Payable		80,000	Peso-denominated bills payable with interest rate of 3.00% and maturity of three months
Accrued interest payable		90	Accrued interest on bills payable
Interest income	8,514		Interest income on receivable from customers
Interest expense	2,299		Interest expense on bills payable
Net insurance premiums	4,623		Income on insurance premiums collected
Net insurance benefits and claims	3,497		Claims expense, comprehensive insurance, service and referral fees

The related party transactions shall be settled in cash. There are no provisions for credit losses in 2016 and 2015 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.

In June 2013, the Parent Company and PNB GRF agreed to amend the settlement procedure on defaulted Pangarap Loans. Under the new settlement procedure, the Parent Company, in which the pledged deposits of the defaulted Pangarap Loans are placed with, remit the corresponding defaulted amounts (including accrued interests, surcharges and other related charges) from the pledged deposits of the defaulted customers to PNB GRF. The remitted amounts are being offset against the intercompany receivables from the Parent Company.

Financial Assets at FVPL traded through PNB Securities
As of December 31, 2016 and 2015, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱27.2 million and ₱199.7 million, respectively. The Parent Company recognized trading losses amounting to ₱13.5 million in 2016 and trading gains amounting to ₱7.2 million and ₱19.5 million in 2015 and 2014, respectively 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.

VMC Convertible Notes and Common Shares
As of December 31, 2013, the Parent Company holds convertible notes with face amount of ₱353.4 million, recorded under 'Unquoted debt securities' and 161,978,996 common shares, recorded under 'AFS investments', issued by VMC, an affiliate of the Group. Each of the investment has a carrying value of ₱1.0 (one peso). In March 2014, VMC redeemed a portion of the convertible notes for a total price of ₱330.3 million, the same amount of gain was recorded under 'Interest income' in the statement of income of the Parent Company. In April 2014, the Parent Company sold the remaining convertible notes to LTG at ₱3.50 for every ₱1.0 convertible note. The Parent Company recognized a gain on sale of convertible notes amounting to ₱608. 4 million, booked under 'Miscellaneous income' in the statement of income of the Parent Company (Note 28). Also in April 2014, the Parent Company sold its investment in common shares of VMC to LTG, at current market price of ₱4.54 per share resulting in a gain of ₱735.4 million recorded under 'Trading and investment securities gains - net' in the statement of income of the Parent Company. The sale of VMC shares to LTG was facilitated by PNB Securities.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2016	2015	2014
Short-term employee benefits (Note 20)	**₱581,302**	₱589,199	₱459,759
Post-employment benefits	**61,544**	51,365	47,844
	₱642,846	₱640,564	₱507,603

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 2016 and 2015, total per diem given to the BOD amounted to ₱43.2 million and ₱42.0 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.

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 and 2015. In 2016 and 2015, the Parent Company recognized gain of ₱18.3 million and ₱24.4 million, respectively.

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 ₱1.3 billion and ₱300.0 million as of December 31, 2016 and 2015, respectively. As of December 31, 2016 and 2015, 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 ₱4.3 billion and ₱3.8 billion as of December 31, 2016 and 2015, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		**Parent Company**	
	2016	2015	**2016**	2015
Investment in PNB Shares	**₱491,884**	₱468,461	**₱491,884**	₱468,461
Deposits with PNB	**330,716**	342,767	**330,678**	342,722
Investment in UITFs	**122,306**	166,258	**101,572**	153,857
Total Fund Assets	**₱904,906**	₱977,486	**₱924,134**	₱965,040
Unrealized gain (loss) on HFT (PNB shares)	**₱23,423**	(₱252,248)	**₱23,423**	(₱252,248)
Interest income	**15,602**	13,427	**14,952**	11,188
	39,025	(238,821)	**38,375**	(241,060)
Trust fees	**(4,821)**	(4,854)	**(4,912)**	(4,577)
Fund income (loss)	**₱34,204**	(₱243,675)	**₱33,463**	(₱245,637)

As of December 31, 2016 and 2015, 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.

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.

Movements of provisions for legal claims for the Group and the Parent Company are as follows:

	2016	2015
Balance at beginning of the year	**₱898,737**	₱1,640,648
Provisions (reversals) during the year (Note 16)	**401,553**	(741,911)
Balance at the end of the year	**₱1,300,290**	₱898,737

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**	
	2016	2015	**2016**	2015
Trust department accounts (Note 33)	**₱75,238,152**	₱78,708,656	**₱75,238,152**	₱78,708,656
Derivative forwards	**40,000,448**	32,378,255	**34,886,157**	26,907,910
Interest rate swaps	**33,610,720**	9,317,880	**33,610,720**	9,317,880
Standby letters of credit	**26,232,306**	22,031,604	**26,133,083**	21,916,691
Deficiency claims receivable	**22,337,807**	21,562,415	**22,285,950**	21,541,459
Unutilized credit card lines	**27,018,318**	15,725,684	**27,018,318**	15,725,684
Derivative spots	**2,358,455**	5,526,044	**2,358,455**	5,526,044
Inward bills for collection	**1,001,375**	356,152	**974,300**	248,839
Outward bills for collection	**282,212**	320,428	**117,898**	89,201
Confirmed export letters of credit	**100,461**	88,409	**100,461**	88,409
Unused commercial letters of credit	**50,062**	48,957	**50,062**	48,957
Shipping guarantees issued	**13,716**	10,033	**13,716**	10,033
Items held as collateral	**1,237**	42	**1,225**	31
Other credit commitments (Note 9)	**–**	974,377	**–**	974,377
Other contingent accounts	**2,073,225**	298,336	**2,068,481**	296,174

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

2016

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets	**₱28,500,758**	**(₱28,152,954)**	**₱347,804**	**₱199,855**	**–**	**₱147,949**
Securities sold under agreements to repurchase (Notes 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**

** Included in bills and acceptances payable in the statements of financial position*

2015

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Securities sold under agreements to repurchase (Notes 8)	₱14,550,000	₱–	₱14,550,000	₱–	₱14,516,223*	₱33,777

** Included in bills and acceptances payable in the statements of financial position*

Financial liabilities

2016

Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[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*

2015

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱216,636	₱–	₱216,636	₱465	₱250,830	₱–
Securities sold under agreements to repurchase (Notes 9 and 19)*	12,806,499	–	12,806,499	–	15,941,143	–
Total	₱13,023,135	₱–	₱13,023,135	₱465	₱16,191,973	₱–

** 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	2014
Interest Income on			
Loans and receivables	**₱7,610**	₱20,343	₱18,707
Trading and investment securities	**195,605**	443,116	396,586
Deposits with banks and others	**5,151**	3,504	323
	208,366	466,963	415,616
Net Service Fees And Commission Income	**(67,591)**	(281,639)	(335,635)
Net insurance premium	**508,770**	1,716,308	1,604,500
Net insurance benefits and claims	**441,090**	1,290,439	1,191,359
Net Insurance premium	**67,680**	425,869	413,141
Other Income			
Trading and investment securities gains - net	**1,800**	20,874	14,661
Foreign exchange gains (losses) - net	**(876)**	11,806	(1,999)
Miscellaneous	**80,667**	149,061	101,111
Total Operating Income	**290,046**	792,934	606,895
Operating Expenses			
Compensation and fringe benefits	**71,741**	223,322	166,757
Taxes and licenses	**16,759**	39,570	36,544
Occupancy and equipment-related costs	**7,610**	9,764	9,196
Depreciation and amortization	**4,707**	10,704	14,039
Provision for impairment, credit and other losses	**4,704**	32,765	–
Miscellaneous	**39,692**	74,573	73,026
Total Operating Expense	**145,213**	390,698	299,562
Results from Operating Activities	**144,833**	402,236	307,333
Provision for income tax	**21,049**	44,305	43,172

(Forward)

	2016	2015	2014
Results from Operating Activities, net of tax	**₱123,784**	₱357,931	₱264,161
Gain on Sale of Discontinued Operation	**834,535**	–	–
Transaction Costs	**153,307**	–	–
Provision for Income Tax	**185,449**	–	–
Net Income from Discontinued Operations	**₱619,563**	₱357,931	₱264,161
Attributable to:			
Equity holders of the Parent Company	**₱594,806**	₱286,345	₱211,328
Non-controlling interests	**24,757**	71,586	52,833
	₱619,563	₱357,931	₱264,161

The major classes of assets and liabilities of APLII classified as disposal group held for sale to equity holders of the Parent follows:

	2016	2015
Assets		
Cash and other cash items	**₱546,621**	₱642,544
Financial assets at fair value through profit or loss	**14,506,651**	13,634,687
AFS investments	**7,922,461**	7,468,653
HTM investments	**1,254,898**	1,269,398
Other receivables	**473,259**	437,210
Property and equipment - net	**31,931**	29,546
Other assets	**41,791**	44,719
	₱24,777,612	₱23,526,757
Liabilities		
Financial liabilities at fair value through profit or loss:	**₱14,475,772**	₱13,725,321
Accrued taxes, interest and other expenses	**76,938**	161,817
Insurance contract liability	**7,097,270**	6,837,144
Other liabilities	**577,348**	728,339
	₱22,227,328	₱21,452,621
Net assets of disposal group held for sale	**2,550,284**	2,074,136
Amounts included in accumulated OCI:		
Net unrealized gain on AFS investments	**₱34,876**	(₱115,430)
Remeasurement losses on retirement plan	**(18,070)**	(18,070)
	₱16,806	(₱133,500)

Cash flows from (used in) discontinued operations follow:

	2016	2015	2014
The net cash flows directly associated with disposal group:			
Operating	**₱171,535**	₱1,210,588	₱1,535,951
Investing	**(267,458)**	(903,161)	(1,395,508)
	(₱95,923)	₱307,427	₱140,443

38. **Notes to Statements of Cash Flows**

The Group applied creditable withholding taxes against its income tax payable amounting to ₱882.2 million, ₱504.0 million and ₱582.6 million in 2016, 2015 and 2014, respectively. The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱869.9 million, ₱498.3 million and ₱566.3 million in 2016, 2015, and 2014, 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 2014, the Group and the Parent Company reclassified some of its AFS investment securities, which were previously classified as HTM investments, back to its original classification amounting to ₱22.7 billion and ₱21.3 billion, respectively (Note 9).

