SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 17.1(b) OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

- [x] Preliminary Information Statement
- [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter

   Philippine National Bank

3. Province, country or other jurisdiction of incorporation or organization

   Philippines

4. SEC Identification Number

   AS096-005555

5. BIR Tax Identification Code

   000-188-209-000

6. Address of principal office

   PNB Financial Center, Pres. Diosdado Macapagal Blvd., Pasay City, Metro Manila
   Postal Code
   1300

7. Registrant's telephone number, including area code

   (632) 526-3131 to 70/(632) 891-6040 to 70

8. Date, time and place of the meeting of security holders

   April 30, 2019, 8:00 a.m., Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo , Sr. St., Malate, City of Manila

9. Approximate date on which the Information Statement is first to be sent or given to security holders

   Apr 2, 2019

10. In case of Proxy Solicitations:

    Name of Person Filing the Statement/Solicitor

    Not Applicable

    Address and Telephone No.

    Not Applicable

11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Shares	1,249,139,678

13. Are any or all of registrant's securities listed on a Stock Exchange?

☑ Yes ☐ No

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange/Common

PNB

Philippine National Bank

PNB

PSE Disclosure Form 17-5 - Information Statement for Annual or Special Stockholders' Meeting

References: SRC Rule 20 and Section 17.10 of the Revised Disclosure Rules

Date of Stockholders' Meeting	Apr 30, 2019
Type (Annual or Special)	Annual
Time	8:00 a.m.
Venue	Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo , Sr. St., Malate, City of Manila
Record Date	Apr 1, 2019

Inclusive Dates of Closing of Stock Transfer Books

Start Date	Mar 26, 2019
End date	Apr 1, 2019

Other Relevant Information
None.

Filed on behalf by:

Name	Maila Katrina Ilarde
Designation	Corporate Secretary

COVER SHEET

A	S	0	9	6	-	0	0	5	5	5	5

S.E.C. Registration Number

PHILIPPINE NATIONAL BANK

(Company's Full Name)

PNB FINANCIAL CENTER, PRESIDENT DIOSDADO MACAPAGAL BOULEVARD, PASAY CITY

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

Atty. Sherleen Lourds R. Macatangay

Contact Person

840-3783

Company Telephone Number

1	2		3	1

Month *Day*

Fiscal Year

2019 Preliminary Information Statement

FORM TYPE

Last Tuesday of April of each year

Month/ Day of Annual Meeting

Secondary License Type, If Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

PNB
you first.

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 18 2019
MARKETS AND SECURITIES REGULATION DEPT.
BY: ________ TIME: 4:40

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:
   [x] Preliminary Information Statement
   [ ] Definitive Information Statement

2. Name of Registrant as specified in its charter	:	PHILIPPINE NATIONAL BANK
3. Province, country or other jurisdiction of incorporation or organization	:	Metro Manila, Philippines
4. SEC Identification Number	:	AS096-005555
5. BIR Tax Identification Number	:	000-188-209-000
6. Address of principal office	:	PNB Financial Center President Diosdado Macapagal Blvd. Pasay City, Metro Manila, 1300
7. Registrant's telephone number, including area code	:	(632) 834-0780 (Office of the Corporate Secretary)
8. Date of meeting	:	April 30, 2019
Time of meeting	:	8:00 a.m.
Place of meeting	:	Grand Ballroom, Upper Lobby Century Park Hotel 599 Pablo Ocampo, Sr. St. Malate, City of Manila
9. Approximate date on which the Information Statement is first to be sent or given to security holders	:	April 2, 2019

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate Registrant):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
COMMON SHARES	1,249,139,678

11. Are any or all Registrant's securities listed in a Stock Exchange?

Yes [√] No [ ]

If yes, disclose the name of such Stock Exchange and the class of securities listed therein : **PHILIPPINE STOCK EXCHANGE/ COMMON STOCK**

SECURITIES AND EXCHANGE COMMISSION
RECEIVED
MAR 18 2019
MARKET REGULATION DEPT.
BY: [signature] TIME: 4:40

PNB
you first.

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

Notice is hereby given that the Annual Meeting of Stockholders of the Philippine National Bank (the "Bank") will be held on April 30, 2019, Tuesday, at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, City of Manila.

The Agenda for the Meeting is as follows:

1. Call to Order
2. Secretary's Proof of Notice and Quorum
3. Approval of the Minutes of the 2018 Annual Stockholders' Meeting held on April 24, 2018
4. Report of the President on the Results of Operations for the Year 2018
5. Approval of the 2018 Annual Report
6. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2018 Annual Stockholders' Meeting
7. Election of Directors
8. Appointment of External Auditor
9. Other Matters
10. Adjournment

The details and rationale of each item in the Agenda are explained briefly in the attached "Annex A".

The Minutes of the 2018 Annual Stockholders' Meeting, as well as the resolutions of the Board of Directors from the last stockholders' meeting held on April 24, 2018 up to the present, are available for examination during office hours at the Office of the Corporate Secretary located at the 9th Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila.

Only stockholders of record as of April 1, 2019 will be entitled to notice of, and to vote at, the meeting. Registration will begin at 6:00 a.m. on April 30, 2019.

If you cannot personally attend the meeting, you may designate your authorized representative by submitting a PROXY of your choice not later than 5:00 p.m. on April 25, 2019 to the Office of the Corporate Secretary at the 9th Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila. All proxies received will be validated by the Bank's Corporate Secretary on April 25, 2019 at 5:30 p.m. at the office of the Stock Transfer Agent, PNB Trust Banking Group, 3rd Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila. A sample proxy is attached for your reference.

A copy of the Definitive Information Statement, Management Report and Financial Statements ("Documents") may be viewed and downloaded at http://bit.ly/PNBASM2019. Alternatively, the Documents may also be viewed at and downloaded from the Bank's website at https://www.pnb.com.ph/2018-DIS and in its PSE EDGE profile at http://edge.pse.com.ph/companyDisclosures/form.do?cmpy_id=139. Should you wish for a printed copy of the Documents, you may request for the same from the Office of the Corporate Secretary.

Pasay City, March 18, 2019.

MAILA KATRINA Y. ILARDE
Corporate Secretary

SEC FORM 20-IS

PRELIMINARY INFORMATION STATEMENT
PURSUANT TO SECTION 20 OF THE SECURITIES REGULATION CODE

A. GENERAL INFORMATION

Item 1. DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS

(a) The Annual Stockholdersô Meeting of the Philippine National Bank (hereafter ñPNBò or the ñBankò) will be held on April 30, 2019, Tuesday, at 8:00 a.m. at the Grand Ballroom, Upper Lobby, Century Park Hotel, 599 Pablo Ocampo, Sr. St., Malate, Manila, Philippines. The Bankôs complete address is PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila, Philippines.

(b) The Notice of Meeting specifying the web address though which the Definitive Information Statement may be accessed will be sent to qualified stockholders not later than April 2, 2019.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE NOT BEING REQUESTED TO SEND US A PROXY AT THIS TIME.

Item 2. DISSENTER'S RIGHT OF APPRAISAL

(a) Title X ï Section 80 of the Revised Corporation Code of the Philippines allows a stockholder to exercise his right to dissent and demand payment of the fair value of his shares in certain instances, to wit: (1) in case an amendment to the Articles of Incorporation will change or restrict the rights of such stockholder or class of shares, or authorize preferences in any respect superior to those of outstanding shares of any class or otherwise extend or shorten the term of the company; (2) in case of the sale, lease, exchange, transfer, mortgage, pledge or other disposition of all or substantially all of the companyôs properties; or (3) in cases of merger or consolidation; or (4) in case of investment of corporate funds for any purpose other than the primary purpose of the company**.**

(b) None of the proposed corporate actions to be submitted to the stockholders for approval constitutes a ground for the exercise of the stockholderôs appraisal right.

Item 3. INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

(a) No person who has been a director of the Bank from the beginning of fiscal year 2018, or any associate of the foregoing, has any interest in any matter to be acted upon in the meeting other than election to office.

(b) The Bank has not received any information from a director that he/she intends to oppose any matter to be acted upon in the meeting.

B. <u>CONTROL AND COMPENSATION INFORMATION</u>

Item 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF

(a) The total number of common shares outstanding as of February 28, 2019 is 1,249,139,678 with a par value of ₱40.00 per share. Total foreign equity ownership is 96,194,719 common shares or 7.70%.

Pursuant to Article IV, Section 4.9 of the Bankôs By-Laws, every stockholder shall be entitled to one (1) vote for each share of common stock in his name in the books of the Bank as of April 1, 2019 (the ñRecord Dateò).

With respect to the election of directors, a stockholder may vote such number of shares for as many persons as there are directors to be elected, or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected, or he may distribute them on the same principle among as many candidates as he shall see fit, provided the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

(b) Stockholders of record of the Bank as of the Record Date shall be entitled to notice of, and to vote at, the Annual Stockholdersô Meeting.

(c) Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners (*more than 5% of any class of voting securities as of February 28, 2019)*

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
All Seasons Realty Corp. - Makati City - 8,191,895 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino	747,326,928	59.8273308551
Allmark Holdings Corporation - Quezon City ï 16,967,394 shares Stockholder		Filipino		
Caravan Holdings Corporation - Marikina City - 67,148,224 shares Stockholder		Filipino		
Donfar Management Limited - Makati City - 25,173,588 shares Stockholder		Filipino		

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
Dunmore Development Corporation (X-496) - Pasig City - 12,395,850 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Dynaworld Holdings, Incorporated - Pasig City - 9,323,108 shares Stockholder		Filipino		
Fast Return Enterprises, Limited - Makati City - 14,865,453 shares Stockholder		Filipino		
Fil-Care Holdings, Incorporated - Quezon City - 20,836,937 shares Stockholder		Filipino		
Fragile Touch Investment Limited - Makati City - 18,581,537 shares Stockholder		Filipino		
Ivory Holdings, Inc. - Makati City - 16,997,821 shares Stockholder		Filipino		
Kenrock Holdings Corporation - Quezon City - 21,301,405 shares Stockholder		Filipino		
Kentwood Development Corp. - Quezon City - 14,112,105 shares Stockholder		Filipino		

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
Key Landmark Investments, Limited - British Virgin Islands - 109,115,864 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
La Vida Development Corporation - Quezon City - 16,052,705 shares Stockholder		Filipino		
Leadway Holdings, Incorporated - Quezon City - 53,470,262 shares Stockholder		Filipino		
Mavelstone International Limited - Makati City - 24,213,463 shares Stockholder		Filipino		
Merit Holdings and Equities Corp. - Quezon City - 14,233,686 shares Stockholder		Filipino		
Multiple Star Holdings Corp. - Quezon City - 25,214,730 shares Stockholder		Filipino		
Pioneer Holdings Equities, Inc. - Pasig City - 28,044,239 shares Stockholder		Filipino		
Profound Holdings, Inc. - Marikina City - 14,935,099 shares Stockholder		Filipino		

Name & Address of Record Owner and Relationship with Issuer	Name of Beneficial Owner and Relationship with Record Owner	Citizenship	No. of Common Shares Held	Percentage of Ownership
Purple Crystal Holdings, Inc. - Manila City - 19,980,373 shares Stockholder	Majority-Owned and Controlled by LT Group, Inc.	Filipino		
Safeway Holdings & Equities, Inc. - Quezon City - 9,864,499 shares Stockholder		Filipino		
Society Holdings Corporation - Quezon City - 14,162,708 shares Stockholder		Filipino		
Solar Holdings Corp. - Pasig City - 67,148,224 shares Stockholder		Filipino		
Total Holdings Corp. - Quezon City - 13,095,263 shares Stockholder		Filipino		
True Success Profits, Limited - British Virgin Islands - 67,148,224 shares Stockholder		Filipino		
Uttermost Success, Limited - Makati City ï 24,752,272 shares Stockholder		Filipino		

The right to vote or direct the voting of the Bankõs shares held by the foregoing stockholders is lodged in their respective Boards of Directors. The Bank expects to receive the proxy to vote the shares held by the foregoing stockholders on or before April 25, 2019.

(2) Security Ownership of Management (Individual Directors and Executive Officers as of February 28, 2019)

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Florencia G. Tarriela Chairperson Independent Director	2 shares ₱80.00 (R)	Filipino	0.0000001601
Felix Enrico R. Alfiler Vice Chairman Independent Director	10,215 shares ₱408,600.00 (R)	Filipino	0.0008177628
Florido P. Casuela Director	133 shares ₱5,320.00 (R)	Filipino	0.0000106473
Leonilo G. Coronel Director	1 share ₱40.00 (R)	Filipino	0.0000000801
Edgar A. Cua Independent Director	100 shares ₱4,000.00 (R)	Filipino	0.0000080055
Estelito P. Mendoza Director	1,150 shares ₱46,000.00 (R)	Filipino	0.0000920634
Christopher J. Nelson Director	100 shares ₱4,000.00 (R)	British	0.0000080055
Federico C. Pascual Independent Director	39 shares ₱1,560.00 (R)	Filipino	0.0000031221
Cecilio K. Pedro Independent Director	5,000 shares ₱200,000.00 (R)	Filipino	0.0004002755
Carmen K. Tan Director	5,000 shares ₱200,000.00 (R)	Filipino	0.0004002755
Lucio C. Tan Director	14,843,119 shares ₱593,724,760.00 (R)	Filipino	1.1882673540
Lucio K. Tan, Jr. Director	2,300 shares ₱92,000.00 (R)	Filipino	0.0001841267
Michael G. Tan Director	250 shares ₱10,000.00 (R)	Filipino	0.0000200138

Name of Beneficial Owner	Amount of Common Shares and Nature of Beneficial Ownership	Citizenship	Percentage of Ownership
Vivienne K. Tan Director	10 shares ₱400.00 (R)	Filipino	0.0000008006
Jose Arnulfo A. Veloso Director/President	159,101 shares ₱6,364,040.00 (R)	Filipino	0.0127368462
Subtotal	15,026,520 shares ₱601,060,800.00 (R)		1.2029495392
All Executive Officers & Directors as a Group	15,079,771 shares ₱603,190,840.00 (R)		1.2072125532

(3) Voting Trust Holders of 5% or More

There are no voting trust holders of 5% or more of the Bankǒs shares.

(4) Changes in Control

There has been no change in control of the Bank in the fiscal year 2018.

Item 5. DIRECTORS AND EXECUTIVE OFFICERS

(a) Directors and Executive Officers

On April 24, 2018, the Bank reported to the Bangko Sentral ng Pilipinas (BSP) the election of fifteen (15) members of the Board of Directors at the 2018 Annual Stockholdersǒ Meeting. Ms. Florencia G. Tarriela, Mr. Felix Enrico R. Alfiler, Mr. Edgar A. Cua, Mr. Federico C. Pascual and Mr. Cecilio K. Pedro were re-elected as independent directors.

As defined in Section 38.2 of the 2015 Implementing Rules and Regulations of the Securities and Regulation Code (Republic Act No. 8799) (IRR of the SRC), an independent director means a person who, apart from his fees and shareholdings, is independent of Management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any covered company.

The re-election of the following directors of PNB for the year 2018-2019 was exempted from confirmation by the Monetary Board (MB):

Florencia G. Tarriela
Felix Enrico R. Alfiler
Florido P. Casuela
Leonilo G. Coronel
Edgar A. Cua
Reynaldo A. Maclang
Estelito P. Mendoza
Christopher J. Nelson
Federico C. Pascual
Cecilio K. Pedro
Lucio C. Tan
Carmen K. Tan
Lucio K. Tan, Jr.
Michael G. Tan

On August 24, 2018, Mr. Jose Arnulfo A. Veloso was elected as director, President and Chief Executive Officer of the Bank, and replaced Mr. Reynaldo A. Maclang, who retired effective November 16, 2018.

The election of Ms. Vivienne K. Tan and Mr. Veloso were confirmed by the MB on the dates opposite their names:

Name of Director	Position	Date of MB Approval
Vivienne K. Tan	Director	June 7, 2018
Jose Arnulfo A. Veloso	Director/President and Chief Executive Officer	January 17, 2019

The Bankôs Corporate Governance, Nomination, Remuneration and Sustainability Committee considered the shortlist of candidates nominated to sit as members of the Board of Directors for 2019-2020 according to the prescribed qualifications and disqualifications. A total of fifteen (15) nominees were considered. On February 28, 2019, the Board of Directors confirmed the nomination of the following individuals for election to the Board of Directors for the year 2019ï2020, as approved and confirmed by the Corporate Governance, Nomination, Remuneration and Sustainability Committee, in compliance with the Manual of Regulations for Banks (MORB) of the BSP on the qualifications of a director and in accordance with the procedures for the nomination and election of independent directors set forth in Rule 38 of the IRR of the SRC and Securities and Exchange Commission (SEC) Memorandum Circular (MC) No. 19, Series of 2016, Code of Corporate Governance for Publicly-Listed Companies (ñSEC MC No. 19, Series of 2016ò):

1. Florencia G. Tarriela
2. Felix Enrico R. Alfiler
3. Florido P. Casuela
4. Leonilo G. Coronel
5. Edgar A. Cua
6. Estelito P. Mendoza
7. Christopher J. Nelson
8. Federico C. Pascual
9. Cecilio K. Pedro
10. Carmen K. Tan
11. Lucio C. Tan
12. Lucio K. Tan, Jr.
13. Michael G. Tan
14. Vivienne K. Tan
15. Jose Arnulfo A. Veloso

(Please refer to pages 11 to 26 of this Information Statement for the profiles of the nominees and incumbent directors.)

Mr. Felix Enrico R. Alfiler, Mr. Edgar A. Cua, Mr. Federico C. Pascual, Mr. Cecilio K. Pedro, and Ms. Florencia G. Tarriela were nominated as independent directors. After due evaluation by the Corporate Governance, Nomination, Remuneration and Sustainability Committee, it certified that said nominees are duly qualified in accordance with the MORB and Rule 38 of the IRR of the SRC. All of the nominees for independent director were nominated by Ms. Alice Z. Cordero to comply with the requirement on independent directors. Said nominees are not related to Ms. Cordero.

All nominations are compliant with SEC MC No. 4, Series of 2017 on the term limits of independent directors. The Certificate of Qualification of the independent directors pursuant to SEC MC No. 5 will be submitted by the Bank to the SEC before the election of the independent directors.

Profile of Directors and Executive Officers together with their Business Experience covering at least the Past Five (5) Years

Name: **FLORENCIA G. TARRIELA**

Age: 72

Nationality: Filipino

Education

* Bachelor of Science in Business Administration degree, Major in Economics, University of the Philippines
* Masters in Economics degree from the University of California, Los Angeles, where she topped the Masters Comprehensive Examination

Current Position in the Bank

* 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 Corp.
* Director of Bankers Association of the Philippines
* Columnist for ñBusiness Optionsò of the Manila Bulletin and ñFINEX Folioò of Business World
* Director/Vice President of Tarriela Management Company and Director/Vice President/Assistant Treasurer of Gozon Development Corporation
* Life Sustaining Member of the Bankers Institute of the Philippines and FINEX, where she is also a Director
* Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation, TSPI MBA, and Foundation for Filipino Entrepreneurship, Inc.

Other Previous Positions

* Independent Director of PNB Life Insurance, Inc.
* Undersecretary of Finance
* Alternate Monetary Board Member of the BSP, Land Bank of the Philippines and the Philippine Deposit Insurance Corporation
* Deputy Country Head, Managing Partner and the first Filipina Vice President of Citibank N. A.
* President, Bank Administration Institute of the Philippines

Awards/Citations

* 2014 Most Outstanding Citibank Philippines Alumni awardee for community involvement

Name	**FELIX ENRICO R. ALFILER**
Age	69
Nationality	Filipino
Education	* Bachelor of Science and Masters in Statistics from the University of the Philippines
Current Position in the Bank	* Vice Chairman/Independent Director
Date of First Appointment	* January 1, 2012
Directorship in Other Listed Companies	* None
Other Current Positions	* Chairman/Independent Director of PNB General Insurers Co., Inc., PNB RCI Holdings Co., Ltd. and PNB International Investments Corp. * Independent Director of PNB Savings Bank
Other Previous Positions	* Independent Director of PNB-IBJL Leasing and Finance Corporation * Senior Advisor to the World Bank Group Executive Board in Washington, D.C. * Special Assistant to the Philippine Secretary of Finance for International Operations and Privatization * Director of the BSP * Assistant to the Governor of the Central Bank of the Philippines * Senior Advisor to the Executive Director at the International Monetary Fund * Associate Director at the Central Bank * Head of the Technical Group of the CB Open Market Committee * Monetary Policy Expert in the Economics Sub-Committee of the 1985-1986 Philippine Debt Negotiating Team which negotiated with over 400 private international creditors for the rescheduling of the Philippinesô medium- and long-term foreign debts * Advisor at Lazaro Bernardo Tiu and Associates, Inc. * President of Pilgrims (Asia Pacific) Advisors, Ltd. * President of the Cement Manufacturers Association of the Philippines (CeMAP) * Board Member of the Federation of Philippine Industries (FPI) * Vice President of the Philippine Product Safety and Quality Foundation, Inc. * Convenor for Fair Trade Alliance

Name **FLORIDO P. CASUELA**

Age 77

Nationality Filipino

Education

* Bachelor of Science in Business Administration, Major in Accounting from the University of the Philippines
* Masters in Business Administration from the University of the Philippines
* Advanced Management Program for Overseas Bankers from the Philadelphia National Bank in conjunction with Wharton School of the University of Pennsylvania
* Study Tour (Micro Finance Program and Cooperatives), under the Auspices of the United States Agency for International Development

Government Civil Service Eligibilities

* Certified Public Accountant, Economist, Commercial Attaché

Current Position in the Bank

* Director

Date of First Appointment

* May 30, 2006

Directorship in Other Listed Companies

* None

Other Current Positions

* Chairman of PNB Securities, Inc.
* Vice Chairman of PNB Savings Bank
* Director of PNB International Investments Corporation, PNB RCI Holdings Co., Ltd., and Surigao Micro Credit Corporation
* Senior Adviser of the Bank of Makati (a Savings Bank), Inc.

Other Previous Positions

* President of Land Bank of the Philippines, Maybank Philippines, Inc., and Surigao Micro Credit Corporation
* Vice-Chairman of Land Bank of the Philippines and Maybank Philippines, Inc.
* Director of PNB Life Insurance, Inc.
* Director, Meralco
* Trustee of Land Bank of the Philippines Countryside Development Foundation, Inc.
* Director of Sagittarius Mines, Inc.
* Senior Adviser in the Bangko Sentral ng Pilipinas
* Senior Executive Vice President of United Overseas Bank (Westmont Bank)
* Executive Vice President of PDCP (Producers Bank)
* Senior Vice President of Philippine National Bank
* Special Assistant to the Chairman of the National Power Corporation
* First Vice President of Bank of Commerce
* Vice President of Metropolitan Bank & Trust Co.
* Staff Officer, BSP
* Audit Staff of Joaquin Cunanan, CPAs (Isla Lipana & Co.)

Awards/Citations

* One of the ten (10) awardees of the 2001 Distinguished Alumni Award of the UP College of Business Administration
* Most Outstanding Surigaonon in the field of Banking and Finance, awarded by the Rotary Club ï Surigao Chapter

Name	**LEONILO G. CORONEL**
Age	72
Nationality	Filipino
Education	* Bachelor of Arts degree, Major in Economics from the Ateneo de Manila University * Advance Management Program of the University of Hawaii
Current Position in the Bank	* Director
Date of First Appointment	* May 28, 2013
Directorship in Other Listed Companies	* Independent Director of Megawide Construction Corporation
Other Current Positions	* Independent Director of DBP-Daiwa Capital Markets Phil. * Director of Software Ventures International
Other Previous Positions	* Chairman of PNB-IBJL Leasing and Finance Corporation and PNB-IBJL Equipment Rentals Corporation * Executive Director of the Bankers Association of the Philippines and RBB Micro Finance Foundation * Director/Treasurer of Philippine Depository and Trust Corporation * Director of the Philippine Clearing House Corporation, the Philippine Dealing System and the Capital Markets Development Council * Managing Director of BAP-Credit Bureau * President of Cebu Bankers Association * Consultant of Land Bank of the Philippines, Arthur Young, U.S. Aid, Bankers Association of the Philippines and Economic Development Corporation * Worked with Citibank, Manila for twenty (20) years, occupying various positions
Awards/Citations	* Fellow of the Australian Institute of Company Directors in 2002

Name	**EDGAR A. CUA**
Age	63
Nationality	Filipino
Education	* Bachelor of Arts in Economics degree (Honors Program) from the Ateneo de Manila University * Masters of Arts in Economics degree from the University of Southern California * Masters of Planning Urban and Regional Environment degree from the University of Southern California * Advanced Chinese from the Beijing Language and Culture University * Sustainable Development Training Program, Cambridge University
Current Position in the Bank	* Independent Director
Date of First Appointment	* May 31, 2016
Directorship in Other Listed Companies	* None
Other Current Positions	* Independent Director of PNB Capital and Investment Corporation and Allied Commercial Bank, Xiamen * Director of Davao Unicar Corporation
Previous Positions	* Held various managerial and staff positions at the Asian Development Bank (ADB) during a 30-year professional career. * Retired in 2015 as Senior Advisor, East Asia Department of the Asian Development Bank (ADB), based in ADB's Resident Mission in Beijing, People's Republic of China (PRC). Other managerial positions in ADB included Deputy Director General, East Asia Department, Country Director, ADB Resident Mission in Indonesia and Deputy Country Director, ADB Resident Mission in PRC. * Staff Consultant, SGV & Co.

Name

ESTELITO P. MENDOZA

Age

89

Nationality

Filipino

Education

- Bachelor of Laws (cum laude) from the University of the Philippines
- Master of Laws from Harvard University

Current Position in the Bank

- Director

Date of First Appointment

- January 1, 2009

Directorship in Other Listed Companies

- Director of San Miguel Corporation and Petron Corporation

Other Current Positions

- Chairman of Prestige Travel, Inc.
- Director of Philippine Airlines, Inc.
- Practicing lawyer for more than sixty (60) years

Other Previous Positions

- Professorial Lecturer of law at the University of the Philippines
- Undersecretary of Justice, Solicitor General and Minister of Justice
- Member of the Batasang Pambansa and Provincial Governor of Pampanga
- Chairman of the Sixth (Legal) Committee, 31st Session of the UN General Assembly and the Special Committee on the Charter of the United Nations and the Strengthening of the Role of the Organization.

Awards/Citations

- Doctor of Laws degree (honoris causa) by Central Colleges of the Philippines, Hanyang University (Seoul, Korea), University of Manila, Angeles University Foundation and the University of the East
- Doctor of Humane Letters degree by the Misamis University
- Recipient of a Presidential Medal of Merit as Special Counsel on Marine and Ocean Concerns
- University of the Philippines Alumni Associationôs 1975 ñProfessional Award in Lawò and 2013 ñLifetime Distinguished Achievement Awardò

Name	**CHRISTOPHER J. NELSON**
Age	59
Nationality	British
Education	* Bachelor of Arts and Masters of Arts in History from the Emmanuel College, Cambridge University, U.K. * Diploma in Marketing from the Institute of Marketing, Cranfield, U.K.
Current Position in the Bank	* Director
Date of First Appointment	* March 21, 2013 (Director) * May 27, 2014 (Board Advisor) * May 26, 2015 (Director)
Directorship in Other Listed Companies	* None
Other Current Positions	* Chairman of Lux Et Sal Corporation * Director of the Philippine Band of Mercy, the Federation of Philippine Industries and Greenlands Community * Trustee of the Bellagio 3 Condominium Association, Inc * Vice President/Member of the Board of Trustees of the American Chamber Foundation Philippines, Inc. and British Chamber of Commerce of the Philippines, where he is also the Executive Chairman * Member of the Society of Fellows of the Institute of Corporate Directors * Trustee of Dualtech Training Foundation as of March 2017
Other Previous Positions	* Director of PNB Holdings Corporation * Trustee of Tan Yan Kee Foundation * Director of the American Chamber of Commerce of the Philippines, Inc. * President of Philip Morris Philippines Manufacturing, Inc., a position he held for 10 years * Various management positions with Philip Morris International for 25 years including Area Director for Saudi Arabia, Kuwait, Gulf Cooperation Council, Yemen, and Horn of Africa

Name	**FEDERICO C. PASCUAL**
Age	76
Nationality	Filipino
Education	* Bachelor of Arts from the Ateneo de Manila University * Bachelor of Laws (Member, Law Honors Society) from the University of the Philippines * Master of Laws from the Columbia University
Current Position in the Bank	* Independent Director
Date of First Appointment	* May 27, 2014
Directorship in Other Listed Companies	* None
Other Current Positions	* Independent Director of Allianz PNB Life Insurance, Inc., PNB-IBJL Leasing and Finance Corporation, PNB International Investments Corporation and PNB Holdings Corporation * Chairman of Bataan Peninsula Educational Institution, Inc. * President/Director of Tala Properties, Inc. and Woldingham Realty, Inc. * Director of Apo Reef World Resort and Sarco Land Resources Ventures Corporation * Proprietor of Green Grower Farm * Partner of the University of Nueva Caceres Bataan Branch
Other Previous Positions	* Chairman/Independent Director of PNB General Insurers Co., Inc. * President and General Manager of Government Service Insurance System * President and CEO of Allied Banking Corporation and PNOC Alternative Fuels Corporation * Various positions with PNB for twenty (20) years in various positions, including Acting President, CEO and Vice Chairman * President and Director of Philippine Chamber of Commerce and Industry * Chairman of National Reinsurance Corporation * Co-Chairman of the Industry Development Council of the Department of Trade and Industry * Treasurer of BAP-Credit Guarantee * Chairman of Alabang Country Club * President of Alabang Country Club * Director of Global Energy Growth System, San Miguel Corporation, Philippine Stock Exchange, Manila Hotel Corporation, Cultural Center of the Philippines, CITEM, Bankers Association of the Philippines, Philippine National Construction Corporation, Allied Cap Resources HK, Oceanic Bank SF, USA, AIDSISA Sugar Mill, PDCP Bank, Equitable PCIB, Bankard, Philippine International Trading Corporation, and Philippine National Oil Corporation

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

Name	**CARMEN K. TAN**	
Age	77	
Nationality	Filipino	
Current Position in the Bank	*	Director
Date of First Appointment	*	May 31, 2016
Directorship in Other Listed Companies	*	Director of MacroAsia Corporation, LT Group, Inc., and PAL Holdings, Inc.
Other Current Positions	*	Director of Asia Brewery, Tanduay Distillers, Inc., The Charter House, Inc., Dominium Realty and Construction Corporation, Eton City, Inc., Foremost Farms, Inc., Philippine Airlines, Inc., PAL Express, Fortune Tobacco Corporation, Himmel Industries, Inc., Lucky Travel Corporation, Manufacturing Services & Trade Corp., Progressive Farms, Inc., PMFTC, Inc., Shareholdings Inc., Sipalay Trading Corp., Trustmark Holdings Corp., Zuma Holdings and Management Corp., Tangent Holdings Corp., Cosmic Holdings Corp., Grandspan Development Corp., Basic Holdings Corp., Saturn Holdings, Inc., Paramount Land Equities, Inc., Interbev Philippines, Inc., Waterich Resources Corp., REM Development Corp., Fortune Tobacco International Corp. and Buona Sorte Holdings, Inc.
Major Affiliations	*	Director of Tan Yan Kee Foundation
	*	Member of Tzu Chi Foundation

Name	**LUCIO C. TAN**
Age	84
Nationality	Filipino
Education	* Bachelor of Science in Chemical Engineering degree from Far Eastern University * Doctor of Philosophy, Major in Commerce, from University of Sto. Tomas
Current Position in the Bank	* Director
Date of First Appointment	* December 8, 1999
Directorship in Other Listed Companies	* Chairman and CEO of LT Group, Inc., PAL Holdings, Inc., and MacroAsia Corporation
Other Current Positions	* Chairman and CEO of Philippine Airlines, Inc. and University of the East * Chairman/President of Tangent Holdings Corporation and Lucky Travel Corporation * Chairman of Air Philippines Corporation, Eton Properties Philippines, Inc., Eton City, Inc. Belton Communities, Inc., Asia Brewery, Inc., Tanduay Distillers, Inc., Tanduay Brands International, Inc., Asian Alcohol Corporation, Absolut Distillers, Inc., The Charter House, Inc., PMFTC, Inc., Fortune Tobacco Corporation, PNB Holdings Corporation, PNB Savings Bank, Allianz PNB Life Insurance, Inc., Alliedbankers Insurance Corporation, Allied Commercial Bank, Allied Banking Corporation (HK) Ltd., Manufacturing Services & Trade Corp., Foremost Farms, Inc., Dominium Realty & Construction Corp., Shareholdings, Inc., REM Development Corporation, Sipalay Trading Corp., and Progressive Farms, Inc. * President of Basic Holdings Corporation, Himmel Industries, Inc., and Grandspan Development Corporation * Chairman Emeritus of the Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc. * Founder and Vice Chairman of the Foundation for Upgrading the Standard of Education, Inc. * Founder of the Tan Yan Kee Foundation, Inc., of which he is the Chairman and President
Other Previous Positions	* Chairman of Allied Banking Corporation and Allied Leasing and Finance Corporation
Awards/Citations	* Honorary degrees from various universities * Lifetime Achievement Awardee by the Dr. Jose P. Rizal Awards for Excellence * Adopted to the Ancient Order of the Chamorri and designated Ambassador-at-Large of the U.S. Island-territory of Guam

* Diploma of Merit by the Socialist Republic of Vietnam
* Outstanding Manilan for the year 2000
* UST Medal of Excellence in 1999
* Most Distinguished Bicolano Business Icon in 2005
* 2003 Most Outstanding Member Award by the Philippine Chamber of Commerce and Industry (PCCI)
* Award of Distinction by the Cebu Chamber of Commerce and Industry
* Award for Exemplary Civilian Service of the Philippine Medical Association
* Honorary Mayor and Adopted Son of Bacolod City; Adopted Son of Cauayan City, Isabela and Entrepreneurial Son of Zamboanga
* Distinguished Fellow during the 25th Conference of the ASEAN Federation of Engineering Association
* 2008 Achievement Award for service to the chemistry profession during the 10th Eurasia Conference on Chemical Sciences

Name	**LUCIO K. TAN, JR.**
Age	52
Nationality	Filipino
Education	* Bachelor of Science degree in Civil Engineering (Minors in classical Chinese Mandarin and Mathematics) from the University of California Davis, U.S.A. * Master of Business Administration, J.L. Kellogg School of Management, Northwestern University and The School of Business and Management, The Hong Kong University of Science and Technology, Hong Kong * Courses in Basic and Intermediate Japanese Language, Languages International, Makati and Asia Center for Foreign Languages, Ortigas
Current Position in the Bank	* Director
Date of First Appointment	* September 28, 2007
Directorship in Other Listed Companies	* Director of MacroAsia Corporation, LT Group, Inc., PAL Holdings, Inc. and Victorias Milling Company, Inc.
Other Current Positions	* Vice Chairman of Philippine Airlines, Inc. * President/COO of Tanduay Distillers, Inc. * President of Eton Properties Philippines, Inc. * Director of PNB Management and Development Corporation, PNB Savings Bank, Allied Commercial Bank, PNB Global Remittance and Financial Company (HK) Ltd., and Allied Banking Corporation (HK) Limited * Director of PMFTC, Inc., Air Philippines Corporation, Allied Bankers Insurance Corporation, Foremost Farms, Inc., Manufacturing Services & Trade Corp., Grandspan Development Corporation, Absolut Distillers, Inc., Asia Brewery, Inc., Eton City, Inc., Asian Alcohol Corporation, Lucky Travel Corporation, Progressive Farms, Inc., Tanduay Brands International, Inc., The Charter House, Incorporated, Himmel Industries, Incorporated * Executive Vice President and Director of Fortune Tobacco Corporation
Other Previous Positions	* President and Chief Executive Officer of MacroAsia Corporation * Director of Tanduay Distillers, Inc., Allied Leasing and Finance Corporation, PNB (Europe) Plc, Bulawan Mining Corporation and PNB Forex, Inc. * Executive Vice President of Fortune Tobacco Corporation

Name	**MICHAEL G. TAN**
Age	52
Nationality	Filipino
Education	* Bachelor of Applied Science in Civil Engineering, Major in Structural Engineering, from the University of British Columbia, Canada
Current Position in the Bank	* Director
Date of First Appointment	* February 9, 2013
Directorship in Other Listed Companies	* Director and President of LT Group, Inc. * Director of PAL Holdings, Inc. and Victorias Milling Company, Inc.
Other Current Positions	* Director of PNB Management and Development Corporation, PNB Savings Bank, Allied Commercial Bank, PNB Global Remittance and Financial Company (HK) Ltd. and Allied Banking Corp. (Hong Kong) Limited * Chief Operating Officer of Asia Brewery, Inc. * Director of the following companies: Philippine Airlines Foundation, Inc., Air Philippines Corp., Philippine Airlines, Inc., Absolut Distillers, Inc., Eton Properties Phils., Inc., Grandway Konstruct, Inc., Shareholdings, Inc., Lucky Travel Corporation, Eton City, Inc., Abacus Distribution Systems Philippines, Inc., PMFTC, Inc., Tangent Holdings Corporation, and Alliedbankers Insurance Corporation
Other Previous Positions	* Chairman of PNB Holdings Corporation * Director of Bulawan Mining Corporation and PNB Forex, Inc. * Director of Allied Banking Corporation from January 30, 2008 until the merger of Allied Banking Corporation with PNB on February 9, 2013

Name	**VIVIENNE K. TAN**
Age	50
Nationality	Filipino
Education	* Bachelor of Science - Double Degree in Mathematics and Computer Science from the University of San Francisco, U.S.A * Diploma in Fashion Design and Manufacturing Management from the Fashion Institute of Design and Merchandising, Los Angeles, U.S.A.
Current Position in the Bank	* Director
Date of First Appointment	* December 15, 2017
Directorship in Other Listed Companies	* None
Other Current Positions	* Director of PNB Management and Development Corporation and Eton Properties Philippines, Inc. * Board Advisor of LT Group, Inc. * Member of the Board of Trustees of the University of the East and the University of the East Ramon Magsaysay Memorial Medical Center * Founding Chairperson of the Entrepreneurs School of Asia (ESA) * Founding Trustee of the Philippine Center for Entrepreneurship (Go Negosyo)
Other Previous Positions	* Executive Vice President, Commercial Group and Manager, Corporate Development, of Philippine Airlines * Founder and President of Thames International Business School * Owner of Vaju, Inc. (Los Angeles, U.S.A.) * Systems Analyst/Programmer of Fallon Bixby & Cheng Law Office (San Francisco, U.S.A.) * Member of the Board of Trustees of Bantay Bata (Childrenôs Foundation) * Proponent/Partner of various NGO/social work projects like Gawad Kalingaôs GK-Batya sa Bagong Simula, livelihood programs thru Teenpreneur Challenge spearheaded by ESA, Conserve and Protect Foundationôs artificial reef project in Calatagan, Batangas, Quezon City Sikap-Buhay Projectôs training and mentorship program for micro-entrepreneurs, and as Chairman of Ten Inspirational Entreprenuer Students Award
Awards/Citations	* Recipient of the Ten Outstanding Young Men (TOYM) Award for Business Education and Entrepreneurship (2006), UNESCO Excellence in Education and Social Entrepreneurship Award (2007), Leading Women of the World Award (2007), and ñPeople of the Yearò, People Asia Award (2008)

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

Name	**MAILA KATRINA Y. ILARDE**
Age	35
Nationality	Filipino
Education	Bachelor of Science in Legal Management from the De La Salle University Juris Doctor from the Ateneo de Manila University School of Law
Current Position in the Bank	Corporate Secretary
Date of First Appointment	June 29, 2015
Directorship in Other Listed Companies	None
Other Current Positions	Corporate Secretary of PNB Capital and Investment Corporation and PNB Securities, Inc.
Other Previous Positions	Senior Associate, Roxas De Los Reyes Laurel Rosario & Leagogo Assistant Corporate Secretary, Ionics, Inc. Assistant Corporate Secretary, Ionics EMS, Inc.

Name	**RUTH PAMELA E. TANGHAL**
Age	50
Nationality	Filipino
Education	* Bachelor of Science in Mathematics from the Notre Dame University, Cotabato City * Bachelor of Laws from the Notre Dame University, Cotabato City
Current Position in the Bank	* Assistant Corporate Secretary
Date of First Appointment	* June 29, 2015
Directorship in Other Listed Companies	* None
Other Current Positions	* Corporate Secretary of PNB Management and Development Corporation (MADECOR), and PNB Holdings Corporation * Director of E.C. Tanghal & Co., Inc. and Palm Tree Bank, Inc.
Other Previous Positions	* Corporate Secretary of Bulawan Mining Corporation * Documentation Lawyer, PNB Legal Group * Director/Corporate Secretary, Rural Bank of Cotabato, Inc. * Director, Rural Bankers Association of the Philippines, Inc.

Board of Advisors:

Name	**MANUEL T. GONZALES**
Age	81
Nationality	Filipino
Education	* Bachelor of Science in Commerce from the De La Salle University * Masters of Arts in Economics from Ateneo De Manila University
Current Position in the Bank	* Board Advisor
Date of First Appointment	* October 1, 2013
Directorship in Other Listed Companies	* None
Current Positions	* Director of PNB Securities, Inc. * Director of Allied Bankers Insurance Corporation * Board Advisor of PNB-IBJL Leasing and Finance Corporation * Board Advisor of PNB-IBJL Equipment Rentals Corporation
Other Previous Positions	* Director of Allied Banking Corporation and Allied Leasing and Finance Corporation * Member, Management Association of the Philippines (MAP) * Member, Financial Executives of the Philippines (FINEX) * Member, European Chamber of Commerce of the Philippines (ECCP) * Member, Bankers Institute of the Philippines

Name	**WILLIAM T. LIM**
Age	78
Nationality	Filipino
Education	* Bachelor of Science in Chemistry from Adamson University
Current Position in the Bank	* Board Advisor
Date of First Appointment	* January 25, 2013
Directorship in Other Listed Companies	* None
Current Positions	* President of Jas Lordan, Inc. * Director of PNB Holdings Corporation, Allied Commercial Bank, BH Fashion Retailers, Inc., and Concept Clothing, Co., Inc. * Board Advisor of PNB Savings Bank * Advisor to the Chairman of the Board of Directors of Allianz PNB Life Insurance, Inc.
Previous Positions	* Director of PNB Life Insurance, Inc. * Consultant of Allied Banking Corporation * Director of Corporate Apparel, Inc. * Director of Concept Clothing * Director of Freeman Management and Development Corporation * Worked with Equitable Banking Corporation for 30 years, occupying various positions, including as VP & Head of the Foreign Department

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

Name	**HARRY C. TAN**
Age	72
Nationality	Filipino
Education	* Bachelor of Science in Chemical Engineering from the Mapua Institute of Technology
Current Position in the Bank	* Board Advisor
Date of First Appointment	* May 31, 2016
Directorship in Other Listed Companies	* Director of LT Group, Inc.
Other Current Positions	* Chairman of PNB Management Development Corporation, and PNB Global Remittance and Financial Company (HK) Limited * Director of PNB Savings Bank * Chairman of the Tobacco Board of Fortune Tobacco Corporation * President of Landcom Realty Corporation and Century Park Hotel * Vice Chairman of Lucky Travel Corporation, Eton Properties Philippines, Inc., Belton Communities, Inc., and Eton City, Inc. * Managing Director/Vice Chairman of The Charter House Inc. * Director of various private firms which include Asia Brewery, Inc., Dominium Realty and Construction Corporation, Progressive Farms, Inc., Shareholdings Inc., Himmel Industries, Inc., Basic Holdings Corporation, Asian Alcohol Corporation, Pan Asia Securities Inc., Tanduay Distillers, Inc., Manufacturing Services and Trade Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Absolut Distillers, Inc., Tanduay Brands International Inc., Allied Bankers Insurance Corp., Allied Banking Corporation (Hong Kong) Limited, PMFTC, Inc., and Allied Commercial Bank
Other Previous Positions	* Chairman of Bulawan Mining Corporation * Director of Philippine National Bank * Director of Allied Banking Corporation * Director of Philippine Airlines * Director of MacroAsia Corporation

The following constitute the Bank's Corporate Governance, Nomination, Remuneration and Sustainability Committee for the year 2018-2019:

Florencia G. Tarriela*	-	Chairman
Felix Enrico R. Alfiler*	-	Member
Federico C. Pascual*	-	Member
Cecilio K. Pedro*	-	Member

** Independent Director*

The following constitute the Bank's Board Audit and Compliance Committee for the year 2018-2019:

Edgar A. Cua*	-	Chairman
Felix Enrico R. Alfiler*	-	Member
Florencia G. Tarriela*	-	Member

** Independent Director*

The following are the Executive Officers of the Bank:

JOSE ARNULFO A. VELOSO
(Please refer to page 26 of this Information Statement)

CENON C. AUDENCIAL, JR., 60, Filipino, Executive Vice President, is the Head of the Institutional Banking Sector. Before joining the Bank in 2009, he headed the Institutional and Corporate Bank of ANZ, prior to which he was a Senior Relationship Manager of Corporate Banking and Unit Head of Global Relationship Banking for Citibank N.A. He previously served as a Vice President and Unit Head of Standard Chartered Bankôs Relationship Management Group, and was a Relationship Manager in Citytrust Banking Corporation. Before his 25-year stint as a Relationship Manager, he was a Credit Analyst for Saudi French Bank and AEA Development Corporation. Mr. Audencial obtained his Bachelor of Arts degree in Economics from the Ateneo de Manila University.

JOVENCIO B. HERNANDEZ, 66, Filipino, Executive Vice President, is the Head of Marketing and Brand Management Sector. A Certified Public Accountant, he obtained his Bachelor of Science in Commerce, Major in Accounting, from De La Salle College. Prior to his appointment, he was the President of PNB Savings Bank and Head of PNB Retail Banking Group. He was also a Senior Vice President and Head of the Consumer Banking Group of Security Bank, Senior Vice President for the Retail Banking of Union Bank of the Philippines in 2004, Commercial Director of Colgate Palmolive in 1996, Senior Country Operations Officer of Citibank in 1995, and Group Product Manager of CFC Corporation and Unilever in 1982 and 1980, respectively. He was formerly the President of Security Finance in 2004 and First Union Plans in 2003. He was also a director of SB Forex and Security ï Phil Am. He served as Treasurer, director and Executive Committee Member of Bancnet in 2004-2006, Bancnet director, Treasurer and Executive Committee Member from 2013 to 2015.

CHESTER Y. LUY, 50 years old, Filipino, Executive Vice President, is the Head of the Strategy and Financial Advisory Sector. The Strategy Group is responsible for crafting the bank's overall business strategy as well as its competitive positioning within the industry. The Bankôs Financial Advisory Sector is comprised of the Wealth Management Group and the Trust Group. Most recently, Mr. Luy served as the Senior Executive Vice President and Treasurer of Rizal Commercial Banking Corporation (RCBC). He served as the Group Head for the Financial Advisory and Markets Group which is comprised of the Treasury Group and the Wealth Management Group at RCBC. Mr. Luy has 26 years of experience in banking and finance. He served in leadership roles as Managing Director across a variety of businesses with several international banks and was based in New York, Singapore and Manila. His leadership experience includes Treasury, Wealth Management and Private Banking, Trust-related businesses like Investment Management and Research, Corporate Finance and Investment Banking and Credit Risk Analysis. Mr. Luy has worked with a number of banks including JPMorgan, Bank of America Merrill Lynch, Barclays Capital, HSBC, Julius Baer, Bank of Singapore and RCBC. He graduated from the University of the Philippines with a Bachelor of Science degree in Business Administration (Magna Cum Laude) and was awarded as the ñMost

Outstanding Business Administration Student for the Class of 1990ö. He earned his Masters in Management (MBA) degree from the J.L. Kellogg Graduate School of Management at Northwestern University. He is a CFA (Chartered Financial Analyst). During his stint with various global banks in the U.S., for several years, he was consistently awarded as Top Senior Analyst in his field by Institutional Investor Magazine during its annual survey of investors, including money management firms. He served as a member of the Singapore Institute of Directors, an association of independent directors in Singapore and served on the board of a Singapore-based hospitality and real estate entity.

NELSON C. REYES, 55, Filipino, Executive Vice President, joined the Bank on January 1, 2015 as the Chief Financial Officer. Prior to joining the Bank, he was the Chief Financial Officer of the Hongkong and Shanghai Banking Corporation (HSBC), Ltd., Philippine Branch, a position he held since 2004. He was also a director for HSBC Savings Bank Philippines, Inc. and HSBC Insurance Brokers Philippines, Inc. His banking career with HSBC spanned 28 years and covered the areas of Credit Operations, Corporate Banking, Treasury Operations and Finance. He gained international banking exposure working in HSBC offices in Australia, Thailand and Hong Kong. Mr. Reyes graduated from De La Salle University with a Bachelor of Science degree in Commerce, Major in Accounting, and is a Certified Public Accountant.

BERNARDO H. TOCMO, 57, Filipino, Executive Vice-President, is the Head of Retail Banking Sector who manages the Branch Banking Group, Global Filipino Banking Group and Cards Banking Solutions Group of the Bank. Mr. Tocmo obtained his Masters in Business Economics from the University of Asia and the Pacific and where he likewise finished the Strategic Business Economics Program. He graduated with a Bachelor of Science in AgriBusiness, major in Management from the Visayas State University. He joined PNB in October 2015. Mr. Tocmo is a seasoned banker with over three decades of work experience with the countryøs top and mid-tier commercial banks. He started his career with United Coconut Planters Bank in 1982. He further honed his skills at Union Bank of the Philippines where he assumed key managerial positions from 1990 to 1996. He left Union Bank as a Senior Manager and joined Security Bank Corporation in 1996 as Assistant Vice President until his promotion to First Vice President in 2005 as Area Business Manager. Subsequently, he joined Metropolitan Bank & Trust Company in September 2005 as Vice President and was appointed Head of National Branch Banking Sector with the rank of Executive Vice President. He was also a director of Metrobank Card Corporation from 2012 to 2015.

ALICE Z. CORDERO, 62, Filipino, First Senior Vice President, was appointed the Chief Compliance Officer (CCO) of the Bank on June 16, 2010 with oversight on the Bank, including all subsidiaries, affiliates and foreign branches. She is concurrently the Corporate Governance Executive of the Bank. She has been a director of the Association of Bank Compliance Officers (ABCOMP) since 2007. She obtained her Bachelor of Science degree in Business Economics from the University of the Philippines. She has earned units in Masters in Business Administration from the Ateneo Graduate School of Business. Prior to joining the Bank, she was the CCO of Allied Banking Corporation from 2007-2010. She worked with Citibank N.A - Manila Branch for almost 20 years, from 1988-2007, and held various senior positions in the Consumer Banking Group, including Compliance and Control Director from 1999-2005 and concurrent Regional Compliance and Control Director for Philippines and Guam in 2004. Her 38 years of banking experience include working for Allied Banking Corporation from 1979-1983 and 2007-2010, First National Bank of Chicago - Manila Branch from 1983-1986, Far East Bank and Trust Company from 1986-1988 and Citibank N.A. - Manila Branch from 1988-2007, where she held department head positions in Credit Policy, Credit & Research Management, Financial Control, Corporate Regulatory Reporting, Asset Strategy, Business Development, Risk Management and Compliance.

AIDA M. PADILLA, 69, Filipino, is the First Senior Vice President and the Head of the Enterprise Services Sector. She is the chief strategist for problem and distressed accounts. A seasoned professional, she rose from the branch banking ranks at the Philippine Banking Corporation to become Vice President for Marketing of its Corporate Banking Group. She obtained her Bachelor of Science degree in Commerce, Major in Accounting, from St. Theresaøs College.

CARMELA LETICIA A. PAMA, 62, Filipino, First Senior Vice President, is the Data Protection Officer of the PNB Group. A Certified Public Accountant, she obtained her Bachelor of Science in Business Administration and Accountancy degree from the University of the Philippines and Masters in Business Administration degree from the Stern School of Business, New York

University. She started her banking career with Citibank N.A. (Phils.) where she held various positions in the areas of Treasury Trading and Marketing, and Operations and Quality Development. She left Citibank with the rank of Vice President and moved to Banco Santander to open its operations in the Philippines. She moved back to Citibank, N.A. (Phils.) in 1996 to head various operation units. Prior to joining PNB on October 9, 2006, she was a Consulting Services Practice Manager at Oracle Corporation (Phils.) from 1999 to 2005, with project implementation at the Asian Development Bank (ADB). Further to her role as Chief Risk Officer, she also coordinates the Internal Capital Adequacy and Assessment Process (ICAAP) implementation of the PNB Group. The ICAAP is the enterprise-wide program to ensure the group continually reviews its level of risk and ensures the adequacy of capital commensurate to its risk taking abilities. She assumed the role of Data Protection Officer (DPO) for the PNB Group in December 2017 and is tasked to roll out the implementation of Republic Act No. 10173 - Data Privacy Act. With more than 33 years of corporate experience, she provides a well-rounded expertise in the operations, technology and risk management areas of the bank.

SCHUBERT CAESAR C. AUSTERO, 55, Filipino, Senior Vice President, is the Head of the Human Resource Group. He has been connected with PNB since 2006 as the Head of Human Capital Development Division and as Deputy HR Head. A Bachelor of Arts graduate at the Leyte Normal University where he earned a number of academic and non-academic distinctions. He has been an HR professional for more than 30 years. Prior to joining PNB, he was connected with the First Abacus Financial Group as Vice President and Group Head for Human Resources, with the Philippine Bank of Communications as Assistant Vice President and Training Director, and with Solidbank Corporation as Recruitment and Training Manager, and later as Senior Manager and Head of Corporate Communications and Public Affairs. He was the National President of the People Management Association of the Philippines in 2011 and continues to be active in the association as Thought Leader for Learning and Development and as Director for Strategic Planning. He was appointed by President Benigno Aquino as Employer Representative to the National Tripartite Industrial Peace Council in 2012, where he continues to sit as Employer Representative. He is at present a director of the Organization Development Practitioners Network and is a member of various professional organizations.

MANUEL C. BAHENA, JR., 57, Filipino, Senior Vice President, is the Chief Legal Counsel of the Bank. He joined PNB in 2003 and was appointed as Head of Documentation and Research Division of the Legal Group in 2009. Before joining PNB, he was the Corporate Secretary and Vice President of the Legal Department of Multinational Investment Bancorporation. He also formerly served as Corporate Secretary and Legal Counsel of various corporations, among which are the Corporate Partnership for Management in Business, Inc., Orioxy Investment Corporation, Philippine Islands Corporation for Tourism and Development, Cencorp (Trade, Travel and Tours), Inc., and Central Bancorporation General Merchants, Inc. He obtained his Bachelor of Science degree in Business Administration from Lyceum of the Philippines in 1981 and his Bachelor of Laws degree from Arellano University in 1987.

EMELINE C. CENTENO, 60, Filipino, Senior Vice President, is the Head of the Corporate Planning and Research Division. She obtained her Bachelor of Science degree in Statistics (Dean῾s Lister) and completed the coursework in Masters of Arts in Economics (on scholarship) from the University of the Philippines. She joined PNB in 1983, rose from the ranks and held various positions at the Department of Economics and Research, Product Development, Monitoring and Implementation Division and the Corporate Planning Division before assuming her present position as Head of the merged Corporate Planning and Research Division. Ms. Centeno was awarded as one of the Ten Outstanding Employees of the Bank in 1987.

MARIE FE LIZA S. JAYME, 56, Filipino, Senior Vice President, is Head of the Operations Group. She graduated with a degree in Bachelor of Arts, Major in Communication Arts and Business Administration, from the Assumption College and completed academic units in Master in Business Administration from the Ateneo de Manila University. She joined PNB in 2007 as Head of Cash Product Management Division to establish the Bank῾s cash management services. Ms. Jayme began her career in banking in 1990 as an account officer with Land Bank of the Philippines. From then on, she assumed expanded and multiple roles and responsibilities in account management as Senior Manager with United Coconut Planters Bank; risk management, cash and trades sales, cash products as Assistant Vice President in Citibank, N.A.῾s Global Transaction Services/E-business; and marketing and product management as Vice President and Head of Marketing and Product Management Group of Export and Industry Bank. Prior to banking, Ms. Jayme held senior staff positions with the Office of the Secretary of Finance, Department of Trade and Industry and former Office of the Prime Minister.

MARIA PAZ D. LIM, 58, Filipino, Senior Vice President, is the Corporate Treasurer. She is also the incumbent Treasurer of PNB Capital and Investment Corporation. She obtained her Bachelor of Science degree in Business Administration, Major in Finance and Marketing, from the University of the Philippines, and Masters in Business Administration from the Ateneo de Manila University. She joined PNB on June 23, 1981, rose from the ranks and occupied various officer positions at the Department of Economics & Research, Budget Office and Corporate Disbursing Office prior to her present position.

NOEL C. MALABAG, 47, Filipino, Senior Vice President, is the Officer-in-Charge of the Treasury Sector. Mr. Malabag brings with him over 24 years of experience in the financial markets, rising up the ranks from Junior Trader to Head of Treasury. He spent 16 years in HSBC Philippines expanding his expertise in global interest rate markets, foreign exchange, derivatives and liquidity management. In 2015 he became the Treasurer of the Philippine Veterans Bank where he spearheaded innovation not only in trading practices but also in and across risk policy, compliance, control procedures and business models -- all of which helped unlock and increase efficiency and profit scale for the enterprise. As a respected member of the banking industry, he has been a key resource for reforms and policy-making in our country's financial markets through various industry associations, including the Open Market Committee of the Bankers Association of the Philippines, Money Market Association of the Philippines and ACI Philippines. He obtained his Bachelor of Science degree in Commerce, major in Marketing Management from the De La Salle University.

MICHAEL M. MORALLOS, 50 years old, Filipino, Senior Vice President, is the acting Head of the Information Technology Group. He obtained his Bachelor of Arts degree major in Philosophy and Political Science from the University of the Philippines and completed advanced computer studies at the National Computer Institute of the Philippines. His company trainings include Wharton Senior Executive Program, IBM Project Management, Ateneo Banking Principles and extensive systems training at the FIS Training Center, LR, Arkansas. He brings with him over 25 years of work experience and was a Senior FIS Systematics Consultant. Prior to joining PNB, he was First Senior Vice President and Head of Technology Platform at the Siam Commercial Bank, the largest Thai bank with over 28,000 Customer Accounts and 1,200 domestic branches. He was Technical Consultant for Systematics Heath Check for Digital Transformation, retro-fitting new Systematics features such as Native ALERTS and Web Services. He was tasked to push the core source data to the Enterprise Operational Data Store to support ongoing Enterprise Digital projects for Mobile and Internet, Bundling and Pricing Engine, On-Boarding, Wealth and Data Analytics. He was a business process analyst and solutions provider, helped establish the Solutioning Team as a focal point of better business solutions.

ROLAND V. OSCURO, 55, Filipino, Senior Vice President, is the Chief Information Security Officer and Head of Enterprise Information Security Group. He obtained his Bachelor of Science in Electronics and Communications Engineering degree from Mapua Institute of Technology and took up units in Master in Business Administration for Middle Manager at the Ateneo de Manila Graduate School. He is an Electronic and Communications Engineering Board passer. He took and passed the Information Systems Audit and Control Association's (ISACA) Certified Information Security Manager (CISM) certification last December 2016 and is currently completing documentation for the said certification. Prior to his present position, Mr. Oscuro was hired as IT Consultant of the Bank on November 2, 2003. In May 2004, he was appointed as the Head of Network Management Division of Information Technology Group with the rank of First Vice President. He was the Operational Support System Group Manager of Multi-Media Telephony, Inc. (Broadband Philippines) prior to joining PNB. He was also connected with various corporations such as Ediserve Corp. (Global Sources), Sterling Tobacco Corporation, Zero Datasoft (Al Bassam), Metal Industry Research and Development Center, and Pacific Office Machines, Inc.

NORMAN MARTIN C. REYES, 53, Filipino, Senior Vice President, is the Bankǿs Chief Marketing Officer and Head of the Marketing Group. He obtained his Bachelor of Arts degree, Major in Economics at the University of the Philippines and Masters in Business Management at the

Asian Institute of Management. He has over 20 years of management experience in the field of product development, sales and marketing and process management, and has directly managed an extensive list of corporate and consumer services. He started his banking career in 1993, holding various positions at Citibank, Union Bank and Royal Bank of Scotland. Prior to joining PNB, he was Senior Vice President at United Coconut Planters Bank.

TERESITA U. SEBASTIAN, 58, Filipino, Senior Vice President, is the Head of GFBG, which manages PNBôs overseas network of branches and remittance subsidiaries in Asia and the Pacific, Europe, the Middle East and North America. Ms. Sebastian obtained her Bachelor of Science degree in Management Engineering (Cum Laude) from Ateneo de Davao University and finished her MBA at the Ateneo de Zamboanga University. She has 37 years of banking experience under her belt. She started off her career with PNB as a casual employee in June 1981 at Western Mindanao Regional Office and rose from the ranks. She held various managerial positions from 1990-1999 until she became the Regional Business Manager of PNB Western Mindanao Region in 2002. She was promoted to AVP on February 1, 2003 and after six months, became Senior Assistant Vice President. With her excellent performance, she was promoted to Vice President in 2007 and became the Area Head of Western Mindanao in 2008. From 2010 to 2013, she was the Region Head of Mindanao. On October 1, 2013, Ms. Sebastian was promoted to First Vice President and was assigned as the Region Head of PNB Visayas from March to June 2016. On July 1, 2017, she became Senior Vice President. Ms. Sebastian was appointed as the Deputy Head of GFBG on October 1, 2016, then became the Head of GFBG in April 2017.

NANETTE O. VERGARA, 58, Filipino, Senior Vice President, is the Chief Credit Officer and Head of Credit Management Group. She obtained her degree in Bachelor of Science in Statistics (Cum Laude) in 1981 from the University of the Philippines in Diliman. She joined PNB in 2006 and was appointed as First Vice President & Head of Credit Management Division. She started her banking career with Bank of Commerce in 1981. She moved to the Credit Rating Services Department of the Credit Information Bureau in 1983 and went back to banking in 1992 when she joined Union Bank of the Philippines. She later transferred to Solidbank Corporation in 1993 to head various credit-related units. Prior to joining PNB, she worked with United Overseas Bank from 2000-2006 as VP/Head of Credit Risk Management.

JOY JASMIN R. SANTOS, 45, Filipino, First Vice-President, is the Chief Trust Officer and Head of Trust Banking Group. She has served as Vice-President and Corporate Trust Division Head from 2013 to 2018 and Business Development Division Head from 2010 to 2012. Prior to joining PNB in June 2010, she was the International Business Development Head for Asia of Globe Telecom. She was also Vice-President for Retail Banking of Citibank Savings, Inc. from 2005 to 2009. She has also served managerial positions in American Express Bank in 2004, Keppel Bank in 2001 and Bank of the Philippine Islands from 1994 to 1999. Ms. Santos graduated as Cum Laude in 1994 from the Ateneo de Manila University with a degree of Bachelor of Arts, Major in Management Economics and obtained her Masters in Business Administration from the Australian National University, Canberra, Australia in 2002.

MARTIN G. TENGCO, JR., 53, Filipino, First Vice President, is the Chief Audit Executive (CAE) of the Bank. A Certified Public Accountant, he holds a Bachelor of Science in Business Administration degree, Major in Accounting, from the Philippine School of Business Administration. He obtained his Master in Business Administration degree at Ateneo de Manila University under the Ateneo-Regis University MBA program. He started his career as a working student in 1984 as an accountant in a construction company before joining Allied Banking Corporation on June 1, 1992 as a Junior Auditor. He rose from the ranks to become an officer in 1996, and in 2009, was designated as Deputy CAE and Information Systems Audit Division Head until his appointment as CAE of PNB on June 1, 2017. He also served as the Business Continuity Coordinator of Allied Banking Corporation from June 2007 to April 2008. He served as a member of the Audit Committee of Bancnet from 2009 to 2014. He is a member of the Philippine Institute of Certified Public Accountants, Institute of Internal Auditors (IIA), ISACA and Association of Certified Fraud Examiners-Philippines.

SIMEON T. YAP, 57, Filipino, First Vice President, is the Bankôs Chief Risk Officer and Head of the Risk Management Group. He is an economics graduate from the University of the Philippinesô School of Economics. Prior to joining PNB, he was the Market Risk Officer of Security Bank from

2009 to 2018. He was also the Associate Director for Product Development of PDEx in 2008. He was also with Citibank where he was a trader, Money Market Head of Citibank Shanghai and Market Risk Officer.

(b) Identify Significant Employees

All employees of the Bank are valued for their contribution to the business. No employee who is not an executive officer is expected to make any significant contribution to the business of the Bank.

(c) Family Relationships

Directors Lucio C. Tan and Carmen K. Tan are spouses. Directors Lucio K. Tan, Jr., Michael G. Tan and Vivienne K. Tan are children of Director Lucio C. Tan. Board Advisor Harry C. Tan is the brother of Director Lucio C. Tan.

(d) Involvement in Certain Legal Proceedings

None of the directors nor any of the executive officers have, for a period covering the past five (5) years, reported:

i. any petition for bankruptcy filed by or against a business with which they are related as a general partner or executive officer;

ii. any criminal conviction by final judgment or being subject to a pending criminal proceeding, domestic or foreign, other than cases which arose out of the ordinary course of business in which they may have been impleaded in their official capacity;

iii. being subject to any order, judgment, or decree of a competent court, domestic or foreign, permanently or temporarily enjoining, barring, suspending or limiting their involvement in any type of business, securities, commodities or banking activities; or

iv. being found by a domestic or foreign court of competent jurisdiction (in a civil action), the SEC or comparable foreign body, or a domestic or foreign exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.

(e) Certain Relationships and Related Transactions

In the ordinary course of business, the Bank (hereinafter also referred to as the ñParent Companyò) has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Parent Companyôs 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 Companyôs 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 Companyôs equity or 15% of the Parent Companyôs total loan portfolio, whichever is lower. As of December 31, 2018 and 2017, the Bank and its subsidiaries (collectively, the ñGroupò) were in compliance with such regulations.

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 Groupôs 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 Groupôs employees.

For proper monitoring of related party transactions (RPT) and to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of management, board members and stockholders, the Bank created the Board Oversight RPT Committee (BORC). The BORC is composed of at least 5 regular members inclusive of 3 independent directors and 2 non-voting members (the CAE and the CCO). The Chairman of the committee is an independent director and appointed by the Board.

Information related to transactions with related parties and with certain DOSRI is shown under Note 34 of the Audited Financial Statements of the Bank and Subsidiaries and Exhibit IV of the Supplementary Schedules Required by SRC Rule 68 Annex E.

Item 6. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

(a) Executive Compensation

1) General

The annual compensation of executive officers consists of a 16-month guaranteed cash emolument. Directors, on the other hand, are entitled to a reasonable per diem for each Board or Board committee meeting attended. The total per diem given to the Board of Directors of the Bank for the years 2017 and 2018 amounted to ₱39.485 million and ₱42.960 million, respectively.

Other than the abovestated, there are no other arrangements concerning compensation for services rendered by directors or executive officers to the Group.

2) Summary Compensation Table

Annual Compensation (In Pesos)					
Name and Principal Position	**Year**	**Salary**	**Bonus**	**Others**	**Total**
Mr. Reynaldo A. Maclang President (Jan. 1 to Nov. 15, 2018) Mr. Jose Arnulfo A. Veloso President (Nov. 16 to Dec. 31, 2018) Four most highly compensated executive officers other than the CEO: 1. Cenon C. Audencial, Jr. Executive Vice President 2. Horacio E. Cebrero III Executive Vice President 3. Nelson C. Reyes Executive Vice President 4. Bernardo H. Tocmo Executive Vice President					
CEO and Four (4) Most Highly Compensated Executive Officers	Actual 2017	69,379,691	23,335,205	-	92,714,896
	Actual 2018	73,547,609	24,911,289	-	98,458,899
	Projected 2019	80,167,000	27,153,000	-	107,320,000
All other officers and directors (as a group unnamed)	Actual 2017	3,575,143,838	1,034,573,766	-	4,609,717,604
	Actual 2018	3,643,289,879	1,050,554,000	-	4,693,843,879
	Projected 2019	3,971,186,000	1,145,104,000	-	5,116,290,000

3) **Employment Contracts and Termination of Employment and Change-in-Control Arrangements**

All executive officers are covered by the Bankøs standard employment contract which guarantees annual compensation on a 16-month schedule of payment. In accordance with Sec. 6.1, Article VI of the Bankøs Amended By-Laws, all officers with the rank of Vice President and up hold office and serve at the pleasure of the Board of Directors.

4) **Warrants and Options Outstanding**

No warrants or options on the Bankøs shares of stock have been issued or given to the directors or executive officers as a form of compensation for services rendered.

Item 7. INDEPENDENT PUBLIC ACCOUNTANTS

SyCip Gorres Velayo & Co., CPAs (SGV) is the current external auditor of the Bank and its domestic subsidiaries for the calendar year 2018. Representatives of SGV are expected to be present at the stockholders meeting. They will have the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions. Ms. Janeth T. Nunez-Javier is the engagement partner of the Bank for the year 2018.

The Board Audit and Compliance Committee (BACC) has the primary authority to select, evaluate, appoint, dismiss, replace and reappoint the Bank's external auditors, subject to the approval of the Board of Directors and ratification of stockholders, based on fair and transparent criteria such as (i) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. Management intends to recommend SGV as its external auditor for the year 2019 subject to BACC endorsement, approval of the Board of Directors and ratification of the stockholders.

For the years reported, there were no changes in and/or disagreements with the Bank's external auditors on accounting and financial disclosure.

Item 8. ACTION WITH RESPECT TO REPORTS

The following matters will be submitted to a vote at the Annual Stockholdersô Meeting:

1. Approval of the Minutes of the 2018 Annual Stockholdersô Meeting held on April 24, 2018

   The matters approved at the meeting of the stockholders in 2018 are as follows:

   a. Minutes of the 2017 Annual Stockholdersô Meeting held on April 25, 2017;

   b. Report of the President on the Results of Operations for the Year 2017;

   c. 2017 Annual Report;

   d. Amendment of the By-Laws, as follows:
      a. Section 4.4, Article IV, to include the preparation and sending out of supporting documents to the notice of the meeting in electronic form;
      b. Section 4.8, Article IV, to delete the list of specific items to be included in the agenda of the annual stockholdersô meeting;
      c. Section 5.17, Article V, to update the manner of reporting of Board Committees to the Board of Directors; and

d. Sections 6.1, 6.4 and 6.6, Article VI, to update the classification, duties and responsibilities of certain officers of the Bank

e. Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2017 Annual Stockholdersô Meeting;

f. Election of Directors; and

g. Appointment of External Auditor.

The Minutes of the 2018 Annual Stockholdersô Meeting are uploaded in the Bankõs website.

2. Approval of the 2018 Annual Report

A copy of the 2018 Annual Report will be made available at the venue of the Annual Stockholdersô Meeting.

3. Ratification of all legal acts and proceedings of the Board of Directors and corporate officers since the 2018 Annual Stockholdersô Meeting

A list of all legal acts, resolutions and proceedings taken by the directors and corporate officers will be too voluminous to be included in this report. Most relate to regular banking transactions and credit matters which the Board of Directors, either by law or by regulations issued by the BSP, is required to act upon. It includes, among others, approval of loans, investments, new products and services, amendment of bank policies and manuals, matters related to various bank-acquired assets and related party transactions. These actions are subjected to the annual review of the BSP and the Bankõs external auditor.

Copies of the Minutes of the Meetings of the Board of Directors may be examined upon request and prior notice by the stockholders of record as of April 1, 2019 at the Office of the Corporate Secretary during business hours.

Item 9. OTHER ACTIONS

(a) Election of Directors

Fifteen (15) directors will be elected for the year 2019 ï 2020.

(b) Appointment of External Auditor

The BACC has sole authority to select, evaluate, appoint, dismiss, replace and reappoint the Bank's external auditors, subject to the approval of the Board of Directors and ratification of the stockholders, based on fair and transparent criteria such as (i) core values, culture and high regard for excellence in audit quality; (ii) technical competence and expertise of auditing staff; (iii) independence; (iv) effectiveness of the audit process; and (v) reliability and relevance of the external auditor's reports. The Bank intends to retain SGV as its external auditor for the year 2019 subject to BACC endorsement, approval of the Board of Directors and ratification of the stockholders.

SGV has the advantage of having historical knowledge of the business of the Bank and its subsidiaries and affiliates, having been the appointed external auditor of the Bank in 2018 and prior years.

Item 10. VOTING PROCEDURES

The affirmative vote of the stockholders present in person or by proxy representing at least a majority of the stockholders present at the meeting shall be sufficient to carry the vote for any of the matters submitted to a vote at the Annual Stockholdersô Meeting, except for Item 7 of the Agenda on the election of directors.

For the election of directors, the fifteen (15) nominees garnering the highest number of votes from the stockholders present or represented by proxy shall be elected directors for the ensuing year.

The manner of voting and counting of votes will be as follows:

a) Every stockholder entitled to vote shall have the right to vote, either in person or by proxy, the number of shares registered in his name on record as of the close of business hours on April 1, 2019. Only written proxies, signed by the stockholders and duly presented to the Corporate Secretary on or before 5:00 p.m. on April 25, 2019 for inspection and recording, shall be honored for purposes of voting.

b) For purposes of electing directors, the system of cumulative voting shall be followed. Each stockholder has a number of votes equal to the number of shares he owns, times the number of directors to be elected. Under this voting system, the stockholder has the option to (i) cast all his votes in favor of one (1) nominee, or (ii) distribute those votes under the same principle among as many nominees as he shall see fit. Only candidates duly nominated shall be voted upon by the stockholders entitled to vote or by their proxies.

c) Unless required by law, or upon motion by any stockholder, voting need not be by ballot and may be done by show of hands.

d) The manner of election and the counting of the votes to be cast shall be under the supervision of the Corporate Secretary.

Item 11. CORPORATE GOVERNANCE

In the highly competitive and heavily-regulated financial industry, where laws, rules and regulations are extensive, corporate governance warrants special attention. PNB believes that corporate governance is a dynamic conceptï ï a system of stewardship and control designed to aid organizations in fulfilling their long-term economic, moral, legal and social obligation. Everyone plays an indispensable role in satisfying the Bankøs governance standards and shaping an economically-sound, environment-friendly, and socially-responsible culture driven by our deep-rooted mission of reinforcing the rights and protecting the interests of our stakeholdersï ï both internal and external.

We strive to build and maintain trust, accountability, and transparency to maximize the long-term success of the Bank, thrive in a highly competitive financial environment, and create sustainable value for all stakeholders. Toward this end, the Bank is committed to strengthen its corporate governance structure and practices by aligning internal policies with relevant laws, rules and regulations, benchmarking against global standards and best practices, and collaborating with various organizations devoted to the development and enrichment of corporate governance landscape in the country. In the pages ahead, the Bank provides a snapshot of its corporate governance framework, culture, and measures undertaken to align its policies with the highest standards of good corporate governance and internationally-recognized practices.

CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The Bankøs corporate governance structure delineates the functions, duties, and responsibilities of everyoneï ï the Board of Directors, Management, and staffï ï in ensuring adherence to the highest principles of good corporate governance. Collectively, they work hand in hand to continuously strengthen the governance practices of the Bank.

Compliance with the highest standards of corporate governance principally starts with the Board of Directors which has the responsibility to foster the long-term success of the Bank and secure its sustained competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders and other stakeholders. Management, on the other hand, manages the day-to-day affairs of the Bank, its subsidiaries, and affiliates. They set the tone of good governance from the top and ensure that policies on governance as approved by the Board are consistently adopted and observed across the Bank.

Finally, every employee of the Group is expected to embrace the same degree of commitment to the desired level of corporate standards. There are well-established internal policies designed to prescribe a moral code for PNB employees and safeguard the corporate image of the Bank.

BOARD'S OVERALL RESPONSIBILITY

With adequate and effective performance of the Boardôs oversight functions, there is nothing PNB cannot accomplish. The Board of Directors, composed of distinguished professionals with collective working knowledge, experience, and expertise relevant to the banking sector, is primarily responsible for approving the objectives and strategies of the Bank and overseeing Management's implementation thereof. In the same manner, the Board has the responsibility to determine the Bankôs purpose, vision and mission, and strategies to carry out its objectives, ensure compliance with all relevant laws, regulations and codes of best business practice, and adopt a system of internal checks and balances. Along with these primary responsibilities, other duties of the Board include: (i) appointment/selection of key members of senior management and heads of control functions and for the approval of a sound remuneration and other incentives policy for personnel; (ii) approving and overseeing implementation of the Bank's corporate governance framework; (iii) defining the risk tolerance level, understanding the nature and degree of risks the Bank will be exposed to, and ensuring that these risks are properly addressed; (iv) ensuring that the risk management, compliance and internal audit functions have proper stature in the organization, have adequate staff and resources, and carry out their responsibilities independently, objectively and effectively, among others.

ROLE OF INDEPENDENT DIRECTORS

Independence remains to be a relevant determinant of Board effectiveness since it can bring the right balance between exercising objective, impartial judgment and taking care of the Bankôs well-being and its stakeholders. The Bank has 5 independent directors, representing 1/3 or 33% of the Board, compliant with SEC Code of Corporate Governance for publicly-listed companies. The appointment of the 5 independent directors, namely: (i) the Board Chairperson, Florencia G. Tarriela; (ii) Board Vice-Chairman, Felix Enrico R. Alfiler; and Board Members (iii) Edgar A. Cua, (iv) Federico C. Pascual, and (v) Cecilio K. Pedro, were approved and confirmed by the appropriate regulatory bodies.

Recognizing the importance of the role of independent directors, the Chairperson of the Board is an Independent Director consistent to the SEC, BSP and Association of South East Asian Nations (ASEAN) Corporate Governance Scorecard. Moreover, the Board has elected the independent directors to act as Chairperson of the Board and Chairman of the 4 Board control Committees, namely the (i) Board Audit and Compliance Committee, (ii) Corporate Governance/Nomination/Remuneration and Sustainability Committee, (iii) Risk Oversight Committee and (iv) Board Oversight RPT Committee. Majority of the members of the control Committees are Independent Directors, including the Chairman. The Independent Directors also sit in other critical committees such as the Board IT Governance Committee, Trust Committee, and Board Strategy and Policy Committee.