In 2014, properties with carrying value of ₱3.0 million were reclassified by the Parent Company from property and equipment to investment property while ₱74.0 million were reclassified by the Group from investment property to property and equipment (Notes 11 and 13).

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 ₱0.7 billion, ₱0.5 billion and ₱1.3 billion in 2016, 2015 and 2014, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission amounted to ₱0.6 billion, ₱0.4 billion, and ₱1.2 billion in 2016, 2015 and 2014, respectively.

In 2016, collections booked under accounts payable from sold and turned over units pertaining to the joint venture with EPPI amounting to ₱174.9 million were applied against receivables for sold real estate inventories held for sale with carrying value of ₱422.3 million. The Group and the Parent Company also recognized sales contract receivables amounting to ₱459.1 million for the remaining unpaid balance for the said units. The resulting gain from the transaction amounted to ₱211.7 million.

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 ₱9.2 million, ₱16.9 million, and ₱27.5 million in 2016, 2015 and 2014, respectively.

Interest expense of the Group includes fair value amortization of deposit liabilities amounting to ₱30.3 million, ₱80.4 million, and ₱249.7 million in 2016, 2015 and 2014, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱338.6 million, ₱352.4 million and ₱648.9 million in 2016, 2015 and 2014, 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 24, 2017.

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 2016 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,094,128,139
Documentary stamp taxes	1,585,000,000
Real estate tax	139,145,101
Local taxes	47,910,475
Others	93,269,874
	₱2,959,453,589

2. Withholdings taxes

	Remitted	Outstanding
Withholding Taxes on Compensation and Benefits	₱1,076,620,698	₱175,968,775
Final income taxes withheld on interest on deposits and yield on deposit substitutes	351,743,603	38,607,512
Expanded withholding taxes	164,229,237	14,294,521
VAT withholding taxes	2,488,464	262,670
Other Final Taxes	63,218,988	2,678,612
	₱1,658,300,990	₱231,812,090

Tax Cases and Assessments

As of December 31, 2016, 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.

Philippine National Bank and Subsidiaries

Unaudited Interim Condensed Consolidated Financial Statements
As of June 30, 2017 and for the six-month periods ended June 30, 2017 and 2016

and

Report on Review of Interim Condensed Consolidated Financial Statements

SGV
Building a better working world

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Building a better working world

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BOA/PRC Reg. No. 0001,
December 14, 2015, valid until December 31, 2018
SEC Accreditation No. 0012-FR-4 (Group A),
November 10, 2015, valid until November 9, 2018

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Stockholders and the Board of Directors
Philippine National Bank and Subsidiaries

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Philippine National Bank and Subsidiaries (the Group), which comprise the consolidated statement of financial position as at June 30, 2017 and the related consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the six-month periods ended June 30, 2017 and 2016, and other explanatory information. Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with Philippine Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Philippine Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with PAS 34, *Interim Financial Reporting.*

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

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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. 08-001998-69-2015,
February 27, 2015, valid until February 26, 2018
PTR No. 5908738, January 3, 2017, Makati City

October 9, 2017

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(In Thousands)

	June 30, 2017	December 31, 2016 (As Restated - Note 2)
ASSETS		
Cash and Other Cash Items	**₱13,727,921**	₱11,014,663
Due from Bangko Sentral ng Pilipinas (Note 5)	**136,955,346**	127,337,861
Due from Other Banks	**28,463,218**	22,709,805
Interbank Loans Receivable (Note 16)	**26,469,334**	7,791,108
Securities Purchased Held Under Agreements to Resell	**5,635,850**	1,972,310
Financial Assets at Fair Value Through Profit or Loss (Notes 3 and 6)	**3,340,895**	1,913,864
Available-for-Sale Investments (Notes 3 and 6)	**65,496,747**	67,340,739
Held to Maturity Investments (Notes 3 and 6)	**24,567,146**	24,174,479
Loans and Receivables (Notes 3, 7 and 16)	**455,344,330**	428,027,471
Property and Equipment (Note 8)	**18,340,566**	18,097,355
Investment in an Associate (Notes 2 and 17)	**2,579,446**	2,582,456
Investment Properties (Notes 3 and 9)	**15,776,707**	16,341,252
Deferred Tax Assets (Note 2)	**1,369,224**	1,467,098
Intangible Assets	**3,197,419**	2,562,369
Goodwill	**13,375,407**	13,375,407
Other Assets (Notes 10 and 16)	**8,480,472**	7,091,458
TOTAL ASSETS	**₱823,120,028**	₱753,799,695
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 3 and 16)		
Demand	**₱123,309,095**	₱117,329,019
Savings	**410,826,685**	368,798,751
Time	**65,527,207**	59,993,473
Long Term Negotiable Certificates of Deposit	**25,037,977**	24,382,144
	624,700,964	570,503,387
Financial Liabilities at Fair Value Through Profit or Loss (Note 3)	**491,937**	232,832
Bills and Acceptances Payable (Notes 3, 11 and 16)	**42,840,737**	35,885,948
Accrued Taxes, Interest and Other Expenses	**5,064,048**	4,943,626
Subordinated Debt (Notes 3 and 11)	**–**	3,497,798
Income Tax Payable	**373,600**	195,240
Other Liabilities (Note 10)	**35,454,548**	28,565,375
TOTAL LIABILITIES	**708,925,834**	643,824,206

(Forward)

	June 30, 2017	December 31, 2016 (As Restated - Note 2)
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital Stock (Note 12)	**₱49,965,587**	₱49,965,587
Capital Paid in Excess of Par Value	**31,331,251**	31,331,251
Surplus Reserves	**597,605**	573,658
Surplus (Note 2)	**33,297,268**	30,709,685
Net Unrealized Loss on Available-for-Sale Investments	**(2,611,359)**	(3,469,939)
Remeasurement Losses on Retirement Plan	**(2,847,611)**	(2,821,853)
Accumulated Translation Adjustment	**1,657,474**	915,222
Share in Aggregate Reserves on Life Insurance Policies (Note 2)	**12,280**	3,087
Other Equity Reserves (Note 12)	**53,602**	105,670
Other Equity Adjustment	**13,959**	13,959
	111,470,056	107,326,327
NON-CONTROLLING INTERESTS (Note 2)	**2,724,138**	2,649,162
TOTAL EQUITY	**114,194,194**	109,975,489
TOTAL LIABILITIES AND EQUITY	**₱823,120,028**	₱753,799,695

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Earnings Per Share)

	Six Months Ended	
	June 30, 2017	June 30, 2016 (As Restated - Note 2)
INTEREST INCOME ON		
Loans and receivables (Notes 7 and 16)	**₱10,706,280**	₱9,444,154
Trading and investment securities (Note 6)	**1,568,455**	1,667,111
Deposits with banks and others (Note 5)	**838,300**	177,293
Securities purchased held under agreements to resell	**145,960**	525,757
Interbank loans receivable	**45,507**	36,070
	13,304,502	11,850,385
INTEREST EXPENSE ON		
Deposit liabilities (Notes 11 and 16)	**2,571,080**	1,730,199
Bills payable and other borrowings (Notes 11 and 16)	**427,576**	576,395
	2,998,656	2,306,594
NET INTEREST INCOME	**10,305,846**	9,543,791
Service fees and commission income	**2,004,881**	1,627,562
Service fees and commission expense	**388,227**	327,581
NET SERVICE FEES AND COMMISSION INCOME	**1,616,654**	1,299,981
Net insurance premiums	**633,161**	594,069
Net insurance benefits and claims	**503,718**	451,229
NET INSURANCE PREMIUMS (BENEFITS AND CLAIMS)	**129,443**	142,840
OTHER INCOME		
Foreign exchange gains – net	**714,531**	807,310
Trading and investment securities gains - net (Note 6)	**303,792**	727,719
Net gain on sale or exchange of assets (Note 9)	**231,337**	1,904,807
Miscellaneous (Notes 2,13 and 17)	**454,747**	2,870,507
TOTAL OPERATING INCOME	**13,756,350**	17,296,955
OPERATING EXPENSES		
Compensation and fringe benefits (Note 16)	**4,514,762**	4,481,381
Taxes and licenses	**1,089,996**	1,190,337
Depreciation and amortization (Note 8)	**773,174**	746,251
Occupancy and equipment-related costs (Note 16)	**707,403**	647,853
Provision for impairment, credit and other losses (Notes 6, 7, 9 and 10)	**283,133**	738,825
Miscellaneous (Notes 2,13 and 17)	**2,889,167**	2,670,584
TOTAL OPERATING EXPENSES	**10,257,635**	10,475,231
INCOME BEFORE INCOME TAX	**3,498,715**	6,821,724
PROVISION FOR INCOME TAX (Note 14)	**838,386**	1,548,356
NET INCOME FROM CONTINUING OPERATIONS	**2,660,329**	5,273,368
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 2 and 17)	**–**	1,103,378
	₱2,660,329	₱6,376,746
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company	**₱2,611,530**	₱6,235,054
Non-controlling Interests	**48,799**	141,692
	₱2,660,329	₱6,376,746
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company (Note 15)	**₱2.09**	₱4.99
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company from continuing operations (Note 15)	**₱2.13**	₱4.22

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands)

	Six Months Ended June 30	
	2017	2016 (As Restated - Note 2)
NET INCOME FROM CONTINUING OPERATIONS	**₱2,660,329**	₱5,273,368
NET INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 2 and 17)	–	1,103,378
NET INCOME	**2,660,329**	6,376,746
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that recycle to profit or loss in subsequent periods:		
Changes in fair value of available-for-sale investments	**635,909**	2,838,704
Realized gain on sale of available-for-sale investments (Note 6)	**250,406**	(628,347)
Income tax effect	**(27,735)**	(26,232)
	858,580	2,184,125
Accumulated translation adjustment	**769,965**	(296,831)
	1,628,545	1,887,294
Items that do not recycle to profit or loss in subsequent periods:		
Share in aggregate reserves on life insurance policies	**9,193**	–
Remeasurement gains (losses) on retirement plan	**(25,758)**	16,916
OTHER COMPREHENSIVE INCOME FROM CONTINUING OPERATIONS	**1,611,980**	1,904,210
OTHER COMPREHENSIVE INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX (Note 2)	–	59,064
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	**1,611,980**	1,963,274
TOTAL COMPREHENSIVE INCOME, NET OF TAX	**₱4,272,309**	₱8,340,020
ATTRIBUTABLE TO:		
Equity Holders of the Parent Company		
Total comprehensive income for the period from continuing operations	**₱4,195,797**	₱7,287,778
Total comprehensive income for the period from discontinued operations	–	917,389
	4,195,797	8,205,167
Non-controlling Interests		
Total comprehensive income for the period from continuing operations	**76,512**	49,800
Total comprehensive income for the period from discontinued operations	–	85,053
	76,512	134,853
	₱4,272,309	₱8,340,020

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

													For the Six Months Ended June 30		
	Attributable to Equity Holders of the Parent Company														
	Capital Stock (Note 12)	**Capital Paid in Excess of Par Value**	**Surplus Reserves**	**Surplus**	**Net Unrealized Loss on Available-for-Sale Investments**	**Remeasurement Loss on Retirement Plan**	**Accumulated Translation Adjustment**	**Other Equity Reserves** (Note 12)	**Reserves of Disposal Group Classified as Held for Sale** (Note 17)	**Other Equity Adjustment**	**Parent Company Shares Held by a Subsidiary**	**Share in aggregate reserves on life insurance policies**	**Total**	**Non-controlling Interests**	**Total Equity**
Balance at January 1, 2017 as previously reported	**₱49,965,587**	**₱31,331,251**	**₱573,658**	**₱30,678,189**	**(₱3,469.939)**	**(₱2,821,853)**	**₱915,222**	**₱105,670**	**₱–**	**₱13,959**	**₱–**	**₱–**	**₱107,291,744**	**₱2,649,162**	**₱109,940,906**
Effect of change in accounting policy (Note 2)	**–**	**–**	**–**	**31,496**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,087**	**34,583**	**–**	**34,583**
Balance at January 1, 2017, as restated	**49,965,587**	**31,331,251**	**573,658**	**30,709,685**	**(3,469.939)**	**(2,821,853)**	**915,222**	**105,670**	**–**	**13,959**	**–**	**3,087**	**107,326,327**	**2,649,162**	**109,975,489**
Total comprehensive income (loss)	**–**	**–**	**–**	**2,611,530**	**858,580**	**(25,758)**	**742,252**	**–**	**–**	**–**	**–**	**9,193**	**4,195,797**	**76,512**	**4,272,309**
Other equity reserves (Note 12)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(52,068)**	**–**	**–**	**–**	**–**	**(52,068)**	**–**	**(52,068)**
Declaration of dividends (Note 13)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,536)**	**(1,536)**
Transfer to surplus reserves	**–**	**–**	**23,947**	**(23,947)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Balance at June 30, 2017	**₱49,965,587**	**₱31,331,251**	**₱597,605**	**₱33,297,268**	**(₱2,611,359)**	**(₱2,847,611)**	**₱1,657,474**	**₱53,602**	**₱–**	**₱13,959**	**–**	**₱12,280**	**₱111,470,056**	**₱2,724,138**	**₱114,194,194**
Balance at January 1, 2016, as previously reported	₱49,965,587	₱31,331,251	₱554,263	₱24,799,259	(₱3,030,588)	(₱2,364,215)	612,468	₱–	(₱133,500)	₱13,959	(₱9,945)	₱–	₱101,738,539	₱3,017,322	₱104,755,861
Effect of change in accounting policy (Note 2)	–	–	–	(167,907)	–	–	–	–	(327,726)	–	–	–	(495,633)	(123,908)	(619,541)
Balance at January 1, 2016, as restated	49,965,587	31,331,251	554,263	24,631,352	(3,030,588)	(2,364,215)	612,468	–	(461,226)	13,959	(9,945)	–	101,242,906	2,893,414	104,136,320
Total comprehensive income (loss)	–	–	–	6,235,054	2,184,125	16,916	(290,352)	–	59,424	–	–	–	8,205,167	134,853	8,340,020
Disposal of Parent Company shares by a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	9,945	–	9,945	–	9,945
Sale of direct interest in a subsidiary (Note 17)	–	–	–	(418,608)	–	–	–	–	401,802	–	–	–	(16,806)	(461,503)	(478,309)
Declaration of dividends (Note 13)	–	–	–	–	–	–	–	–	–	–	–	–	–	(41,665)	(41,665)
Transfer from surplus reserves	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–	–	–
Balance at June 30, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,428,403	(₱846,463)	(₱2,347,299)	₱322,116	₱–	₱–	₱13,959	₱–	₱–	₱109,441,212	₱2,525,099	₱111,966,311

See accompanying Notes to Interim Condensed Consolidated Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Six Months Ended	
	2017	2016 (As Restated - Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax from continuing operations	**₱3,498,715**	₱6,821,724
Income before income tax from discontinued operations (Note 17)	**–**	1,309,876
Income before income tax	**3,498,715**	8,131,600
Adjustments for:		
Depreciation and amortization (Note 8)	**773,174**	746,251
Amortization of premium on investment securities	**639,414**	507,653
Provision for impairment, credit and other losses (Notes 6, 7, 9 and 10)	**283,133**	738,825
Mark-to-market loss on derivatives	**271,111**	867,492
Realized trading gain on available-for-sale investments (Note 6)	**(250,046)**	628,347
Net gain on sale or exchange of assets (Notes 8 and 9)	**(231,337)**	(1,904,807)
Amortization of fair values of held-to-maturity investments reclassified to available-for-sale investments	**71,324**	24,074
Amortization of capitalized transaction costs on issuance of subordinated debt and long-term negotiable certificates of time deposits	**44,563**	24,220
Share in net income of an associate (Note 13)	**(40,120)**	(17,185)
Gain (loss) on mark-to-market of held-for-trading securities	**(3,947)**	51,355
Amortization of fair value adjustments	**(3,336)**	15,362
Gain on mark-to-market of financial liability designated at fair value through profit or loss	**(65)**	(394)
Unrealized foreign exchange loss (gain) on bills payable and acceptances	**(183,518)**	865,120
Gain on remeasurement of investment in an associate (Note 2)	**–**	(1,795,502)
Gain from sale of shares in a subsidiary (Note 17)	**–**	(861,762)
Recoveries on receivable from a special purpose vehicle (Note 13)	**–**	(500,000)
Unrealized foreign exchange loss (gain) on available-for-sale investments	**(275,909)**	457,691
Changes in operating assets and liabilities:		
Decrease (increase) in amounts of:		
Interbank loan receivable	**(121,518)**	(3,874,865)
Financial assets at fair value through profit or loss	**(1,435,026)**	2,223,254
Loans and receivables	**(27,127,791)**	(27,953,038)
Other assets	**(1,712,965)**	(2,582,376)
Increase in amounts of:		
Deposit liabilities	**53,507,048**	48,769,157
Accrued taxes, interest and other expenses	**68,354**	109,590
Other liabilities	**6,863,416**	127,472
Net cash generated from operations	**34,634,674**	24,797,534
Income taxes paid	**(218,367)**	(448,103)
Net cash provided by operating activities	**34,416,307**	24,349,431
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
Available-for-sale investments	**40,933,091**	83,519,753
Investment properties (Note 9)	**291,172**	1,200,040
Property and equipment (Note 8)	**33,366**	55,753
Investment in a subsidiary (Note 17)	**–**	3,230,966

(Forward)