CHAIRPERSON OF THE BOARD

The Board Chairperson is Ms. Florencia G. Tarriela, a position she has been holding since 2005. Chairperson Tarriela has extensive experience in the banking industry and is an active member of numerous banking and non-profit institutions. She is currently a Life Sustaining Member of the Bankers Institute of the Philippines (BAIPHIL), Financial Executive of the Philippines (FINEX) and ICD. She has also been a Board Trustee of Tulay sa Pag-unlad, Inc. (TSPI) Development Corporation since 2003. She was a former Undersecretary of Finance, a former Alternate Board Member of the Monetary Board of BSP, Alternate Board Member of Land Bank of the Philippines and the Philippine Deposit Insurance Commission, and was a Managing Partner and the first Filipina Vice President of Citibank N.A., Philippines. She is a columnist for ñBusiness Optionsò of the Manila Bulletin and ñFINEX Folioò of Business World.

As an Independent Director, Chairperson Tarriela sits as Chairman of the Corporate Governance/Nomination/Remuneration and Sustainability Committee and a member of the Board Audit and Compliance Committee and Board IT Governance Committee. She also sits as a Non-Voting Member in the Board Executive Committee.

The Board Chairperson, providing leadership in the Board, works closely with the President and Chief Executive Officer. This complementary relationship provides appropriate balance of power, increased accountability, and independent decision making by the Board while Management has the responsibility to execute the strategic plans of the Bank.

BOARD COMPOSITION

The Bankφs Board of Directors is composed of 15 individuals of proven competence, integrity, and probity. All are Non-Executive Members except the President and the 5 Independent Directors. The members of the Board are selected from a broad pool of competent and qualified candidates and elected annually by the stockholders.

The Bank recognizes that having a diverse and inclusive board composition provides innumerable opportunities in bringing wider range of views, expertise, and experience. As such, the Bank observes diversity in the Board as there is no membership restriction on account of age, gender, nationality, race and other observable variables. Two (2) directors are above 80 years old, 5 are above 70 years old, 3 and 5 are in their 60φs and 50φs, respectively. To date, 3 or 20% of 15 members of the Board are women, the highest percentage or representation so far. One of the directors is a British citizen. The Board is represented by a combination of highly qualified business professionals, former bank presidents and senior officials affiliated with regulatory bodies and international organizations. The members of the Board believe in the highest level of integrity and possess a broad and collective range of expertise that provides value in sustaining and upholding good corporate governance practices in the Bank.

Four (4) out of 15 PNB directors are ICD Fellows. Chairperson Florencia G. Tarriela, Directors Florido P. Casuela, Leonilo G. Coronel and Christopher J. Nelson were confirmed by the ICD as directors who possess distinguished reputation and commitment to the highest standards of corporate governance principles, ethics and social responsibility. Fellows are part of a learned society of trained professional directors and contributes to the development of corporate governance policy and best practices and participates in ICD training and workshops. Below is a list of the directors of the Bank.

	Board of Directors	Type of Directorship [Executive Director (ED)/Non-Executive Director (NED)/Independent Director (ID)]	Principal Stockholder represented, if nominee	No. of Years served as Director
1	Florencia G. Tarriela	ID (Chairperson)	N/A	18
2	Felix Enrico R. Alfiler	ID (Vice-Chairman)	N/A	7
3	Jose Arnulfo A. Veloso*	ED	N/A	0
4	Florido P. Casuela	NED	N/A	13
5	Leonilo G. Coronel	NED	N/A	6
6	Edgar A. Cua	ID	N/A	3
7	Estelito P. Mendoza	NED	N/A	10
8	Christopher J. Nelson	NED	N/A	6
9	Federico C. Pascual	ID	N/A	5
10	Cecilio K. Pedro	ID	N/A	5
11	Carmen K. Tan	NED	N/A	3
12	Lucio C. Tan	NED	N/A	19
13	Lucio K. Tan, Jr.	NED	N/A	11
14	Michael G. Tan	NED	N/A	6
15	Vivienne K. Tan	NED	N/A	2

*Director Jose Arnulfo A. Veloso was elected as director effective November 16, 2018

SELECTION PROCESS FOR BOARD AND SENIOR MANAGEMENT

The Corporate Governance/Nomination/Remuneration/Sustainability Committee (the ñCommitteeò for purposes of this Section) observes a rigorous, yet effective selection process for identifying, assessing, and selecting the members of the Board and senior executives of the Bank as well as their appointment in various Board committees.

The Committee, acting as the Bankφs Nomination Committee, promulgates guidelines and criteria governing the conduct of the nomination. Nomination of the directors shall be conducted by the Committee prior to the Annual Stockholdersô Meeting. All recommendations shall be signed by the nominating stockholder/s together with the acceptance and conformity by the would-be nominees. The Committee shall pre-screen the qualifications and prepare the final list of all candidates which shall contain all the information about the nominees.

The Committee determines whether the nominees are fit, proper and qualified to be appointed as members of the Board. It reviews and evaluates the qualifications of all nominees, including whether candidates: (a) possess the knowledge, skills, experience, and particularly in the case of non-executive directors, independence of mind given their responsibilities to the Board and in light of the Bankôs business and risk profile; (b) have a record of integrity and good reputation; (c) have sufficient time to carry out their responsibilities; and (d) have the ability to promote a smooth interaction between members of the Board. The Committee may utilize the services of professional search firms or other external sources to search for qualified candidates to the Board.

Only nominees whose names appear on the final list of candidates shall be eligible for election. No other nominations shall be entertained after the final list of candidates shall have been prepared; and no further nominations shall be entertained or allowed on the floor during the actual Annual Stockholdersô Meeting. The directors shall be elected by the stockholders entitled to vote during the Annual Meeting of the Stockholders and shall hold the position for 1 year and until their successors are elected and qualified.

It is the Boardôs responsibility to oversee the selection and performance of senior management. The Board is responsible for the appointment of competent, honest and highly-motivated management team at all times; adoption of an effective succession planning program; monitoring and assessment of the performance of the management team based on established performance standards that are consistent with the Bankôs strategic objectives; and the conduct of regular review of PNB Groupôs policies with the management team. The Board also ensures that senior managementôs expertise and knowledge shall remain relevant given the Bankôs strategic objectives, complexity of operations, as well as business and regulatory environments.

BOARD-LEVEL COMMITTEES, MEMBERSHIP AND FUNCTIONS

The Board has delegated some of its functions to board-level committees to enable a more focused, specialized attention on specific areas. Currently, there are 8 Board Committees that have been instrumental in setting the tone for the corporate governance practices of the Bank, its subsidiaries and affiliates, namely, the Board Executive Committee, Board Audit and Compliance Committee, Corporate Governance/Nomination/ Remuneration and Sustainability Committee, Board Risk Oversight Committee, Board Trust Committee, Board Oversight RPT Committee, Board IT Governance Committee and Board Strategy and Policy Committee.

The authority, duties and responsibilities, as well as the frequency of the Board committee meetings are stated in their respective charters. Meetings are generally held on a monthly basis which may include special Board committee meetings when necessary. The Board committee secretariats are responsible for ensuring that the agenda of the meetings and resource persons are informed and provided with committee materials prior to meetings. The committee secretariat prepares the minutes of the committee meetings for endorsement and confirmation of the PNB Board and records the attendance of the committee members. Below is a list of the Board committees, its functions and the members thereof.

Board-Level Committee	**Membership As of November 23, 2018**	**Functions**
Board Audit & Compliance Committee (BACC)	Chairman: 1. Edgar A. Cua* Members: 2. Felix Enrico R. Alfiler* 3. Florencia G. Tarriela*	The Board Audit & Compliance Committee (BACC) is responsible in assisting the Board in the performance of its oversight responsibility relating to financial reporting process, systems of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations. The BACC also provides oversight functions over internal and external auditors and ensures that they act independently from each other; provides oversight to compliance functions and/or oversees the compliance program; conducts annual independent audit of PNBôs financial statements, the engagement of the external auditors and the evaluation of the external auditorôs qualifications, independence and performance. Moreover, the BACC oversees the compliance by PNB with legal and regulatory requirements, including PNBôs disclosure controls and procedures. The BACC also investigates significant issues/concerns and escalates results to the Board.
Corporate Governance/ Nomination/	Chairperson: 1. Florencia G. Tarriela*	The Corporate Governance/Remuneration/Nomination and Sustainability Committee is tasked to assist the Board in the performance of its corporate

Remuneration & Sustainability Committee	Members: 2. Felix Enrico R. Alfiler* 3. Federico C. Pascual* 4. Cecilio K. Pedro*	governance responsibilities, including the functions of the Nomination, Remuneration and Sustainability Committees, ensuring compliance with and proper observance of corporate governance principles and global practices. It oversees the implementation of the corporate governance framework and periodically reviews the framework to ensure that it remains appropriate in light of material changes to the bankǿs size, complexity and business strategy, as well as its business and regulatory environments.
Risk Oversight Committee (ROC)	Chairman: 1. Cecilio K. Pedro Members: 2. Felix Enrico R. Alfiler* 3. Florido P. Casuela 4. Edgar A. Cua* 5. Leonilo G. Coronel	The Risk Oversight Committee (ROC) is created to assist the board in overseeing the risk profile and approves the risk management framework of PNB and its related allied subsidiaries and affiliates. It is mandated to set risk appetite, approve frameworks, policies & processes for managing risk, and accept risks beyond the approval discretion provided to Management. It has the authority to direct management to submit regular reports on current risk exposures on credit, market, interest rate, liquidity, operational, legal, compliance, strategic, reputation, technology and other risks as well as to address such risks.
Board Oversight RPT Committee (BORC)	Chairman: 1. Federico C. Pascual Members: 2. Edgar A. Cua* 3. Cecilio K. Pedro* Non-Voting Members: 4. CCO Alice Z. Cordero 5. CAE Martin G. Tengco	The Board Oversight RPT Committee (BORC) is created to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest of stockholders, Board members, Management, and other stakeholders. The BORC oversees the evaluation of RPTs that present the risk of potential abuse and ensure that rules and regulations are considered to properly and effectively implement the Bankǿs RPT policy guidelines. It exercises sound and objective judgment on the RPTs for the best interest of the Bank and that the processes and approvals are conducted at arm's length basis.
Board Executive Committee	Chairman: 1. Florido P. Casuela Members: 2. Leonilo G. Coronel 3. Christopher J. Nelson 4. Lucio K. Tan, Jr. 5. Michael G. Tan 6. Vivienne K. Tan 7. Jose Arnulfo A. Veloso	The Board Executive Committee is responsible for the review, discussion, approval and/or endorsement to Board, of the following: (a) management proposals on credit facilities; investment in financial assets; and borrowings and capital raising, updates and reports on credit, transactional, administrative and other matters; and (b) policies, procedures, and manuals of products and services other than personnel policies, as proposed or initiated by Management. It also provides oversight and focus on specific areas to ensure long term viability of the Domestic and Foreign Offices/Subsidiaries consistent with the Bankǿs strategic goals.
Trust Committee	Chairman: 1. Christopher J. Nelson Members: 2. Vivienne K. Tan 3. Federico C. Pascual* 4. Jose Arnulfo A. Veloso (Ex-Officio) 5. Joy Jasmin R. Santos (Ex-Officio)	The Trust Committee, a special committee reporting directly to the Board of Directors, is primarily responsible for overseeing the fiduciary activities of the Bank. It ensures that fiduciary activities are conducted in accordance with applicable laws, rules and regulations, and prudent practices. The Trust Committee is also responsible for the initial review of assets placed under the custody of the Trust Banking Group as trustee or fiduciary; investment, re-investment and disposition of funds or property; and review and approval of transactions between trust and/or fiduciary accounts, among others.
Board IT Governance Committee (BITGC)	Chairman: 1. Leonilo G. Coronel Members: 2. Lucio K. Tan, Jr. 3. Christopher J. Nelson 4. Florido P. Casuela 5. Florencia G. Tarriela* 6. Vivienne K. Tan	The Board IT Governance Committee (BITGC) is created to assist the Board in performing its oversight functions in reviewing, approving and monitoring the IT Risk Management Framework and IT Strategic Plan of the Group. It reviews and endorses for approval of the Board the Enterprise IT Strategic Plans of the Bank, its subsidiaries and affiliates. The BITGC also reviews and monitors significant IT concerns and corrective actions arising from regulatory examinations, internal audits and external reviews.
Board Strategy and Policy Committee (BSPC)	Chairman: 1. Felix Enrico R. Alfiler* Members: 2. Florido P. Casuela	The Board Strategy & Policy Committee (BSPC) is the governing board committee exercising authority and delegating to Management the implementation of the Board approved strategic plans and policies. The BSPC reviews, evaluates, approves and/or endorses for Board approval new products, amendments to products, marketing programs, and policies, procedures and

	3. Leonilo G. Coronel 4. Edgar A. Cua* 5. Christopher J. Nelson 6. Federico C. Pascual* 7. Michael G. Tan 8. Vivienne K. Tan 9. Florencia G. Tarriela*	manuals pertaining thereto. It also performs oversight function on the business plans, initiatives, risk and regulatory compliance; and reviews the strategic objectives and business priorities, direction, overall plans, result areas that relates to the thrusts and programs of the Bank.

* Independent Director

PERFORMANCE ASSESSMENT PROGRAM

At PNB, evaluating the performance of the Board and Management is the foundation of the Bank's corporate governance assessment and monitoring. The Board conducts an annual self-assessment through an established evaluation system, a tool to determine and measure directors' and Management's compliance with corporate governance standards and practices.

The Chairman, individual members of the Board and Committees shall conduct an annual self-assessment in order to evaluate the performance in the previous year. The assessment should be supported by an external facilitator every 3 years. Designed to assess and measure the quality of corporate governance practices of the Bank, a Management Component Rating Checklist has been employed based on the Management criteria per BSP CAMELS rating system. Annual results were discussed in the Corporate Governance/Nomination/ Remuneration and Sustainability Committee and to the Board.

As part of the Bank's Total Performance Management System, the Bank has adopted a Competency-based Annual Performance Appraisal and Development Report (PADR) for its officers. It is used to achieve peak individual and organization's performance by identifying and documenting individual performance goals that are aligned with the organization's business objectives.

To ensure that annual targets are achieved, the Bank observes a Quarterly Performance Progress Review (QPPR) to assess the officer's progress against the performance targets that have been agreed upon at the beginning of the year. This enables the officer to understand performance expectations and enhance his competencies as the review focuses on performance coaching. Likewise, it provides an avenue to strengthen the feedback mechanism during the year-long performance cycle. The QPPRs for the 3 quarters are used as supporting documents/reference for the annual evaluation of the officer's performance.

DIRECTOR'S ATTENDANCE

Board meetings are held monthly, every fourth Friday of the month. The schedule is set at the beginning of each year. For the year 2018, the directors manifested their ability and commitment to fulfill their fiduciary responsibilities by attending and actively participating in the regular and special meetings of the Board. All directors attended the meetings more than the 50% requirement. Below is a chart showing the directors' attendance to the meetings of the Bank.

Name of Directors	Board No. of Meetings	Board Audit & Compliance Committee (BACC)		Corporate Governance / Nomination / Remuneration and Sustainability Committee		Risk Oversight Committee (ROC)		Board Oversight Related Party Committee (BORC)		Executive Committee		Trust Committee		Board Information Technology Committee (BITGC)		Board Strategy and Policy Committee (BSPC) (A)	
		Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
1. Florencia G. Tarriela *	15	12	80	14	100									12	86	43	100
2. Felix Enrico R. Alfiler *	15	15	100	14	100	20	100									42	98
3. Jose Arnulfo A. Veloso	2 (B)									4	100	1	100				
4. Florido P. Casuela	16					20	100			53	100			14	100	43	100
5. Leonilo G. Coronel	16					19	95			52	98			14	100	43	100

6. Edgar A. Cua *	16	15	100			20	100	13	13							43	100
7. Estelito P. Mendoza	12																
8. Christopher J. Nelson	16									52	98	12	100	13	93	43	100
9. Federico C. Pascual *	16			14	100			13	100			12	100			40	93
10. Cecilio K. Pedro *	14			11	79	18	90	13	100								
11. Carmen K. Tan	15																
12. Lucio C. Tan	15																
13. Lucio K. Tan, Jr.	11									31	58			12	86		
14. Michael G. Tan	16									47	89					40	93
15. Vivienne K. Tan	16 (C)					13	81			41	85	8	100	14	100	36	84
Total No. of Meetings Held for the Year	16	15		14		20		13		53		12		14		43	

(A) New Board Committee created on February 23, 2018

(B) Elected as Member of the Board of Directors effective November 16, 2018; Elected as Executive Committee Member and Trust Committee Member on November 23, 2018

(C) Elected as Risk Oversight Committee Member and the Trust Committee Member on April 24, 2018; Elected as Executive Committee Member on January 22, 2018

*Independent Director

CHANGES IN THE BOARD OF DIRECTORS

In August 2018, the Board approved the retirement of Mr. Reynaldo Maclang as President and Chief Executive Officer of the Bank. Mr. Reynaldo Maclang has dedicated over 40 years of his professional life to Allied Banking Corporation, PNB, and the Lucio Tan Group. This includes his stint as President of the former Allied Savings Bank and as President of its parent bank, Allied Banking Corporation. He was later on appointed as director of the Bank and eventually became PNB President. In his retirement, PNB extends its deepest gratitude and appreciation for his invaluable contributions, untiring service, and exceptional leadership which paved the way for the Bank to achieve significant milestones.

The Bank welcomed Jose Arnulfo ñWickò Veloso as its new President and Chief Executive Officer effective November 16, 2018. With over 30 years of extensive banking and capital markets experience, Mr. Wick Veloso brought with him his depth of experience and capabilities to accelerate PNB to new levels of growth. The appointment of Mr. Wick Veloso is a manifestation of the Bankôs determination to continuously transform itself as a responsive and dynamic financial partner of the Filipino.

ORIENTATION AND EDUCATION PROGRAM

We believe that continuous training and education aids the Board in the performance of its functions, and optimizes the expertise and competence of the individual directors.

All key officers and members of the Board are required to attend, at least once a year, a program on corporate governance conducted by training providers accredited by SEC or BSP. First-time directors are required to attend corporate governance training for at least 8 hours, while the annual continuing training is for at least 4 hours. A director, within a period of 6 months from date of election, is required to attend a seminar on corporate governance conducted by a private or government institution duly accredited by the BSP and SEC.

As part of the Bankôs Compliance Academy Program, a home study program for directors has been installed to apprise the members of the Board of the latest Anti-Money Laundering trends and threats, risk management, internal policies and procedures, and industry sound practices. The program also includes updates on global corporate governance standards and revised RPT policies aligned with regulatory guidelines. In-house training programs are put into place to ensure that the directors, Management, and staff continuously possess the qualifications for their respective positions and areas of responsibilities.

RETIREMENT AND SUCCESSION MANAGEMENT PROGRAM

Retirement Policy

The Bank has established a Retirement Plan for its employees to provide a retirement fund for the payment of separation benefits to employees who are eligible under the Bankøs Retirement Plan including cases of disability or death while on service.

There are 3 modes of retirement, as follows: (i) Normal Retirement where an employee shall be compulsorily retired from the service and shall be entitled to receive the benefits under the Retirement Plan upon reaching 60 years of age or completion of 35 years of service, whichever comes first; (ii) Early Retirement where, upon the consent of the Bank, an employee who has not yet reached the normal retirement age or years of service, may elect to avail of the early or optional retirement benefits under the Retirement Plan upon reaching either (a) 55 years of age and rendering at least 10 years of continuous service or (b) completing at least 11 years of service; and (iii) Late Retirement where any employee may offer his service to the Bank beyond the normal retirement date, but not beyond 65 years of age. Such retirement however, shall be subject to the approval of the Bank on a case to case basis. An employee who is resigning from the service but does not satisfactorily meet the eligibility requirement such as age and/or length of service under the above mentioned Retirement Plans, are not entitled to any separation pay.

Succession Management Program

The Succession Management Program (SMP) is a dynamic, ongoing process of strategically and systematically identifying, assessing, and developing talent for future critical roles to ensure continuous and effective organizational performance. It is established to ensure the availability of talents who have the potential and required competencies, and ready to assume vacant positions as the need arises due to organizational exigencies, particularly for key/critical positions.

A Talent Board consisting of Senior Officers has been created to monitor/review the success and progress of the SMP. The Talent Board renders decisions on nominations and acceptance of talents in the Talent Pool. The process involves the following steps:

a. Identification of Key /Critical Positions
b. Nomination of possible candidates for each identified key/critical position. The respective Sector Head/Group Head nominates possible candidates based on (i) results/past performance; (ii) competencies; and (iii) potential; subject to the initial evaluation of the Talent Board.
c. Talent Audit which is the process of evaluating/assessing the shortlisted nomineesô competencies through an on-line assessment, 360 degree feedback survey and interviews with the members of the Talent Board, if necessary. Those who qualify based on the evaluation of the Talent Board shall be recommended for inclusion in the Talent Pool subject to the approval of the President.
d. Learning and Development ï to address the development needs of each talent, an Individual Development Plan (IDP) consisting of on-the-job training, interactional development programs and classroom training shall be created by the Group Head and/or designated Mentor. For a more objective and in-depth assessment of the Talentøs competencies, he may be required to undergo an Assessment and Development Center and the result of which is made an integral part of the individual development plan. The implementation of the development plan is done in coordination with Human Resource Group.
e. Talent Review ï the progress of the Talent is monitored and tracked.
f. Engagement ï engagement strategies are employed to sustain the desired level of performance as well as the employeeøs commitment to the program.
g. Placement ï the review process and development interventions continue until the need or opportunity arises for the talent to assume the key / critical position where he has been developed for.

REMUNERATION POLICY

PNB aims to create a strong performance-conducive environment that would attract, motivate and retain the best talents. For this purpose, the Bank sustains a Remuneration Policy that would commensurately compensate its directors and Officers in return for high levels of performance. Such policy complements the Bankés efforts to hire and develop the best talents through its competitive recruitment program and continuing learning programs. A commensurately compensated and rewarded human resource enables the Bank to provide the highest quality of products and services to the public it serves.

The PNB Remuneration Policy provides a sustainable compensation structure and fringe benefits program for directors and Officers which are competitive with its peer group in the industry. It provides basic compensation, incentives, recognition and rewards for those who meet their performance targets and goals.

Directors' Emolument and Benefits

The remuneration and fringe benefits of the directors consist of a per diem for every Board and Board Committee meeting and non-cash benefit such as healthcare plan, group life insurance, and group accident insurance.

Officers' Compensation and Benefits

The compensation package of Bank Officers consists of monetary and non-monetary benefits, fringe benefits and long-term schemes, to wit: (i) Monetary emoluments consist of monthly compensation, guaranteed bonuses equivalent to 4 monthly basic salary, allowances for business related expenses, official travel, etc., and cash award upon reaching milestones in length of service of at least 10 years and every 5 years thereafter and (ii) Non-cash benefits consist of healthcare plan for the officer and 2 of his qualified primary dependents, group life insurance, group accident insurance, leave privileges, car plan and availability of loan facilities such as general purpose loan, motor vehicle loan and housing loan. Likewise, all officers are covered by the Bankés Retirement Plan as above-cited.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Bank recognizes that conflicts of interest may arise due to dealings and transactions with related parties. In conformity with Bankés policy, RPT dealings should be treated in the normal course of business on an armés length basis. This means that the RPTs are not undertaken on more favorable economic terms to such related parties than similar transactions with non-related parties under similar circumstances. No corporate or business resources of the Bank are to be misappropriated or misapplied and sound judgment is to be exercised for the best interest of the Bank. Material RPTs are to be reviewed and endorsed by the BORC to the Board for approval/notation.

In this light, PNB ensures that individual and aggregate exposures to related parties are within prudent levels consistent with existing prudential limits and internal limit; monitored through independent reviews by Internal Audit and Global Compliance Groups; and covered in disclosures and/or reporting requirements. There is sustained awareness of the RPT Policy Framework through RPT Training Programs conducted by the Bank. The members of the Board, stockholders, and Management shall disclose to the Board whether they directly, indirectly or on behalf of third parties, have financial interest in any transaction or matters affecting the Bank. Directors and officers involved in possible conflict of interest shall disassociate themselves from the decision making process and abstain from the discussion, approval and management of such transactions or matters affecting the Bank. The BORC may inform the Corporate Governance/Nomination/Remuneration and Sustainability Committee of the directors/officersô actual or potential conflicts of interest with the Bank, as necessary.

The Bank strictly applies the armés length policy in the management of RPTs. The following critical factors are to be considered in the evaluation: (i) the related partyés relationship to the Bank and interest in the transaction; (ii) the material facts of the proposed RPT, including the proposed aggregate value of such transactions; (iii) the benefits to the Bank of the proposed RPT; (iv) the availability of other sources of comparable products or services; and (v) the assessment of whether the proposed RPT is on the terms and conditions that are comparable to the terms generally available to an unrelated party under similar circumstances.

Conflicts of interest that may arise with respect to related parties of the Bank are managed through a Board-approved enterprise-wide RPT Policy Framework. The BORC was created to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest, and to ensure that exposures to related parties are made on an armés length basis, are effectively monitored, and appropriate steps to control or mitigate the risks and write-offs of such exposures are made according to standard policies and processes.

In 2016, the Bank focused on the sustainability of the existing related party transaction policies and procedures. The policies were enhanced to align its provisions with the new BSP Circular on RPT, the principles of the ACGS, and with Basel III Guidelines on Good Corporate Governance. The expanded RPT Policy Framework covered the (i) oversight functions of the Board and the BORC while implementation by the Senior Management was reflected in the revisions made on procedures in the Operations Manuals; (ii) development of the RPT database system; (iii) enhancement in the review and audit programs conducted by the independent teams comprised of the Internal Audit Group and Global Compliance Group; and (iv) the external auditors and examinations performed by regulatory bodies.

After focusing on the sustainability of existing related party transaction policies, the Bank enhanced its RPT practices in 2017 through: (i) expanding the classification of RPTs into 4 major categories DOSRI, Subsidiaries/Affiliates, Other Related Parties; and Related Parties (RP) with economic interdependencies; (ii) annual review of the materiality threshold which serves as basis for the individual and aggregate limits to reflect the Bankǿs risk appetite, risk profile and transactions, and capital strength; and (iii) enhanced policy on articulating the price discovery mechanism used in loan pricing, contract price and market valuation of collaterals for purposes of vetting the transactions.

In 2018, the Bank further adopted robust measures to ensure that RPTs are conducted within prudent levels. Materiality thresholds for RPT limits and covered officers were revised and subsequently communicated to all units for guidance and strict compliance. Throughout the year, compliance bulletins were issued and disseminated in the Bankǿs intranet facility regarding: (i) RPT internal ceilings/limits; (ii) revised materiality thresholds for RPT limits and covered persons; (iii) material and non-material RPT reporting; (iv) exemption from the materiality threshold and reporting to BSP; and (v) reiteration of the availability of related party database.

BOARD OVERSIGHT RPT COMMITTEE (BORC)

Created in September 2013, the BORC is tasked to assist the Board in performing its oversight functions in monitoring and managing potential conflicts of interest involving the Bankǿs directors, officers, stockholders, subsidiaries and affiliates, and other related parties. The Committee is composed of 5 regular members, 3 Independent Directors (IDs), including the Chairman; and 2 non-voting members, the CAE and the CCO. The CCO is designated as Secretariat of the Committee.

The duties and responsibilities of the BORC include: (i) reviewing and approving RPT policy guidelines; (ii) evaluating on an ongoing basis existing relations between and among businesses and counterparties; (iii) evaluating material RPTs; (iv) ensuring that appropriate disclosures are made; (v) endorsing to the Board; (vi) reporting to the Board the status and aggregate exposures to related parties; (vii) ensuring that RPTs, including write-off of exposures, are subject to independent reviews; and (viii) overseeing implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies and procedures.

COMPLIANCE SYSTEM

PNB views compliance with utmost respect and consideration to carry out and manage the affairs of the Bank within the boundaries of laws, rules, and regulations. Towards this end, the Bank actively promotes the safety and soundness of its operations through a compliance system that fully adheres to banking laws, rules and regulations and maintains an environment that is governed by high standards and best practices of good corporate governance.

The Global Compliance Group, which reports directly to the BACC, is primarily responsible for promoting compliance with laws and regulations of the different jurisdictions, corporate policies and procedures and international best practices. The CCO has direct responsibility for the effective implementation and management of the enterprise compliance system covering the Bankǿs domestic and foreign branches, offices, subsidiaries and affiliates. To further strengthen good corporate governance, the Board of Directors appointed the CCO as the Corporate Governance Executive tasked to assist the Board and the Corporate Governance/Nomination/Remuneration and Sustainability Committee in the discharge of their corporate governance oversight functions.

Anti-Money Laundering (AML) Compliance. PNB plays an active role in preserving the integrity of the financial system and preventing the occurrence of financial crimes. The Bank has manifested its commitment to support the AML Council's (AMLC) global fight against money laundering and terrorist financing through its anti-money laundering unit, the Global AML Compliance Division. Under the guidance and supervision of the CCO, the Division ensures that policies, controls, and procedures are in place to manage and mitigate money laundering and terrorist financing risks.

The Board and Senior Management have the ultimate responsibility to fully comply with the provisions of the Anti-Money Laundering Act (AMLA) and its implementing rules and regulations and shall ensure that oversight on the Bank's compliance is adequate. In the same manner, the Board and Senior Management are consistently being apprised of the latest anti-money laundering laws, rules, and regulations, risk management, internal policies and procedures, and industry sound practices to enable them to fully comply with their obligations and responsibilities.

Moreover, a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program has been defined and implemented in the Bank, which is geared towards the promotion of high ethical and professional standards and the prevention of the bank being used, intentionally or unintentionally, for money laundering and terrorism financing. A Senior AML Compliance Officer has been designated as the lead implementor of the program and is also tasked to liaise between the Bank, the BSP and the AMLC in matters relating to the Bank's AML/CFT compliance.

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

Business Vehicle Management Compliance. The business vehicles under PNB, as the Parent Bank, are divided into two: (i) domestic subsidiaries; and (ii) foreign branches, subsidiaries and offices. The Business Vehicle Management Compliance Division is tasked to monitor and ensure consistent compliance of the Bank's legal vehicles to local laws, rules, and regulations and those issued by the different host country regulators governing the operations of the foreign branches and business vehicle entities. The CCO is working closely among the legal vehicles to ensure clarity, understanding and effectiveness of the implementation of new regulatory requirements.

Compliance Testing and Review. Robust compliance monitoring and testing plays a key role in identifying weaknesses in existing compliance system controls, and is a critical component of an effective compliance program. Compliance testing is necessary to validate that key assumptions, data sources, and procedures utilized in measuring and monitoring compliance issues can be relied upon on an on-going basis.

Corporate Governance. The Corporate Governance Monitoring Division is the dedicated unit in strengthening governance norms of the Bank. Championing globally-recognized standards and best practices, the Division provides support for the effective implementation of the Corporate Governance and RPT Compliance frameworks. Through continued dialogue and collaborative working relationship with regulators and various organizations, such as the SEC, Philippine Stock Exchange, and ICD, the Division is poised to continue upholding principles of good corporate governance.

The Global Compliance Group continues to evolve to reinforce the bank's Compliance System with the creation of the Compliance Testing Review Division (CTRD) to institutionalize compliance testing reviews among the bank units, branches and business vehicles. CTRD will complement the 4 major divisions: Global AML Compliance Division, Regulatory Compliance Division, Business Vehicle Management Compliance Division and Corporate Governance Monitoring Division. Likewise, the Corporate Governance Monitoring Unit has evolved to a Corporate Governance Monitoring Division to provide support to the Chairman of the Board, thru the CCO as the designated Corporate Governance Executive. The Division is also tasked to ensure compliance with laws, rules, and regulations on RPTs.

In 2017, 2 Deputy Chief Compliance Officer positions were created to assist the CCO in providing oversight to the Divisions under supervision and fast track implementation of succession planning to identify personnel who will take on higher level responsibilities and intensify on-the-job training.

With the legal and regulatory environment changing rapidly, along with new emerging risks such as cybercrime and security threats, the Global Compliance Group has responded by adjusting its organizational structure, fine-tuning its internal policies and procedures, and institutionalizing bankwide processes, to wit:

- The Compliance Academy Program was formalized to promote a strong compliance culture and ensure that employees are aware of banking laws, rules and regulations, as well as policies and procedures relevant to their respective areas of responsibilities. Recognizing the important role of continuous education in effectively carrying out the compliance function and implementing a sound compliance framework, the Global Compliance Group is committed to conduct compliance awareness trainings, workshops, electronic learning, briefing and modular sessions in coordination with other units in the Bank.
- In pursuit of the commitment to the core values of PNB and to ethical conduct, the Bank has developed the Ethical Standards Compliance Program, which sets forth the standards that the Bank has adopted to ensure a safe and sound banking environment. It provides for the ethical benchmark that Bank employees must observe in order to ensure the integrity of business operations, and to comply with regulatory requirements and expectations.
- The AML Cybercrime Committee was created to address the rapidly evolving technology and rising threat of AML cybercrime cases. Moreover, a new AML Cybercrime Officer was appointed to act as the designated central-point of contact for all identified cyber-crime related transactions coursed thru the Bank front-end and core banking system applications. He ensures that cybercrime related transactions are immediately coordinated with concerned units; actions taken to mitigate/control the money laundering and terrorist financing risks associated with cybercrime activity are monitored and reported to the Board and Senior Management.
- The Deputy Chief Compliance Officer (DCCO) position performing oversight and supervisory functions for Global AML Compliance Division and Compliance Testing Review Division was separated, translating into a total of 3 DCCOs tasked to assist the CCO in providing oversight and guidance in the 5 divisions under the Global Compliance Group.
- Approved by the Board in 2018, the Counter-Terrorism Financing Sub-Committee was created with the main function of responding immediately on terrorist financing matters/information and identifying risks associated to mitigate risk of the Bank being used for terrorist financing. It is also responsible for providing reliable information/reports to the Management, the Board and relevant enforcement & government agencies.
- The Compliance Testing Review Division was expanded from 2 departments to 4. This enables the Division to employ a more focused, specialized attention on the following areas: AML Compliance Review, Regulatory Compliance Review, Legal Vehicle Compliance Review, and Corporate Governance/RPT Compliance Review.

DIVIDEND POLICY

The Bankøs ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bankøs declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the BSP as provided under the MORB and subject to compliance with such financial regulatory requirements as may be applicable to the Bank at the time of such declaration.

PNB has adopted the following general policy on the declaration of dividends: ñDividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank.ò

On July 22, 2016, the Board of Directors of PNB approved a cash dividend declaration of ₱1.00 per share for an aggregate payout of ₱1.25 billion to be taken out of the Bankøs unrestricted Retained Earnings as of March 31, 2016. The cash dividend was paid to all stockholders of record as of August 19, 2016 on September 15, 2016. This marked the first dividend declaration of the Bank after its full rehabilitation in 2007.

CONSUMER PROTECTION PRACTICES

The Bank recognizes that consumers have the right to safeguard their transactions with the Bank and be heard though appropriate channels to escalate feedback and concerns regarding the use of the bank products and services. Embedding consumer protection practices across the organization is at the forefront of the Bankôs corporate responsibility. The Board of Directors approves the policies and conducts oversight in the implementation of procedures through the Management Committee and ensures that all relevant units effectively support the consumer protection activities of the Bank.

Consumers have the right to be informed about the products and services they avail from the Bank. Throughout the banking relationship, the following standards of conduct are observed by the Bank:

- Disclosure and Transparency ï PNB ensures that the customers have a reasonable holistic understanding of the products and services, which they may be acquiring. The Bank provides the customers with ready access to information that accurately represents the fundamental benefits and risks, as well as the terms and conditions of a financial product or service.
- Protection of Client Information ï In PNB, customers have the right to expect that their financial transactions are kept confidential. The Bank ensures that appropriate information security and data privacy policies, well-defined protocols, secured databases and periodically re-validated procedures in handling client information.
- Fair Treatment ï PNBôs customers shall be treated fairly, honestly, professionally and will not be offered financial products and services that are not aligned to their financial needs. The Bank ensures that the necessary resources and procedures in place, internal monitoring and control mechanisms are established for safeguarding the best interest of the customers.
- Effective Recourse ï PNBôs customers shall be provided accessible, affordable, independent, fair, accountable, timely, and efficient means for resolving complaints on their financial transactions.
- Financial Education and Awareness ï As part of PNBôs corporate social responsibility program, the Bank provides financial education initiatives which will be undertaken to give consumers the knowledge, skills, and confidence to understand and evaluate the information they receive and empower them to make informed financial decisions.

Consumer assistance mechanisms are made available in various forms such as face-to-face support from branch personnel, account officers and relationship managers; 24 X 7 customer care hotlines; digital channels such as Email; Skype; Facetime private messaging via social media; self-service portals such as the internet and mobile banking. Each complaint is acknowledged within 1-2 business days and processed with a turnaround time ranging from 5 to 20 business days, taking into account the complexity of the situation. Also available is the complaint management process, a cross-functional activity involving multiple offices, which provide priority assistance in resolving customer concerns.

In 2018, the Bank reviewed and updated the Consumer Protection Policies and implemented the Enhanced Customer Relationship Management System (ECRM) that is a workflow manager and logging tool for customer concerns.

The Bank likewise upholds the principle of data privacy and ensures that personal data collected from the customers are processed with adherence to the general principles of transparency, legitimate purpose, and proportionality.

PNB aims to be the financial partner of the consumer as they take their journey to financial health and wealth. To this end, the Bank shall equip consumers with the information and tools they will need to make smart financial decisions towards achieving this goal.

UNDERTAKING TO PROVIDE ANNUAL REPORT

The Registrant undertakes to provide without charge to each stockholder a copy of the Bank's Annual Report or SEC Form 17-A upon written request to the Bank addressed to:

The Corporate Secretary
Philippine National Bank
9/F, PNB Financial Center
President Diosdado Macapagal Blvd.
Pasay City, Metro Manila

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Pasay on March 18, 2019.

PHILIPPINE NATIONAL BANK

By:

MAILA KATRINA Y. ILARDE
Corporate Secretary

"Annex A"

AGENDA

DETAILS AND RATIONALE

1. **Call to Order**. The Chairman, Ms. Florencia G. Tarriela, will formally open the 2019 Annual Stockholdersô Meeting of the Philippine National Bank (ñPNBò, the ñBankò).

2. **Secretary's Proof of Notice and Quorum**. The Corporate Secretary, Atty. Maila Katrina Y. Ilarde, will certify that copies of the Notice were duly sent to the stockholders of record as of April 1, 2019. Thereafter, Atty. Ilarde will certify as to the existence of a quorum for a valid transaction of business at the Annual Stockholdersô Meeting.

3. **Approval of the Minutes of the 2018 Annual Stockholders' Meeting held on April 24, 2018.** The Minutes of the 2018 Annual Stockholdersô Meeting of the Bank will be presented to the stockholders for approval. Copies of the said Minutes, as well as the resolutions of the Board of Directors from the last stockholdersô meeting held on April 24, 2018 up to the present, are available for examination during office hours at the Office of the Corporate Secretary at the 9th Floor, PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila.