	Six Months Ended	
	2017	2016 (As Restated - Note 2)
Proceeds from maturities of held-to-maturity investments	**₱–**	₱4,765
Collection of receivables from a special purpose vehicle	**–**	500,000
Acquisitions of:		
Available-for-sale investments	**(37,296,752)**	(87,714,289)
Held-to-maturity investments	**(223,227)**	(3,006,536)
Property and equipment (Note 8)	**(725,700)**	(968,828)
Software cost	**(773,928)**	(188,842)
Net cash used in investing activities	**2,238,022**	(3,367,218)
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlement of:		
Bills and acceptances payable	**(90,504,631)**	(35,238,919)
Subordinated debt (Note 11)	**(3,500,000)**	(6,500,056)
Long term negotiable certificates of deposits	**(3,100,000)**	–
Proceeds from issuance of bills and acceptances payable	**96,989,706**	43,267,946
Proceeds from issuance of long term negotiable certificates of deposits	**3,765,000**	–
Acquisition of non-controlling interests in subsidiaries	**–**	(292,416)
Dividends paid to non-controlling interests (Note 17)	**–**	(41,665)
Net cash provided by financing activities	**3,650,075**	1,194,890
NET INCREASE IN CASH AND CASH EQUIVALENTS	**40,304,404**	22,177,103
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**11,014,663**	15,220,536
Cash and other cash items from disposal group classified as held for sale	**–**	642,544
Due from Bangko Sentral ng Pilipinas	**127,337,861**	81,363,444
Due from other banks	**22,709,805**	18,287,308
Interbank loans receivable	**7,243,886**	5,800,383
Securities purchased held under agreements to resell	**1,972,310**	14,550,000
	170,278,525	135,864,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**13,727,921**	10,720,692
Due from Bangko Sentral ng Pilipinas	**136,955,346**	93,527,540
Due from other banks	**28,463,218**	27,225,118
Interbank loans receivable	**25,800,594**	7,683,113
Securities purchased held under agreements to resell	**5,635,850**	18,884,855
	₱210,582,929	₱158,041,318
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱13,202,600**	₱13,299,308
Interest paid	**3,303,826**	2,261,445
Dividends received (Note 13)	**4,222**	13,302

See accompanying Notes to Unaudited Interim Condensed Consolidated Financial Statements.

1. Corporate Information

Philippine National Bank (the Parent Company) was established in the Philippines in 1916 and started commercial operations that same year. On May 27, 1996, the Parent Company was registered with the Philippine Securities and Exchange Commission (SEC) 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 June 30, 2017 and December 31, 2016, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.37% of the Parent Company's shares were held by Philippine Central Depository Nominee Corporation. The remaining 22.80% 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 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 or remittance servicing and a full range of retail banking and trust services through its 685 and 675 domestic branches as of June 30, 2017 and December 31, 2016, respectively.

The Parent Company has the largest overseas network among Philippine banks with 73 branches, representative offices, remittance centers and subsidiaries as of June 30, 2017 and December 31, 2016, 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 was effected via 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 ₱97.9 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. 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.

The merger of the Parent Company and ABC, which has been ruled by the Bureau of Internal Revenue as tax-free pursuant to Revenue Memorandum Ruling No. 1-2001, will enable the two banks to advance their long-term strategic business interest as they capitalized on their individual strengths and markets.

2. Basis of Preparation and Changes to the Group's Accounting Policies

Basis of Preparation

The accompanying interim condensed consolidated financial statements of the Parent Company and its subsidiaries (the Group) as of June 30, 2017 and for the six months ended June 30, 2017 and 2016 have been prepared in accordance with Philippine Accounting Standards (PAS) 34, *Interim Financial Reporting*. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as of and for the year ended December 31, 2016.

Amounts in the interim condensed consolidated financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

Seasonality or Cyclicality of Interim Operations

Seasonality or cyclicality of interim operations is not applicable to the Group's type of business.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following amendments and improvements to Philippine Financial Reporting Standards (PFRS) which are effective beginning on or after January 1, 2017. Changes in the accounting policies that did not have any significant impact on the financial position or performance of the Group follow:

- PFRS 12, *Clarification of the Scope of the Standard (Part of Annual Improvements to PFRS 2014-2016 Cycle)* (Amendments)
- PAS 7, *Statement of Cash Flows, Disclosures Initiative* (Amendments)
- PAS 12, *Income Taxes, Recognition of Deferred Tax for Unrealized Losses* (Amendments)

Adoption of Gross Premium Valuation method for insurance policy reserves

On December 28, 2016, the Insurance Commission issued IC Circular No. 2016-69 laying out the full implementation requirements for Financial Reporting, Valuation Standards for Insurance Policy Reserves and Amended Risk-Based Capital (RBC2) Framework. Insurance companies are required to adopt the Gross Premium Valuation (GPV) method from Net Premium Valuation (NPV) method effective starting January 1, 2017.

Reserve under the GPV Method is calculated as the sum of the present value of future benefits and expenses, less the present value of future gross premiums arising from the policy discounted at the appropriate risk-free discount rate. For this purpose, the expected future cash flows shall be determined using best estimate assumptions with due regard to significant recent experience and appropriate margin for adverse deviation from the expected experience. Best estimate assumptions include discount rates, decrements such as mortality and morbidity, lapse, expenses, and non-guaranteed benefits. Under this new standard, reserves must include appropriate margins for adverse deviations in respect of the risks that arise under the insurance policy. The calculation of reserves must also be in accordance with the internationally accepted actuarial standards and must consider the generally accepted actuarial principles concerning financial reporting framework promulgated by the Actuarial Society of the Philippines (ASP). Increase or decrease in the reserves brought about by changes in discount rates shall be recognized under "Aggregate Reserves on Life Insurance Policies" in other comprehensive income and are transferred to Surplus (i.e., not recycled to profit and loss) upon derecognition.

The change in the standards of valuation require retrospective application.

Restatement of the financial statements

With the sale of 51.00% interest in Allianz-PNB Life Insurance, Inc. (APLII) on June 6, 2016, the Parent Company lost control of APLII and accounted for its remaining 44.00% ownership interest in APLII under the equity method of accounting. At the date of loss of control, the Parent Company's remaining investment in APLII was remeasured at its fair value of ₱2.7 billion which was finalized after the release of the interim condensed consolidated financial statements as of and for the six month period ended June 30, 2016. The interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period ended June 30, 2016 as presented herein were restated to reflect the additional gain on remeasurement amounting to ₱1.6 billion based on the final valuation of the retained interest in APLII.

The effects of retrospective restatement of items in the financial statements due to the change from NPV to GPV method in determining insurance policy reserves and as a result of the final valuation of retained interest in APLII are detailed below:

	December 31, 2016		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Investment in an Associate	₱2,532,755	₱49,701	₱2,582,456
Deferred Tax Assets	1,482,214	(15,116)	1,467,098
Surplus	30,678,189	31,496	30,709,685
Share in Aggregate Reserves on Life Insurance Policies	–	3,087	3,087

	January 1, 2016		
	As previously reported	Effect of restatement	As restated
Statement of Financial Position			
Liabilities of Disposal Group Classified as Held for Sale	₱21,452,621	₱619,541	₱22,072,162
Surplus	24,799,259	(167,907)	24,631,352
Reserves of a Disposal Group Classified as Held for Sale	(133,500)	(327,726)	(461,226)
Non-controlling interests	3,017,322	(123,908)	2,893,414

	For the six months ended June 30, 2016		
	As previously reported	Effect of restatement	As restated
Statement of Comprehensive Income			
Statement of income			
Miscellaneous income	₱1,235,005	₱1,635,502	₱2,870,507
Provision for income tax	1,368,801	179,555	1,548,356
Net income from discontinued operations	508,147	595,231	1,103,378
Other comprehensive income			
Other comprehensive income (loss) from discontinued operations, net of tax	187,882	(128,818)	59,064

3. 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 fair value through profit or loss (FVPL), available for sale (AFS) investments and land and buildings measured at revalued amount.