4. **Report of the President on the Results of Operations for the Year 2018.** The President, Mr. Jose Arnulfo A. Veloso, will present to the stockholders the highlights of the Bankôs performance for the year 2018.

5. **Approval of the 2018 Annual Report.** The 2018 PNB Annual Report, as well as the Audit Financial Statements (AFS) as of December 31, 2018, will be presented to the stockholders for approval. A copy of the AFS is incorporated in the Definitive Information Statement.

6. **Ratification of All Legal Acts, Resolutions and Proceedings of the Board of Directors and Corporate Officers since the 2018 Annual Stockholders' Meeting.** The acts, resolutions and proceedings of the Board of Directors and Corporate Officers since the 2018 Annual Stockholdersô Meeting, most of which relate to regular banking transactions and credit matters which the Board of Directors, either by law or by regulations issued by the BSP, is required to act upon, will be presented to the stockholders for approval and ratification. Copies of the Minutes of the Meetings of the Board of Directors may be examined upon request by the stockholders of record as of April 1, 2019 at the Office of the Corporate Secretary during business hours.

7. **Election of Directors.** The Corporate Secretary will present to the stockholders the nominees for election as members of the PNB Board of Directors. The profiles of the nominees are included in the Definitive Information Statement.

8. **Appointment of External Auditor.** The appointment of SGV as the Bankôs external auditor for the year 2018 will be presented to the stockholders for confirmation and ratification.

9. **Other Matters.** Other matters arising subsequent to the sending out of the Notice of the Meeting and the Agenda, and as may be relevant to the Annual Stockholdersô Meeting, may be presented to the stockholders for consideration.

10. **Adjournment.** Upon consideration of all matters included in the Agenda, the Chairman shall declare the meeting adjourned.

P R O X Y

The undersigned stockholder of **PHILIPPINE NATIONAL BANK** (ìPNBò) does hereby nominate, constitute and appoint:

____

as my/our proxy, with the right of substitution and revocation, to represent me/us and vote all shares registered in my/our name in the books of PNB at the Annual StockholdersôMeeting scheduled on April 30, 2019. I/we hereby confirm and ratify any and all acts lawfully done by my/our proxy pursuant hereto.

Any other proxy or proxies issued by me/us on or before this date is/are hereby considered revoked and declared null and void and will have no effect whatsoever.

Date: ___________

____
Signature over Printed Name

MANAGEMENT REPORT

Item 1. Business

A. Business Development

The Philippine National Bank (PNB or the ñBankò), the countryôs first universal bank, is the fourth largest private local commercial bank in terms of assets. In July 2016, PNB celebrated its Centennial Year with the theme, ñA Century of Excellenceò, signifying a meaningful milestone for an institution that has served generations of Filipinos here and abroad. For 100 years, PNB stands proud as an institution of stability and security for many Filipinos. With its century of banking history and experience, PNB is poised to move forward to becoming a more dynamic, innovative and service-focused bank, providing excellent service to Filipinos all over the world.

The Bank was established as a government-owned banking institution on July 22, 1916. As an instrument of economic development, the Bank led the industry through the years with its agricultural modernization program and trade finance support for the countryôs agricultural exports, pioneering efforts in the Overseas Filipino Workers (OFW) remittance business, as well as the introduction of many innovations such as Bank on Wheels, computerized banking, automated teller machine (ATM) banking, mobile money changing, domestic travelerôs checks, and electronic filing and payment system for large taxpayers. PNB has the widest overseas office network and one of the largest domestic branch networks among local banks.

On February 9, 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 January 22 and January 23, 2013, respectively. The respective stockholders 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 March 6, 2012. The original Plan of Merger was approved on June 24, 2008 by the affirmative vote of ABC and the Bankôs respective stockholders, representing at least 2/3 of the outstanding capital stock of both banks.

Allianz SE (Allianz) acquired 51% of PNB Life Insurance Inc. (PNB LII), the life insurance subsidiary of PNB on June 6, 2016. This acquisition marks Allianzôs entry into the fast-growing insurance market with an established distribution network, and enhances the Bankôs position in Asia Pacific. An important part of the joint venture between Allianz and PNB is a 15-year bancassurance agreement which will provide Allianz exclusive access to PNBôs branches located nationwide and more than 4 million customers. The joint venture company operates under the name of ñAllianz PNB Life Insurance, Inc.ò as approved by the Securities and Exchange Commission (SEC) on September 21, 2016.

On June 16, 2016, PNB exercised its Call Option to redeem its P6.5 billion Lower Tier 2 Unsecured Subordinated Notes issued in June 2011 with an interest rate of 6.75%. Likewise, on May 9, 2017, PNB exercised the Call Option on its P3.5 billion Lower Tier 2 Unsecured Subordinated Notes issued in May 2012 with an interest rate of 6.75%.

The Board of Directors of PNB approved a cash dividend declaration of P1.00 per share for an aggregate payout of P1.25 billion to be taken out of the Bankôs unrestricted Retained Earnings as of March 31, 2016. The cash dividend was paid to all stockholders of record as of August 19, 2016 on September 15, 2016. This marked the first dividend declaration of the Bank after its full privatization in 2007.

PNB received the approval from the Bangko Sentral ng Pilipinas (BSP) to issue up to P20.0 billion of Long Term Negotiable Certificates of Time Deposit (LTNCDs) in tenors of 5.5 to 10 years in multiple tranches over a period of 1 year. Along this line, PNB launched the initial tranche on December 14, 2016 with an offering of P3.0 billion and this was oversubscribed at P5.38 billion. The said offer has a tenor of 5 years and 6 months and a coupon rate of 3.25%. In 2017, two LTNCD tranches were issued, viz: a) on April 27, 2017, P3.765 billion at 3.75% coupon rate; and b) on October 26, 2017, P6.35 billion at 3.875% coupon rate. The last tranche was oversubscribed at more than double the issue size of P3.0 billion. PNB is offering the LTNCDs to extend the maturity profile of the Bankõs liabilities as part of overall liability management and to raise long-term funds for general corporate purposes.

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

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

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

In affirmation of the Bankõs well-managed operations, PNB received awards from the BSP and other international award-giving bodies. In the 2017 BSP Stakeholdersô Ceremony, PNB was recognized as the Outstanding PhilPass REMIT Participant. PNB was also recognized on a ceremony held last July 31, 2018 by the Institute of Corporate Directors (ICD) as among the top performing publicly-listed companies that ranked high under the Association of South East Asian Nations (ASEAN) Corporate Governance Scorecard (ACGS). Out of 245 companies assessed, PNB is among the 21 publicly-listed companies that scored 90 points and above. PNB was also among the top 5 in the financial sector recognized for exemplary corporate governance practices

In recognition of PNBõs innovative products, PNBõs Bank on Wheels was recognized by 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 July 20, 2016, PNB received the ñNew Consumer Lending Product of the Year Awardò 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 Sept 2, 2016, PNB was awarded as Best OFW Collecting Partner. At the same time, PNBSB 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.

PNB received the ñBest Brand Initiative award in Philippine Country Awards for 2017ò at The Asian Bankerõs Future of Finance in Philippines Awards Program 2017 last October 6, 2017, due to the following initiatives: a) Launch of ñYou Firstò campaign to re-establish PNB in the market; b) initiation of a series of strategically-designed marketing campaigns; and c) increase of the Bankõs auto and home loans bookings for the year 2016 as a result of PNBõs ñYou Firstò campaign.

PNB received two awards from the Asian Banking & Finance Retail Banking Awards 2017 i.e. ñDigital Banking Initiative of the Yearò for the PNB Mobile Banking App and ñNew Consumer Lending Product of the Yearò for the PNBSB Smart Salary Loan Program. Last July 12, 2018 PNBSB received two awards from the Asian Banking & Finance Retail Banking Awards 2017 again, these are ñConsumer Finance Product of the Year ï Philippinesò for its Smart Personal Loan with Double Coverage product and ñService Innovation of the Year ï Philippinesò for its Smart Auto Loan and Home Loan Plus (Value-added Services). Last October 5, 2018, PNBSBôs Smart Personal Loan once again won the Consumer Finance Product of the Year, this time from the Asian Banker Philippine Country Awards 2018.

B. Business Description

1. Product and Services

PNB, through its Head Office and 711 domestic branches/offices and 72 overseas branches, representative offices, remittance centers and subsidiaries, provides a full range of banking and financial services to large corporate, middle-market, small and medium enterprises (SMEs) and retail customers, including OFWs, as well as to the Philippine National Government, national government agencies (NGAs), local government units (LGUs) and Government Owned and Controlled Corporations (GOCCs) in the Philippines. PNBôs principal commercial banking activities include deposit-taking, lending, trade financing, foreign exchange dealings, bills discounting, fund transfers/remittance servicing, asset management, treasury operations, comprehensive trust services, retail banking and other related financial services.

Its banking activities are undertaken through the following groups within the Bank, namely:

Institutional Banking Sector
The Bankôs Institutional Banking Sector (IBS) is responsible for credit relationships with large corporate, middle-market and SME customers as well as with GOCCs and financial institutions.

Retail Banking Sector
The Retail Banking Sector (RBS) principally focuses on retail deposit products (i.e., current accounts, savings accounts and time deposit and other accounts) and services. While the focal point is the generation of lower cost funding for the Bankôs operations, the RBS 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.

Consumer Finance
The Bankôs consumer financing business is seen to be a major contributor to its revenue stream in the medium term. PNBSB serves as the consumer arm of PNB. Strategic initiatives have been undertaken to put in place the proper infrastructure to support PNBSBôs business growth. To further propel consumer loans growth, a number of marketing campaigns, aimed at generating business and increasing product awareness, were initiated.

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.

Global Filipino Banking Group
The Global Filipino Banking Group covers the Bankôs overseas offices which essentially provide convenient and safe remittance services to numerous OFWs abroad and full banking services in selected jurisdictions. It also provides consumer financing through the Own a Philippine Home Loan and Global Filipino Auto Loan which are available to OFWs.

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.

2. Competition

In the Philippines, the Bank faces competition in all its principal areas of business, from both Philippine (private and government-owned) and foreign banks, as well as finance companies, mutual funds and investment banks. The competition that the Bank faces from both domestic and foreign banks was in part a result of the liberalization of the banking industry with the entry of foreign banks under Republic Act (R.A.) 7721 in 1994 and R.A. 10641 in 2014, as well as, the recent mergers and consolidations in the banking industry. As of the latest available data from the BSP, there were 44 universal and commercial banks, of which 17 are private domestic banks, 3 are government banks and 24 are branches or subsidiaries of foreign banks. Some competitor banks have greater financial resources, wider networks and greater market share than PNB. Said banks also offer a wider range of commercial banking services and products, have larger lending limits and stronger balance sheets than PNB. To maintain its market position in the industry, the Bank offers diverse products and services, invests in technology, leverages on the synergies within the Lucio Tan Group of Companies and with its Government customers, as well as builds on relationships with the Bankös other key customers.

The Bank also faces competition in its operations overseas. In particular, the Bankös stronghold in the remittance business in 16 countries in North America, Europe, the Middle East and Asia is being challenged by competitor banks and non-banks. As of December 31, 2018, the Bank has a distribution network of 711 branches and offices and 1,393 ATMs nationwide. The Bank is the fourth largest local private commercial bank in the Philippines in terms of local branches and the fourth largest in terms of consolidated total assets, net loans and receivables, capital and deposits. In addition, it has the widest international footprint among Philippine banks spanning Asia, Europe, the Middle East and North America with its overseas branches, representative offices, remittance centers and subsidiaries.

3. Revenue Derived from Foreign Operations

The Bank and its subsidiaries (the Group) offer a wide range of financial services in the Philippines. The percentage contributions of the Groupös offices in Asia, the Canada and USA, United Kingdom and Other European Union Countries to the Groupös revenue, for the years 2018, 2017, 2016 are as follows:

	2018	2017	2016
Asia (excluding the Philippines)/Middle East	4%	4%	5%
Canada and USA	2%	2%	2%
United Kingdom & Other European Union Countries	1%	1%	1%

Please refer to Note 6 of the Audited Financial Statements.

4. New Products and Services

The Bank launched the following products and services in 2018:

a. PNB Savings Bank Smart Courier - allows clients to do banking transactions from the comfort of their own home or office through a bank representative.

b. MasterCard NOW - offers free Mabuhay Miles points upon card activation.

c. PNB Credit Card now in the PNB Mobile Banking App – allows PNB Credit Cardholders to check credit statement balances, pay bills and receive latest credit card promos, among others.

d. PNB Own a Philippine Home Loan (OPHL) - is a financing program that offers customers abroad an easy way to purchase residential real estate in the Philippines.

e. **PNB Institutional Money Market Fund -** a new Unit Investment Trust Fund (UITF) for conservative institutional investors with a minimum initial investment of P10 million.

f. **PNB Fixed Income Fund -** a UITF for moderately aggressive individual clients with a minimum initial investment of P10,000.00.

g. **PNB UITF portfolio now in the PNB Mobile Banking App -** allows PNB UITF investors to view, redeem and invest in any UITF via the PNB Mobile banking app.

h. **PNB one of the first local banks to offer PESONet –** an interbank Electronic Funds Transfer service which is the countryǿs first Automated Clearing House (ACH) under the National Retail Payment System (NRPS). PESONet is available through the PNB Mobile Banking App.

i. **PNB-PAL Mabuhay Miles Debit Mastercard -** allows clients to earn points that can be redeemed as Philippine Airlinesô Mabuhay Miles and to enjoy a 5% discount on select Philippine Airlines (PAL) international flights when booked online.

j. **InstaPay is now available in the PNB Mobile Banking App -** allows 24/7 transfer of funds to participating local banks and e-money issuers. The beneficiary account shall instantly receive the funds once the transaction is completed. InstaPay is available to all mobile banking users with registered PNB peso savings or checking accounts.

k. **PNB participates in the peso-renminbi exchange system** – which will allow PNB to directly exchange renminbi (RMB) to peso and vice-versa at better rates. This is in line with the memorandum of understanding (MOU) signed by the Bank of China and the BSP on October 30, 2018 for the ratification of the Philippine RMB Trading Community composed of 15 local banks.

l. **PNB Konekt –** is the first full digital bank launched by PNBSB in San Juan City. PNB Konekt is equipped with smart digital technologies that simplify banking transactions e.g. interactive touch screens, self-service kiosks, tablets, full-function ATMs, chatbot, telemedicine kiosk, fun virtual games. This branch has no bank tellers and promotes paperless transaction.

5. Related Party Transactions

Please refer to Item 5(e) of the Information Statement.

6. Patents, Trademarks, Licenses, Franchises, Concessions and Royalty Agreements

The Bankǿs operations are not dependent on any patents, trademarks, copyrights, franchises, concessions, and royalty agreements.

7. Government Approval of Principal Products or Services

Generally, electronic banking (e-banking) products and services require BSP approval. New deposit products require notification to the BSP. The Bank has complied with the aforementioned BSP requirements.

8. Estimate of Amount Spent for Research and Development Activities

The Bank provides adequate budget for the development of new products and services which includes hardware and system development, continuous education and market research. Estimated amount spent for 2018, 2017 and 2016 totaled P582.2 million, P416.9 million and P428.5 million, respectively.

9. Number of Employees

The total employees of the Bank as of December 31, 2018 is 8,266, of which 4,011 are classified as Bank officers and 4,255 as rank and file employees, broken down as follows:

	Total
Officers:	
Vice President and up	130
Assistant Manager up to Senior Assistant Vice President	3,881
Rank and File	4,255
Total	8,266

The Bank shall continue to pursue purposive hiring strictly based on business requirements. The Bank has embarked on a number of initiatives to improve operational efficiency. Foremost among these initiatives are the upgrade of its Systematics core banking system and the new branch banking system which are expected to result in a leaner organization.

With regard to the Collective Bargaining Agreement (CBA), the Bankǿs regular rank and file employees are represented by 2 existing unions under the merged bank, namely: Allied Employee Union (ABEU) and Philnabank Employees Association (PEMA). The two unions are expected to merge in 2019.

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

10. Risk Management

As a financial institution with various allied undertakings with an international footprint, PNB continues to comply with an evolving and regulatory and legislative framework in each of the jurisdictions in which we operate. The nature and the impact of future changes in laws and regulations are not always predictable. These changes have implications on the way business is conducted and corresponding potential impact to capital and liquidity.

Effective risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. PNB adds value to clients and therefore the communities in which it operates, generating returns for stockholders by taking and managing risk.

Through the Bankǿs Risk Management Framework, PNB is able to manage enterprise wide risks, with the objective of maximizing risk-adjusted returns while remaining within its risk appetite. PNBǿs BOD have the ultimate responsibility and play a pivotal role in bank governance through their focus on 2 factors that will ultimately determine the success of the Bank, namely, responsibility for the Bankǿs strategic objectives and assurance that such will be executed by choice of talents.

Strong independent oversight has been established at all levels within the group. The Bankǿs BOD has delegated specific responsibilities to various board committees which are integral to the PNBǿs risk governance framework and allow executive management, through management committees, to evaluate the risks inherent in the business and to manage them effectively.

There are eight (8) Board Committees:
1. Board Audit & Compliance Committee (BACC)
2. Board Information Technology Governance Committee (BITGC)
3. Board Oversight Related Party Transaction Committee (BORC)
4. Board Strategy & Policy Committee (BSPC)
5. Corporate Governance/Nomination/Remuneration and Sustainability Committee (CorGov)
6. Executive Committee (EXCOM)
7. Risk Oversight Committee (ROC)

8. Trust Committee

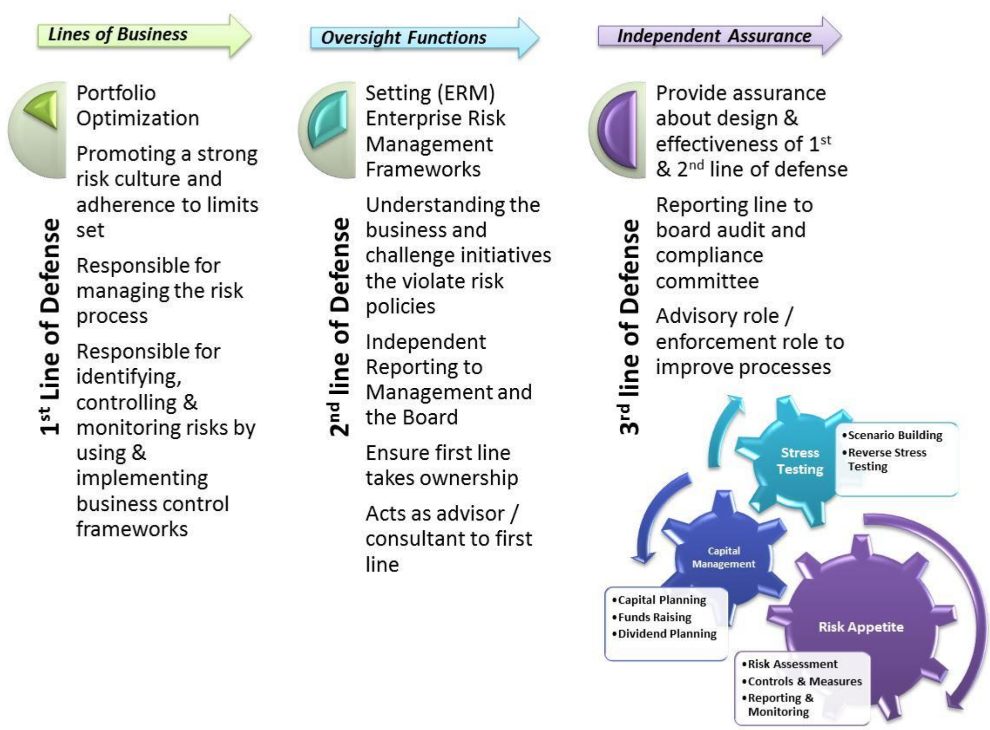
A sound, robust and effective enterprise risk management system coupled with global best practices were recognized as a necessity and are the prime responsibility of the BOD and senior management. The approach to risk is founded on strong corporate governance practices that are intended to strengthen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

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

PNBφs ERM Framework, with regular reviews and updates, has served the Bank 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 PNBφs aspiration to be world-class at managing risk.

While the first line of defense in risk management lies primarily on the Bankφs risk taking units as well as its 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 ROC. 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 Division, Data Privacy Program Division, 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 Bankôs governance policies also provide for the validation, audits & compliance testing, to measure the effectiveness and suitability of the risk management structure. The Risk Management Group also functions as the Secretariat to the ROC which meets monthly to discuss the immediate previous monthôs total risk profile according to the material risks defined by the bank in its internal capital adequacy assessment process (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 directorsô criteria for assessing its effectiveness are revisited on an annual basis and limit settings are discussed with the business units and presented to the ROC for endorsement for final BOD Approval.

In line with the integration of the BSP required ICAAP and risk management processes, PNB currently monitors 10 Material Risks (3 for Pillar 1 and 7 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:
1. Credit Concentration Risk
2. Interest Rate Risk in Banking Book (IRRBB)
3. Liquidity Risk
4. Reputational / Customer Franchise Risk (including Social Media and AML Risks)
5. Strategic Business Risk
6. Cyber Security / Information Security / Data Privacy Risk /
7. Information Technology Risk (covering Project Management / Core banking Implementation)

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
PNB broadly classifies and defines risks into the following categories, and manages 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 counterpartyôs 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	▪ 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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	institution (BSP Circular 414, dated 13 January 2004)		▪ 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 institutionôs 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 (VAR) 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 Tradersô 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 a financial institutionôs inability to meet its obligations when they come due.	▪ Funding Liquidity Plan ▪ Liquidity Ratios ▪ Large Fund Providers ▪ Maximum Cumulative Outflow (MCO) ▪ Liquid Gap Analysis ▪	▪ MCO Limits ▪ Liquid Assets Monitoring ▪ Stress testing ▪ Large Fund Provider Analysis ▪ Contingency Planning
Interest Rate Risk in the Banking	Interest rate risk is the current and prospective risk to earnings or	▪ Interest Rate Gap	▪ EAR Limits

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
Books (IRBB)	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)	Analysis ▪ Earnings at Risk (EAR) Measurement ▪ Duration based Economic Value of Equity	▪ Balance Sheet Profiling ▪ Repricing Gap Analysis ▪ Duration based Economic Value of Equity ▪ Stress Testing
Operational Risk	Operational Risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems; or from external events. This definition includes Legal Risk, but excludes Strategic and Reputational Risk. Operational Risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs. *(BSP Circular 900, dated 18 January 2016)*	▪ 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: 1. Risk Identification ï Risk Maps 2. Risk Measurement and Analysis ï ICAAP Risk Assessment	▪ Internal Control ▪ Board Approved Operating Policies and Procedures Manuals ▪ Board Approved Product Manuals ▪ Loss Events Report (LER) ▪ Risk and Control Self-Assessment (RCSA) ▪ Key Risk Indicators (KRI) ▪ Business Continuity Management (BCM) ▪ Statistical Analysis
Included in the Operational Risks:			
Reputational Risk (Customer Franchise Risk) Including Social Media Risk and Anti-Money Laundering (AML) Risk	Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. Customer franchise risk is defined as the failure to find, attract, and win new clients, nurture and retain those the Bank already has, and entice former clients back into the fold as well as the failure to meet clientôs expectation in delivering the Bankôs products and services. Risks in social media include susceptibility to account takeover,	▪ Risk Identification ▪ Risk Measurement ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ 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

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	malware distribution, brand bashing, inadvertent disclosure of sensitive information and privacy violation, among other possible threats Risks relating to Money Laundering refers to transfers or movement of funds that falls into the following (but not limited to) categories: 1. Terrorist financing 2. Unlawful purposes 3. Transactions over certain amounts as defined by the Anti-Money Laundering Council (AMLC)	(i.e. Monitor, Control or Mitigate Risk) Monitoring of Pillar II Risks fall under the purview of Operational Risk Management: ▪ Risk Identification ï Risk Maps ▪ Risk Measurement and Analysis ï ICAAP Risk Assessment	performance ▪ Fraud Management Program ▪ Social Media Management Framework ▪ Social Media Risk Management ▪ AML Compliance Review / Monitoring ▪ Enhanced Due Diligence Program for Customers
Strategic Business Risks	Strategic business risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.	Major Factors considered: ▪ Products ▪ Technology ▪ People ▪ Policies and Processes ▪ Stakeholders (including customer and regulators)	▪ Management Profitability Reports ï Budgets vs Actuals ▪ Benchmarking vis-a-vis Industry, Peers ▪ Economic Forecasting ▪ Annual Strategic Planning Exercise
Cyber Security Risk	Cyber Risk is the current and prospective impact on earnings, reputation, customer franchise, and/or capital arising from information security threats of attack on the Bankôs digital footprint through (but 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,		▪ Incident Reporting Management ▪ Information Security Policy Formulation ▪ Risk Assessment ▪ Information Security Management System Implementation ▪ Continuous infosec / cyber risk awareness campaigns ▪ Network Security Protection ▪ Limits on Access Privileges ▪ Scanning of outbound and

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
	email scams, etc)		inbound digital traffic
Information Security / Data Privacy	Information Security Risk is the risk to organizational operations due to the potential for unauthorized access, use, disclosure, disruption, modification or destruction of information or information assets that will compromise the Confidentiality, Integrity, and Availability (CIA). Social Engineering can result in various key risk indicators ï phishing, spamming, dumpster diving, direct approach, baiting, spying & eaves dropping, among others. Data Privacy Risk refers to the risk of misuse of personal data that could lead to individual harm which may take the form of loss of income, other financial loss, reputational damage, discrimination, and other harms.		• Installation of firewalls, IPS/IDS, enterprise security solution (anti-virus for endpoint, email and internet). • Enterpriseï wide Implementation of the Information Security Management Systems • Education / InfoSec Awareness is also constantly conducted • Conduct of internal and 3rd party vulnerability assessments and penetration testing (to include social engineering tests) and follow through on remediation of threats and risks • Implementing the enterprise-wide data privacy risk management framework which complies with both domestic and global requirements • Institutionalization of data protection culture within the group through regular awareness programs
Information Technology (including Core Banking Implementation)	Technology Risk result from human error, malicious intent, or even compliance regulations. It threatens assets and processes vital to the Bankôs business and may prevent compliance with regulations, impact profitability, and damage your companyôs reputation in the marketplace. Risks in the smooth operation of the newly implemented core banking application may also threaten the delivery of service to clients and customer.	▪ Risk Identification ▪ Risk Measurement ▪ Risk Measurement ▪ Risk Evaluation (i.e. Analysis of Risk) ▪ Risk Management (i.e. Monitor, Control or	▪ Risk Asset Register ▪ Risk Awareness Campaigns ▪ Information Technology (IT) Risk Assessments ▪ Formal Project management Program adoption ▪ Vulnerability Assessment and Penetration Testing ▪ Maintenance and upgrades

Risk Category	Risk Definition	Risk Monitoring Process	Risk Management Tools
		Mitigate Risk)	of disaster recovery sites ▪ Business Users / IT joint engagement for problem resolution ▪ Technology Operations Management Policies & Guidelines ▪ Vendor Management Process Monitoring

Regulatory Capital Requirements under BASEL II ï Pillar 1 Capital Adequacy Ratio (in millions of Pesos)

The bankôs Capital Adequacy Ratio as of end of December 2018 stands at 14.35% on a consolidated basis while the bankôs Risk Weighted Assets (RWA) as of end 2018 amounted to P735,332 million composed of P653,074 million (Credit Risk Weighted Assets-CRWA), P33,709 million (Market Risk Weighted Assets-MRWA) and), P48,549 million (Operational Risk Weighted Assets-ORWA).

The Bank's total regulatory requirements for the 4 quarters of 2018 are as follows:

Consolidated	Weighted Exposures (Quarters 2018)			
(Amounts in P million)	**As of Dec 31**	**As of Sept 30**	**As of June 30**	**As of Mar 31**
Qualifying Capital	**105,516**	**103,412**	**101,267**	**95,766**
CRWA	653,074	618,488	616,672	572,353
MRWA	33,709	33,606	3,857	3,882
ORWA	48,549	48,549	48,549	48,549
Total Risk-Weighted Asset	**735,332**	**700,643**	**669,078**	**624,784**
Common Equity Tier 1 Ratio	13.55%	14.03%	14.39%	14.55%
Capital Conservation Buffer	7.55%	8.03%	8.39%	8.55%
Tier 1 Capital Ratio	13.55%	14.03%	14.39%	14.55%
Capital Adequacy Ratio	**14.35%**	**14.76%**	**15.14%**	**15.33%**

Presented below is the full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements as at December 31, 2018 attributable to the Bank (amounts in P thousands):

Accounts	Balance in Financial Reporting Package (FRP)	Accounting differences and other adjustments	Balance in audited financial statements
Capital stock	49,965,587	ï	49,965,587
Additional paid-in capital	31,331,251	ï	31,331,251
Surplus reserves	597,605	ï	597,605
Surplus	31,738,101	7,093,615	38,831,716
Net unrealized loss on Available-for-Sale investments	ï	(3,040,507)	(3,040,507)
Remeasurement losses on retirement plan	ï	(2,106,586)	(2,106,586)
Accumulated translation adjustment	415,654	1,002,230	1,417,884
Other equity reserves	ï	70,215	70,215
Share in aggregate reserves on life insurance policies	ï	12,280	12,280
Appraisal increment reserve	291,725	(291,725)	ï
Other comprehensive income ï others	(5,442,697)	5,442,697	ï
TOTAL	**108,897,226**	**8,182,219**	**117,079,445**

PHILIPPINE NATIONAL BANK
CAPITAL ADEQUACY RATIO (CONSOLIDATED AND PARENT)
(Amount in Million Philippine Peso)

	CONSOLIDATED			**PARENT**		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
A. Tier 1 Capital	**121,743.821**	**112,344.766**	**104,103.597**	**117,541.445**	**108,605.501**	**101,545.136**
A.1 Common Equity Tier 1 (CET1) Capital (Sum of A.1(1) to A.1(13))	**121,743.821**	**112,344.766**	**104,103.597**	**117,541.445**	**108,605.501**	**101,545.136**
For Domestic Banks and Subsidiaries of Foreign Banks						
1 Paid-up common stock	49,965.587	49,965.587	49,965.587	49,965.587	49,965.587	49,965.587
2 Common stock dividends distributable	0.000	0.000	0.000	0.000	0.000	0.000
3 Additional paid-in capital 1/	31,331.251	31,331.251	31,331.251	31,331.251	31,331.251	31,331.251
4 Deposit for common stock subscription	0.000	0.000	0.000	0.000	0.000	0.000
5 Retained earnings	40,887.356	32,797.185	24,866.360	40,372.749	32,335.706	25,215.142
6 Undivided profits 2/	0.000	0.000	0.000	0.000	0.000	0.000
7 Other comprehensive income (Sum of A.1(7)(i) to A.1(7)(v))	(3,335.230)	(4,358.337)	(4,634.165)	(4,128.142)	(5,027.043)	(4,966.844)
8 Minority interest in subsidiary banks which are less than wholly-owned 4/	2,894.857	2,609.080	2,574.564	0.000	0.000	0.000
Minus:						
A.2 Regulatory Adjustments to CET1 Capital (Sum of A.2(1) to A.2(24))	**22,109.522**	**23,401.420**	**24,454.278**	**46,665.494**	**47,409.153**	**49,874.807**
4 Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)	1.332	1.816	2.583	1.332	1.816	2.583
5 Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries	781.715	2,264.464	2,014.333	781.715	2,264.464	2,014.333
6 Deferred tax assets 9/	1,502.846	1,500.565	4,350.895	974.086	974.243	4,006.138
7 Goodwill 10/	13,515.765	13,515.765	13,515.765	13,515.765	13,515.765	13,515.765
8 Other intangible assets 11/	2,978.650	2,740.423	1,424.055	2,893.346	2,651.754	1,333.201
11 Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers and insurance companies), after deducting related goodwill, if any (for solo basis only and as applicable) 13/	0.000	0.000	0.000	25,014.086	24,457.074	25,678.974
12 Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable) 13/	433.669	526.689	281.443	589.619	692.339	458.609
14 Significant minority investments (10%-50% of of voting stock) in securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) 13/	2,893.612	2,849.765	2,863.271	2,893.612	2,849.765	2,863.271
17 Other equity investments in non-financial allied undertakings and non-allied undertakings	1.933	1.933	1.933	1.933	1.933	1.933
19 Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)	0.000	0.000	0.000	0.000	0.000	0.000
A.3 TOTAL COMMON EQUITY TIER 1 CAPITAL (A.1 minus A.2)	**99,634.299**	**88,943.346**	**79,649.319**	**70,875.951**	**61,196.348**	**51,670.329**
A.4 Additional Tier 1 (AT1) Capital (Sum of A.4(1) to A.4(4))	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
A.5 Regulatory Adjustments to Additional Tier 1 (AT1) Capital18/ (Sum of A.5(1)	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**
A.6 TOTAL ADDITIONAL TIER 1 CAPITAL	0.000	0.000	0.000	0.000	0.000	0.000
A.7 TOTAL TIER 1 CAPITAL (Sum of A.3 and A.6)	**99,634.299**	**88,943.346**	**79,649.319**	**70,875.951**	**61,196.348**	**51,670.329**
B. Tier 2 (T2) Capital						
B.1 Tier 2 (T2) Capital (Sum of B.1(1) and B.1(6))	**5,881.878**	**4,696.483**	**4,308.027**	**5,079.208**	**4,228.829**	**3,866.446**
For Domestic Banks						
1 Instruments issued by the bank that are eligible as Tier 2 capital 21/ (Sum of B.1(1)(i) and B.1(1)(ii))	0.000	0.000	0.000	0.000	0.000	0.000
(i) Limited life preferred shares		0.000	0.000		0.000	0.000
(ii) Other limited life capital instruments **(Unsecured Subordinated Debt was eligible until 31 Dec 2015 as BSP Memorandum No. M2013-008 dated 05 Mar 2013)**		0.000	0.000		0.000	0.000
2 Deposit for subscription of T2 capital		0.000	0.000		0.000	0.000
3 Appraisal increment reserve ï bank premises, as authorized by the Monetary Board	291.725	291.725	291.725	291.725	291.725	291.725
4 General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio	5,590.153	4,404.758	4,016.302	4,787.483	3,937.104	3,574.721
5 Minority interest in subsidiary banks which are less than wholly-owned 22/		0.000	0.000		0.000	0.000
For Philippine Branch of a Foreign Bank						
6 General loan loss provision, limited to a maximum of 1% of credit risk-weighted assets, and any amount in excess thereof shall be deducted from the credit risk-weighted assets in computing the denominator of the risk-based capital ratio		0.000	0.000		0.000	0.000
B.2 Regulatory Adjustments to Tier 2 capital (Sum B.2(1) to B.2(9))	0.000	0.000	0.000	0.000	0.000	0.000
B.3 TOTAL TIER 2 CAPITAL (B.1 minus B.2)	5,881.878	4,696.483	4,308.027	5,079.208	4,228.829	3,866.446
C. TOTAL QUALIFYING CAPITAL (Sum of A.7 and B.3)	**105,516.177**	**93,639.829**	**83,957.346**	**75,955.159**	**65,425.177**	**55,536.775**
Total Risk Weighted On-Balance Sheet Assets	614,661.736	527,831.541	446,101.620	539,921.678	467,534.043	397,730.498
20%	13,149.331	11,018.591	13,482.401	11,251.723	9,017.868	11,676.125
50%	30,834.114	34,373.114	24,819.389	29,260.718	32,824.606	22,328.759
75%	10,991.050	12,616.170	18,761.908	10,476.584	12,105.697	18,039.059
100%	539,606.578	449,816.496	371,161.410	473,469.132	397,208.424	330,044.869
150%	20,080.663	20,007.170	17,876.512	15,463.521	16,377.448	15,641.686
Total Risk-Weighted Off-Balance Sheet Assets	34,165.730	23,936.175	13,052.998	34,022.330	23,880.982	12,953.775
20%	0.000	26.308	0.000	0.000	26.308	0.000
50%	6.310	33.584	31.543	6.310	33.584	31.543
75%	1,137.038	0.000	173.496	1,137.038	0.000	173.496
100%	33,022.382	23,876.283	12,847.959	32,878.982	23,821.090	12,748.736
150%	0.000	0.000	0.000	0.000	0.000	0.000
Total Counterparty Risk Weighted Assets in the Banking Book (Derivatives and Repo-style Transactions) [Part III.3]	3,375.977	3,256.262	1,622.161	3,375.977	3,256.262	1,622.161
Total Counterparty Risk Weighted Assets in the Trading Book (Derivatives and Repo-style Transactions	870.251	801.313	498.213	839.720	763.321	471.136
TOTAL CREDIT RISK WEIGHTED ASSETS	653,073.694	555,825.291	461,274.992	578,159.705	495,434.608	412,777.570
Total Market Risk-Weighted Assets	33,709.206	9,880.165	2,752.606	33,564.159	9,909.562	2,703.429
Total Operational Risk-Weighted Assets	48,549.404	44,400.786	40,073.477	41,364.568	38,428.181	35,831.511
Total Risk Weighted Assets	**735,332.304**	**610,106.242**	**504,101.075**	**653,088.432**	**543,772.351**	**451,312.510**
Capital Ratios						
Common Equity Tier 1 Ratio	**13.55%**	**14.58%**	**15.80%**	**10.85%**	**11.25%**	**11.45%**
Capital Conversion Buffer	**7.55%**	**8.58%**	**9.80%**	**4.85%**	**5.25%**	**5.45%**
Tier 1 Capital Ratio	**13.55%**	**14.58%**	**15.80%**	**10.85%**	**11.25%**	**11.45%**
Total Capital Adequacy Ratio	**14.35%**	**15.35%**	**16.65%**	**11.63%**	**12.03%**	**12.31%**

Credit Risk-Weighted Assets as of December 31, 2018

The Bank adopts the standardized approach in quantifying the risk-weighted assets. Credit risk exposures are risk weighted based on third party credit assessments of Fitch, Moodyôs, Standard & Poorôs and PhilRatings agencies. The ratings of these agencies are mapped in accordance with the BSPôs standards. The following are the consolidated credit exposures of the Bank and the corresponding risk weights:

In P Millions	Exposure, Net of Specific Provision	Exposures covered by Credit Risk Mitigants*	Net Exposure	0%	20%	50%	75%	100%	150%
Cash & Cash Items	17,321		17,321	17,291	30				
Due from BSP	102,725		102,725	102,725					
Due from Other Banks	20,468		20,468		12,415	6,400		1,653	
Financial Asset at Fair Value through Profit & Loss (FVPL)	14		14					14	
Available for Sale	1,508		1,508	441	359	25		683	
Held to Maturity (HTM)	100,649	4,856	95,793	37,281	10,263	42,008		6,241	
Unquoted Debt Securities									
Loans & Receivables	578,717	16,690	562,027	1,769	42,680	13,236	14,655	485,790	3,897
Loans and Receivables Arising from Repurchase Agreements, Securities Lending and Borrowing Transactions	22,466		22,466	22,466					
Sales Contracts Receivable	10,984		10,984					10,248	736
Real & Other Properties Acquired	8,754		8,754						8,754
Other Assets	34,976		34,976					34,976	
Total On-Balance Sheet Asset	898,582	21,546	877,036	181,973	65,747	61,669	14,655	539,605	13,387
Total Risk Weighted Asset - On-Balance Sheet				0	13,149	30,834	10,991	539,605	20,081
Total Risk Weighted Asset - Off-Balance Sheet Asset						6	1,137	33,022	
Counterparty Risk Weighted Asset in Banking Book					574	2,802			
Counterparty Risk Weighted Asset in Trading Book					16	646		208	

** Credit Risk Mitigants used are cash, guarantees and warrants.*

Market Risk-Weighted Assets as of December 31, 2018

The Bankôs regulatory capital requirements for market risks of the trading portfolio are determined using the standardized approach (ñTSAò). Under this approach, interest rate exposures are charged both for specific risks and general market risk. The general market risk charge for trading and Fair Value through Other Comprehensive Income (FVOCI) portfolio is calculated based on the instrumentôs coupon and remaining maturity with risk weights ranging from 0% for items with very low market risk (i.e., tenor of less than 30 days) to a high of 12.5% for high risk-items (i.e., tenor greater than 20 years) while capital requirements for specific risk are also calculated for exposures with risk weights ranging from 0% to 8% depending on the issuerôs credit rating. On the other hand, equities portfolio are charged 8% for both specific and general market risk while foreign exchange (FX) exposures are charged 8% for general market risks only.