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: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Group held the following assets and liabilities measured at fair value and at cost but for which fair values are disclosed, where cost differs from fair value and their corresponding level in fair value hierarchy:

	June 30, 2017					
	Valuation Date	Carrying Value	Fair Value			
			Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets:						
Financial assets at FVPL:						
Held-for-trading:						
Government securities	6/30/2017	₱2,720,074	₱2,515,856	₱204,218	₱–	₱2,720,074
Derivative assets****	6/30/2017	465,360	–	409,828	55,532	465,360
Private debt securities	6/30/2017	99,123	–	99,123	–	99,123
Equity securities	6/30/2017	50,144	50,144	–	–	50,144
Designated at FVPL:						
Investment in UITFs	6/30/2017	6,194	–	6,194	–	6,194
AFS investments:						
Government securities	6/30/2017	34,956,363	29,880,627	5,075,736	–	34,956,363
Private debt securities	6/30/2017	29,295,468	25,146,252	4,149,216	–	29,295,468
Equity securities*	6/30/2017	1,072,641	334,108	738,533	–	1,072,641
		₱68,665,367	₱57,926,987	₱10,682,848	₱55,532	₱68,665,367
Liabilities measured at fair value:						
Financial Liabilities:						
Financial liabilities at FVPL:						
Derivative liabilities	6/30/2017	₱491,937	₱–	₱491,937	₱–	₱491,937
		₱491,937	₱–	₱491,937	₱–	₱491,937
Assets for which fair values are disclosed:						
Financial Assets:						
HTM investments						
Government securities	6/30/2017	₱24,344,587	₱23,117,413	₱3,023,876	₱–	₱26,141,289
Private debt securities	6/30/2017	222,559	223,687	–	–	223,687
		₱24,567,146	₱ 23,341,100	₱3,023,876	₱–	₱ 26,364,976
Loans and receivables:**						
Receivables from customers	6/30/2017	₱431,664,691	₱–	₱–	₱437,572,748	₱437,572,748
Unquoted debt securities	6/30/2017	7,304,177	–	–	7,370,012	7,370,012
		₱438,968,868	₱–	₱–	₱444,942,760	₱444,942,760
Nonfinancial Assets:						
Investment properties:***						
Land	6/30/2017	₱16,114,495	₱–	₱–	₱19,529,465	₱19,529,465
Buildings and improvements	6/30/2017	4,872,759	–	–	3,992,370	3,992,370
		₱20,987,254	₱–	₱–	₱23,521,835	₱23,521,835
Liabilities for which fair values are disclosed:						
Financial Liabilities:						
Financial liabilities at amortized cost:						
Time deposits	6/30/2017	90,565,184	₱–	₱–	₱84,640,524	₱84,640,524
Bills payable	6/30/2017	41,275,662	–	–	41,443,897	41,443,897
Subordinated debt	6/30/2017	–	–	–	–	–
		₱131,840,846	₱–	₱–	₱126,084,421	₱126,084,421

	December 31, 2016					
	Valuation Date	Carrying Value	Fair 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	₱84,375,617	₱–	₱–	₱86,109,334	₱86,109,334
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
		₱122,100,023	₱–	₱–	₱128,129,550	₱128,129,550

* *Excludes unquoted available-for-sale securities (Note 6)*
** *Net of allowance for credit losses (Note 7)*
*** *Based on the fair values from appraisal reports which is different from their carrying amounts which are carried at cost (Note 9)*
**** *Derivative assets classified under level 3 include Republic of the Philippine (ROP) Warrants*

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.

As of June 30, 2017 and December 31, 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:

	June 30, 2017	December 31, 2016
Financial assets		
Balance at beginning of period	**₱61,545**	₱5,843,569
Fair value changes recognized in profit or loss	**(6,013)**	(1,787)
Change arising from sale of direct interest in a subsidiary	**–**	(5,780,237)
Balance at end of period	**₱55,532**	₱61,545
Financial liabilities		
Balance at beginning of period	**₱–**	₱5,780,237
Change arising from sale of direct interest in a subsidiary	**–**	(5,780,237)
Balance at end of period	**₱–**	₱–

4. 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; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

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 and Senior Management Team (SMT) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package (FRP) 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 SMT 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 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.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	Six Months Ended June 30, 2017					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱547,204	₱7,662,472	₱1,615,548	₱398,594	₱82,028	₱10,305,846
Inter-segment	2,831,314	(4,479,876)	1,648,562	–	–	–
Net interest margin after inter-segment transactions	3,378,518	3,182,596	3,264,110	398,594	82,028	10,305,846
Other income	600,902	679,768	1,257,097	1,376,128	1,254,749	5,168,644
Segment revenue	3,979,420	3,862,364	4,521,207	1,774,722	1,336,777	15,474,490
Other expenses	3,911,319	1,471,232	(39,360)	1,149,721	925,089	7,418,001
Segment result	₱68,101	₱2,391,132	₱4,560,567	₱625,001	₱411,688	8,056,489
Unallocated expenses						4,557,774
Net income before income tax						3,498,715
Income tax						838,386
Net income from continuing operations						2,660,329
Net income from discontinued operations						–
						₱2,660,329
Net income for the period attributable to equity holders of the Parent Company						2,611,530
Non-controlling interests						48,799
						₱2,660,329
Other segment information						
Capital expenditures	₱402,845	₱1,764	₱–	₱883,242	₱–	₱1,287,851
Unallocated capital expenditure						65,387
Total capital expenditure						₱1,353,238
Depreciation and amortization	₱378,434	₱68,325	₱825	₱320,145	(₱269,129)	₱498,600
Unallocated depreciation and amortization						274,574
Total depreciation and amortization						₱773,174
Provision for (reversal of) impairment, credit and other losses	(₱2,215)	₱582,530	(₱158,417)	₱1,623	(₱140,388)	₱283,133

** The eliminations and adjustments column mainly represent the RAP to PFRS adjustments*

	Six Months Ended June 30, 2016 (As restated – Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱433,899	₱7,326,941	₱1,652,570	₱188,080	(₱57,699)	₱9,543,791
Inter-segment	2,074,434	(2,638,991)	564,557	–	–	–
Net interest margin after inter-segment transactions	2,508,333	4,687,950	2,217,127	188,080	(57,699)	9,543,791
Other income	1,306,007	2,421,689	1,164,063	2,677,853	962,362	8,531,974
Segment revenue	3,814,340	7,109,639	3,381,190	2,865,933	904,663	18,075,765
Other expenses	3,803,434	532,828	98,763	1,104,914	1,641,592	7,181,531
Segment result	₱10,906	₱6,576,811	₱3,282,427	₱1,761,019	(₱736,929)	10,894,234
Unallocated expenses						4,072,510
Net income before income tax						6,821,724
Income tax						1,548,356
Net income from continuing operations						5,273,368
Net income from discontinued operations						1,103,378
						₱6,376,746
Net income for the period attributable to equity holders of the Parent Company						6,235,054
Non-controlling interests						141,692
						₱6,376,746
Other segment information						
Capital expenditures	₱655,987	₱2,569	₱284	₱142,099	₱–	₱800,939
Unallocated capital expenditure						167,689
Total capital expenditure						₱968,628
Depreciation and amortization	₱225,794	₱61,684	₱1,702	₱316,968	(₱41,283)	₱564,865
Unallocated depreciation and amortization						181,386
Total depreciation and amortization						₱746,251
Provision for (reversal of) impairment, credit and other losses	₱185,554	(₱154,438)	₱38	₱405,603	₱302,068	₱738,825

	As of June 30, 2017					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱297,355,494**	**₱412,488,327**	**₱205,443,534**	**₱120,201,359**	**(₱213,426,837)**	**₱822,061,877**
Unallocated assets						**1,058,151**
Total assets						**₱823,120,028**
Segment liabilities	**₱544,128,429**	**₱54,105,684**	**₱88,317,936**	**₱34,682,780**	**(₱211,676,614)**	**₱ 509,558,215**
Unallocated liabilities						**199,367,619**
Total liabilities						**₱708,925,834**

	As of December 31, 2016 (As restated – Note 2)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	**₱368,781,391**	**₱359,553,260**	**₱212,189,932**	**₱25,351,620**	**(₱213,498,721)**	**₱752,377,482**
Unallocated assets						**1,422,213**
Total assets						**₱753,799,695**
Segment liabilities	**₱528,797,409**	**₱57,719,741**	**₱64,033,215**	**₱37,602,324**	**(₱213,885,651)**	**₱474,267,038**
Unallocated liabilities						**169,557,168**
Total liabilities						**₱643,824,206**

** The eliminations and adjustments 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 and credit commitments items as of June 30, 2017 and December 31, 2016 and capitalized expenditures and revenues for the six month periods ended June 30, 2017 and 2016 by geographic region of the Group follows:

	Noncurrent Assets		Liabilities		Credit Commitments	
	June 30, 2017	December 31, 2016 (As restated)	June 30, 2017	December 31, 2016	**June 30, 2017**	December 31, 2016
Philippines	**₱328,110,947**	₱310,033,066	**₱675,948,656**	₱616,843,369	**₱26,590,759**	₱16,083,883
Asia (excluding Philippines)	**86,791,801**	77,790,006	**4,564,621**	4,099,976	**504,590**	796
USA and Canada	**5,404,747**	6,225,748	**27,775,941**	22,820,393	**2,175**	465,026
United Kingdom	**1,858,760**	2,649,627	**636,616**	60,468	**–**	–
	₱422,166,255	₱396,698,447	**₱708,925,834**	₱643,824,206	**₱27,097,524**	₱16,549,705

	Capital Expenditures		Revenues	
	June 30, 2017	June 30, 2016	**June 30, 2017**	June 30, 2016
Philippines	**₱1,284,699**	₱919,569	**₱13,494,610**	₱16,679,037
Asia (excluding Philippines)	**4,802**	3,437	**736,465**	307,292
USA and Canada	**1,576**	1,128	**359,190**	1,011,493
United Kingdom	**62,161**	44,494	**58,030**	77,943
	₱1,353,238	₱968,628	**₱14,648,295**	₱18,075,765

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 business segments.

5. Due from BSP

As of June 30, 2017 and December 31, 2016, 23.16% and 30.11% of the Group's Due from BSP are placed under the Term Deposit Facility (TDF) with the BSP. Those TDFs bear annual interest rates ranging from 3.00% to 3.50% in 2017 and from 2.50% to 3.50% in 2016.

6. Trading and Investment Securities

The Group has the following trading and investment securities:

	June 30, 2017	December 31, 2016
Financial assets at FVPL	**₱3,340,895**	₱1,913,864
AFS investments	**65,496,747**	67,340,739
HTM investments	**24,567,146**	24,174,479
	₱93,404,788	₱93,429,082

Financial Assets at FVPL
This account consists of:

	June 30, 2017	December 31, 2016
Held-for-Trading:		
Government securities	**₱2,720,074**	₱1,313,400
Derivative assets	**465,360**	120,589
Private debt securities	**99,123**	419,122
Equity securities	**50,144**	54,609
	3,334,701	1,907,720
Designated at FVPL:		
Investment in UITF	**6,194**	6,144
	₱3,340,895	₱1,913,864

AFS Investments
This account consists of:

	June 30, 2017	December 31, 2016
Government securities	**₱34,956,362**	₱37,834,559
Private debt securities	**29,295,468**	28,841,070
Equity securities - net of allowance for impairment losses		
Quoted	**1,073,362**	493,958
Unquoted	**171,555**	171,152
	₱65,496,747	₱67,340,739

As of June 30, 2017 and December 31, 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 agreement transactions with foreign banks amounted to ₱21.6 billion and ₱9.8 billion, respectively (see Note 11). 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.

HTM Investments
This account consists of:

	June 30, 2017	December 31, 2016
Government securities	**₱24,344,587**	₱24,174,479
Private debt securities	**222,559**	–
	₱24,567,146	₱24,174,479

As of June 30, 2017 and December 31, 2016, the fair value of the held to maturity (HTM) investments 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 ₱15.6 billion and ₱15.3 billion, respectively (see Note 11).

Interest Income on Trading and Investment Securities
This account consists of:

	Six Months Ended June 30	
	2017	2016
Available for sale investments	**₱1,072,649**	₱1,175,349
Held to maturity investments	**476,676**	451,431
Financial assets at FVPL	**19,130**	40,331
	₱1,568,455	₱1,667,111

Trading and investment securities gains - net
This account consists of:

	Six Months Ended June 30	
	2017	2016
Financial assets at FVPL:		
Held-for-trading	**₱60,514**	₱100,130
Derivatives	**(6,833)**	(1,466)
Designated at FVPL	**65**	708
AFS investments:		
Government securities	**32,675**	323,699
Other debt securities	**217,371**	304,648
	₱303,792	₱727,719

7. Loans and Receivables

This account consists of:

	June 30, 2017	December 31, 2016
Receivable from customers:		
Loans and discounts	**₱410,216,795**	₱392,159,433
Customers' liabilities on letters of credit and trust receipts	**9,982,323**	8,830,606
Credit card receivables	**7,992,676**	7,102,207
Bills purchased	**7,430,384**	3,596,589
Lease contracts receivable	**3,189,360**	3,049,375
Customers' liabilities on acceptances	**1,513,964**	1,659,340
	440,325,502	416,397,550
Less unearned and other deferred income	**1,383,449**	1,489,955
	438,942,053	414,907,595
Unquoted debt securities	**10,987,410**	6,972,710
Other receivables:		
Accounts receivable	**8,772,727**	9,385,522
Sales contract receivables	**7,125,123**	7,449,020
Accrued interest receivable	**3,584,447**	3,703,763
Miscellaneous	**529,646**	501,675
	20,011,943	21,039,980
	469,941,406	442,920,285
Less allowance for credit losses	**14,597,076**	14,892,814
	₱455,344,330	₱428,027,471

For the six-month periods ended June 30, 2017 and 2016, provision for (reversal of) credit losses for loans and other receivables amounted to (₱82.1 million) and ₱595.3 million, respectively.

Interest Income
Interest income on loans and receivables consists of:

	Six Months Ended June 30	
	2017	2016
Receivable from customers and sales contract receivables	**₱10,667,007**	₱9,427,994
Unquoted debt securities	**39,273**	16,160
	₱10,706,280	₱9,444,154

BSP Reporting
The table below shows the industry sector analysis of the Group's receivable from customers before taking into account the unearned and other deferred income and the allowance for credit losses:

	June 30, 2017		December 31, 2016	
	Carrying Amount	%	Carrying Amount	%
Primary target industry:				
Wholesale and retail	**₱65,687,239**	**14.92**	₱61,414,279	14.75
Electricity, gas and water	**63,912,778**	**14.51**	49,814,968	11.96
Financial intermediaries	**62,786,935**	**14.26**	64,806,163	15.56
Manufacturing	**50,960,765**	**11.57**	39,939,856	9.59
Public administration and defense	**29,200,918**	**6.63**	24,676,655	5.93
Transport, storage and communication	**23,952,761**	**5.44**	36,542,499	8.78
Agriculture, hunting and forestry	**6,488,742**	**1.47**	5,490,920	1.32
Secondary target industry:				
Real estate, renting and business activities	**61,092,267**	**13.87**	59,701,406	14.34
Construction	**13,955,461**	**3.17**	16,819,358	4.04
Others	**62,287,636**	**14.15**	57,191,446	13.73
	₱440,325,502	**100.00**	₱416,397,550	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:

	June 30, 2017		December 31, 2016	
	Carrying Amount	**%**	Carrying Amount	%
Secured:				
Real estate mortgage	**₱53,392,074**	**12.13**	₱62,257,711	14.95
Chattel mortgage	**14,291,840**	**3.25**	33,531,566	8.05
Bank deposit hold-out	**3,936,134**	**0.89**	14,034,793	3.38
Shares of stocks	**180**	**0.00**	1,681,531	0.40
Others	**30,009,991**	**6.81**	38,699,661	9.29
	101,630,219	**23.08**	150,205,262	36.07
Unsecured	**338,695,283**	**76.92**	266,192,288	63.93
	₱440,325,502	**100.00**	₱416,397,550	100.00

Non-performing loans (NPLs) of the Parent Company classified as secured and unsecured as reported to BSP follows:

	June 30, 2017	December 31, 2016
Secured	**₱4,049,638**	₱5,888,561
Unsecured	**4,691,658**	3,090,858
	₱8,741,296	₱8,979,419

8. Property and Equipment

For the six-months period ended June 30, 2017, the Group purchased assets with a cost of ₱725.7 million and disposed assets with book value of ₱150.0 million.

For the six-months period ended June 30, 2016, the Group purchased assets with a cost of ₱968.8 million and disposed assets with net book value of ₱55.8 million.

Depreciation and amortization consists of:

	Six Months Ended June 30	
	2017	2016
Depreciation:		
Property and equipment	**₱507,751**	₱483,973
Investment properties	**69,492**	85,086
Other foreclosed properties	**5,391**	23,825
Amortization - intangibles	**190,540**	153,367
	₱773,174	₱746,251

9. Investment Properties

For the six-month period ended June 30, 2017, the Group foreclosed assets with aggregate fair value of ₱331.3 million as settlement of the NPLs and disposed assets with net book value of ₱271.9 million.

For the six-month period ended June 30, 2016, the Group foreclosed assets with aggregate fair value of ₱0.5 billion as settlement of certain NPL accounts and disposed assets with net book value of ₱1.3 billion.

For the six-month period ended June 30, 2017 and 2016, the net gain on sale or exchange of assets recognized by the Group on foreclosed assets amounted to ₱231.3 million and ₱2.0 billion, respectively.

As of June 30, 2017 and December 31, 2016, the balance of accumulated impairment losses on investment properties amounted to ₱3.4 billion and ₱3.3 billion, respectively.

The aggregate fair value of the Group's investment properties as of June 30, 2017 and December 31, 2016 amounted to ₱23.5 billion and ₱23.0 billion, respectively. The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

10. Other Assets and Other Liabilities

Other Assets
This account consists of:

	June 30, 2017	December 31 2016
Creditable withholding taxes	**₱4,714,741**	₱4,193,254
Deferred benefits	**747,192**	532,938
Real estate inventories held under development	**728,252**	728,752
Checks for clearing	**663,639**	198,109
Deferred reinsurance premium	**543,735**	627,861
Prepaid expenses	**395,492**	470,882
Return checks and other cash items	**286,362**	249,528
Chattel mortgage properties-net of depreciation	**124,397**	36,586
Documentary stamps on hand	**111,788**	214,969
Security deposits	**94,165**	109,944
Stationeries and supplies	**78,406**	64,900
Other investments	**23,643**	22,201
Receivable from SPV	**500**	500
Miscellaneous	**737,440**	411,696
	9,249,752	7,862,120
Less: Allowance for impairment losses	**769,280**	770,662
	₱8,480,472	₱7,091,458

Miscellaneous assets of the Group include postages and refundable deposits.

For the six-month periods ended June 30, 2017 and 2016, the Group recognized provision for impairment loss on other assets amounting to ₱19.2 million and ₱17.9 million, respectively.