Capital Requirements by Market Risk Type under Standardized Approach

(Amounts in P Million)	**Capital Charge (a)**	**Adjusted Capital Charge (b) b= a*125% [1/]**	**Market Risk Weighted Exposures (c) c= b*10 [2/]**
Interest Rate Exposures	2,482.838	3,103.547	31,035.470
Specific Risk	*853.086*	*1,066.358*	*10,663.580*
General Market Risk	*1,629.751*	*2,037.189*	*20,371.890*
Equity Exposures	88.516	110.646	1,106.456
Foreign Exchange Exposures	125.382	156.728	1,567.280
Total	**2,696.736**	**3,370.921**	**33,709.206**

Notes:

[1/] Capital charge is multiplied by 125% to be consistent with BSP required minimum Capital Adequacy Ratio (CAR) of 10%, which is 25% higher than the Basel minimum of 8%.

[2/] Adjusted capital charge is multiplied by 10 (i.e. the reciprocal of the minimum capital ratio of 10%)

The following are the Bankôs exposure with assigned market risk capital charge.

Interest Rate Exposures consist of specific risk and general market risk.

Specific Risk

Specific Risk which reflects the type of issuer of the combined portfolio of financial assets designated at Fair Value through Profit or Loss (FVTPL) and FVOCI is P853.086 million and is composed of securities with various tenors that are subjected to risk weight ranging from 0% to 8%. Sixty five percent (65%) of these securities are issued by the Republic of the Philippines while 22% is attributable to debt securities rated AAA to BBB- issued by other entities. The remaining portfolio consists of all other debt securities that are issued by other entities. Thirty six percent (36%) of this combined portfolio is composed of United States Dollars (USD)-denominated debt securities issued by the Republic of the Philippines with applicable risk weight of 0.25% to 1.6%. On the other hand, the Bankôs holding in peso denominated securities which are estimated at 29% of the portfolio have zero risk weight.

Part IV.1a INTEREST RATE EXPOSURES – SPECIFIC RISK (Amounts in P million)							
		Risk Weight					
	Positions	**0.00%**	**0.25%**	**1.00%**	**1.60%**	**8.00%**	**Total**
PHP-denominated debt securities issued by the Philippine National Government (NG) and BSP	Long	17,125.859					
	Short	61.298					
Foreign Currency (FCY)-denominated debt securities issued by the Philippine NG/BSP	Long		3,677.749	1.360	17,530.229		
	Short						
Debt securities/derivatives	Long		1,108.343	28.907	1,833.292		

with credit rating BBB- and above issued by other sovereigns	Short						
Debt securities/derivatives with credit rating of AAA to BBB-issued by other entities	Long		802.282	3,116.596	9,217.659		
	Short						
All other debt securities/derivatives that are below BBB- and unrated	Long					4,379.350	
	Short						
Subtotal	Long	17,125.859	5,588.374	3,146.863	28,581.180	4,379.350	-
	Short	61.298	-	-	-	-	-
Risk Weighted Exposures [Sum of long and short positions times the risk weight]		-	13.971	31.469	457.299	350.348	853.086
Specific Risk Capital Charge for Credit-Linked Notes and Similar Products							
Specific Risk Capital Charge for Credit Default Swaps and Total Return Swaps							
SPECIFIC RISK CAPITAL CHARGE FOR DEBT SECURITIES AND DEBT DERIVATIVES		-	13.971	31.469	457.299	350.348	853.086

General Market Risk – Peso

The Bank's total General Market Risk of its Peso debt securities and interest rate derivative exposure is P469.159 million. In terms of weighted positions, the greater portion (27%) of the Bankôs capital charge comes from the Over 5 years to 7 years bucket at P125.749 million as well as Over 7 years to 10 years bucket (22%) at P104.173 million or a combined capital charge of P229.922 million. The remaining weighted positions (51%) are distributed over the remaining buckets.

Currency: PESO							
PART IV.1b GENERAL MARKET RISK (Amounts in P million)							
	Time Bands		**Debt Securities & Debt Derivatives/Interest Rate Derivatives – Total Individual Positions**			**Weighted Positions**	
Zone	**Coupon 3% or more**	**Coupon less than 3%**	**Long**	**Short**	**Risk Weight**	**Long**	**Short**
1	1 month or less	1 month or less	14,642.416	4,748.080	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	1,661.290	4,050.195	0.20%	3.323	8.100
	Over 3M to 6M	Over 3M to 6M	418.028	-	0.40%	1.672	-
	Over 6M to 12M	Over 6M to 12M	2,113.021	2.602	0.70%	14.791	0.018
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	1,272.455	-	1.25%	15.906	-
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	4,681.987	-	1.75%	81.935	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	4,289.175	-	2.25%	96.506	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	1,177.928	-	2.75%	32.393	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	3,869.189	-	3.25%	125.749	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	2,777.946	47.741	3.75%	104.173	1.790
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	4.361	-	4.50%	0.196	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	-	-	5.25%	-	-
	Over 20Y	Over 10.6Y to 12Y	-	-	6.00%	-	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			36,907.796	8,848.618		476.644	9.908
Overall Net Open Position							466.735
Vertical Disallowance							0.513

Horizontal Disallowance						1.911
TOTAL GENERAL MARKET RISK CAPITAL CHARGE						**469.159**

General Market Risk – US Dollar

The capital charge on the Bank's General Market Risk from dollar-denominated exposures is P1,125.068 million. The exposure is concentrated under the Over 15 years to 20 yearsô time bucket with risk weight of 5.25% resulting in a capital charge of P445.768 million. The balance is distributed across other time buckets up to over 20 years with capital charge ranging from P11.195 million to P178.889 million.

Currency: USD							
PART IV.1c GENERAL MARKET RISK (Amounts in P0.000 million)							
	Time Bands		**Debt Securities & Debt Derivatives/Interest Rate Derivatives** **Total Individual Positions**		**Risk Weight**	**Weighted Positions**	
Zone	**Coupon 3% or more**	**Coupon less than 3%**	**Long**	**Short**		**Long**	**Short**
1	1 month or less	1 month or less	5,993.908	29,362.830	0.00%	-	-
	Over 1M to 3M	Over 1M to 3M	14,293.953	21,284.094	0.20%	28.588	42.568
	Over 3M to 6M	Over 3M to 6M	6,288.613	-	0.40%	25.154	-
	Over 6M to 12M	Over 6M to 12M	1,599.254	-	0.70%	11.195	-
2	Over 1Y to 2Y	Over 1.0Y to 1.9Y	4,116.802	2,672.741	1.25%	51.460	33.409
	Over 2Y to 3Y	Over 1.9Y to 2.8Y	4,649.689	-	1.75%	81.370	-
	Over 3Y to 4Y	Over 2.8Y to 3.6Y	2,998.584	-	2.25%	67.468	-
3	Over 4Y to 5Y	Over 3.6Y to 4.3Y	4,100.235	-	2.75%	112.756	-
	Over 5Y to 7Y	Over 4.3Y to 5.7Y	3,750.381	-	3.25%	121.887	-
	Over 7Y to 10Y	Over 5.7Y to 7.3Y	10,456.855	5,686.477	3.75%	392.132	-
	Over 10Y to 15Y	Over 7.3Y to 9.3Y	316.942	-	4.50%	14.262	-
	Over 15Y to 20Y	Over 9.3Y to 10.6Y	8,490.828	-	5.25%	445.768	-
	Over 20Y	Over 10.6Y to 12Y	535.517	-	6.00%	32.131	-
		Over 12Y to 20Y	-	-	8.00%	-	-
		Over 20Y	-	-	12.50%	-	-
Total			67,591.561	59,006.142		1,384.171	75.977
Overall Net Open Position							1,094.952
Vertical Disallowance							27.524
Horizontal Disallowance							5.592
TOTAL GENERAL MARKET RISK CAPITAL CHARGE							**1,128.068**

General Market Risk – Third currencies

The Bank is likewise exposed to various third currencies contracts most of them are in less than 30 days thus carries a 0% risk weight. The combined general market risk charge for contracts in Singapore Dollar (SGD), Hong Kong Dollar (HKD), and Euro (EUR) is P32.524 million with risk weight ranging from 0.20% and 0.40%.

PART IV.1d GENERAL MARKET RISK (Amounts in P million)										
		Total Debt Securities & Debt Derivatives/Interest Rate Derivatives			**Weighted Positions**					
Currency	**Time Bands**	**Long**	**Short**	**Risk Weight**	**Long**	**Short**	**Overall Net Open Position**	**Vertical dis allowance**	**Horizontal dis allowance within**	**Total General Market Risk Capital Charge**
AUD	1 month or less	-	7.406	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	**7.406**		-	-	-	-	-	-

SGD	1 month or less	76.927	7.686	0.00%	-	-				
	Over 1M to 3M	364.888	262.816	0.20%	0.730	0.526				
TOTAL		**441.815**	**270.502**		**0.730**	**0.526**	**0.204**	**0.053**	**-**	**0.257**
JPY	1 month or less	2,862.861	502.090	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		2,862.861	502.090		-	-	-	-	-	-
HKD	1 month or less	26.317	447.905	0.00%	-	-				
	Over 1M to 3M	-	790.054	0.20%	-	1.580				
	Over 3M to 6M	-	2,047.628	0.40%	-	8.191				
TOTAL		**26.317**	**3,285.587**		**-**	**9.771**	**9.771**	**-**	**-**	**9.771**
EUR	1 month or less	11,925.042	128.244	0.00%	-	-				
	Over 1M to 3M	11,248.241	-	0.20%	22.496	-				
TOTAL		**23,173.283**	**128.244**		**22.496**	**-**	**22.496**	**-**	**-**	**22.496**
GBP	1 month or less	-	159.979	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	**159.979**		-	-	-	-	-	-
CAD	1 month or less	-	77.443	0.00%	-	-				
	Over 1M to 3M	-	-	0.20%	-	-				
TOTAL		-	**77.443**		-	-	-	-	-	-
TOTAL THIRD CURRENCIES										**32.524**

Equity Exposures

The Bankôs holdings are in the form of common stocks traded in the Philippine Stock Exchange (PSE), with 8% risk weight both for specific and general market risk. The Bankôs capital charge for equity weighted positions is P88.516 million or total risk-weighted equity exposures of P1,106.456 million.

Item	**Nature of Item**	**Positions**	**Stock Markets**
			Philippines
A.1	Common Stocks	Long	107.184
		Short	6.534
A.9	Others	Long	446.044
		Short	-
A.10	TOTAL	Long	553.228
		Short	6.534
B.	Gross (long plus short) positions (A.10)		559.762
C.	Risk Weights		8%
D.	Specific risk capital (B. times C.)		44.781
E.	Net long or short positions		546.694

F.	Risk Weights	8%
G.	General market risk capital charges (E. times F.)	43.736
H.	Total Capital Charge For Equity Exposures (sum of D. and G.)	88.517
I.	Adjusted Capital Charge For Equity Exposures (H. times 125%)	110.646
J.	TOTAL RISK-WEIGHTED EQUITY EXPOSURES (I. X 10)	1,106.456

Foreign Exchange Exposures

The Bank's exposure to FX Risk carries a capital charge of P1,567.280 million. This includes P1,051.600 million arising from exposure in Non-Deliverable Forwards (NDFs) which carries a 4% risk weight while P515.680 million is from FX Exposures with 8% risk weight in FX assets and FX liabilities in USD, and third currencies not limited to JPY, CHF, GBP, EUR, CAD, AUD, SGD and other minor currencies.

Part IV. 3 FOREIGN EXCHANGE EXPOSURES (as of Dec 31, 2018)						
	Closing Rate USD/PHP:					**52.58**
		In Million USD Equivalent				**In Million Pesos**
		Net Long/(Short) Position (excluding options)		**Net Delta-Weighted Positions of FX Options**	**Total Net Long/(Short) Positions**	**Total Net Long/(Short) Position**
Nature of Item	**Currency**	**Banks**	**Subsidiaries /Affiliates**			
		1	**2**	**3**	**4=1+2+3**	**5**
A. Currency						
A.1 U.S. Dollar	USD	(11.589)	1.782		(9.807)	(515.680)
A.2 Japanese Yen	JPY	0.294	0.000		0.294	15.452
A.3 Swiss Franc	CHF	0.098	0.000		0.098	5.138
A.4 Pound Sterling	GBP	0.806	0.000		0.806	42.388
A.5 Euro	EUR	0.990	0.000		0.990	52.056
A.6 Canadian Dollar	CAD	0.246	0.000		0.246	12.955
A.7 Australian Dollar	AUD	0.153	0.000		0.153	8.061
A.8 Singapore Dollar	SGD	0.653	0.000		0.653	34.355
A.9 Foreign currencies not separately specified above		0.650	0.853		0.650	0.853
Arab Emirates Dirham	AED	0.003			0.003	
Bahrain Dinar	BHD	0.004			0.004	
Brunei Dollar	BND	0.009			0.009	
Yuan Renminbi	CNY	0.328			0.328	
Hongkong Dollar	HKD	0.095			0.095	
Korean Won	KRW	0.005			0.005	
Malaysian Ringgit	MYR	(0.000)			(0.000)	
Norwegian Krone	NOK	0.000			0.000	
New Zealand Dollar	NZD	0.070			0.070	
Saudi Riyal	SAR	0.324			0.324	
Thai Baht	THB	0.001			0.001	
Taiwan Dollar	TWD	0.013			0.013	
A. 10 Sum of net long positions						215.246
A.11 Sum of net short positions						(515.680)
B. Overall net open positions [1/]						515.680
C. Risk Weight						8%
D. Total Capital Charge for Foreign Exchange Exposures (B. times C.)						41.254
E. Adjusted Capital Charge for Foreign Exchange Exposures (D. times 125%)						51.568
F. Total Risk-Weighted Foreign Exchange Exposures, Excluding Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions (E. times 10)						515.680
G. Incremental Risk-Weighted Foreign Exchange Exposures Arising From NDF Transactions						1,051.600

H. Total Risk-Weighted Foreign Exchange Exposures (Sum of F. and G.)	1,567.280
1/ Overall net open position shall be the greater of the absolute value of the sum of the net long position or the sum of net short position.	

Operational Risk – Weighted Assets

The Bank uses the Basic Indicator Approach in quantifying the risk-weighted assets for Operational Risk. Under the Basic Indicator Approach, the Bank is required to hold capital for operational risk equal to the average over the previous 3 years of a fixed percentage (15% for this approach) of positive annual gross income (figures in respect of any year in which annual gross income was negative or zero are excluded).

(Amounts in P Million) Consolidated as of December 31, 2018	Gross Income	Capital Requirement (15% x Gross Income)
2015(Year 3)	23,884	3,583
2016(Year 2)	25,096	3,764
2017(Last Year)	28,699	4,305
Average for 3 Years		3,884
Adjusted Capital Charge	Average x 125%	4,855
Total Operational Risk Weighted Asset		48,549

C. Subsidiaries

The following represent the Bankǿs significant subsidiaries:

<u>Domestic Subsidiaries:</u>

PNB Savings Bank (PNBSB) is a wholly-owned subsidiary of PNB as a result of the merger of PNB and Allied Banking Corporation (ABC). PNBSB traces its roots from First Malayan Development Bank which ABC bought in 1986 to reinforce its presence in the countryside. In January 17, 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.

PNBSB closed the year 2018 with total resources of P61.8 billion, up by 19.9% from the previous year of P51.6 billion. Total deposits closed the year with P44.4 billion, the bulk of which 82.8% were in high cost funds maintained in Power Saver, Regular Time Deposits and Power Earner 5+1, a special savings account and a short and long term deposits, respectively. This product continues to attract new customers and fresh funds given its competitive pricing versus other banksô equivalent product lines. Regular time deposits had P25.5 billion, Power Earner 5+1 with P8.5 billion and Power Saver had P2.8 billion in deposit portfolio. Other deposit products are regular savings, demand deposit, checks plus and NOW accounts. Cash Card was positioned for those segments of the market demanding a no maintaining balance account required for payroll, transfer of funds for allowances, and even remittances.

Total loan portfolio registered at P52.2 billion by the end of 2018, up by 19.7% from the previous year of P43.6 billion. Of the total loan portfolio, 80.7% comprised of consumer loans which is the thrust of the Bank as the lending arms of PNB, the parent bank, for the consumer loans.

PNBSB posted a net income of P371.7 million in 2018, down by 19.1% from previous year of P459.1 million. Its net interest income of P2.5 billion was up by 27.2% year-on-year while pre-tax profits went down by 9.6% to close at P605.9 million. Return-on-equity stood at 3.16% which was lower by 80 basis points than the previous year. Its Capital Adequacy Ratio (CAR) reached 20.4% and is well above the minimum required by the BSP. PNBSB ended the year with a network of 67 branches strategically located across Metro Manila, Southern & Northern Tagalog Regions, Bicol, Western Visayas and Northern Mindanao.

PNB General Insurers Co., Inc. (PNBGen) is a subsidiary of the Bank established in 1991. It is a non-life insurance company that offers coverage for Fire and Allied Perils, Marine, Motor Car, Aviation, Surety, Engineering, Accident Insurance and other specialized lines. PNBGen is a dynamic company providing and continuously developing a complete range of highly innovative products that will provide total protection to its customers at competitive terms. It started operations with an initial paid-up capital of P13 million. As of December 31, 2018, PNBGenồs paid-up capital was P912.6 million, one of the highest in the industry. Total assets reached P8.2 billion with a total net worth of P984.7 million.

For the year ended December 31, 2018, the company recorded a net loss of P223.3 million from a net income of P69.5 million in 2017.

PNB Capital and Investment Corporation (PNB Capital), a wholly-owned subsidiary of the Bank, is licensed by the SEC to operate as an investment house with a non-quasi-banking license. It was incorporated on July 30, 1997 and commenced operations on October 8, 1997.

As of December 31, 2018, PNB Capital had an authorized capital of P1 billion equivalent to 10,000,000 shares with a par value of P100.00 per share and a paid-up capital of P850 million equivalent to 8,500,000 shares with a par value of P100.00 per share. Its principal business is to provide investment banking services which include debt and equity underwriting, private placement, loan arrangement, loan syndication, project financing and general financial advisory services, among others. The company is authorized to buy and sell, for its own account, securities issued by private corporations and the Philippine Government. PNB Capital distributes its structured and packaged debt and equity securities by tapping banks, trust companies, insurance companies, retail investors, brokerage houses, funds and other entities that invest in such securities.

Investment banking is a highly regulated industry. Regulatory agencies overseeing PNB Capital include the BSP, SEC, Bureau of Internal Revenue (BIR), as well as several affiliates, support units and regulatory commissions of these entities.

The primary risks of the company include underwriting, reputational and liability risks. First, underwriting risk pertains to the risk of marketồs non-acceptance of securities being offered and underwritten by PNB Capital. In such scenario, the company would have to purchase the offered securities for its own account. Second, reputational risk arises from the possibility that the company may not be able to close mandated deals as committed. Third, liability risk refers to the risk being held liable for any losses incurred by the client due to non-performance of committed duties or gross negligence by the company. These primary risks are addressed by:

- ensuring that the staff is well-trained and capable, at the functional and technical level, to provide the services offered;
- understanding the clientsô specific needs and goals;
- clarifying and documenting all goals, methodologies, deliverables, timetables and fees before commencing on a project or engagement and including several indemnity clauses to protect PNB Capital from being held liable for actions and situations beyond its control. These indemnity clauses are revised and improved upon after each engagement, as and when new protection clauses are identified; and
- all transactions are properly documented and approved by the Investment Committee and/or BOD.

As of December 31, 2017, PNB Capitalồs total assets and total equity stood at P1.6 billion and P1.5 billion, respectively. Its net income for the year ended December 31, 2018 was P90.8 million.

PNB-IBJL Leasing and Finance Corporation (formerly Japan-PNB Leasing and Finance Corporation), was incorporated on April 24, 1996 under the auspices of the Provident Fund of the Bank as PF Leasing and Finance Corporation. It was largely inactive until it was used as the vehicle for the joint venture between the Bank (60%), IBJ Leasing Co Ltd., Tokyo (35%), and Industrial Bank of Japan, now called Mizuho Corporate Bank (5%). The corporate name was changed to Japan-PNB Leasing and Finance Corporation and the joint venture company commenced operations as such in February 1998.

On January 31, 2011, PNB increased its equity interest in JPNB Leasing from 60% to 90%. The Bankôs additional holdings were acquired from minority partners, IBJ Leasing Co., Ltd. (IBJL) and Mizuho Corporate Bank, which divested their 25% and 5% equity interests, respectively. IBJL remains as an active joint venture partner with a 10% equity interest.

PNB-IBJL Leasing and Finance Corporation operates as a financing company under R.A. No. 8556 (the Financing Company Act of 1998). Its major activities are financial lease (direct lease, sale-leaseback, lease-sublease and foreign currency leasing), operating lease (through wholly-owned subsidiary, PNB-IBJL Equipment Rentals Corporation*)*, term loans (for productive capital expenditures secured by chattel mortgage), receivable discounting (purchase of short-term trade receivables and installment papers) and Floor Stock Financing (short-term loan against assignment of inventories, e.g., motor vehicles).

Majority of the principal products or services are in peso leases and loans. Foreign currency (USD and JPY) leases and loans are mostly funded by IBJL.

On April 3, 2014, the PNB-IBJL Leasing and Finance Corporation's BOD and stockholders approved the increase of the companyôs authorized capital from P150 million to P1.0 billion, equivalent to 10 million shares with a par value of P100.00 per share, in preparation for the declaration of stock dividends. On June 27, 2014, PNB-IBJL Leasing and Finance Corporationôs BOD approved the declaration of 2 shares to 1 share stock dividends to stockholders of record as of June 30, 2014.

On November 28, 2014, PNB and IBJL entered into a Share Sale and Purchase Agreement covering the buy back by IBJL from PNB of 15% equity ownership in Japan-PNB Leasing with a closing date of January 30, 2015.

On January 13, 2015, the SEC approved the increase in its authorized capital stock from P150.0 million equivalent to 1.5 million shares with a par value of P100.00 per share to P1.0 billion equivalent to 10 million shares with a par value of P100.00 per share. Subsequently, the stock dividends declaration was implemented with the issuance of 300,000 new shares on January 23, 2015.

On January 30, 2015, the buyback of the 15% equity of Japan-PNB Leasing by IBJL from PNB was consummated, resulting to an equity ownership as follows: PNB - 75% and IBJL - 25%.

On March 27, 2015, the SEC approved the change of name of Japan-PNB Leasing and Finance Corporation to PNB-IBJL Leasing and Finance Corporation.

On December 15, 2017, the PNB's BOD approved additional capital infusion of up to P400 million to PNB-IBJL Leasing and Finance Corporation. The BSP approved on February 26, 2018 the additional capital infusion of P400 million to PNB-IBJL Leasing and Finance Corporation. PNB paid the P400 million additional capital infusion on April 6, 2018.

On August 29, 2018, PNB and IBJL entered into a Share Sale and Purchase Agreement covering the buyback by IBJL from PNB of the 25% share or P100 million on the additional capital infusion of P400 million.

As of December 31, 2018, PNB-IBJL Leasing and Finance Corporationôs consolidated total assets and total equity stood at P5.7 billion and P727.6 million, respectively. Its consolidated net income for the year ended December 31, 2018 was P45.9 million.

PNB-IBJL Equipment Rentals Corporation (formerly Japan-PNB Equipment Rentals Corporation**)** is a wholly-owned subsidiary of PNB-IBJL Leasing and Finance Corporation. It was incorporated in the Philippines on July 3, 2008 as a rental company and started commercial operations on the same date. It is engaged in the business of renting all kinds of real and personal properties.

On March 11, 2015, the SEC approved the change of name from Japan-PNB Equipment Rentals Corporation to PNB-IBJL Equipment Rentals Corporation.

As of December 31, 2018, it had a paid-up capital of P40.0 million and total capital of P84.7 million. Its total assets and net income for the year ended December 31, 2018 were P931.4 million and P15.0 million, respectively.

Allied Leasing and Finance Corporation (ñALFCò) became a majority-owned (57.21%) subsidiary of PNB by virtue of the merger between PNB and ABC in February 9, 2013. It was incorporated on December 10, 1978. The company is authorized by the SEC to operate as a financing company in accordance with the provisions of R.A. No. 5980, as amended by R.A. 8856, otherwise known as the Financing Company Act. On December 18, 2017, the SEC approved the dissolution of ALFC. Liquidating dividends amounting to P84.0 million were returned to PNB last April 3, 2018.

PNB Holdings Corporation (PHC), a wholly-owned subsidiary of the Bank, was established on May 20, 1920 as Philippine Exchange Co., Inc. The SEC approved the extension of the corporate life of PHC for another 50 years effective May 20, 1970. In 1991, it was converted into a holding company and was used as a vehicle for the Bank to engage into the insurance business.

As of December 31, 2018, PHC had an authorized capital of P500.0 million equivalent to 5,000,000 shares with a par value of P100.00 value per share. As of December 31, 2018, total paid-up capital of PHC was P255.1 million while additional paid-in capital was P3.6 million, while total assets and total capital were P395.8 million and P395.4 million, respectively, and net income was P0.4 million. PHC owns 34.25% of PNBGen.

PNB Securities, Inc. (PNBSec) was incorporated in January 18, 1991 and is a member of the PSE. As a securities dealer, it is engaged in the buying and selling of securities listed in the PSE either for its own account as Dealer or for account of its customers as Broker. It is a wholly-owned subsidiary of PNB and ranked 35th among 184 active members in the PSE with 0.42% market share in terms of value turn-over as of December 31, 2018.

a. As of December 31, 2018, it has a total paid-up capital of P100.0 million with total assets and total capital of P258.8 million and P152.0 million, respectively.
b. PNBSec has no bankruptcy, receivership, or similar proceedings in the past three (3) years.
c. There are no material reclassification, merger, consolidation, or purchase/sale of a significant asset not in the ordinary course of business.

Relative to its competitors, the companyôs strength lies in the fact that it is backed up by PNB, a universal bank and considered one of the top commercial banks in the country today.

Inherent to all engaged in the stockbrokerage business, the company is exposed to risks like Operational Risk, Position Risk, Counterparty Risk and Large Exposure Risk. To address, identify, assess and manage the risks involved, the company submits monthly to the SEC the required Risk Based Capital Adequacy (RBCA) Report which essentially measures the brokerôs net liquid capital considering said risks. Further, the Bankôs Risk Management Group is overseeing/ monitoring PNBSecôs risk management/exposures.

Bulawan Mining Corporation (BUMICO), a wholly-owned subsidiary of the Bank, was incorporated in the Philippines on March 12, 1985. It is authorized to explore and develop land for mining claims and sell and dispose such mining claims.

On September 28, 2018, PNBôs BOD approved the sale of its 100% shareholdings in BUMICO to MacroAsia Mining Corporation (MMC). The sale was executed last November 15, 2018.

PNB Management and Development Corporation, a wholly-owned subsidiary of the Bank, was incorporated in the Philippines on February 6, 1989 primarily to own, acquire, hold, purchase, receive, sell, lease, exchange, mortgage, dispose of, manage, develop, improve, subdivide, or otherwise deal in real estate property, of any type and/or kind of an interest therein, as well as build, erect, construct, alter, maintain, or operate any subdivisions, buildings and/or improvements. It is also authorized to explore and develop land mining claims and to sell/dispose such mining claims.

On September 28, 2018, the Bankôs BOD approved the sale of its 100% shareholdings in PNB MADECOR to MMC. Documents are being processed to effect the sale.

Foreign Subsidiaries:

Allied Commercial Bank (ACB), a 99.04% owned subsidiary of PNB and formerly known as Xiamen Commercial Bank, was established in Xiamen in September 1993 as a foreign owned bank. It obtained its commercial banking license in July 1993 and opened for business in October 1993.

ACB maintains its head office in Xiamen, in Fujian Province, a southeastern commercial city of China. In 2003, ACB opened a branch in the southwestern city of Chongqing.

In December 2015, Chinaœs banking regulator, the China Banking Regulatory Commission (CBRC), Xiamen Office approved ACBœs application to engaged in CNY-denominated business for all clients except citizens within the territory of China.

In April 2016, ACB completed the preparatory work for CNY business and CBRC Xiamen Office issued the opinions on passing the inspection on CNY business to ACB.

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

The Bank formally launched its CNY business on April 12, 2017.

Allied Banking Corporation (Hong Kong) Limited (ABCHKL) is a private limited company incorporated in Hong Kong in 1978 and is licensed as a restricted license bank under the Hong Kong Banking Ordinance. By virtue of the merger between PNB and ABC in February 2013, PNB now owns 51% of ABCHK. 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 (ñABCHKL Groupò). The subsidiary, ACR Nominees Limited, is a private limited company incorporated in Hong Kong which provides non-banking general services to its customers.

There were no significant changes in the nature of the ABCHKL Groupœs principal activities during the year.

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 December 21, 1979. It changed its name to PNB International Investment Corporation on December 1, 1999.

PNB IIC owns PNB Remittance Centers, 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 December 31, 2017, PNB RCI has 15 branches in 5 states. PNB RCI owns PNB RCI Holding Company, Ltd. which was incorporated in California on August 18, 1999 and PNB Remittance Company, Nevada (PNB RCN) which was incorporated in Nevada on June 12, 2009. PNB RCN 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 April 26, 2000. PNB RCC has 7 branches and 1 sub-branch as of year-end 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 PNB RCN is regulated by the Nevada Department of Business and Industry ï 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.

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

Philippine National Bank (Europe) Plc (PNB Europe) was originally set up as a PNB London Branch in 1976. In 1997, it was converted as wholly-owned subsidiary bank of PNB, incorporated in the United Kingdom with a full banking license. It is also authorized to provide cross-border services to 19 members states of European Economic Area (EEA). In 2007, PNB Europe opened its branch in Paris, France, where it is engaged in remittance services. The branch, however, ceased operations at the close of business hours last August 31, 2017. PNB Europe is regulated by the Financial Conduct Authority and authorized and regulated by the Prudential Regulation Authority.

In April 2014, Allied Bank Phils (UK). was merged with PNBE Plc.

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 July 1, 2010, PNB Global took the remittance business of PNB Remittance Center, Ltd. with the former as the surviving entity. It now operates as a lending and remittance company. As of December 31, 2018, it maintains 7 offices in Hong Kong. Its remittance business is regulated by the Customs and Excise Department of Hong Kong.

Item 2. Directors and Executive Officers

*Please refer to pages **11 to 37** of the Information Statement.*

Item 3. Audited Consolidated Financial Statements

The Audited Financial Statements (AFS) of the Group, which comprise the Statements of Financial Position as at December 31, 2018 and 2017 and January 1, 2017, and the Statements of Income, Statements of Comprehensive Income, Statements of Changes in Equity and Statements of Cash Flows for each of the 3 years in the period ended December 31, 2018 and a Summary of Significant Accounting Policies and other explanatory information, Notes to Financial Statements, Independent Auditorsô Report and the Statement of Managementòs Responsibility are filed as part of the Bankòs SEC 17-A report for the year ended December 31, 2018.

Item 4. Information on Independent Accountant, Changes in Accounting Principles and Other Related Matters

A. Audit and Other Related Fees

- The following are the engagement fees billed and paid for each of the last two fiscal years for the professional services rendered by the Bankòs external auditor, SyCip Gorres Velayo and Co. (inclusive of out-of-pocket expenses (OPE) and Value Added Tax):

2018

Nature of service	Description	Professional fee (in P million)
Audit	The Bankòs Consolidated and Separate Financial Statements as of December 31, 2018	22.054
Review	Interim condensed Consolidated Statement of Financial Position of PNB and its Subsidiaries as of September 30, 2018	2.200
Due diligence	Issuance of Comfort Letter related to the proposed	2.750

	offering by PNB of Long-Term Negotiable Certificates of Deposit (1st tranche for 2018-2019)	
Due diligence	Issuance of Comfort Letters related to the issuance of Notes from the Medium Term Note Programme of the Bank.	5.390
Accounting advisory	Advisor for the preparation for the adoption of PFRS 9, 15 and 16	3.385
Taxation compliance	Tax compliance advisory	0.401
IT assurance	Vulnerability Assessment and Penetration Testing	0.246
TOTAL		**36.426**

2017

Nature of service	Description	Professional fee (in P million)
Audit	The Bankôs Consolidated and Separate Financial Statements as of December 31, 2017	17.450
Review	Interim Condensed Consolidated Statement of Financial Position of PNB and its Subsidiaries as of June 30, 2017	2.420
Due diligence	Issuance of Comfort Letter related to the proposed offering by PNB of Long-Term Negotiable Certificates of Deposit (2nd tranche 2017-2018).	2.200
Review	Interim Condensed Consolidated Statement of Financial Position of PNB and its Subsidiaries as of March 31, 2017	2.420
Due diligence	Issuance of Comfort Letter related to the proposed offering by PNB of Long-Term Negotiable Certificates of Deposit (1st tranche 2017-2018).	2.200
Accounting advisory	PFRS 9 Classification & Measurement	5.240
TOTAL		**31.93**

There are no fees billed and paid for the last 3 years for tax accounting performed by the Bankôs external auditor.

The approval of audit engagement fees is based on the Bankôs existing Manual of Signing Authority.

B. Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the amendments and improvements to Philippine Financial Reporting Standards (PFRS) which are effective beginning on or after January 1, 2018. The changes in the accounting policies that have or did not have any significant impact on the financial position or performance of the Group are discussed under Note 2 (Summary of Significant Accounting Principles) of the AFS of the Group.

C. Disagreements with Accountants

The Group had no disagreement with its auditors on any matter of accounting principles or practices, financial statements disclosure, or auditing scope procedure.

In compliance with SEC Rule 68, as amended, and BSP Circular 660, Series of 2009, the Bank reports no change to the appointed external auditor of the Bank for 2017, subject to BACC endorsement, BOD approval and stockholdersô ratification. Ms. Janeth Nunez Javier, one of the more experienced audit partners in the banking industry, was the lead audit partner for the year 2018.

Item 5. Management's Discussion and Analysis of Financial Condition and Results of Operations

The financial statements have been prepared in accordance with PFRS.

2018 vs 2017

The Groupôs consolidated total assets stood at P983.7 billion as of December 31, 2018, 17.6% or P147.5 billion higher compared to P836.2 billion reported as of December 31, 2017. Changes (of more than 5%) in assets were registered in the following accounts:

- Due from Bangko Sentral ng Pilipinas, Due from Other Banks and Interbank Loans Receivable as of December 31, 2018 went down by P6.0 billion, P1.5 billion and P1.6 billion from P108.7 billion, P22.0 billion and P12.8 billion, respectively as of December 31, 2017.

- Balance of Securities Held Under Agreements to Resell as of December 31, 2018 of P20.7 billion, which represents lending transactions of the Bank with the BSP, increased by P6.1 billion compared to P14.6 billion as of December 31, 2017.

  Please refer to the statements of cash flow of the Bankôs 2018 AFS for more information relating to cash and cash equivalents.

- Financial Assets at Fair Value Through Profit or Loss at P10.0 billion was higher by P7.1 billion from P2.9 billion attributed mainly to the purchases of various investment securities, net of sold and matured securities.

- Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) was lower at P51.9 billion as of December 31, 2018, a decline of P17.9 billion or by 25.7% from the P69.8 billion level as of December 31, 2017 due to sale and maturities of various investment securities. FVOCI is presented under Available for Sale Investments in the December 31, 2017 AFS of the Bank.

- Financial Assets at Amortized Cost (FAAC) was higher at P99.8 billion as of December 31, 2018, an increase of P73.0 billion from the P26.8 billion level as of December 31, 2017 due to acquisitions of various investment securities net of matured accounts. FAAC is presented under Held to Maturity Investments in the December 31, 2017 AFS of the Bank.

- Loans and Receivables is at P581.8 billion or P79.7 billion higher than the P502.1 billion as of December 31, 2017 level mainly due to loan releases in the current year to various borrowers, net of paydowns.

- Investment Properties decreased by P2.1 billion from P15.6 billion as of December 31, 2017 to P13.5 billion as of December 31, 2018 due mainly to the disposal of P2.1 billion worth of foreclosed properties.

- On April 26, 2018, the BOD of PNB and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB General Insurance (PNB Gen), a subsidiary, for shares in Allied Bankers Insurance Corporation (ABIC), an affiliate. As a result, the Group reclassified all the assets and liabilities of PNB Gen to óAssets of disposal group classified as held for saleô and óLiabilities of disposal group classified as held for saleô, respectively, in the consolidated statement of financial position.

- Other Assets amounted to P6.4 billion as of December 31, 2018 or a decline of P2.5 billion from P8.9 billion as of December 31, 2017.

Consolidated liabilities increased by 19.3% or P138.2 billion from P716.4 billion as of December 31, 2017 to P854.6 billion as of December 31, 2018. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P733.2 billion, which was P95.3 billion higher compared to its year-end 2017 level of P637.9 billion. Savings deposits, Demand deposits and Time deposits went up by P50.1 billion, P27.5 billion and P17.7 billion, respectively.

- Bills and Acceptances Payable increased by P26.2 billion, from P43.9 billion to P70.1 billion, mainly accounted for by borrowings from other banks.

- Bonds Payable amounted to P15.6 billion as of December 31, 2018 representing outstanding borrowings under the Euro Medium Term Note programme of the Bank.

- Financial liabilities at Fair value through profit or loss increased by P127 million from the 2017 yearend balance of P344 million.

- Accrued Taxes, Interest and Other Expenses was higher by P0.8 billion, from P5.3 billion in December 31, 2017 to P6.2 billion as of December 31 2018.

- Income Tax Payable decreased by P0.1 billion from P1.0 billion to P0.9 billion as of December 31, 2017 and December 31, 2018, respectively.

Total equity accounts stood at P129.1 billion from P119.7 billion as of December 31, 2017, or an improvement of P9.4 billion attributed mainly to the following:

- current yearꞌs net income attributable to Equity Holders of the Bank of ₱9.5 billion
- additional translation gain of P0.3 billion
- remeasurement gain retirement plan P0.4 billion
- increase in non-controlling interest of P0.2 billion
- net unrealized gain of FVOCI/AFS of P0.6 billion

These were partly offset by additional unrealized losses on mark to market of Available for sale investments of P1.6 billion.

2017 vs. 2016

The Groupꞌs consolidated total assets stood at P836.2 billion as of December 31, 2017, 10.9% or P82.2 billion higher compared to P754.0 billion reported as of December 31, 2016. Changes (of more than 5%) in assets were registered in the following accounts:

- Cash and Other Cash Items and Interbank Loans Receivable registered increases as of December 31, 2017, by P1.4 billion and P5.0 billion, respectively from P11.0 billion, and P7.8 billion, respectively as of December 31, 2016. On the other hand, Due from Bangko Sentral ng Pilipinas and Due from Other Banks decreased by P18.6 billion and by P0.7 billion from P127.3 billion and P22.7 billion, respectively, as of December 31, 2016.

- Balance of Securities Held Under Agreements to Resell as of December 31, 2017 of P14.6 billion, which represents lending transactions of the Bank with the BSP, was higher by P12.6 billion compared to P2.0 billion as of December 31, 2016.

- Financial Assets at Fair Value Through Profit or Loss at P2.9 billion went up by 50.6% or P1.0 billion from P1.9 billion attributed mainly to the purchases of various investment securities, net of sold and matured securities.

- Available for Sale Investments and Held to Maturity Investments were higher at P69.8 billion and P26.8 billion, respectively, as of December 31, 2017, translating to an increase of P2.5 billion, or by 3.7%, and P2.6 billion, or by 10.9%, from the P67.3 billion and P24.2 billion level, respectively, as of December 31, 2016 due to purchases of various investment securities, net of disposals and maturities.

- Loans and Receivables registered an increase at P502.1 billion or P73.9 billion higher than the P428.2 billion December 2016 level mainly due to loan releases, net of pay downs, mainly to various corporate and retail borrowers.

- Investment Properties decreased by P0.7 billion from P16.3 billion as of December 31, 2016 to P15.6 billion as of December 31, 2017, mainly due to disposal of foreclosed properties.

- Intangible Assets increased by P0.8 billion from P2.6 billion in December 31, 2017 mainly due to the capitalization of core banking integration costs and other software acquisitions.

- Deferred Tax Assets and Other Assets were higher by P0.2 billion and P1.8 billion from P1.5 billion to P1.7 billion and P7.1 billion to P8.9 billion, respectively. Increase in Other Assets was due to increases in creditable withholding taxes, deferred charges and outstanding clearing items received as of year-end.

Consolidated liabilities went up by 11.2% or P72.4 billion from P644.0 billion as of December 31, 2016 to P716.4 billion as of December 31, 2017. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P637.9 billion, which was P67.4 billion higher compared to its year-end 2016 level of P570.5 billion due to increases in Demand deposits by P8.2 billion, Savings deposits by P10.4 billion, Time deposits by P41.8 and LTNCD by 7.0 billion.

- Bills and Acceptances Payable increased by P8.0 billion, from P35.9 billion to P43.9 billion, mainly accounted for by borrowings from other banks.

- Accrued Expenses increased by P0.4 billion from P4.9 billion as of December 31, 2016 to P5.3 billion as of December 31, 2017.

- Financial liabilities at Fair value through profit or loss was higher by P110 million from the 2016 yearend balance of P0.2 billion.

- PNB exercised the Call Option on its P3.5 billion 6.75% Lower Tier 2 Unsecured Subordinated Notes on May 9, 2017.

- Income Tax Payable increased by P0.8 billion from P0.2 billion to P1.0 billion coming from income tax provisions for the year.

- Other Liabilities decreased by P0.9 billion, from P28.8 billion in December 31, 2016 to P27.9 billion as of December 31, 2017.

Total equity accounts stood at P119.7 billion from P110.0 billion as of December 31, 2016, or an improvement of P9.8 billion attributed to the current periodǒs net income of P8.2 billion, improvement/increase in Net Unrealized Loss on Available-for-Sale Investments, Accumulated Translation Adjustments and Remeasurement Losses on Retirement Plan.

<u>2016 vs. 2015</u>

The Groupǒs consolidated assets reached at P754.0 billion as of December 31, 2016, 10.9% or P74.0 billion higher compared to the P680.0 billion reported as of December 31, 2015. Changes (of more than 5%) in assets were registered in the following accounts:

- Due from Bangko Sentral ng Pilipinas, Due from Other Banks and Interbank Loans Receivable also registered increases as of December 31, 2016, by P45.9 billion, P4.4 billion and P2.0 billion, respectively from P81.4 billion, P18.3 billion and P5.8 billion, respectively as of December 31, 2015. On the other hand, Cash and Other Cash Items decreased by P4.2 billion from P15.2 billion as of December 31, 2015.

- Loans and Receivables registered an increase at P428.2 billion or P62.1 billion higher than the P366.1 billion as of December 31, 2015 level mainly due to loan releases in the current year to various corporate borrowers.

- Financial Assets at Fair Value Through Profit or Loss at P1.9 billion as of December 31, 2016 was lower by 57.8% or P2.6 billion from P4.5 billion in 2015 attributed mainly to the sale of various investment securities.

- Securities Held Under Agreements to Resell as of December 31, 2016 of P2.0 billion, which represents lending transactions of the Bank with the BSP, is lower by P12.6 billion compared to the P14.6 billion as of December 31, 2015.

- Investment Properties increased by P3.1 billion from P13.2 billion as of December 31, 2015 to P16.3 billion as of December 31, 2016 due to the following transactions:

  - reclassification of P3.2 billion Allied Bank Center from Property and Equipment
  - reclassification of P2.0 billion of other bank properties
  - disposal of P1.8 billion worth of foreclosed properties.
  - reclassification of P0.6 billion to Loans and Receivables

- Property and Equipment decreased by P4.0 billion from P22.1 billion as of December 31, 2015 to P18.1 billion as of December 31, 2016 mainly due to the reclassification of certain properties to Investment Properties as discussed in previous paragraph.

- Assets of Disposal Group Classified as Held for Sale

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

  - Allianz 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 ñAllianz PNB Life Insurance, Inc.ò;
  - A 15-year distribution agreement which will provide Allianz ï an exclusive access to the branch network of the Bank and PNBSB.

  This required the reclassification of the accounts of PNB Life in the December 31, 2015 Financial Statement as assets for distribution. The necessary regulatory approvals have been obtained and the above sale agreement was implemented on June 6, 2016.

- The P2.5 billion Equity Investments pertains to the remaining investment of the Bank in Allianz PNB Life Insurance, Inc. now accounted for as an Investment in Associate as of December 31, 2016.

- Intangible Assets, Deferred Tax Assets and Other Assets were higher by P0.2 billion, P0.3 billion and P0.3 billion from P2.4 billion to P2.6 billion, P1.2 billion to P1.5 billion and P6.8 billion to P7.1 billion, respectively.

Consolidated liabilities went up by 12.0% or P68.8 billion from P575.2 billion as of December 31, 2015 to P644.0 billion as of December 31, 2016. Major changes in liability accounts were as follows:

- Deposit liabilities totaled P570.5 billion, which was P84.6 billion higher compared to its year-end 2015 level of P485.9 billion. Increases were registered in Demand, Savings, Time and LTNCD by P7.3 billion, P48.9 billion and by P23.0 billion and P5.4 billion, respectively.

- Bills and Acceptances Payable increased by P10.1 billion, from P25.8 billion to P35.9 billion, mainly accounted for by various borrowings from other banks.

- Financial liabilities at Fair value through profit or loss was higher at P0.2 billion as of December 31, 2016 from last yearôs P0.1 billion.

- Other Liabilities increased by P2.8 billion from P26.0 billion to P28.8 billion.

- Accrued Expenses decreased by P1.0 billion from P5.9 billion as of December 31, 2015 to P4.9 billion as of December 31, 2016.

- Subordinated Debt decreased from P10.0 billion as of December 31, 2015 to P3.5 billion as of December 31, 2016. On June 16, 2016, PNB exercised its Call Option on its P6.5 billion 6.75% Lower Tier 2 Unsecured Subordinated Notes.

- Decrease in Liabilities of Disposal Group Classified as Held for Sale was also attributed to sale of 51% equity in PNB Life as explained above under Assets Held for Distribution account.

Total equity accounts stood at P110.0 billion from P104.8 billion as of December 31, 2015, or higher by P5.2 billion in 2016, attributed to the current year's net income of P7.2 billion and increases of, P0.3 billion in Accumulated Translation Adjustment and P0.1 billion in Reserves of a Disposal Group Held for Distribution. These were partly offset by the declaration of the P1.3 billion cash dividends in September 2016, decreases of P0.5 billion in remeasurement losses on retirement plan, Net Unrealized Loss on Available for Sale Investments of P0.4 billion and Non-controlling interest by P0.4 billion.

Results of Operations

2018 vs 2017

- For the year ended December 31, 2018, the Bank registered a net income of P9.6 billion, which was P1.4 billion or 17.4% higher than the P8.2 billion net income for the same period last year on account of substantial improvements in core income primarily net interest income and gains from the sale of foreclosed assets.

- Net interest income totaled P27.1 billion, higher by 23.0% or P22.0 billion compared to the same period last year mainly due to the expansion in the loan and investment securities portfolio which accounted for the P7.5 billion and P1.5 billion increase in interest income, respectively. This was partly offset by the decrease in interest income of deposits with banks and others by P0.5 billion. Total interest income increased by 30.6%, or P8.4 billion, from P27.6 billion to P36.0 billion. Total interest expense however, was also higher by 61% at P8.9 billion, or P3.4 billion from P5.5 billion last year.

- Other income increased significantly to P8.4 billion compared to P7.1 billion for the same period last year mainly due to higher net gain on sale or exchange of assets by P1.9 billion and improvement in miscellaneous income by P0.5 billion partly offset by a P0.4 billion decline in trading and investment securities gains and of P0.7 billion decrease in FX gain.

- Net service fees and commission income stood at P3.5 billion, 11.7% or P361 million higher compared the same period last year. The minimal growth was attributed to lower levels of underwriting and investment banking fees.

- Administrative and other operating expenses amounted to P25.5 billion for the year ended December 31, 2018.

- On April 26, 2018, the BOD of PNB and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB General Insurance (PNB Gen), a subsidiary, for shares in ABIC, an affiliate. As a result, the Group reclassified all the assets and liabilities of PNB Gen to "Assets of disposal group classified as held for sale" and "Liabilities of disposal group classified as held for sale", respectively, in the consolidated statement of financial position of the Bank. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 have been re-presented to show the discontinued operations separately from the continued operations.

- Total Comprehensive Income for the year ended December 31, 2018 amounted to P7.8 billion.

2017 vs 2016

- For the year ended December 31, 2017, the Bank registered a net income of P8.2 billion, which was P1.0 billion higher compared to the P7.2 billion net income for the same period last year.

- Net interest income totaled P22.1 billion, higher by 12.8% or P2.5 billion compared to the net interest income for the same period last year mainly due to the expansion in the loan portfolio and income from deposits with banks which accounted for P3.0 billion and P0.7 billion increase in interest income, respectively, and partly offset by the decline in interest on investment securities and interbank loans receivable by P0.1 billion and P0.3 billion, respectively. Total interest income was up by P3.3 billion from P24.3 billion to P27.6 billion from the previous year. Total interest expense, however, was also higher at P5.5 billion or by P0.7 billion from P4.8 billion in 2016.

- Other income was higher by P0.1 billion at P7.1 billion compared to P7.0 billion for the same period last year.

- Net service fees and commission income and net insurance premium were at P3.1 billion and P0.3 billion, respectively, for the year ended December 31, 2017.

- Administrative and other operating expenses amounted to P22.1 billion for the year ended December 31, 2017, which was lower compared to the same period last year mainly due to the decrease in provision for impairment, credit and other losses by P2.3 billion. This was partly offset by increases in Compensation and fringe benefits, Taxes and Licenses, Occupancy and equipment related costs, Depreciation and amortization and miscellaneous expenses by P0.5 billion, P0.3 billion, P0.1 billion, P0.1 billion and P0.2 billion, respectively.

- Reported income from discontinued operations in June 2016 pertains to the income from the 51% ownership interest in PNB Life.

- Total Comprehensive Income for the year ended December 31, 2017 amounted to P9.8 billion, which was P3.1 billion higher compared to the P6.7 billion for the same period last year mainly due to higher remeasurement gains on retirement plan and net income reported in 2017.

2016 vs 2015

- For the year ended December 31, 2016, the Bankôs consolidated net income stood at P7.2 billion, which was P0.9 billion higher compared to the P6.3 billion net income for the same period last year.

- Net interest income totaled P19.6 billion, higher by 10.6% or P1.9 billion compared to the net interest income for the same period last year mainly due to the expansion in the loan portfolio and interbank loans receivable, which accounted for P2.6 billion and P0.6 billion, respectively, and partly offset by the decline in income from deposits with banks and investment securities by P0.2 billion and P0.3 billion, respectively. Total interest income was up by P2.6 billion from P21.7 billion to P24.3 billion. Total interest expense, however, was also higher at P4.8 billion, or by P0.8 billion from P4.0 billion in 2015.

  Other income significantly increased to P7.0 billion from P5.1 billion compared to same period last year mainly due to the P0.9 billion gains from the sale of foreclosed assets and from P0.8 billion and P0.3 billion increases in the Trading and Investment Securities gains and Foreign exchange gains, respectively. Miscellaneous income decreased by P0.2 billion from P1.7 billion in 2015.

- Net service fees and commission income and net insurance premium were at P2.7 billion and P0.3 billion, respectively, for the year ended December 31, 2016.

- Administrative and other operating expenses amounted to P23.1 billion for the year ended December 31, 2016, P4.2 billion higher compared to the same period last year. Increases were registered in provision for impairment, credit and other losses of P2.6 billion mainly due to the reversal of P1.0 billion in 2015 of provision for possible liability in view of a court ruling favorable to the Bank and increases/additional P1.6 billion in provision for impairment and credit losses.

Compensation and fringe benefits, Taxes and Licenses and Miscellaneous Expenses also increased by P1.6 billion.

- Income from discontinued operations in the current year pertains to the net income realized from the sale of 51% interest in PNB Life implemented in June 2016.

- Total Comprehensive Income for the year ended December 31, 2016 amounted to P6.7 billion, which was P0.5 billion higher compared to the P6.2 billion for the same period last year mainly due to the increase in net income of P0.9 billion, net unrealized gain on Available for Sale Securities of P0.4 billion partly offset by decreases in remeasurement gains on retirement plan of P0.5 billion, translation adjustment by P0.4 billion, and P0.1 billion in non-controlling interests.

Key Performance Indicators

- Capital Adequacy/Capital Management

  PNBὂs Capital Management (Sub-Committee of the Asset/Liability Committee) has been created to specifically handle policies and procedures pertaining to the capital planning and assessment as well as possible equity investments of the Bank.

  The Sub-Committee shall be responsible for the following:

  - Determine the appropriate level of capital that will support the attainment of the Bankὂs strategic objectives, meet the minimum regulatory requirements and cover all material risks that the Bank may encounter in the course of its business

  - Periodically monitor and assess the capital ratios of the Bank. Monitoring shall include capital ratios with and without the regulatory stress test prescribed by the regulators, based on both the consolidated and solo financial statements of the Bank.

  - Report to the Asset/Liability Committee (ALCO) the Bankὂs capital ratio and position based the consolidated and solo financial statements on a monthly basis and to the Board ICAAP Steering Committee on a quarterly basis.

  - Inform the ALCO/ Board ICAAP Steering Committee on possible breach of ICAAP capital thresholds, particularly during a period of stress and activating the Bankὂs capital contingency plan, if needed.
    - ➢ The Sub-Committee will evaluate and endorse to the Board ICAAP Steering Committee the options to improve the Bankὂs capital adequacy as provided for in the Capital Contingency Plan.
    - ➢ In case of capital sourcing, the Sub-Committee shall endorse to the Board ICAAP Steering Committee/Board the manner, amount and time period for capital raising.

  - Ensure that the capital ratios resulting from the 3-year strategic business plan under the Bankὂs ICAAP shall meet the minimum regulatory requirement as well as the Bankὂs internal thresholds.
    - ➢ The Sub-Committee shall determine the Bankὂs internal thresholds and shall endorse the same to the Board ICAAP Steering Committee/Board.

  - Undertake the optimal allocation of the capital to the different business groups in accordance with the portfolio diversification policy and subject to the sustainability of earnings, risk weights of assets, among others.

  The Bank and its individual regulatory operations have complied with all externally imposed capital requirements throughout the period.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bankœs compliance with regulatory requirements and ratios is based on the amount of the Bankœs ñunimpaired capitalò (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

As required under BSP Circular 781, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Other minimum ratios include Common Equity Tier (CET) 1 ratio and Tier 1 capital ratios of 6.0% and 7.5%, respectively. A conservation buffer of 2.5%, comprised of CET 1 capital, is likewise imposed.

Banks and their subsidiaries are subject to the following risk-based capital adequacy ratios (CARs):

a. CET 1 ï must be at least 6.0% of risk weighted assets at all time;
b. Tier 1 capital must be at least 7.5% of risk weighted assets at all times; and
c. Qualifying capital (Tier 1 Capital plus Tier 2 Capital) must be at least 10.0% of risk weighted assets at all times.

Qualifying capital consists of the sum of the following elements, net of required deductions:

a. CET 1 capital consists of 1) Paid up common stock that meet the eligibility criteria, b) Common stock dividends distributable, additional paid in capital resulting from the issuance of common stock included in CET 1 capital, Deposits for common stock subscription, Retained earnings, Undivided profits, other comprehensive income (net unrealized gains or losses on AFS and cumulative foreign currency translation), and minority interest on subsidiary banks which are less than wholly-owned

b. Additional Tier 1 capital consists of instruments issued by the Bank that are not included in CET 1 capital that meet the criteria for inclusion in additional tier 1 capital, meet the required loss absorbency features for instrument classified as liabilities and loss absorbency feature at point of non-viability as defined in the BSP guidelines.

c. Tier 2 capital is composed of 1) instruments issued by the Bank (and are not included in AT1 capital) that meet criteria for inclusion in Tier 2 and meet the required loss absorbency feature at point of non-viability as defined in the guidelines, 2) Deposits for subscription of T2 capital, 3) appraisal increment reserves on Bank premises as authorized by the Monetary Board, 4) general loan loss provision, limited to a maximum of 1.00% of credit risk weighted asset, and minority interest in subsidiaries which are less than wholly owned as defined in the guidelines.

A capital conservation buffer of 2.5% of risk weighted assets, comprised of CET 1 capital, shall be required. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down to absorb losses during period of financial and economic stress.

The Groupœs consolidated CAR for combined credit, market and operational risks computed based on BSP Circular No. 781 (for 2014) and BSP Circular No. 538 (for 2013 and 2012) were 14.35%, 15.35%, and 16.65% as of December 31, 2018, 2017 and 2016, respectively, which are all above the minimum 10% required by BSP. For the detailed calculation and discussion kindly refer to Item 1, No. 10 ï Risk Management.

- **Asset Quality**

The Bankœs non-performing loans (gross of allowance for impairment losses) increased to P9.45 billion as of December 31, 2018 compared to P9.0 billion as of December 31, 2017. NPL ratios of the Bank based on BSP guidelines, net of valuation reserves is better than industry average at 0.34% as at December 31, 2018, compared to 0.26% at end of 2017. Gross NPL ratio is at 1.76% at end of 2018 and 2.01% at end of 2017.

- **Profitability**

	Year Ended 12/31/18	12/31/17
Return on equity (ROE)[1/]	7.7%	7.1%
Return on assets(ROA)[2/]	1.1 %	1.0 %
Net interest margin(NIM)[3/]	3.3 %	3.1 %

[1/]Net income divided by average total equity for the period indicated
[2/]Net income divided by average total assets for the period indicated
[3/]Net interest income divided by average interest-earning assets

- **Liquidity**

The ratio of liquid assets to total assets as of December 31, 2018 was 23.7% compared to 29.1% as of December 31, 2017. Ratio of current assets to current liabilities was at 54.4% as of 31 December 2018 compared to 62.6% as of December 31, 2017.

- **Cost Efficiency**

The ratio of total operating expenses (excluding provision for impairment, credit and other losses) to the total operating income resulted to 61.0% for the year ended December 2018 compared to 65.2% for the same period last year.

Known trends, demands, commitments, events and uncertainties

The Bank presently has more than adequate liquid assets to meet known funding requirements and there are no known trends, demands, commitments, events or uncertainties that will have a material impact on the Bankøs liquidity.

Events that will trigger direct or contingent financial obligation

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 disclosures would prejudice the Groupøs 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.

Material off-balance sheet transactions, arrangement or obligation

The summary of material off-balance sheet transactions, arrangement or obligations (including contingent obligations) is discussed in Note 35 (Provisions, Contingent Liabilities and Other Commitments) of the accompanying AFS of the Group for the year ended 31 December 2018.

Capital Expenditures

In line with the Bank's digital transformation initiatives and enhancing customer banking experience strategy, technology upgrades and branch physical infrastructure will account for the bulk of the Bankøs capital expenditures for 2018. Capital expenditures will be funded from the proceeds of the sale of acquired assets and funds generated from the Bank's operations.

Significant Elements of Income or Loss

Significant elements of the Bankôs revenues consist mainly of net interest margin, service fees, net trading gains and gains from disposal of reacquired properties while the Bankôs expenses consist mainly of staff cost, depreciation and amortization of assets and provisions for probable losses. Please refer to the discussions on the results of operations for further details.

Seasonal Aspects

There was no seasonal aspect that had a material effect on the Bankôs financial condition or results of operations.

Item 6. Market Price, Holders and Dividends

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders

1. Market Price

PNBôs common shares are listed and traded at the PSE. The high and low sales prices of PNB shares for each quarter for the last two fiscal years are as follows:

	2016		2017		2018	
	High	Low	High	Low	High	Low
Jan ï Mar	53.90	43.00	61.00	53.00	59.15	53.80
Apr ï Jun	59.85	46.45	71.00	54.90	56.00	47.95
Jul ï Sep	64.75	56.35	68.40	59.15	49.90	43.00
Oct ï Dec	58.90	54.15	60.20	55.05	44.60	38.95

The trading price of each PNB common share as of February 28, 2019 was P50.00.

2. Holders

The Bank has 36,887 stockholders as of February 28, 2019. The top twenty holders of common shares, the number of shares held, and the percentage to total shares outstanding held by each are as follows:

No.	Stockholders	Common Shares/	Percentage to Total Outstanding Capital Stock
1	PCD Nominee Corporation (Filipino)	120,516,154	9.6479325829
2	Key Landmark Investments, Ltd.	109,115,864	8.7352812437
3	PCD Nominee Corporation (Non-Filipino)	96,026,156	7.6873833800
4	Caravan Holdings Corporation	67,148,224	5.3755576884
5	Solar Holdings Corporation	67,148,224	5.3755576884
6	True Success Profits Ltd.	67,148,224	5.3755576884
7	Prima Equities & Investments Corporation	58,754,696	4.7036129774
8	Leadway Holdings, Inc.	53,470,262	4.2805670928
9	Infinity Equities, Inc.	50,361,168	4.0316682663
10	Pioneer Holdings Equities, Inc.	28,044,239	2.2450843163
11	Multiple Star Holdings Corporation	25,214,730	2.0185676946
12	Donfar Management Ltd.	25,173,588	2.0152740677
13	Uttermost Success, Ltd.	24,752,272	1.9815455738

14	Mavelstone Int'l Ltd.	24,213,463	1.9384111662
15	Kenrock Holdings Corporation	21,301,405	1.7052860761
16	Fil-Care Holdings, Inc.	20,836,937	1.6681030446
17	Fairlink Holdings Corporation	20,637,854	1.6521654354
18	Purple Crystal Holdings, Inc.	19,980,373	1.5995307292
19	Kentron Holdings & Equities Corporation	19,944,760	1.5966797270
20	Fragile Touch Investment, Ltd.	18,581,537	1.4875467754

3. Dividends

The Bankôs ability to pay dividends is contingent on its ability to set aside unrestricted retained earnings for dividend distribution. In addition, the Bankôs declaration of dividends, including computation of unrestricted retained earnings, is subject to compliance with certain rules and regulations prescribed by the BSP as provided under the Manual of Regulations for Banks (MORB) and subject to compliance with such financial regulatory requirements as may be applicable to the Bank at the time of such declaration.

PNB has adopted the following general policy on the declaration of dividends:

> *"Dividends shall be declared and paid out of the surplus profits of the Bank at such times and in such amounts as the Board of Directors may determine in accordance with the provisions of law and the regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC), subject to compliance with such financial regulatory requirements as may be applicable to the Bank."*

4. Recent Sales of Unregistered or Exempt Securities, Including Recent Issuance of Securities Constituting an Exempt Transaction

On August 4, 2015, the SEC issued the Certificate of Permit to Offer Securities for Sale authorizing the sale of 423,962,500 common shares of the Bank with a par value of P40.00 per share. The Certificate covers the shares to be issued to the shareholders of ABC pursuant to the merger of the Bank and ABC which was approved by the SEC on January 17, 2013. The application for listing of the said Shares was already filed with the PSE.

5. Computation of Public Ownership

As of December 31, 2018, PNBôs public ownership level is 21.03%, which more than complies with the minimum percentage of 10% for listed companies, in compliance with the public ownership requirement of the PSE.

B. Description of PNB's Securities

- As of February 28, 2019, PNBôs authorized capital stock amounted to P70,000,000,040.00 divided into 1,750,000,001 common shares having a par value of P40.00 per share.

- The total number of common shares outstanding as of February 28, 2019 is 1,249,139,678. This includes the 423,962,500 common shares issued relative to the merger of PNB and ABC.

- As of February 28, 2019, a total of 1,152,944,959 common shares (or 92.30%) are held by Filipino-Private Stockholders while the remaining 96,194,719 common shares (or 7.70%) are held by Foreign-Private Stockholders. PNB has an outstanding capital of P49,965,587,120.00.

- The Bankôs stockholders have no pre-emptive right to subscribe to any new or additional issuance of shares by the Bank, regardless of the class of shares, whether the same are issued from the Bankôs unissued capital stock or in support of an increase in capital (*Article Seven of PNB's Amended Articles of Incorporation*).

- At each meeting of the stockholders, every stockholder entitled to vote shall be entitled to one (1) vote for each share of stock standing in his name in the books of the Bank at the time of the closing of the transfer books for such meeting or on the record date fixed by the Board of Directors (*Section 4.9 of PNB's Amended By-Laws*).

- Section 23 of the Revised Corporation Code of the Philippines provides that ñ *x x x stockholders entitled to vote shall have the right to vote the number of shares of stock standing in their own names in the stock books of the corporation at the time fixed in the bylaws or where the bylaws are silent, at the time of the election. The said stockholder may: (a) vote such number of shares for as many persons as there are directors to be elected; (b) cumulate said shares and give one (1) candidate as many votes as the number of directors to be elected multiplied by the number of the shares owned; or distribute them on the same principle among as many candidates as may be seen fit: x x x"*

Item 7. Discussion on Compliance with Leading Practices on Corporate Governance

Please refer to pages 41 to 53 of the Information Statement.

Item 8. Undertaking

The Bank shall, on written request and without charge, provide stockholders a copy of the Annual Report on SEC Form 17-A. Such requests should be directed to the Office of the Corporate Secretary, Philippine National Bank, 9/F PNB Financial Center, President Diosdado Macapagal Blvd., Pasay City, Metro Manila, Philippines.

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 6 - 0 0 5 5 5 5

COMPANY NAME

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

PRINCIPAL OFFICE(*No. / Street / Barangay / City / Town / Province*)

PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
	04/30	12/31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Mr. James Patrick Q. Bonus		891-6040 to 70	

CONTACT PERSON's ADDRESS

NOTE 1 : In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2 : All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) and the parent company financial statements of Philippine National Bank (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2018 and 2017 and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2018, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2018 and 2017, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report. We are independent of the Group and the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (the Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated and parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and parent company financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and parent company financial statements.

Applicable to the audit of the consolidated and parent company financial statements

Adoption of PFRS 9, Financial Instruments

On January 1, 2018, the Group and the Parent Company adopted PFRS 9, Financial Instruments, which replaced PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 provides revised principles for classifying financial assets and introduces a forward-looking expected credit loss model to assess impairment on debt financial assets not measured at fair value through profit or loss and loan commitments and financial guarantee contracts. The Group and the Parent Company used the modified retrospective approach in adopting PFRS 9.

1. Classification and Measurement of Financial Assets

   As at January 1, 2018 (the transition date), the Group and the Parent Company classified their financial assets based on their business models for managing these financial assets and the contractual cash flow characteristics of the financial assets. This resulted in transition adjustments that increased surplus by ₱732.04 million and decreased other comprehensive loss by ₱2.29 billion, respectively, for the Group and the Parent Company. Thereafter, the financial assets were accounted for based on the transition date classification, while newly originated or acquired financial assets were classified based on the PFRS 9 classification criteria.

   The Group's and the Parent Company's application of the PFRS 9 classification criteria is significant to our audit as the classification determines how financial assets are measured and accounted for in the financial statements.

   The disclosures in relation to the adoption of the PFRS 9 classification criteria are included in Note 2 to the financial statements.

Audit Response
We obtained an understanding of the Group's and the Parent Company's contracts review process to establish the contractual cash flow characteristics of debt financial assets, including the identification of standard and non-standard contracts, and reviewed the assessment made by management by inspecting underlying contracts on a sample basis. We obtained the board approved business models for the Group's and the Parent Company's portfolios of financial assets. We compared the parameters set within the business models with the portfolio and risk management policies of the Group and the Parent Company. For significant portfolios, we assessed frequency and relative amount of sales in the past, understood how the business performance is measured and evaluated performance measurement reports.

We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

2. Expected Credit Loss (ECL)

The Group's and the Parent Company's adoption of the ECL model is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset and expected recoveries from defaulted accounts; and incorporating forward-looking information (called overlays) in calculating ECL.

The application of the ECL model increased the allowance for credit losses and other comprehensive income as of January 1, 2018 by ₱2.90 billion and ₱58.50 million, respectively, for the Group, and by ₱1.91 billion, and ₱58.50 million, respectively, for the Parent Company. Provision for credit losses of the Group and the Parent Company in 2018 using the ECL model amounted to ₱1.81 billion and ₱1.47 billion, respectively.

Refer to Notes 2 and 16 of the financial statements for the disclosure on the transition adjustments and details of the allowance for credit losses using the ECL model, respectively.

Audit Response
We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9 to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts and credit risk management policies and practices in place, (c) tested the Group's and the Parent Company's application of internal credit risk rating system by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications; (e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations; (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the reasonableness of forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge; and (h) tested the effective interest rate used in discounting the expected loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We recalculated impairment provisions on a sample basis. We checked the appropriateness of the transition adjustments and reviewed the completeness of the disclosures made in the financial statements.

We involved our internal specialists in the performance of the above procedures.

3. Recoverability of Deferred Tax Assets

As of December 31, 2018, the deferred tax assets of the Group and the Parent Company amounted to ₱2.09 billion and ₱1.45 billion, respectively. The analysis of the recoverability of deferred tax assets was significant to our audit because the assessment process is complex and judgmental, and is based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company.

The disclosures in relation to deferred income taxes are included in Note 30 to the financial statements.

Audit response
We involved our internal specialist in interpreting the tax regulations, testing the temporary differences identified by the Group and the Parent Company and the applicable tax rate. We also re-performed the calculation of the deferred tax assets. We reviewed the management's assessment on the availability of future taxable income in reference to financial forecast and tax strategies. We evaluated management's forecast by comparing the loan portfolio and deposit growth rates with that of the industry and the historical performance of the Group. We also reviewed the timing of the reversal of future taxable and deductible temporary differences.

4. Impairment Testing of Goodwill

As at December 31, 2018, the Group and the Parent Company has goodwill amounting to ₱13.38 billion as a result of the acquisition of Allied Banking Corporation in 2013. Under PFRS, the Group is required annually to test the amount of goodwill for impairment. Goodwill has been allocated to three cash generating units (CGUs) namely retail banking, corporate banking and treasury. The Group performed the impairment testing using the value in use calculation. The annual impairment test was significant to our audit because it involves significant judgment and is based on assumptions such as estimates of future cash flows from business, interest margin, discount rate, current local gross domestic product and long-term growth rate used to project cash flows.

The disclosures related to goodwill impairment are included in Note 14 to the financial statements.

Audit Response
We involved our internal specialist to evaluate the assumptions and methodology used by the Group. These assumptions include estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows. We compared the interest margin and long-term growth rate to the historical performance of the CGUs and to economic and industry forecasts. We tested the current local gross domestic product and parameters used in the derivation of the discount rate against market data.

5. Valuation of Retirement Benefit Liability

The Group has a defined benefit plan covering all regular employees. As at December 31, 2018, the retirement liability of the Group and the Parent Company amounted to ₱1.15 billion and ₱1.22 billion, respectively. Accumulated remeasurement losses amounted to ₱1.52 billion which accounts for 1.18% and 1.21% of the Group and Parent Company's total equity, respectively, as at December 31, 2018. The valuation of the retirement benefit liability requires the assistance of an external actuary whose calculations depend on certain assumptions, such as prospective salary increase and employee turnover rates, as well as discount rate, which could have a material impact on the results. Thus, we considered this as a key audit matter.

The disclosures related to retirement liability are included in Note 28 to the financial statements.

Audit response
We involved our internal specialist in the review of the scope, bases, methodology and results of the work of the Group's external actuary, whose professional qualifications, capabilities and objectivity were also taken into consideration. We evaluated the key assumptions used by comparing the employee demographics and attrition rates against the Group's human resources data, and the discount rate and mortality rate against available market data. We inquired from management about the basis of the salary rate increase and compared it against the Group's forecast.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2018, but does not include the consolidated and parent company financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement) SEC Form 17-A and Annual Report for the year ended December 31, 2018 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated and parent company financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated and parent company financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated and Parent Company Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated and parent company financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and parent company financial statements, management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group and the Parent Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated and parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group and the Parent Company to express an opinion on the consolidated and parent company financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Supplementary Information Required Under Revenue Regulations 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 39 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of Philippine National Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditor's report is Janeth T. Nuñez-Javier.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332590, January 3, 2019, Makati City

February 28, 2019

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Building a better working world

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITORS' REPORT
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Philippine National Bank
PNB Financial Center
President Diosdado Macapagal Boulevard
Pasay City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Philippine National Bank and Subsidiaries (the Group) as at December 31, 2018 and 2017 for each of the three years in the period ended December 31, 2018, included in this Form 17-A, and have issued our report thereon dated February 28, 2019. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janeth T. Nuñez-Javier

Janeth T. Nuñez-Javier
Partner
CPA Certificate No. 111092
SEC Accreditation No. 1328-AR-1 (Group A),
July 28, 2016, valid until July 28, 2019
Tax Identification No. 900-322-673
BIR Accreditation No. 08-001998-69-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 733259, January 3, 2019, Makati City

February 28, 2019

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF FINANCIAL POSITION

(In Thousands)

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
ASSETS				
Cash and Other Cash Items	**₱16,825,487**	₱12,391,139	**₱15,904,663**	₱11,671,952
Due from Bangko Sentral ng Pilipinas (Notes 7 and 17)	**102,723,312**	108,743,985	**98,665,375**	105,497,459
Due from Other Banks (Note 33)	**20,525,318**	22,025,322	**10,459,496**	10,755,260
Interbank Loans Receivable (Notes 8 and 33)	**11,248,455**	12,837,721	**11,689,414**	11,083,515
Securities Held Under Agreements to Resell (Notes 8 and 35)	**20,700,000**	14,621,483	**20,700,000**	14,621,483
Financial Assets at Fair Value Through Profit or Loss (FVTPL) (Note 9)	**9,999,447**	2,882,395	**9,983,636**	2,829,877
Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI) (Note 9)	**51,674,167**	–	**50,656,893**	–
Available-for-Sale Investments (Note 9)	**–**	69,837,416	**–**	67,677,952
Investment Securities at Amortized Cost (Note 9)	**99,772,711**	–	**99,586,329**	–
Held-to-Maturity Investments (Note 9)	**–**	26,805,131	**–**	26,680,483
Loans and Receivables (Notes 10 and 33)	**581,695,477**	502,318,740	**510,819,274**	441,715,528
Property and Equipment (Note 11)	**19,710,145**	18,664,357	**17,606,143**	16,894,236
Investments in Subsidiaries and an Associate (Note 12)	**2,418,842**	2,363,757	**28,230,661**	28,407,414
Investment Properties (Note 13)	**13,488,866**	15,594,385	**13,149,358**	15,318,408
Deferred Tax Assets (Note 30)	**2,086,510**	1,695,295	**1,452,153**	987,332
Intangible Assets (Note 14)	**3,025,157**	3,322,857	**2,879,853**	3,163,243
Goodwill (Note 14)	**13,375,407**	13,375,407	**13,515,765**	13,515,765
Assets of Disposal Group Classified as Held for Sale (Note 36)	**8,238,623**	–	**595,146**	–
Other Assets (Note 15)	**6,140,262**	8,877,315	**5,906,427**	8,152,615
TOTAL ASSETS	**₱983,648,186**	₱836,356,705	**₱911,800,586**	₱778,972,522

	Consolidated 2018	Consolidated 2017	Parent Company 2018	Parent Company 2017
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 33)				
Demand	**₱153,065,163**	₱125,581,889	**₱149,539,540**	₱123,396,962
Savings	**401,622,361**	351,422,377	**394,004,547**	345,279,463
Time	**147,210,729**	129,552,035	**108,450,094**	96,364,657
Long Term Negotiable Certificates	**31,403,225**	31,363,956	**31,403,225**	31,363,956
	733,301,478	637,920,257	**683,397,406**	596,405,038
Financial Liabilities at FVTPL (Notes 18 and 35)	**470,648**	343,522	**468,279**	343,416
Bills and Acceptances Payable (Notes 19, 33 and 35)	**70,082,835**	43,916,687	**62,706,795**	41,400,804
Accrued Taxes, Interest and Other Expenses (Note 20)	**6,167,398**	5,323,487	**5,559,960**	4,673,545
Bonds Payable (Note 21)	**15,661,372**	–	**15,661,372**	–
Income Tax Payable	**900,693**	993,245	**823,739**	833,708
Liabilities of Disposal Group Classified as Held for Sale (Note 36)	**7,237,811**	–	**–**	–
Other Liabilities (Note 22)	**21,266,939**	28,121,558	**17,532,588**	18,236,566
	855,089,174	716,618,756	**786,150,139**	661,893,077
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock (Note 25)	**₱49,965,587**	₱49,965,587	**₱49,965,587**	₱49,965,587
Capital Paid in Excess of Par Value (Note 25)	**31,331,251**	31,331,251	**31,331,251**	31,331,251
Surplus Reserves (Notes 25 and 32)	**620,573**	597,605	**620,573**	597,605
Surplus (Note 25)	**46,613,457**	38,831,522	**46,613,704**	38,831,716
Net Unrealized Loss on Financial Assets at FVOCI (Note 9)	**(3,181,335)**	–	**(3,181,335)**	–
Net Unrealized Loss on Available-for-Sale Investments (Note 9)	**–**	(3,040,507)	**–**	(3,040,507)
Remeasurement Losses on Retirement Plan (Note 28)	**(1,520,538)**	(2,106,586)	**(1,520,538)**	(2,106,586)
Accumulated Translation Adjustment (Note 25)	**1,776,923**	1,417,884	**1,776,923**	1,417,884