Other Liabilities
This account consists of:

	June 30, 2017	December 31, 2016 (As Restated - Note 2)
Accounts payable	**₱10,667,966**	₱7,652,222
Bills purchased – contra	**7,109,480**	3,260,308
Insurance contract liabilities	**4,339,395**	4,581,800
Net retirement benefit liability	**2,724,285**	3,138,824
Manager's checks and demand drafts outstanding	**1,382,554**	1,174,872

(Forward)

	June 30, 2017	December 31, 2016 (As Restated - Note 2)
Provisions	**₱1,300,290**	₱–
Due to other banks	**1,180,426**	923,777
Reserve for unearned premiums	**1,038,529**	1,075,732
Other dormant credits	**932,842**	928,582
Other deferred revenue	**903,073**	939,672
Deposits on lease contracts	**771,779**	805,377
Accounts payable - electronic money	**757,520**	791,223
Due to Treasurer of the Philippines	**590,703**	543,002
Payment order payable	**582,959**	292,336
Withholding tax payable	**174,300**	230,044
Margin deposits and cash letters of credit	**171,015**	174,206
Deferred tax liabilities	**155,081**	152,532
Commission payable	**105,981**	94,618
Transmission liability	**57,226**	31,732
SSS, Philhealth, employer's compensation premiums and Pag-IBIG contributions payable	**26,770**	28,327
Deposit for keys on safety deposit boxes	**14,231**	14,140
Miscellaneous	**468,143**	431,759
	₱35,454,548	₱28,565,375

Other deferred revenue pertains to the allocated portion of the consideration received for the disposal of APLII related to the Exclusive Distribution Right (Note 17).

Miscellaneous liabilities of the Group include interoffice floats, remittance - related payables, overages, advanced rentals and sundry credits.

11. Financial Liabilities

Deposit Liabilities
Interest expense on deposit liabilities consists of:

	Six Months Ended June 30	
	2017	2016
Savings	**₱1,297,283**	₱948,855
Time	**764,615**	361,309
LTNCDs	**430,375**	374,950
Demand	**78,807**	45,085
	₱2,571,080	₱1,730,199

Bills and Acceptances Payable
Foreign currency-denominated borrowings of the Group bear annual interest ranging from 0.40% to 1.71% and from 0.05% to 2.50% for the six-month periods ended June 30, 2017 and 2016, respectively. Peso-denominated borrowings of the Group bear annual interest of 0.63% and from 0.63% to 4.00% for the six-month periods ended June 30, 2017 and 2016, respectively.

As of June 30, 2017, bills payable with a carrying amount of ₱30.0 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱21.6 billion (Note 6) and HTM investments with carrying value and fair value of ₱14.3 billion and ₱15.6 billion, respectively (Note 6).

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.

Subordinated Debt

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. Effective Interest Rate on this note is 6.04%.

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 June 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.

On May 10, 2017, the Parent Company exercised its call option and paid ₱3.5 billion to all noteholders as of April 25, 2017.

12. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	June 30, 2017	December 31, 2016	**June 30, 2017**	December 31, 2016
Common - ₱40 par value				
Authorized	**1,750,000,001**	1,750,000,001	**₱70,000,000**	₱70,000,000
Issued and Outstanding				
Balance at the beginning and end of the period	**1,249,139,678**	1,249,139,678	**₱49,965,587**	₱49,965,587

Regulatory Qualifying Capital

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 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.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

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 reporting period.

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. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱105.7 million in 2016 in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position as of December 31, 2016 based on ₱70.0 per share, the projected fair value at grant date based on an independent, short-term forecast by a stock broker. In May 2017, the Group settled centennial bonus amounting to ₱52.1 million.

Financial Performance

The following basic ratios measure the financial performance of the Group for the periods ended June 30, 2017 and 2016 (amounts in millions):

	Six Months Ended June 30	
	2017	2016 (As Restated)
Return on average equity (a/b)	**4.75%**	11.77%
a.) Net income	**₱5,321**	₱12,753
b.) Average total equity 1/	**112,085**	108,361
Return on average assets (c/d)	**0.67%**	1.83%
c.) Net income	**₱5,321**	₱12,754
d.) Average total assets 1/	**788,460**	696,335
Net interest margin on average earning assets (e/f)	**2.96%**	3.20%
e.) Net interest income	**₱20,612**	₱19,088
f.) ADB of interest earning assets	**696,478**	596,219

Note: Net income and net interest margin were annualized. Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts divided by two.

13. Miscellaneous Income and Expense

Miscellaneous income consists of:

	Six Months Ended June 30	
	2017	2016 (As restated – Note 2)
Rental and leasing income	**₱193,008**	₱123,900
Share in net income of an associate	**40,120**	17,185
Recoveries from charged off assets	**37,800**	172,093
Miscellaneous income – loan-related	**13,807**	83,290
Dividend	**4,222**	13,302
Sale deposit forfeiture	**1,917**	4,047
Referral and trust fees	**1,705**	1,687
Collections from SPV	**–**	500,000
Gain on remeasurement of retained interest	**–**	1,795,502
Others	**162,168**	159,501
	₱454,747	₱2,870,507

Miscellaneous income - others consists of marketing allowance and income from wire transfers.

Miscellaneous expenses consist of:

	Six Months Ended June 30	
	2017	2016
Insurance	**₱650,866**	₱555,447
Secretarial, janitorial, messengerial	**571,338**	601,768
Marketing expenses	**489,822**	447,316
Information Technology	**216,755**	207,404
Management & other professional fees	**210,252**	148,225
Travelling	**134,395**	119,488
Fines, penalties and other charges	**119,648**	19,551
Assets Acquired	**101,429**	117,235
Postage, telephone, cable	**89,737**	95,114
Stationery and supplies	**61,301**	145,717
Entertainment and Representation	**60,398**	56,641
Litigation	**47,507**	30,465
Repairs and maintenance	**25,368**	30,445
Freight	**11,777**	14,859
Fuel & lubricants	**7,953**	10,708
Amortization – deferred charges	**6,630**	6,672
Periodicals	**670**	726
Others	**83,321**	62,803
	₱2,889,167	₱2,670,584

Miscellaneous expenses – others include membership dues and fees and direct operating expenses related to investment properties.

14. Income Taxes

Provision for income tax consists of:

	Six Months Ended June 30	
	2017	2016
Current		
Regular	**₱490,269**	₱1,027,885
Final	**271,527**	273,763
	761,796	1,301,648
Deferred	**76,590**	246,708
	₱838,386	₱1,548,356

15. Earnings Per Share

The earnings per share of the Group, attributable to equity holders of the Parent Company, are calculated as follows:

	Six Months Ended June 30	
	2017	2016 (As restated)
a) Net income attributable to equity holders of the Parent Company	**₱2,611,530**	₱6,235,054
b) Weighted average number of common shares for basic earnings per share	**1,249,140**	1,249,140
c) Basic and diluted earnings per share (a/b)	**₱2.09**	₱4.99

Earnings per share attributable to equity holders of the Parent Company from continuing operations, are calculated as follows:

	Six Months Ended June 30	
	June 30, 2017	June 30, 2016 (As restated)
a) Net income attributable to equity holders of the Parent Company from continuing operations	**₱2,660,329**	₱5,273,368
b) Weighted average number of common shares for basic earnings per share	**1,249,140**	1,249,140
c) Basic and diluted earnings per share (a/b)	**₱2.13**	₱4.22

There are no potential common shares that would dilute the earnings per share.

16. **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 15.00% of the Parent Company's total loan portfolio, whichever is lower. As of June 30, 2017 and December 31, 2016, the Parent Company was in compliance with such regulations.

The information relating to the DOSRI loans of the Group follows:

	June 30, 2017	December 31, 2016
Total Outstanding DOSRI Accounts*	**₱14,589,967**	₱11,900,939
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**3.34%**	2.89%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**3.34%**	2.89%
Percent of DOSRI accounts to total loans	**3.34%**	2.89%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**9.23%**	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.00%**	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.00%**	0.01%

**Includes outstanding unused credit accommodations of ₱194.7 million as of June 30, 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 10.00% of a bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the 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 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.

	June 30, 2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investors			
Deposit liabilities		**₱80,863**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
Interest expense	**₱924**		Interest expense on deposits
Net withdrawals	**39,211**		Net withdrawals during the period
Subsidiaries			
Receivables from customers		**1,400,613**	Term loan maturing in 2017 with 3.85 nominal rate;
Loan releases	**2,848,613**		Revolving credit lines with interest rate of 2.90%
Loan collections	**3,462,333**		maturity of three months; Unsecured
Loan commitments		**191,351**	Omnibus line; credit line
Interbank loans receivable		**148,522**	Foreign-currency denominated interbank term loans
Availments	**1,842,699**		with interest rates ranging from 0.20% to 0.30% and
Settlements	**1,810,571**		maturity terms ranging from 30 to 150 days
Due from other banks		**1,210,058**	Foreign currency denominated demand deposits and time deposits with maturities of up to 90 days with annual fixed rates ranging from 0.01% to 4.50%
Accrued interest receivable		**2,551**	Interest accrual on receivables from customers and interbank loans receivable
Accounts Receivable		**418**	Rental deposits
Deposit liabilities		**5,558,734**	Peso and foreign currency denominated demand, savings and time deposits with annual fixed interest rates ranging from 0.13% to 1.13% and maturities from 30 to 365 days
Net deposits	**93,512**		Net withdrawals during the period
Bills payable		**186,326**	Foreign currency-denominated bills payable with
Availments	**2,136,910**		interest rates ranging from 0.63% to 1.30% and
Settlements	**3,727,581**		maturity terms ranging from 30 to 183 days
Due to other banks		**28,977**	Foreign currency denominated clearing accounts used for funding and settlement of remittances
Accrued interest payable		**6,699**	Accrued interest on deposit liabilities and bills payable
Rental deposit		**11,292**	Advance rental deposit received for 2 years and 3 months
Other miscellaneous assets		**125,000**	Initial capital infusion
Interest income	**37,163**		Interest income on receivable from customers, due from other banks and interbank loans receivable
Interest expense	**53,066**		Interest expense on deposits liabilities and bills payable
Rental income	**23,708**		Rental income from one to three year lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	**498,574**		Outright purchase of securities
Sales	**372,775**		Outright sale of securities
Trading loss	**18,719**		Loss from sale of investment securities