(Forward)

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
Other Equity Reserves (Note 25)	**₱53,895**	₱70,215	**₱53,895**	₱70,215
Share in Aggregate Reserves on Life Insurance Policies (Note 12)	**12,280**	12,280	**12,280**	12,280
Other Equity Adjustment	**13,959**	13,959	**–**	–
Reserves of a Disposal Group Classified as Held for Sale (Notes 12 and 36)	**(21,893)**	–	**(21,893)**	–
	125,664,159	117,093,210	**125,650,447**	117,079,445
NON-CONTROLLING INTERESTS (Note 12)	**2,894,853**	2,644,739	**–**	–
	128,559,012	119,737,949	**125,650,447**	117,079,445
TOTAL LIABILITIES AND EQUITY	**₱983,648,186**	₱836,356,705	**₱911,800,586**	₱778,972,522

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF INCOME

(In Thousands, Except Earnings per Share)

	Consolidated			Parent Company		
	December 31			December 31		
	2018	2017 (As Restated – Note 36)	2016 (As Restated – Note 36)	**2018**	2017	2016
INTEREST INCOME ON						
Loans and receivables (Notes 10 and 33)	**₱30,202,480**	₱22,669,107	₱19,685,958	**₱25,504,159**	₱19,245,810	₱16,923,864
Investment securities at amortized cost and FVOCI, AFS and HTM Investments (Note 9)	**4,534,297**	3,053,243	3,162,349	**4,502,331**	3,033,873	3,138,597
Deposits with banks and others (Notes 7 and 33)	**775,820**	1,324,526	625,950	**524,723**	1,053,354	440,664
Interbank loans receivable and securities held under agreements to resell (Note 8)	**379,378**	480,021	794,000	**350,808**	446,134	794,312
Financial assets at FVTPL (Note 9)	**120,667**	38,779	40,854	**120,667**	38,779	76,947
	36,012,642	27,565,676	24,309,111	**31,002,688**	23,817,950	21,374,384
INTEREST EXPENSE ON						
Deposit liabilities (Notes 17 and 33)	**7,871,173**	4,794,227	3,780,242	**6,591,288**	4,104,798	3,356,866
Bonds payable (Note 21)	**477,405**	–	–	**477,405**	–	–
Bills payable and other borrowings (Notes 19, 21 and 33)	**662,340**	747,481	997,621	**472,111**	650,724	959,609
	9,010,918	5,541,708	4,777,863	**7,540,804**	4,755,522	4,316,475
NET INTEREST INCOME	**27,001,724**	22,023,968	19,531,248	**23,461,884**	19,062,428	17,057,909
Service fees and commission income (Notes 26 and 33)	**4,251,692**	3,982,496	3,401,850	**3,524,263**	3,130,783	2,731,258
Service fees and commission expense (Note 33)	**773,082**	786,917	666,755	**616,207**	592,427	480,549
NET SERVICE FEES AND COMMISSION INCOME	**3,478,610**	3,195,579	2,735,095	**2,908,056**	2,538,356	2,250,709
OTHER INCOME						
Net gains on sale or exchange of assets (Note 13)	**5,861,143**	3,921,136	2,510,361	**5,841,136**	3,862,341	2,517,861
Foreign exchange gains - net (Note 23)	**942,372**	1,676,926	1,486,224	**578,180**	1,675,985	926,529
Trading and investment securities gains – net (Notes 9 and 33)	**150,691**	559,758	1,364,355	**157,678**	556,429	1,369,514
Equity in net earnings of subsidiaries and an associate (Note 12)	**43,847**	59,215	70,220	**530,885**	498,254	231,780
Miscellaneous (Note 27)	**1,425,439**	893,517	1,538,964	**1,101,875**	592,041	1,194,947
TOTAL OPERATING INCOME	**38,903,826**	32,330,099	29,236,467	**34,579,694**	28,785,834	25,549,249
OPERATING EXPENSES						
Compensation and fringe benefits (Notes 25, 28 and 33)	**9,380,199**	8,959,754	8,399,954	**7,943,135**	7,754,566	7,370,977
Taxes and licenses (Note 30)	**3,729,016**	2,489,342	2,171,272	**3,343,899**	2,222,755	1,952,291
Depreciation and amortization (Note 11)	**1,944,808**	1,678,227	1,549,569	**1,542,712**	1,385,357	1,343,583
Occupancy and equipment-related costs (Note 29)	**1,716,315**	1,577,367	1,457,157	**1,453,341**	1,343,021	1,262,952
Provision for impairment, credit and other losses (Note 16)	**1,740,177**	903,595	3,212,774	**1,401,528**	161,877	1,707,494
Miscellaneous (Note 27)	**6,953,525**	6,320,707	6,103,814	**6,125,334**	5,634,019	5,604,188
TOTAL OPERATING EXPENSES	**25,464,040**	21,928,992	22,894,540	**21,809,949**	18,501,595	19,241,485
INCOME BEFORE INCOME TAX	**13,439,786**	10,401,107	6,341,927	**12,769,745**	10,284,239	6,307,764
PROVISION FOR INCOME TAX (Note 30)	**3,663,744**	2,314,934	1,509,522	**3,304,670**	2,123,676	1,228,372
NET INCOME FROM CONTINUING OPERATIONS	**9,776,042**	8,086,173	4,832,405	**9,465,075**	8,160,563	5,079,392
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX (Notes 12 and 36)	**(219,972)**	70,372	2,329,669	**–**	–	2,044,662
NET INCOME	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
ATTRIBUTABLE TO:						
Equity Holders of the Parent Company (Note 31)	**₱9,465,022**	₱8,160,570	₱7,123,952			
Non-controlling Interests	**91,048**	(4,025)	38,122			
	₱9,556,070	₱8,156,545	₱7,162,074			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 31)	**₱7.58**	₱6.53	₱5.70			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company from Continuing Operations (Note 31)	**₱7.75**	₱6.48	₱3.84			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated – Note 36)	2016 (As Restated – Note 36)	**2018**	2017	2016
NET INCOME	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
OTHER COMPREHENSIVE INCOME (LOSS)						
Items that recycle to profit or loss in subsequent periods:						
Net change in unrealized loss on financial assets at FVOCI (Note 9)	**(2,133,032)**	–	–	**(2,224,305)**	–	–
Net change in unrealized gain (loss) on available-for-sale investments (Note 9)	–	454,188	(193,484)	–	468,861	(185,603)
Income tax effect (Note 30)	–	–	286	–	–	–
Share in changes in net unrealized gains (losses) on financial assets at FVOCI of subsidiaries and an associate (Note 9)	**(375,390)**	–	–	**(284,117)**	–	–
Share in changes in net unrealized gains (losses) on available for sale investments of subsidiaries and an associate (Note 9)	–	(24,756)	(245,867)	–	(39,429)	(253,748)
	(2,508,422)	429,432	(439,065)	**(2,508,422)**	429,432	(439,351)
Accumulated translation adjustment	**484,289**	504,736	420,381	**154,076**	(5,932)	282,600
Share in changes in accumulated translation adjustment of subsidiaries and an associate (Note 12)	–	–	–	**204,963**	508,594	20,154
	(2,024,133)	934,168	(18,684)	**(2,149,383)**	932,094	(136,597)
Items that do not recycle to profit or loss in subsequent periods:						
Share in aggregate reserves on life insurance policies (Note 2)	–	9,193	3,087	–	9,193	3,087
Remeasurement gains (losses) on retirement plan (Note 28)	**193,128**	952,143	(458,740)	**109,596**	973,728	(464,207)
Income tax effect (Note 30)	–	554	2,204	–	–	–
Share in changes in remeasurement gains (losses) of subsidiaries and an associate (Note 12)	**386,628**	(236,632)	1,208	**470,160**	(258,461)	6,569
	579,756	725,258	(452,241)	**579,756**	724,460	(454,551)
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**(1,444,377)**	1,659,426	(470,925)	**(1,569,627)**	1,656,554	(591,148)
TOTAL COMPREHENSIVE INCOME	**₱8,111,693**	₱9,815,971	₱6,691,149	**₱7,895,448**	₱9,817,117	₱6,532,906
ATTRIBUTABLE TO:						
Equity holders of the Parent Company	**₱7,895,558**	₱9,817,124	₱6,532,804			
Non-controlling interests	**216,135**	(1,153)	158,345			
	₱8,111,693	₱9,815,971	₱6,691,149			

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated															
	Capital Stock (Note 25)	Capital Paid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain/(Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves (Note 25)	Other Equity Adjustment	Share in Aggregate Reserves on Life Insurance Policies (Note 120	Reserves of a Disposal Group Held for Sale (Note 36)	Parent Company Shares Held by a Subsidiary	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2018, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱597,605**	**₱38,831,522**	**₱–**	**(₱3,040,507)**	**(₱2,106,586)**	**₱1,417,884**	**₱70,215**	**₱13,959**	**₱12,280**	**₱–**	**₱–**	**₱117,093,210**	**₱2,644,739**	**₱119,737,949**
Effect of the adoption of Philippine Financial Reporting Standards 9 (Note 2)	–	–	–	**(1,660,119)**	**(688,514)**	**3,040,507**	–	–	–	–	–	–	–	**691,874**	–	**691,874**
Balance at January 1, 2018, as restated	**49,965,587**	**31,331,251**	**597,605**	**37,171,403**	**(688,514)**	–	**(2,106,586)**	**1,417,884**	**70,215**	**13,959**	**12,280**	–	–	**117,785,084**	**2,644,739**	**120,429,823**
Total comprehensive income (loss) for the year	–	–	–	**9,465,022**	**(2,508,422)**	–	**579,756**	**359,039**	–	–	–	–	–	**7,895,395**	**216,135**	**8,111,530**
Sale of investment in a subsidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**100,000**	**100,000**
Dissolution of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**(62,655)**	**(62,655)**
Other equity reserve (Note 32)	–	–	–	–	–	–	–	–	**(16,320)**	–	–	–	–	**(16,320)**	–	**(16,320)**
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	**(3,366)**	**(3,366)**
Reserves of Disposal Group Classified as Held for Sale (Note 36)	–	–	–	–	**15,601**	–	**6,292**	–	–	–	–	**(21,893)**	–	–	–	–
Transfer to surplus reserves (Note 32)	–	–	**22,968**	**(22,968)**	–	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2018	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,457**	**(₱3,181,335)**	**₱–**	**(₱1,520,538)**	**₱1,776,923**	**₱53,895**	**₱13,959**	**₱12,280**	**(₱21,893)**	–	**₱125,664,159**	**₱2,894,853**	**₱128,559,012**
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱13,959	₱3,087	₱–	₱–	₱107,311,541	₱2,649,162	₱109,960,703
Total comprehensive income (loss) for the year	–	–	–	8,160,570	–	429,432	715,267	502,662	–	–	9,193	–	–	9,817,124	(1,153)	9,815,971
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(3,270)	(3,270)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)	–	–	–	–	(35,455)	–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,522	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱13,959	₱12,280	₱–	₱–	₱117,093,210	₱2,644,739	₱119,737,949
Balance at January 1, 2016	₱49,965,587	₱31,331,251	₱554,263	₱24,839,480	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱	₱13,959	₱	(₱133,500)	(₱9,945)	₱101,778,760	₱3,017,322	₱104,796,082
Total comprehensive income (loss) for the year	–	–	–	7,123,952		(439,351)	(457,638)	302,754			3,087			6,532,804	158,345	6,691,149
Sale of direct interest in a subisidiary (Note 12)	–	–	–	–	–	–	–	–	–	–	–	133,500	–	133,500	(483,296)	(349,796)
Disposal of Parent Company shares by a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	9,945	9,945	–	9,945
Cash dividends declared (Note 25)	–	–	–	(1,249,138)	–	–	–	–	–	–	–	–	–	(1,249,138)	–	(1,249,138)
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	105,670	–	–	–	–	105,670	–	105,670
Declaration of dividends by subsidiaries to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	–	–	(43,209)	(43,209)
Transfer to surplus reserves (Note 32)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	–	–	–	–	–
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,694,899	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱13,959	₱3,087	₱–	–	₱107,311,541	₱2,649,162	₱109,960,703

See accompanying Notes to Financial Statements.

Parent Company

	Capital Stock (Note 25)	Capital Pfaid in Excess of Par Value (Note 25)	Surplus Reserves (Note 25)	Surplus (Note 25)	Net Unrealized Gain/(Loss) on Financial Assets at FVOCI (Note 9)	Net Unrealized Loss on Available-for-Sale Investments (Note 9)	Remeasurement Losses on Retirement Plan	Accumulated Translation Adjustment	Other Equity Reserves (Note 25)	Reserves of a Disposal Group Held for Sale (Note 36)	Share in Aggregate Reserves on Life Insurance Policies (Note 12)	Total
Balance at January 1, 2018, as previously reported	**₱49,965,587**	**₱31,331,251**	**₱597,605**	**₱38,831,716**	**₱–**	**(₱3,040,507)**	**(₱2,106,586)**	**₱1,417,884**	**₱70,215**	**₱–**	**₱12,280**	**₱117,079,445**
Effect of the adoption of Philippine Financial Reporting Standards 9 (Note 2)	–	–	–	**(1,660,119)**	**(688,514)**	**3,040,507**	–	–	–	–	–	**691,874**
Balance at January 1, 2018, as restated	**49,965,587**	**31,331,251**	**597,605**	**37,171,597**	**(688,514)**	–	**(2,106,586)**	**1,417,884**	**70,215**	–	**12,280**	**117,771,319**
Total comprehensive income (loss) for the year	–	–	–	**9,465,075**	**(2,508,422)**	–	**579,756**	**359,039**	–	–	–	**7,895,448**
Transfer to surplus reserves (Note 32)	–	–	**22,968**	**(22,968)**	–	–	–	–	–	–	–	–
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	**(16,320)**	–	–	**(16,320)**
Reserves of Disposal Group Classified as Held for Sale (Note 36)	–	–	–	–	**15,601**	–	**6,292**	–	–	**(21,893)**	–	–
Balance at December 31, 2018	**₱49,965,587**	**₱31,331,251**	**₱620,573**	**₱46,613,704**	**(₱3,181,335)**	**₱–**	**(₱1,520,538)**	**₱1,776,923**	**₱53,895**	**(₱21,893)**	**₱12,280**	**₱125,650,447**
Balance at January 1, 2017	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱–	₱3,087	₱107,297,783
Total comprehensive income for the year	–	–	–	8,160,563		429,432	715,267	502,662			9,193	9,817,117
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	(35,455)		–	(35,455)
Transfer to surplus reserves (Note 32)	–	–	23,947	(23,947)	–	–	–	–	–	–		–
Balance at December 31, 2017	₱49,965,587	₱31,331,251	₱597,605	₱38,831,716	₱–	(₱3,040,507)	(₱2,106,586)	₱1,417,884	₱70,215	₱–	₱12,280	₱117,079,445
Balance at January 1, 2016	₱49,965,587	₱31,331,251	₱554,263	₱24,839,580	₱–	(₱3,030,588)	(₱2,364,215)	₱612,468	₱–	(₱85,106)	₱3,087	₱101,826,327
Total comprehensive income (loss) for the year	–	–	–	7,124,054	–	(439,351)	(457,638)	302,754	–	–	–	6,529,819
Cash dividends declared (Note 25)	–	–	–	(1,249,139)	–	–	–	–	–	–	–	(1,249,139)
Transfer to surplus reserves (Note 32)	–	–	19,395	(19,395)	–	–	–	–	–	–	–	
Reserves of a disposal group classified as held for sale (Note 37)	–	–	–	–	–	–	–	–	–	85,106	–	85,106
Other equity reserves (Note 25)	–	–	–	–	–	–	–	–	105,670	–	–	105,670
Balance at December 31, 2016	₱49,965,587	₱31,331,251	₱573,658	₱30,695,100	₱–	(₱3,469,939)	(₱2,821,853)	₱915,222	₱105,670	₱–	₱3,087	₱107,297,783

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

(In Thousands)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated - Note 36)	2016	**2018**	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱13,439,786**	₱10,401,107	₱6,341,927	**₱12,769,745**	₱10,284,239	₱6,307,764
Income (loss) before income tax from discontinued operations (Note 36)	**(196,611)**	77,651	2,543,866	**–**	–	2,325,568
Income before income tax	**13,243,175**	10,478,758	8,885,793	**12,769,745**	10,284,239	8,633,332
Adjustments for:						
Net gain on sale or exchange of assets (Note 13)	**(5,861,143)**	(3,921,136)	(2,510,361)	**(5,841,136)**	(3,862,341)	(2,517,861)
Depreciation and amortization (Notes 11 and 36)	**1,950,977**	1,684,391	1,554,640	**1,542,712**	1,385,357	1,343,583
Amortization of premium on investment securities	**789,981**	1,383,338	1,144,317	**1,034,142**	1,375,100	1,137,513
Provision for impairment, credit and other losses (Notes 16 and 36)	**1,752,812**	884,132	3,212,694	**1,401,528**	161,877	1,707,494
Loss (gain) on mark-to-market of derivatives (Note 23)	**899,614**	(128,417)	698,071	**899,614**	(124,679)	698,071
Realized trading gain on financial assets at FVOCI (Note 9)	**(167,902)**	–	–	**(167,902)**	–	–
Realized trading gain on available-for-sale investments (Note 9)	**–**	(506,238)	(1,348,496)	**–**	(506,238)	(1,350,453)
Amortization of transaction costs (Notes 17 and 21)	**51,502**	60,239	36,640	**51,502**	60,239	36,640
Equity in net earnings of subsidiaries and an associate (Note 12)	**(43,847)**	(59,215)	(70,220)	**(530,885)**	(498,254)	(231,780)
Gain on remeasurement of a previously held interest (Note 12)	**–**	–	(1,644,339)	**–**	–	(1,644,339)
Unrealized foreign exchange loss on bills payable and acceptances	**1,298,559**	–	–	**1,292,591**	–	–
Gain from sale of previously held interest (Note 12)	**–**	–	(681,228)	**–**	–	(681,228)
Recoveries on receivable from special purpose vehicle (Note 27)	**–**	–	(500,000)	**–**	–	(500,000)
Amortization of fair value loss of held-to-maturity investments reclassified to available-for-sale investments (Note 9)	**–**	141,802	145,727	**–**	141,802	140,332
Realized and unrealized gain on financial assets at FVPL (Note 9 and 36)	**21,548**	(61,485)	4,651	**10,386**	58,156	6,113
Loss on write-off of software cost (Note 14)	**–**	–	894	**–**	–	–
Changes in operating assets and liabilities:						
Decrease (increase) in amounts of:						
Interbank loan receivable (Note 8)	**678,014**	(798,815)	(547,222)	**274,268**	(828,073)	(508,224)
Financial assets at FVTPL	**(8,039,543)**	(778,629)	1,888,845	**(8,063,597)**	(808,168)	1,923,254
Loans and receivables	**(88,550,596)**	(75,945,020)	(66,337,861)	**(73,552,230)**	(63,393,954)	(52,436,762)
Other assets	**1,785,717**	(777,538)	(1,558,302)	**3,669,296**	(2,103,444)	(615,025)
Increase (decrease) in amounts of:						
Financial liabilities at FVTPL	**127,126**	–	–	**124,863**	–	–
Deposit liabilities	**95,341,952**	67,387,302	84,510,588	**86,953,099**	54,189,539	71,640,617
Accrued taxes, interest and other expenses	**1,083,584**	379,861	729,486	**886,416**	441,930	520,970
Other liabilities	**825,972**	(187,797)	1,273,977	**(103,155)**	(1,129,101)	626,229
Net cash generated from (used in) operations	**17,187,502**	(764,467)	28,888,294	**22,651,257**	(5,156,013)	27,928,476
Income taxes paid	**(4,060,889)**	(1,524,208)	(784,682)	**(3,313,721)**	(1,350,866)	(715,203)
Net cash provided by (used in) operating activities	**13,126,613**	(2,288,675)	28,103,612	**19,337,536**	(6,506,879)	27,213,273
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from:						
Disposal/maturities of financial assets at FVOCI/available-for-sale investments	**₱41,459,104**	₱199,856,642	₱83,143,335	**₱41,862,566**	₱199,690,619	₱81,843,119
Maturities of financial assets at amortized cost	**19,356,795**	–	–	**37,694,571**	–	–
Disposal of investment properties	**8,456,263**	5,570,269	2,387,170	**8,493,918**	5,119,922	2,255,377
Disposal of property and equipment (Note 11)	**123,767**	29,719	142,129	**135,257**	172,226	418,869
Disposal group classified as held for sale/Investment in shares of a subsidiary (Notes 12 and 37)	**–**	–	3,230,966	–	–	3,230,966
Collection of receivables from special purpose vehicle	**–**	–	500,000	–	–	500,000
Share in dividends from subsidiaries (Note 12)	**–**	–	–	–	1,333,350	66,125

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2018	2017 (As Restated - Note 36)	2016	**2018**	2017	2016
Acquisitions of:						
Financial Assets at FVOCI/available-for-sale investments	**(₱23,729,263)**	(₱202,587,314)	(₱83,486,942)	**(₱25,122,624)**	(₱201,794,860)	(₱82,272,241)
Property and equipment (Note 11)	**(3,026,508)**	(1,964,768)	(2,023,627)	**(2,263,064)**	(1,658,985)	(1,740,338)
Software cost (Note 14)	**(169,231)**	(1,162,121)	(406,053)	**(160,857)**	(1,045,743)	(404,837)
Financial assets at amortized cost	**(93,782,890)**	**–**	–	**(111,057,852)**	–	–
Held-to-maturity investments	**–**	(2,801,983)	–	**–**	(2,726,786)	–
Additional investments in subsidiaries (Note 12)	**–**	–	–	**(266,000)**	(700,000)	(292,416)
Closure of subsidiaries (Note 12)	**–**	–	–	–	50,000	–
Net cash provided by (used in) investing activities	**(51,311,963)**	(3,059,556)	3,486,978	**(50,684,085)**	(1,560,257)	3,604,624
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issuances of bills and acceptances payable	**187,599,609**	164,866,720	180,747,610	**178,534,210**	159,025,830	175,375,030
Proceeds from bonds payable	**15,398,696**	–	–	**15,398,696**	–	–
Settlement of:						
Bills and acceptances payable (Note 21)	**(162,732,019)**	(157,020,131)	(169,839,126)	**(158,520,810)**	(151,794,765)	(165,576,107)
Subordinated debt	**–**	(3,500,000)	(6,500,000)	–	(3,500,000)	(6,500,000)
Cash dividends declared and paid (Note 25)	**–**	–	(1,249,139)	–	–	(1,249,139)
Acquisition of non-controlling interest in subsidiaries (Note 12)	**–**	–	(292,416)	–	–	–
Dividends paid to non-controlling interest	**–**	(3,270)	(43,209)	–	–	–
Net cash provided by financing activities	**40,266,286**	4,343,319	2,823,720	**35,412,096**	3,731,065	2,049,784
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,080,936**	(1,004,912)	34,414,310	**4,063,547**	(4,336,071)	32,867,681
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**12,391,139**	11,014,663	15,863,080	**11,671,952**	10,626,525	12,598,715
Due from Bangko Sentral ng Pilipinas	**108,743,985**	127,337,861	81,363,444	**105,497,459**	123,799,952	79,203,948
Due from other banks	**22,025,322**	22,709,805	18,287,308	**10,755,260**	12,831,514	11,450,573
Interbank loans receivable	**11,491,684**	7,243,886	5,800,383	**9,700,916**	7,352,840	5,912,224
Securities held under agreements to resell	**14,621,483**	1,972,310	14,550,000	**14,621,483**	1,972,310	14,550,000
	169,273,613	170,278,525	135,864,215	**152,247,070**	156,583,141	123,715,460
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**16,825,487**	12,391,139	11,014,663	**15,904,663**	11,671,952	10,626,525
Due from Bangko Sentral ng Pilipinas	**102,723,312**	108,743,985	127,337,861	**98,665,375**	105,497,459	123,799,952
Due from other banks	**20,525,318**	22,025,322	22,709,805	**10,459,496**	10,755,260	12,831,514
Interbank loans receivable (Note 8)	**10,580,432**	11,491,684	7,243,886	**10,581,083**	9,700,916	7,352,840
Securities held under agreements to resell	**20,700,000**	14,621,483	1,972,310	**20,700,000**	14,621,483	1,972,310
	₱171,354,549	₱169,273,613	₱170,278,525	**₱156,310,617**	₱152,247,070	₱156,583,141
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest paid	**₱8,151,979**	₱5,317,161	₱4,620,623	**₱6,768,648**	₱4,617,444	₱4,254,991
Interest received	**32,906,482**	28,559,267	22,279,734	**28,399,766**	25,320,173	20,653,077
Dividends received	**3,366**	3,270	17,593	**3,366**	32,417	80,841

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine National Bank (the Parent Company) is a universal bank established in the Philippines in 1916 and started commercial operations that same year. The Philippine Securities and Exchange Commission (SEC) approved the renewal of its corporate registration on May 27, 1996, with a corporate term of 50 years. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City, Metro Manila, Philippines. As of December 31, 2018 and 2017, the LT Group, Inc. (LTG) held indirect ownership of 59.83% of the Parent Company's shares through various holding companies, while 17.33% of the Parent Company's shares were held by Philippine Central Depository (PCD) Nominee Corporation. The remaining 22.84% of the Parent Company's shares were held by other stockholders holding less than 10.00% each. The Parent Company's shares were listed with the Philippine Stock Exchange (PSE) on June 21, 1989.

The Parent Company's immediate parent company, LTG, and ultimate parent company, Tangent Holdings Corporation, are incorporated in the Philippines.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the National Government (NG), local government units (LGUs) and government-owned and controlled corporations (GOCCs) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 711 and 692 domestic branches as of December 31, 2018 and 2017, respectively.

The Parent Company has 72 branches, representative offices, remittance centers and subsidiaries as of December 31, 2018 and 2017, in 16 locations in the United States, Canada, Europe, the Middle East and Asia.

The subsidiaries of the Parent Company are engaged in a number of diversified financial and related businesses such as remittance, nonlife insurance, banking, leasing, stock brokerage, foreign exchange trading and/or related services.

Merger with Allied Banking Corporation

The respective shareholders of the Parent Company and Allied Banking Corporation (ABC), representing at least two-thirds of the outstanding capital stock of both banks, approved the amended terms of the Plan of Merger of the two banks on March 6, 2012. The original plan of the merger, which involved a share-for-share exchange, was approved by the affirmative vote of ABC and the Parent Company's respective shareholders, representing at least two-thirds of the outstanding capital stock of both banks, on June 24, 2008. Under the approved amended terms, the Parent Company will be the surviving entity. It will issue to ABC shareholders 130 Parent Company common shares for every ABC common share and 22.763 Parent Company common shares for every ABC preferred share. Merger and business combination are terms used interchangeably within the accompanying financial statements and have the same meaning.

On February 9, 2013, the Parent Company concluded its planned merger with ABC as approved and confirmed by the Board of Directors (BOD) of the Parent Company and of ABC on January 22 and 23, 2013, respectively. The purchase consideration as of February 9, 2013, the acquisition date, amounted to ₱41.5 billion which represents 423,962,500 common shares at the fair value of ₱97.90 per share in exchange for the 100.00% voting interest in ABC at the share swap ratio of 130 Parent Company common shares for one ABC share and 22.763 Parent Company common shares for one ABC preferred share (Note 14). The fair value of the shares is the published price of the shares of the Parent Company as of February 9, 2013. There are no contingent considerations arrangements as part of the merger.

On April 26, 2013, the Parent Company filed a request for a ruling from the Bureau of Internal Revenue (BIR) seeking confirmation that the statutory merger of PNB and ABC is a tax-free merger under Section 40(C)(2) of the National Internal Revenue Code of 1997 as amended (Tax Code). The Parent Company received BIR Preliminary Ruling No. 01-2008 (dated September 28, 2008) whereby the BIR held that the statutory merger of PNB and ABC complies with Revenue Memorandum Ruling (RMR) No. 1-2001, subject to the submission of the merger documents and documents pertaining to the assets and liabilities transferred. RMR No. 1-2001 provides the fact pattern that should be present in order to secure BIR confirmation for a tax-free Section 40(C)(2) transaction. The Parent Company received the final confirmation ruling on March 2, 2017.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Parent Company and its subsidiaries (the Group) have been prepared on a historical cost basis except for financial assets and liabilities at fair value through profit or loss (FVTPL) and financial assets at fair value through other comprehensive income (FVOCI)/available-for-sale (AFS) investments that are measured at fair value. Amounts in the financial statements are presented to the nearest thousand pesos (₱000) unless otherwise stated.

The financial statements of the Parent Company and PNB Savings Bank (PNBSB) reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU).

The functional currency of RBU and FCDU is Philippine pesos (Php) and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine pesos (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined and inter-unit accounts and transactions are eliminated.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The respective functional currencies of the subsidiaries are presented in Note 12.

Statement of Compliance

The financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements

The statements of financial position of the Group and of the Parent Company are presented in order of liquidity. An analysis regarding recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 24.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legal enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the assets and settle the liabilities simultaneously. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation and as specifically disclosed in the accounting policies. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross amounts in the statement of financial position.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (Note 12).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when the Group is exposed, or has rights, to variable return from its involvement with an investee and has the ability to affect those returns through its power over the investee. The Group controls an investee if and only if, the Group has:

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

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

- Contractual arrangement with the other voting shareholders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

Profit or loss and each component of OCI are attributed to the equity holders of the Parent Company and to the non-controlling interests (NCI), even if this results in deficit balances of non-controlling interests. The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

Changes in the Group and the Parent Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for within equity as 'Other equity adjustment'. In such circumstances, the carrying amounts of the controlling and NCI are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the NCI are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

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

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets and liabilities

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and the net assets not held by the Group and are presented separately in the consolidated statement of income, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Subsequent to acquisition (See Accounting Policy on Business Combinations and Goodwill), NCI consist of the amount attributed to such interest at initial recognition and the NCI's share of changes in equity since the date of business combination.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amendments and improvements to PFRS which are effective beginning on or after January 1, 2018. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, these new and revised accounting standards have no impact to the Group.

- *New and Amended Standards*
  - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
- *Annual Improvements to PFRSs (2014-2017 Cycle)*
  - Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value (*Part of *Annual Improvements to PFRSs 2014 - 2016 Cycle)*
  - Amendments to PAS 40, *Investment Property, Transfers of Investment Property*

PFRS 9, *Financial Instruments*
Effective January 1, 2018, PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement*. PFRS 9 also supersedes all earlier versions of the standard, thereby bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting.

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

The Group adopted the classification and measurement, impairment and hedge accounting requirements of the standard as follows:

Classification and Measurement
Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. The classification and measurement provisions of PFRS 9 require that all debt financial assets that do not meet the "solely payment of principal and interest" (SPPI) test, including those that contain embedded derivatives, be classified at initial recognition as financial assets at FVTPL. The intent of the SPPI test is to ensure that debt instruments that contain non-basic lending features, such as conversion options and equity linked pay-outs, are measured as financial assets at FVTPL. Subsequent measurement of instruments classified as financial assets at FVTPL under PFRS 9 operates in a similar manner to financial instruments held for trading under PAS 39.

For debt financial assets that meet the SPPI test, classification at initial recognition will be determined based on the business model under which these instruments are managed. Debt instruments that are managed on a "hold to collect and for sale" basis will be classified as financial assets at FVOCI. Debt instruments that are managed on a "hold to collect" basis will be classified as investment securities at amortized cost. Subsequent measurement of instruments classified as financial assets at FVOCI and at amortized cost classifications under PFRS 9 operate in a similar manner to AFS financial assets for debt financial assets and loans and receivables, respectively, under existing PAS 39, except for the impairment provisions which are discussed below.

For those debt financial assets that would otherwise be classified as financial assets at FVOCI or at amortized cost, an irrevocable designation can be made at initial recognition to instead measure the debt instrument as financial asset at FVTPL under the fair value option (FVO) if doing so eliminates or significantly reduces an accounting mismatch.

All equity financial assets are required to be classified at initial recognition as at FVTPL unless an irrevocable designation is made to classify the instrument as financial asset at FVOCI for equities. Unlike AFS for equity securities under PAS 39, the FVOCI for equities category results in all realized and unrealized gains and losses being recognized in OCI with no recycling to profit and loss. Only dividends will continue to be recognized in profit and loss.

Under PFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on the business model and their contractual terms.

The classification and measurement of financial liabilities remain essentially unchanged from the current PAS 39 requirements, except that changes in fair value of FVO liabilities attributable to changes in own credit risk are to be presented in OCI, rather than profit and loss. Derivatives continue to be measured as financial assets/liabilities at FVTPL under PFRS 9.

Impairment
The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVTPL.

Incurred loss versus Expected Credit Loss Methodology
The application of ECL significantly changed the Group's credit loss methodology and models.

ECL allowances represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either: (i) 12-month ECL; or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition or when there is objective evidence of impairment. This compares to the present incurred loss model that incorporates a single best estimate, the time value of money and information about past events and current conditions and which recognizes lifetime credit losses when there is objective evidence of impairment and also allowances for incurred but not identified credit losses.

The adoption of PFRS 9 as at January 1, 2018 resulted in the reversal of net unrealized losses in OCI of ₱2.4 billion and reduction in surplus of ₱1.7 billion.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 follow:

Consolidated	**December 31, 2017 under PAS 39**				**Re-**		**January 1, 2018 under PFRS 9**	
	Category	**Amount**	**Reclassification**		**measurement**	**ECL**	**Category**	**Amount**
Loans and advances to banks								
Due from BSP		₱108,743,985	₱–		₱–	₱–		₱108,743,985
Due from other banks		22,025,322	–		–	–		22,025,322
Interbank loans receivable and securities purchased under agreements to resell		27,459,204	–		–	–		27,459,204
	Loans and Receivable	₱158,228,511	₱–		₱–	₱–	Amortized Cost	₱158,228,511
Financial assets at FVTPL								
Debt		₱2,239,257	₱–		₱–	₱–	FVTPL	₱2,239,257
Equity		80,154	(80,154)		–	–		–
			80,085		–	–	FVTPL	80,085
			69		–	–	FVOCI	69
Derivatives		562,984	–		–	–	FVTPL	562,984
	FVPL Investments	₱2,882,395	₱–		₱–	₱–		₱2,882,395
Available-for-sale investments								
Debt		₱68,545,945	(₱68,545,945)		₱–	₱–		₱–
			31,694,862	*A*	–	–	FVOCI	31,694,862
			36,851,083	*B/H*	702,171	(22,365)	Amortized Cost	37,530,889
Equity		1,291,471	(1,291,471)					
			803,398	*C/E*	(11,722)	–	FVOCI	791,676
			488,073	*D*	–	–	FVTPL	488,073
	AFS Investment	₱69,837,416	₱–		₱690,449	(₱22,365)		₱70,505,500
Held-to-maturity investments		₱26,805,131	(26,805,131)		₱–	₱–		₱–
			9,205,240	*F/H*	773,071	(5,926)	Amortized Cost	9,972,385
			17,599,891	*A/G*	1,522,087	–	FVOCI	19,121,978
	Held to Maturity	₱26,805,131	₱–		₱2,295,158	(₱5,926)		₱29,094,363
Loans and receivables		₱502,116,517	(₱10,934,147)	*H*	₱–	(₱2,770,343)	Amortized Cost (Loans and receivables)	₱488,412,026
			488,771		–	–	Amortized Cost (Invesments securities at amortized cost)	488,771
			10,445,376	*A/I*	39,924	–	FVOCI	10,485,300
	Loans and Receivable	₱502,116,517	₱–		₱39,924	(₱2,770,344)		499,386,097
		₱759,869,970	₱–		₱3,025,531	(₱2,798,635)		₱760,096,866

Parent Company	December 31, 2017 under PAS 39						January 1, 2018 under PFRS 9	
	Category	Amount	Reclassification		Re-measurement	ECL	Category	Amount
Loans and advances to banks								
Due from BSP		₱105,497,459	₱–		₱–	₱–		₱105,497,459
Due from other banks		10,755,260	–		–	–		10,755,260
Interbank loans receivable and securities purchased under agreement to resell		25,704,998	–		–	–		25,704,998
	Loans and Recevivable	₱141,957,717	₱–		₱–	₱–	Amortized Cost	₱141,957,717
Financial assets at FVPL								
Debt		₱2,239,257	₱–		₱–	₱–	FVTPL	₱2,239,257
Equity		30,928	(30,928)		–	–		
			30,859		–	–	FVTPL	30,859
			69		–	–	FVOCI	69
Derivatives		559,692	–		–	–	FVTPL	559,692
	FVPL	₱2,829,877	₱–		₱–	₱–		₱2,829,877
Available-for-sale investments								
Debt		₱66,526,925	(₱66,526,925)		₱–	₱–		₱–
			30,403,354	*A*	–	–	FVOCI	30,403,354
			36,123,571	*B/H*	667,104	(22,365)	Ammortized Cost	36,768,310
Equity		1,151,027	(1,151,027)		–	–		–
			664,231	*C/E*	(11,722)	–	FVOCI	652,509
			486,796	*D*	–	–	FVTPL	486,796
	AFS Investment	₱67,677,952	₱–		₱655,382	(₱22,365)		₱68,310,969
Held-to-maturity investments								
Debt		₱26,680,483	(26,680,483)		₱–	₱–		–
			9,080,592	*F/H*	773,071	(5,926)	Amortized Cost	₱9,847,737
			17,599,891	*A/G*	1,522,087	–	FVOCI	19,121,978
	Held to Maturity	₱26,680,483	₱–		₱2,295,158	(₱5,926)		₱28,969,715
Loans and receivables		₱441,513,305	(₱10,933,397)	*H*	₱–	(₱1,908,533)	Amortized Cost (Loans and receivables)	₱428,671,375
			488,021		–	–	Amortized Cost (Invesments securities at amortized cost)	488,021
			10,445,376	*A/I*	39,924	–	FVOCI	10,485,300
	Loans and Receivables	₱441,513,305	₱–		₱39,924	(₱1,908,533)		₱439,644,696
		₱680,659,334			₱2,990,464	(₱1,936,824)		₱681,712,974

The impact on the Group and Parent Company's surplus and net unrealized loss upon adoption of PFRS 9 are as follows:

		Consolidated	Parent Company
Net unrealized losses			
Closing balance under PAS 39 (December 31, 2017)		(₱3,040,507)	(₱3,040,507)
Classification and measurement:			
Reversal of net unrealized losses (AFS investments to investment securities at amortized cost)	B/	702,171	667,104
Recognition of net unrealized losses on equity securities	C/	(11,722)	(11,722)
Reclassification of net unrealized losses to Surplus (FVPL to FVOCI)	D/	(4,820)	(4,820)

		Consolidated	Parent Company
Reversal of allowance on AFS equity invesments reclassified to financial assets at FVOCI	E/	(₱625,500)	(₱625,500)
Reversal of unamortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	671,353	671,353
Recognition of net unrealized gains or reversal of unamortized net unrealized losses (HTM investment to FVOCI)	G/	1,522,087	1,522,087
Recognition of net unrealized gain (Loans and receivables at amortized cost to FVOCI)	I/	39,924	39,924
Share in impact of PFRS 9 adoption by subsidiaries		–	35,067
		2,293,493	2,293,493
Expected credit losses:			
Recognition of ECL on financial assets at FVOCI	A/	58,500	58,500
		2,351,993	2,351,993
Opening balance under PFRS 9 (January 1, 2018)		(₱688,514)	(₱688,514)
Surplus			
Closing balance under PAS 39 (December 31, 2017)		₱38,831,522	₱38,831,716
Classification and measurement:			
Reversal of allowance on AFS equity invesments reclassified to financial assets at FVOCI	E/	625,500	625,500
Reclassification of net unrealized losses from Surplus (FVOCI to FVTPL)	D/	4,820	4,820
Reversal of amortized net unrealized losses on previously reclassified AFS investments to HTM investments	F/	101,718	101,718
		732,038	732,038
Expected credit losses:			
Recognition of ECL on financial assets at FVOCI	A/	(58,500)	(58,500)
Recognition of ECL on financial assets at amortized cost	H/	(2,798,635)	(1,936,823)
Share in impact of PFRS 9 adoption by subsidiaries		–	(861,812)
Income tax effect		464,978	464,978
		(2,392,157)	(2,392,157)
		(1,660,119)	(1,660,119)
Opening balance under PFRS 9 (January 1, 2018)		₱37,171,403	₱37,171,597

The following explains how applying the new classification requirements of PFRS 9 led to changes in classification of certain financial assets of the Group and Parent Company on January 1, 2018:

- Certain equity investment securities previously classified as financial assets at FVTPL with carrying value of ₱0.69 million were reclassified to financial assets at FVOCI in compliance with the defined business models.
- Certain debt instruments previously classified as AFS investments with carrying value of ₱36.85 billion for the Group and ₱36.12 billion for the Parent Company were reclassified to investment securities at amortized cost since the business model is to collect contractual cash flows up until its corresponding maturities.