(Forward)

	June 30, 2017		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Affiliates			
Receivables from customers		**₱21,161,380**	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	**₱7,740,741**		
Loan collections	**6,562,459**		
Loan commitments		**6,267,600**	Omnibus line; credit line
Sales contract receivable		**2,149,620**	Purchase of the Parent Company's investment properties on installment; secured with interest rate of 6.00% maturity of 5 years
Accrued interest receivable		**51,426**	Interest accrual on receivables from customers and sales contract receivable
Rental deposit		**10,144**	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		**6,564,369**	Peso-denominated and foreign currency denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net withdrawals	**4,990,637**		Net withdrawals during the period
Accrued interest payable		**15**	Accrued interest payable from various deposits
Other liabilities		**396**	Various manager's check related to EISP and premium insurance
Rental expense	**8,803**		Monthly rent payments to related parties with term ranging from 24 to 240 months
Interest income	**426,949**		Interest income on receivable from customers
Interest expense	**48,523**		Interest expense on deposit liabilities
Securities transactions			
Purchases	**1,216**		Outright purchase of securities
Sales	**31,500**		Outright sale of securities
Trading gains	**2**		Loss from sale of investment securities
Associate			
Deposit liabilities		**395,518**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.13% to 2.00% and maturity terms ranging from 30 days
Rental deposit		**27**	Advance rental and security deposits received for two months
Interest expense	**139**		Interest expense on deposit liabilities
Key Management Personnel			
Loans to officers		**13,856**	Housing loans to senior officer with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	**1,085**		Settlement of loans and interest
Transactions of subsidiaries with other related parties			
Due from other banks		**157,383**	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		**911,965**	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			Various manager's check
Interest income	**1,410**		Interest income on receivable from customers
Interest expense	**10,562**		Interest expense on deposit liabilities

(Forward)

Category	December 31, 2016 Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Significant Investors			
Deposit Liabilities		₱120,074	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.13%
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		
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 0.13% to 1.13% 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	13,803,372		
Loan Collections	12,567,911		
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

(Forward)

	December 31, 2016		
Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
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
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 0.13% 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 5.00% 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 for the six months ended June 30, 2017 and December 31, 2016 in relation to amounts due from related parties.

The Group accounts for its investments in Oceanic Holding (BVI) Ltd. (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.

The compensation of the key management personnel follows:

	Six Months Ended June 30	
	2017	2016
Short-term employee benefits	**₱293,665**	₱308,175
Post-employment benefits	**30,772**	26,584
	₱324,437	₱334,759

Members of the BOD are entitled to per diem 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.

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 Parent Company 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. Hence, there are no receivables from each party with respect to 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.

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 carrying values of the funds of the Group as of June 30, 2017 and December 31, 2016 amounted to ₱4.8 billion and ₱3.8 billion, respectively.

The following table shows the amount of outstanding balances of related party transactions of the Bank and TBG with the retirement plan of the employees of the Bank as of June 30, 2017 and December 31, 2016 and for the six months ended June 30, 2017 and June 30, 2016:

	June 30, 2017	December 31, 2016
Investment in PNB shares	**₱548,382**	₱491,884
Deposits with PNB	**164,214**	330,716
Investment in UITFs	**88,050**	122,306
Total Fund Assets	**₱800,646**	₱944,906

	Six Months Ended June 30	
	2017	2016
Unrealized gain (loss) on held-for-trading investments	**₱56,498**	₱49,549
Interest income	**385**	51
	56,883	49,600
Trust fees	**(2,761)**	(2,350)
Fund Expenses	**₱54,122**	₱47,250

As of June 30, 2017 and December 31, 2016, the retirement fund of the Group includes 8,215,464 and 9,008,864 PNB shares of the Parent Company classified under HFT. Such shares have a market value of ₱548 million and ₱492 million as of June 30, 2017 and December 31, 2016, respectively. No limitations and restrictions are provided and voting rights over these shares are exercised by a trust officer or any of its designated alternate officer.

As of June 30, 2017 and December 31, 2016, AFS and HTM investments include government and private debt securities and various funds. Deposits with other banks pertain to SDA placement with BSP. Loans and other receivables include accrued interest amounting to ₱16.2 million and ₱14.3- million as of June 30, 2017 and December 31, 2016, respectively, and income include interest on deposits with PNB amounting to ₱0.39 million and ₱0.05 million for the six months periods ended June 30, 2017 and 2016, respectively. Deposits with PNB under Prime Savings Account bear annual interest rate of 0.30% while deposits under PNBSB Power Earner bear annual interest rate of 4.5% and will mature on April 10, 2020. Investments are approved by an authorized fund manager or trust officer of TBG.

17. Assets and Liabilities of Disposal Group Classified as Held for Sale

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. As a result, APLII's business operation was classified as a discontinued operation. 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.

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 ₱676.3 million, net of taxes and transaction costs amounting to ₱185.4 million and ₱153.3 million, respectively. The consideration allocated to the EDR was recognized as "Other Deferred Revenue" 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 ₱1.7 billion in the statement of income in 2016 included in "Miscellaneous Income".

The fair value of the retained equity was based on a combination of the income approach and market approach.

The results of operation of APLII for the period ended May 31, 2016 follow:

Net Income after Tax from Discontinued Operations	
Revenue	₱593,327
Expenses	(145,213)
Income before tax from discontinued operations	448,114
Provision for current income tax	(21,049)
	427,065
Gain on Sale of Discontinued Operations, after Tax and Costs to Sell	
Gain on sale of the discontinued operations, net of costs to sell	861,762
Income tax	(185,449)
	676,313
	₱1,103,378
Attributable to:	
Equity holders of the Parent Company	₱994,605
Non-controlling interests	108,773
	₱1,103,378

Earnings per share attributable to equity holders of the Parent Company from discontinued operations for the period ended June 30, 2016 are computed as follows:

a) Net income attributable to equity holders of the Parent Company	₱994,605
b) Weighted average number of common shares for basic earnings per share	1,249,140
c) Basic and diluted earnings per share (a/b)	₱0.80

18. Contingent Liabilities and Other Commitments

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	June 30, 2017	December 31, 2016
Trust department accounts	**₱87,923,901**	₱75,238,152
Derivative forwards	**67,947,741**	40,000,448
Interest rate swaps	**33,224,617**	33,610,720
Unutilized credit card lines	**33,318,889**	27,018,318
Standby letters of credit	**26,310,771**	26,232,306
Deficiency claims receivable	**22,480,813**	22,337,807
Derivative spots	**5,812,085**	2,358,455
Inward bills for collection	**1,108,411**	1,001,375
Outward bills for collection	**287,490**	282,212
Confirmed export letters of credit	**101,405**	100,461
Unused commercial letters of credit	**247,110**	50,062
Shipping guarantees issued	**10,979**	13,716
Items held as collateral	**4,214**	1,237
Other contingent accounts	**6,490,181**	2,073,225

19. Notes to the Statement of Cash Flows

Reconciliation of liabilities arising from financing activities follows:

	Balance	**Cash Flows**		**Non-cash changes**				**Balance**
	January 1, 2017	**Issuance**	**Payments**	**Foreign exchange movement**	**Amortization of transaction costs**	**Cumulative Translation Adjustment**	**Application against receivables**	**June 30, 2017**
Bills and Acceptances Payable	**₱35,885,948**	**₱96,989,706**	**(₱90,504,631)**	**₱183,518**	**₱16,832**	**₱269,364**	–	**₱42,840,737**
Long Term Negotiable Certificates of Deposits	**24,382,144**	**3,765,000**	**(3,100,000)**	–	**(25,529)**	–	–	**25,021,615**
Subordinated Debts	**3,497,798**	–	**(3,500,000)**	–	**2,202**	–	–	**–**
	₱63,765,890	**₱100,754,706**	**(₱97,104,631)**	**₱183,518**	**(₱6,495)**	**₱269,364**	–	**₱67,862,352**

	Balance	Cash Flows		Non-cash changes				Balance
	January 1, 2016	Issuance	Payments	Foreign exchange movement	Amortization of transaction costs	Cumulative Translation Adjustment	Application against receivables	June 30, 2016
Bills and Acceptances Payable	₱25,752,222	₱43,267,946	(₱35,238,919)	(₱865,120)	₱–	₱108,088	(₱1,831,244)	₱31,192,973
Long Term Negotiable Certificates of Deposits	19,014,227	–	–	–	12,311	–	–	19,026,538
Subordinated Debts	9,986,427	–	(6,500,000)	–	8,481	–	–	3,494,908
	₱54,752,876	₱43,267,946	(₱41,738,919)	(₱865,120)	₱20,992	₱108,088	(₱1,831,244)	₱53,714,419

20. Events After Reporting Date

All significant events after the reporting date have been properly disclosed within this report.

21. Approval of the Release of the Interim Condensed Consolidated Financial Statements

The accompanying interim condensed consolidated financial statements of the Group were authorized for issue by the Parent Company's Senior Management on October 9, 2017.

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