- The Group has elected the option to irrevocably designate some of its AFS equity investments with carrying value of ₱803.40 million for the Group and ₱664.23 million for the Parent Company as at financial assets at FVOCI.
- Certain equity investments of the Group and Parent Company previous classified as AFS investments with carrying value of ₱488.07 million and ₱486.80 million, respectively, were reclassified to financial assets at FVTPL in compliance with the defined business model.
- A portion of its previously held-to-maturity investments with carrying value of ₱17.60 billion were reclassified to financial assets at FVOCI. Certain unquoted debt securities previously classified as 'loans and receivables' with carrying value of ₱10.4 billion were transferred to financial assets at FVOCI. These debt securities are managed to collect contractual cash flows and sell to realize fair value changes prior to maturities of the securities.

The table below presents a reconciliation of the prior period's closing impairment allowance measured in accordance with PAS 39 to the opening impairment allowance determined in accordance with PFRS 9 as of January 1, 2018:

Consolidated

Measurement category	Impairment Allowance under PAS 39	Transition adjustment	Impairment Allowance Under PFRS 9
Loans and receivables			
Receivables from customers	₱8,496,015	₱2,509,248	₱11,005,263
Unquoted debt securities *	3,739,983	(3,683,233)	56,750
Other receivables	3,528,062	261,095	3,789,157
Financial assets at FVOCI**	–	58,500	58,500
Investment securities at amortized cost	–	3,711,523	3,711,523
	₱15,764,060	₱2,857,133	₱18,621,193

**Certain unquoted debt securities were transferred to Investment securities at amortized cost as part of the adoption of PFRS 9*
***Recognized in other comprehensive income*

Parent Company

Measurement category	Impairment Allowance under PAS 39	Transition adjustment	Impairment Allowance Under PFRS 9
Loans and receivables			
Receivables from customers	₱7,549,863	₱1,908,533	₱9,458,396
Unquoted debt securities *	3,683,232	(3,683,232)	–
Other receivables	3,272,232	–	3,272,232
Financial assets at FVOCI**	–	58,500	58,500
Investment securities at amortized cost	–	3,711,523	3,711,523
	₱14,505,327	₱1,995,324	₱16,500,651

**Certain unquoted debt securities were transferred to Investment securities at amortized cost as part of the adoption of PFRS 9*
***Recognized in other comprehensive income*

PFRS 15, *Revenue from Contracts with Customers*
PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue. The new revenue standard is applicable to all entities and supersedes all current revenue recognition requirements under PFRSs. The Group adopted PFRS 15 using the modified retrospective application with the date of initial application of January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group elected to apply the standard to all contracts as at January 1, 2018.

Reward points program on credit card business
Prior to the adoption of PFRS 15, reward points program offered by the Parent Company to its credit card customers resulted in the allocation of a portion of the service fee (interchange fee) to the reward points using the fair value of points issued and recognition of deferred revenue in relation to points issued but not yet redeemed or expired. The Parent Company concluded that under PFRS 15 these reward points constitute a separate performance obligation because they provide a material right to credit card customers and a portion of the service fee was allocated to the rewards points earned by the customers. The Parent Company determined that, considering the relative stand-alone transaction prices, the amount attributable to earned reward points was lower compared to the previous accounting policy. The change did not have a material impact on the deferred revenue related to the amount attributable to earned reward points.

There were no adjustments recognized to the opening balances of surplus as at January 1, 2018 as the adoption of PFRS 15 did not materially impact the Group's accounting of revenues from service charges, fees and commissions and gains or losses from sale of investment properties.

PFRS 4 (Amendments), *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

Significant Accounting Policies

Business Combinations and Goodwill
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred at acquisition date fair value and the amount of any NCI in the acquiree. For each business combination, the Group elects whether to measure the NCI in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group, as an acquirer, shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group as an acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognized as of that date. During the measurement period, the Group as an acquirer shall also recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends as soon as the Group as an acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income. Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with changes in fair value recognized either in the consolidated statement of income or as a change to OCI. If the contingent consideration is not within the scope of PFRS 9, it is measured at fair value at each reporting date with changes in fair value recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for NCI over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the consolidated statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's CGUs that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a CGU and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in this circumstance is measured based on the relative values of the disposed operation and the portion of the CGU retained.

Where there are business combinations in which all the combining entities within the Group are ultimately controlled by the same ultimate parent before and after the business combination and that the control is not transitory ("business combinations under common control"), the Group accounts such business combinations under the purchase method of accounting, if the transaction was deemed to have substance from the perspective of the reporting entity. In determining whether the business combination has substance, factors such as the underlying purpose of the business combination and the involvement of parties other than the combining entities such as the NCI, shall be considered.

In cases where the business combination has no substance, the Group shall account for the transaction similar to a pooling of interests. The assets and liabilities of the acquired entities and that of the Group are reflected at their carrying values. The difference in the amount recognized and the fair value of the consideration given, is accounted for as an equity transaction, i.e., as either a contribution or distribution of equity. Further, when a subsidiary is disposed in a common control transaction, the difference in the amount recognized and the fair value consideration received, is also accounted for as an equity transaction.

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 plan to sell the asset and the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

A disposal group qualifies as discontinued operation if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- Is a subsidiary acquired exclusively with a view to resale

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of income.

Refer to Note 36 for the detailed disclosure on discontinued operations. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Foreign Currency Translation

The financial statements are presented in PHP, which is also the Parent Company's functional currency. The books of accounts of the RBU are maintained in PHP while those of the FCDU are maintained in USD. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency.

Transactions and balances

As at reporting date, foreign currency-denominated monetary assets and liabilities in the RBU are translated in Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of year, and for foreign currency-denominated income and expenses at the exchange rates prevailing at transaction dates. Foreign exchange differences arising from revaluation of foreign currency-denominated monetary assets and liabilities of the entities are credited to or charged against operations in the period in which foreign exchange rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e. translation differences on items whose fair value gair or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively.)

FCDU and overseas subsidiaries

As at the reporting date, the assets and liabilities of the FCDU and overseas subsidiaries are translated into the Parent Company's presentation currency (the Philippine peso) at the closing rate prevailing at the reporting date, and their income and expenses are translated at the average exchange rate for the year. Exchange differences arising on translation are taken directly to OCI under 'Accumulated Translation Adjustment'. Upon disposal of a foreign entity or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in OCI relating to the particular foreign operation is recognized in the statement of income.

Insurance Product Classification
Insurance contracts are those contracts where the Group (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. As a general guideline, the Group determines whether it has significant insurance risk, by comparing benefits paid with benefits payable if the insured event did not occur. Insurance contracts can also transfer financial risk.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of price or rates, a credit rating or credit index or other variable. Investment contracts mainly transfer financial risk but can also transfer insignificant insurance risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or has expired. Investment contracts, however, can be reclassified to insurance contracts after inception if the insurance risk becomes significant.
All non-life insurance products issued by the Group meet the definitions of insurance contract.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items (COCI), amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell that are convertible to known amounts of cash, with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in fair value. Due from BSP includes statutory reserves required by the BSP, which the Group considers as cash equivalents wherein drawings can be made to meet cash requirements.

Fair Value Measurement
The Group measures financial instruments such as financial assets and liabilities at FVTPL and financial assets at FVOCI/AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost and investment properties are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If an asset or a liability measured at fair value has a bid price and ask price, the price within the bid-ask spread is the most representative of fair value in the circumstance shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy. A fair value measurement of a nonfinancial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described in Note 5, based on the lowest level input that is significant to the fair value measurement as a whole.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Financial Instruments – Classification and Subsequent Measurement of Financial Assets

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date, the date that an asset is delivered to or by the Group. Derivatives are recognized on trade date basis (i.e., the date that the Group commits to purchase or sell). Deposits, amounts due to banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value. Except for financial instruments at FVTPL, the initial measurement of financial instruments includes transaction costs.

Derivatives recorded at FVTPL

The Parent Company and some of its subsidiaries are counterparties to derivative contracts, such as currency forwards, currency swaps, interest rate swaps and warrants. These contracts are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value. Any gains or losses arising from changes in fair values of derivatives are taken directly to the statement of income and are included in 'Trading and investment securities gains - net' except for currency forwards and currency swaps, where fair value changes are included under 'Foreign exchange gains - net'. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Policies applicable beginning January 1, 2018

Financial assets are measured at FVTPL unless these are measured at FVOCI or at amortized cost. Financial liabilities are classified as either financial liabilities at FVTPL or financial liabilities at amortized cost.

The classification of financial assets depends on the contractual terms and the business model for managing the financial assets. Subsequent to initial recognition, the Group may reclassify its financial assets only when there is a change in its business model for managing these financial assets. Reclassification of financial liabilities is not allowed.

The Group first assesses the contractual terms of financial assets to identify whether they pass the contractual cash flows test (SPPI test). For the purpose of the SPPI test, principal is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium or discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. In contrast, contractual terms that introduce a more than insignificant exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI. In such cases, the financial asset is required to be measured at FVTPL. Only financial assets that pass the SPPI test are eligible to be measured at FVOCI or at amortized cost.

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at Financial assets at FVTPL, irrespective of the business model. Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of income.

Financial Assets at FVOCI
Financial assets at FVOCI include debt and equity securities. After initial measurement, financial assets at FVOCI are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of investment securities at FVOCI are excluded, net of tax as applicable, from the reported earnings and are included in the statement of comprehensive income as 'Change in net unrealized loss on financial assets at FVOCI'.

Debt securities at FVOCI are those that meet both of the following conditions: (i) the asset is held within a business model whose objective is to hold the financial assets in order to both collect contractual cash flows and sell financial assets; and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. The effective yield component of debt securities at FVOCI, as well as the impact of restatement on foreign currency-denominated debt securities at FVOCI, is reported in the statement of income. Interest earned on holding debt securities at debt securities at FVOCI are reported as 'Interest income' using the effective interest rate (EIR) method. When the debt securities at FVOCI are disposed of, the cumulative gain or loss previously recognized in the statement of comprehensive income is recognized as 'Trading and securities gain (loss) - net' in the statement of income. The ECL arising from impairment of such investments are recognized in OCI with a corresponding charge to 'Provision for credit and impairment losses' in the statement of income.

Equity securities designated at FVOCI are those that the Group made an irrevocable election at initial recognition to present in OCI the subsequent changes in fair value. Dividends earned on holding equity securities at FVOCI are recognized in the statement of income as 'Dividends' when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Gains and losses on disposal of these equity securities are never recycled to profit or loss, but the cumulative gain or loss previously recognized in the statement of comprehensive income is reclassified to 'Surplus' or any other appropriate equity account upon disposal. Equity securities at FVOCI are not subject to impairment assessment.

Financial assets at amortized cost
Financial assets at amortized cost are debt financial assets that meet both of the following conditions: (i) these are held within a business model whose objective is to hold the financial assets in order to collect contractual cash flows; and (ii) the contractual terms give rise on specified dates to cash flows that are SPPI on the outstanding principal amount. This accounting policy relates to the statement of financial position captions 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and securities purchased under resale agreements (SPURA)', 'Investment securities at amortized cost', 'Loans and receivables' and those under other assets.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from credit losses are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

Policies applicable prior to January 1, 2018
The Group classifies its financial assets in the following categories: financial assets at FVTPL, held-to-maturity (HTM) investments, AFS investments, and loans and receivables. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date. Financial liabilities are classified into financial liabilities at FVTPL and other financial liabilities at amortized cost.

Financial assets or financial liabilities held-for-trading
Financial assets or financial liabilities held for trading (classified as 'Financial Assets at FVTPL' or 'Financial Liabilities at FVTPL') are recorded in the statement of financial position at fair value. Changes in fair value relating to the held-for-trading (HFT) positions are recognized in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt and equity securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

Designated financial assets or financial liabilities at FVTPL
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- the assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVTPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Trading and investment securities gains - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

HTM investments
HTM investments are quoted, non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group has the positive intention and ability to hold to maturity. Where the Group sells or reclassifies other than an insignificant amount of HTM investments before maturity (other than in certain specific circumstances), the entire category would be tainted and reclassified as AFS investments. Once tainted, the Group is prohibited from classifying investments under HTM for at least the following two financial years.

After initial measurement, these investments are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in the statement of income when the HTM investments are derecognized and impaired, as well as through the amortization process. Losses arising from impairment of such investments are recognized in the statement of income under 'Provision for impairment, credit and other losses'. The effects of revaluation on foreign currency-denominated HTM investments are recognized as 'Foreign exchange gains-net' in the statement of income.

Loans and receivables
Significant accounts falling under this category are 'Loans and Receivables', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held Under Agreements to Resell'. These are non-derivative financial assets with fixed or determinable payments and fixed maturities and are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets at FVTPL or designated as AFS investments.

'Loans and Receivables' also include receivables arising from transactions on credit cards issued directly by the Parent Company. Furthermore, 'Loans and Receivables' include the aggregate rental on finance lease transactions and notes receivables financed by PNB-IBJL Leasing and Finance Corporation (PILFC) and Allied Leasing and Finance Corporation (ALFC). Unearned income on finance lease transactions is shown as a deduction from 'Loans and Receivables' (included in 'Unearned and other deferred income').

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income. Losses arising from impairment are recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
AFS investments are those which are designated as such or do not qualify to be classified as 'Financial Assets at FVPL', 'HTM Investments' or 'Loans and Receivables'. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. They include debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in the statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported income and are reported as 'Net change in unrealized gain (loss) on AFS investments' in the statement of comprehensive income.

When the security is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as 'Trading and investment securities gains - net' in the statement of income. Interest earned on holding AFS debt investments are reported as 'Interest income' using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statement of income as 'Miscellaneous income' when the right of payment has been established. Losses arising from impairment of such investments are recognized as 'Provision for impairment, credit and other losses' in the statement of income.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVTPL, are classified as 'Deposit Liabilities', 'Bills and Acceptances Payable', 'Subordinated Debt' and other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, other financial liabilities not qualified as and not designated at FVTPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Reclassification of financial assets
The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for purposes of selling it in the near term and only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the AFS investments category if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

The Group may also reclassify certain AFS investments to HTM investments when there is a change of intention and the Group has the ability to hold the financial instruments to maturity.

For reclassifications from AFS, the fair value carrying amount at the date of reclassification becomes the new amortized cost and any previous gain or loss that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest method.

Derecognition of Financial Assets and Liabilities

Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred control over the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Repurchase and Reverse Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date ('repos') are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The Group is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral. The corresponding cash paid, including accrued interest, is recognized on the statement of financial position as 'Securities Held Under Agreements to Resell', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Impairment of Financial Assets

Policies applicable beginning January 1, 2018

Overview of the ECL principles

The adoption of PFRS 9 has changed the Group's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach which covers all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no SICR of the financial asset since origination. Otherwise if a SICR is observed, then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

Stage Migration and Significant Increase in Credit Risk
Financial instruments subject to the ECL methodology are categorized into three stages:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. Entities are required to recognize 12-month ECL for stage 1 financial instruments. In assessing whether credit risk has increased significantly, entities are required to compare the risk of a default occurring on the financial instrument as at the reporting date, with the risk of a default occurring on the financial instrument as at the date of initial recognition.

- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. Entities are required to recognize lifetime ECL for stage 2 financial instruments. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, then entities shall revert to recognizing 12-month ECL.

- Financial instruments are classified as stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial instrument or a portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments, which is similar to the requirements under PAS 39 for impaired financial instruments.

Definition of "Default" and "Cure"
A default is considered to have occurred when (a) the obligor is past due for more than 90 days on any material credit obligation to the Group, or (b) the obligor is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing collateral, as applicable. An instrument is considered to be no longer in default when it no longer meets any of the default criteria and has exhibited satisfactory and acceptable track record for six consecutive payment periods, subject to applicable rules and regulations of the BSP.

Determining Significant Increase in Credit Risk
At each reporting date, the Group shall assess whether the credit risk on a loan or credit exposure has increased significantly since initial recognition. The Group's assessment of SICR involves looking at (a) quantitative element, (b) qualitative element, and (c) if unpaid for at least 30 days ("backstop").

The quantitative element is being looked through statistical models or credit ratings process or scoring process that captures certain information which the Group shall consider as relevant in assessing changes in credit risk. The Group may also look at the number of notches downgrade of credit risk rating (CRR) or certain thresholds for the probabilities of default being generated from statistical models to determine whether SICR has occurred subsequent to initial recognition date.

Staging Transfer
Credit exposures shall be transferred from Stage 1 to Stage 2 if there is SICR from initial recognition date. Exposures shall be classified as Stage 2 if (a) the exposure have potential weaknesses, based on current and/or forward-looking information, that warrant management's close attention. Said weaknesses, if left uncorrected, may affect the repayment of these exposures. (b) If there are adverse or foreseen adverse economic or market conditions that may affect the counterparty's ability to meet the scheduled repayments in the future.

Exposures shall be transferred from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to their transfer. Quantitative indicator is characterized by payments made within an observation period. Qualitative indicator pertains to the results of assessment of the borrower's financial capacity.

As a general rule, full collection is probable when payments of interest and/or principal are received for at least six months.

Modified or Restructured Loans and Other Credit Exposures
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. Such modifications can be provided depending on the borrower's current or expected financial difficulties. Modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date and schedule of periodic payments.

If a loan or credit exposure has been renegotiated or modified, and was not derecognized, the Group shall assess whether there has been a SICR by comparing the (a) risk of default at reporting date based on modified terms, and the (b) risk of default at initial recognition date based on original terms.

Purchased or Originated Credit-Impaired Loans
A loan is considered as credit-impaired on purchase or origination if there is evidence of impairment at the time of initial recognition (i. e., acquired/purchased at a deep discounted price). The Group shall only recognize the cumulative changes in lifetime ECL since initial recognition as a loss allowance for purchased or originated credit-impaired loan.

Measurement of ECL
ECLs are generally measured based on the risk of default over one of two different time horizons, depending on whether there has been SICR since initial recognition. ECL calculations are based on the following components:

- Probability of default (PD) - an estimate of the likelihood that a borrower will default on its obligations over the next 12 months for Stage 1 or over the remaining life of the credit exposure for Stages 2 and 3.
- Exposure-at-default (EAD) - an estimate of the exposure at a future/default date taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, expected drawdown on committed facilities and accrued interest from missed payments.
- Loss-given-default (LGD) - an estimate of the loss arising in case where defaults occurs at a given time. It is based on the difference between the contractual cash flow due and those that the Group would expect to receive, including from any collateral.
- Discount rate - represents the rate to be used to discount an expected loss to a present value at the reporting date using the original effective interest rate determined at initial recognition.

Forward-looking information shall be considered in estimating/determining the 12-month and lifetime PD, EAD and LGD depending on the credit exposure.

Macroeconomic Forecasts, Forward-looking Information and Probability-weighted Scenarios
ECL measurement is determined by evaluating a range of possible outcomes and using reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Experienced credit judgment is essential in assessing the soundness of forward-looking information and in ensuring that these are adequately supported.

Forward-looking macroeconomic information and scenarios shall consider:
- Factors that may affect the general economic or market conditions in which the Group operates, such as gross domestic product growth rates, foreign exchange rates, inflation rate, etc.
- Changes in government policies, rules and regulations, such as adjustments to policy rates
- Other factors pertinent to the Group, including the proper identification and mitigation of risks such as incidences of loan defaults/losses, etc.

The Group applied a simplified ECL approach for its other loans and receivables wherein the Group uses a provisioning matrix that considers historical changes in the behavior of the portfolio to product conditions over the span of a given observation period.

Policies applicable prior to January 1, 2018
The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment securities at amortized cost
For financial assets carried at amortized costs such as 'Loans and Receivables', 'HTM Investments', 'Due from BSP', 'Due from Other Banks', 'Interbank Loans Receivable' and 'Securities Held under Agreements to Resell', the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognized, are not included in a collective assessment for impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in property prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original EIR of the asset. Loans and receivables, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. If a future write-off is later recovered, any amounts formerly charged are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income.

The consumer loans and credit card receivables of the Group are assessed for impairment collectively because these receivables are not individually significant. The carrying amount of these receivables is reduced for impairment through the use of an allowance account and the amount of loss is recognized under 'Provision for impairment, credit and other losses' in the statement of income. Consumer loans and credit card receivables, together with the associated allowance accounts, are written off if the accounts are 360 days past due and 180 days past due, respectively. If a write-off is later recovered, any amounts formerly charged to allowance for credit losses are credited to 'Recoveries' under 'Miscellaneous income' in the statement of income. Past due accounts include accounts with no payments or with payments less than the minimum amount due on or before the due dates.

The allowance for credit losses of consumer loans and credit card receivables are determined based on the net flow rate methodology. Net flow tables are derived from account-level monitoring of monthly movements between different stage buckets, from 1-day past due to 180-days past due. The net flow rate methodology relies on the last 60 months for consumer loans and 24 months for credit card receivables of net flow tables to establish a percentage (net flow rate) of receivables that are current or in any state of delinquency (i.e., 30, 60, 90, 120, 150 and 180 days past due) as of the reporting date that will eventually result in write-off. The gross provision is then computed based on the outstanding balances of the receivables as of the reporting date and the net flow rates determined for the current and each delinquency bucket.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in 'Provision for impairment, credit and other losses' in the statement of income.

AFS investments
For AFS investments, the Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of equity investments classified as AFS investments, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats 'significant' generally as 20.00% or more and 'prolonged' greater than 12 months. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equity securities and the future cash flows and the discount factors for unquoted equity securities. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income - is removed from equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in OCI.

In the case of debt instruments classified as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of 'Interest income' in the statement of income. If subsequently, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

Reinsurance assets
An impairment review is performed at each reporting period date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when objective evidence exists that the Group may not recover outstanding amounts under the terms of the contract and when the impact on the amounts that the Group will receive from the reinsurer can be measured reliably. The impairment loss is charged against the consolidated statement of income.

Financial Guarantees and undrawn loan commitments
In the ordinary course of business, the Group gives loan commitments and financial guarantees consisting of letters of credit, letters of guarantees, and acceptances.

Financial guarantees on trade receivables are initially recognized in the financial statements at fair value under 'Bills and Acceptances Payable' or 'Other Liabilities'. Subsequent to initial recognition, the Group's liabilities under such guarantees are each measured at the higher of the initial fair value less, when appropriate, cumulative amortization calculated to recognize the fee in the statement of income in 'Service fees and commission income', over the term of the guarantee, and under PAS 39, the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantee.

Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Starting January 1, 2018, these contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life.

Nonlife Insurance Contract Liabilities
Insurance contract liabilities are recognized when contracts are entered into and premiums are charged.

Claims provisions and incurred but not reported (IBNR) losses
Outstanding claims provisions are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of which cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money and includes provision for claims IBNR. No provision for equalization or catastrophic reserves is recognized. The liability is derecognized when the contract, is discharged or cancelled and has expired.

Provision for unearned premiums
The proportion of written premiums, gross of commissions payable to intermediaries, attributable to subsequent periods or to risks that have not yet expired is deferred as provision for unearned premiums. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method except for the marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at the reporting date are accounted for as provision for unearned premiums and presented as part of "Insurance contract liabilities" in the liabilities section of the statement of financial position. The change in the provision for unearned premiums is taken to the statement of income in the order that revenue is recognized over the period of risk. Further provisions are made to cover claims under unexpired insurance contracts which may exceed the unearned premiums and the premiums due in respect of these contracts.

Liability adequacy test
At each reporting date, liability adequacy tests are performed, to ensure the adequacy of insurance contract liabilities, net of related deferred acquisition costs. In performing the test, current best estimates of future cash flows, claims handling and policy administration expenses, as well as investment income from assets backing such liabilities, are used. Changes in expected claims that have occurred, but which have not been settled, are reflected by adjusting the liability for claims and future benefits. Any inadequacy is immediately charged to the statement of income by establishing an unexpired risk provision for losses arising from the liability adequacy tests. The provision for unearned premiums is increased to the extent that the future claims and expenses in respect of current insurance contracts exceed future premiums plus the current provision for unearned premiums.

Investments in Subsidiaries
Subsidiaries pertain to entities over which the Group has control. The existence and effect of potential voting rights that are currently exercisable or convertible and qualitative criteria are considered when assessing whether the Group controls another entity (see Basis of Consolidation). In the Parent Company separate financial statements, investments in subsidiaries are accounted for under equity method of accounting similar to investment in an associate.

Investments in an Associate and Joint Ventures
Associates pertain to all entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. Investment in an associate are accounted for under equity method of accounting.

Under the equity method, the investments in an associate and joint ventures are carried in the statement of financial position at cost plus post-acquisition changes in the share in the net assets of the associates and joint ventures. The statement of comprehensive income reflects the share of the results of operations of the associates and joint ventures. When there has been a change recognized in the investee's other comprehensive income, the Group recognizes its share of any changes and discloses this, when applicable, in the other comprehensive income in the statement of comprehensive income. Profits and losses arising from transactions between the Group and the associates are eliminated to the extent of the interest in the associates and joint ventures.

Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the statement of income.

Revenue Recognition
Prior to January 1, 2018, under PAS 18, *Revenue*, revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those services.

The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements except for brokerage transactions. The following specific recognition criteria must also be met before revenue is recognized within the scope of PFRS 15:

Service fees and commission income
The Group earns fee and commission income from diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

a) *Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include investment fund fees, custodian fees, fiduciary fees, credit-related fees, trust fees, portfolio and other management fees, and advisory fees. However, commitment fees for loans that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

b) *Bancassurance fees*
Non-refundable access fees are recognized on a straight-line basis over the term of the period of the provision of the access.

Milestone fees or variable and fixed earn-out fees are recognized in reference to the stage of achievement of the milestones.

c) *Fee income from providing transaction services*
Fees arising from negotiating or participating in the negotiation of a transaction for a third party - such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses - are recognized on completion of the underlying transaction.

Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria. These fees include underwriting fees, corporate finance fees, remittance fees, brokerage fees, commissions, deposit-related and other credit-related fees. Loan syndication fees are recognized in the statement of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as the other participants.

The Bank assessed that there is no difference in accounting for service fees and commission income under PFRS 15 and PAS 18.

Interchange fee and revenue from rewards redeemed
'Interchange fees' are taken up as income under 'Service fees and commission income' upon receipt from member establishments of charges arising from credit availments by the Group's cardholders. These discounts are computed based on certain agreed rates and are deducted from amounts remitted to the member establishments.

The Group operates a loyalty points program which allows customers to accumulate points when they purchase from member establishments using the issued card of the Group. The points can then be redeemed for free products subject to a minimum number of points being redeemed.

Prior to the adoption of PFRS 15, consideration received is allocated between the discounts earned, interchange fee and the points earned, with the consideration allocated to the points equal to its fair value. The fair value is determined by applying statistical analysis. The fair value of the points issued is deferred and recognized as revenue when the points are redeemed or have expired. The deferred balance is included under 'Other liabilities' in the statement of financial position.

Upon adoption of PFRS 15 beginning January 1, 2018, the Group allocates a portion of the consideration received from discounts earned and interchange fees from credit cards to the reward points based on the estimated stand-alone selling prices. The amount allocated to the loyalty program is deferred, and is recognized as revenue when loyalty points are redeemed or the likelihood of the customer redeeming the loyalty points becomes remote.

Commissions earned on credit cards
Commissions earned are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments.

Purchases by the credit cardholders, collectible on installment basis, are recorded at the cost of the items purchased plus certain percentage of cost. The excess over cost is credited to 'Unearned and other deferred income' and is shown as a deduction from 'Loans and receivables' in the statement of financial position. The unearned and other deferred income is taken up to income over the installment terms and is computed using the effective interest method.

Other income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process (i.e., upon transfer of control under PFRS 15 and transfer of risks and rewards under PAS 18) and when the collectability of the sales price is reasonably assured.

Revenues outside the scope of PFRS 15:

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments classified as investment securities at FVOCI/AFS investments, interest income is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as ‘Interest income’.

Under PFRS 9, when a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in “Impairment of Financial Assets” above), the Group calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Group reverts to calculating interest income on a gross basis. Under PAS 39, once the recorded value of a financial asset or group of similar financial assets carried at amortized cost has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Commission earned on reinsurance
Reinsurance commissions are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertain to the premiums for the last two months of the year. The portion of the commissions that relates to the unexpired periods of the policies at the end of the reporting period is accounted for as ‘Insurance contract liabilities.’

Dividend income
Dividend income is recognized when the Group’s right to receive payment is established.

Trading and investment securities gains - net
‘Trading and investment securities gains - net’ includes results arising from trading activities, all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL and gains and losses from disposal of financial assets at FVOCI/AFS investments.

Rental income
Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is recorded in the statement of income under ‘Miscellaneous income’.

Income on direct financing leases and receivables financed
Income of the Group on loans and receivables financed is recognized using the effective interest method.

Unearned discounts included under 'Unearned and other deferred income' which are amortized over the term of the note or lease using the effective interest method consist of:
- transaction and finance fees on finance leases and loans and receivables financed with long-term maturities; and
- excess of the aggregate lease rentals plus the estimated residual value of the leased equipment over its cost.

Premiums revenue
Gross insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period. Premiums include any adjustments arising in the accounting period for premiums receivable in respect of business written in prior periods. Premiums from short-duration insurance contracts are recognized as revenue over the period of the contracts using the 24^{th} method except for marine cargo where the provision for unearned premiums pertains to the premiums for the last two months of the year. The portion of the premiums written that relate to the unexpired periods of the policies at end of reporting period are accounted for as provision for unearned premiums. The related reinsurance premiums ceded that pertain to the unexpired periods at the end of the reporting periods are accounted for as deferred reinsurance premiums. The net changes in these accounts between ends of the reporting periods are credited to or charged against the consolidated statement of income for the period.

Expenses
Expenses encompass losses as well as those expenses that arise in the course of the ordinary activities of the Group. Expenses are recognized when incurred.

Taxes and licenses
This includes all other taxes, local and national, including gross receipts taxes (GRT), documentary stamp taxes, real estate taxes, licenses and permit fees that are recognized when incurred.

Reinsurance
The Group cedes insurance risk in the normal course of business. Reinsurance assets represent balances due from reinsurance companies. Recoverable amounts are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contract. When claims are paid, such reinsurance assets are reclassified to 'Loans and receivables' (Note 36).

Ceded reinsurance arrangements do not relieve the Group from its obligations to policyholders. The Group also assumes reinsurance risk in the normal course of business for insurance contracts. Premiums and claims on assumed reinsurance are recognized as income and expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to ceding companies. Amounts payable are estimated in a manner consistent with the associated reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expired or when the contract is transferred to another party.

When the Group enters into a proportional treaty reinsurance agreement for ceding out its insurance business, the Group initially recognizes a liability at transaction price. Subsequent to initial recognition, the portion of the amount initially recognized as a liability which is presented under 'Liabilities of disposal group' will be withheld and recognized as Funds held for reinsurers and included as part of 'Liabilities of disposal group' in the consolidated statement of financial position. The amount withheld is generally released after a year.

Deferred Acquisition Cost (DAC)
Commission and other acquisition costs incurred during the financial period that vary with and are related to securing new insurance contracts and/or renewing existing insurance contracts, but which relates to subsequent financial periods, are deferred to the extent that they are recoverable out of future revenue margins. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, these costs are amortized using the 24thmethod except for marine cargo where the DAC pertains to the commissions for the last two months of the year. Amortization is charged to 'Service fees and commission expense' in the consolidated statement of income. The unamortized acquisition costs are shown as 'Deferred acquisition costs' in the assets section of the consolidated statement of financial position.

An impairment review is performed at each end of the reporting period or more frequently when an indication of impairment arises. The carrying value is written down to the recoverable amount and the impairment loss is charged to the consolidated statement of income. The DAC is also considered in the liability adequacy test for each reporting period.

Property and Equipment
Land is stated at cost less any impairment in value and depreciable properties such as buildings, long-term leasehold land, leasehold improvements, and furniture, fixture and equipment are stated at cost less accumulated depreciation and amortization and any impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after items of property and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Long-term leasehold land is amortized over the term of the lease. Leasehold improvements are amortized over lease term and the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives follow:

	Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Long-term leasehold land	46 - 50
Leasehold improvements	10 or the lease term, whichever is shorter

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the period the asset is derecognized.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be reliably measured in which case the investment property acquired is measured at the carrying amount of asset given up. Any gain or loss on exchange is recognized in the statement of income under ‘Net gain on sale or exchange of assets’.

Foreclosed properties are classified under ‘Investment Properties’ upon:

a. entry of judgment in case of judicial foreclosure;
b. execution of the Sheriff’s Certificate of Sale in case of extra-judicial foreclosure; or
c. notarization of the Deed of Dacion in case of payment in kind (dacion en pago).

Subsequent to initial recognition, investment properties are carried at cost less accumulated depreciation (for depreciable investment properties) and any impairment in value.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the depreciable investment properties ranging from 10 to 25 years.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under ‘Net gain on sale or exchange of assets’ in the period of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which the costs are incurred.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other Properties Acquired

Other properties acquired include chattel mortgage properties acquired in settlement of loan receivables. These are carried at cost, which is the fair value at recognition date, less accumulated depreciation and any impairment in value.

The Group applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the estimated useful life of five years. The estimated useful life and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.

The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts (see accounting policy on Impairment of Nonfinancial Assets).

Intangible Assets
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the respective useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income as the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Software costs
Software costs, included in 'Intangible Assets', are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis. The estimated useful life and the amortization method are reviewed periodically to ensure that the period and the method of amortization are consistent with the expected pattern of economic benefits from the software. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Customer relationship and core deposit intangibles
Customer relationship intangibles (CRI) and core deposit intangibles (CDI) are the intangible assets acquired by the Group through business combination. These intangible assets are initially measured at their fair value at the date of acquisition. The fair value of these intangible assets reflects expectations about the probability that the expected future economic benefits embodied in the asset will flow to the Group.

Following initial recognition, customer relationship and core deposit are measured at cost less accumulated amortization and any accumulated impairment losses. Customer relationship related to the commercial loans business is amortized on a straight-line basis over its useful life of 3 years while core deposit is amortized on a straight-line basis over its useful life of 10 years.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, intangible assets and other properties acquired

At each reporting date, the Group assesses whether there is any indication that its property and equipment, investment properties, intangibles and other properties acquired with finite useful lives may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against operations in the period in which it arises. An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such reversal, the depreciation and amortization expense is adjusted in future period to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Investments in subsidiaries and an associate

The Parent Company assesses at each reporting date whether there is any indication that its investments in subsidiaries and an associate may be impaired. If any impairment indication exists, the Parent Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Goodwill

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated (or to the aggregate carrying amount of a group of CGUs to which the goodwill relates but cannot be allocated), an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. The Group performs its annual impairment test of goodwill every fourth quarter, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Leases
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as lessee
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments and included in 'Property and Equipment' account with the corresponding liability to the lessor included in 'Other Liabilities' account. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to 'Interest expense'.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Finance leases, where the Group transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and Receivables' account. A lease receivable is recognized at an amount equivalent to the net investment (asset cost) in the lease. All income resulting from the receivable is included in 'Interest income' in the statement of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Lease payments received are recognized as an income in the statement of income on a straight line basis over the lease term. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the sale of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee when the lessee decides to buy the leased asset.

Retirement Benefits

Defined benefit plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets and adjusted for any effect of limiting a net defined benefit asset to the asset ceiling, if any. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

a. service cost;
b. net interest on the net defined benefit liability or asset; and
c. remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled wholly before twelve months after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under 'Accrued Taxes, Interest and Other Expenses' in the statement of financial position.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingent Liabilities and Contingent Assets

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Income Taxes

Income tax on profit and loss for the year comprises current and deferred tax. Income tax is determined in accordance with tax laws and is recognized in the statement of income, except to the extent that it relates to items directly recognized in OCI.

Current tax

Current tax assets and liabilities for the current periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries and an associate. With respect to investments in foreign subsidiaries and associates, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI and not in the statement of income.

In the consolidated financial statements, deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes related to the same taxable entity and the same taxation authority.

Parent Company Shares Held by a Subsidiary
Own equity instruments which are acquired by subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. No gain or loss is recognized in the consolidated statement of income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments.

Earnings per Share
Basic earnings per share (EPS) is computed by dividing net income for the period attributable to common shareholders by the weighted average number of common shares outstanding during the period after giving retroactive effect to stock dividends declared and stock rights exercised during the period, if any. Diluted EPS is calculated by dividing the aggregate of net income attributable to common shareholders by the weighted average number of common shares outstanding during the period adjusted for the effects of any dilutive shares.

Dividends
Dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Parent Company and subsidiaries. Dividends for the period that are approved after the reporting date are dealt with as an event after the reporting date.

Share-based Payment
Employees of the Parent Company receive remuneration in the form of share-based payments, where employees render services as consideration for equity instruments. The cost of equity-settled transactions is determined by the fair value at the date when the grant is made. That cost is recognized in "Compensation and fringe benefits", together with a corresponding increase in equity (other equity reserves), over the period in which the service is fulfilled. The cumulative expense recognized for equity settled transactions at each reporting date until the vesting date reflects to the extent to which the vesting period has expired and the Parent Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of income for a period represents the movement in the cumulative expense recognized as at the beginning and end of the period.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments (other than debt instruments designated at FVPL) are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are included in the measurement of the related carrying value of the debt instruments in the statement of financial position.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred. Borrowing costs consist of interest expense calculated using the effective interest method that the Group incurs in connection with borrowing of funds.

Events after the Reporting Date
Any post-year-end event that provides additional information about the Group's position at the reporting date (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Refer to Note 6 for the detailed disclosure on segment information.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Capital Paid in Excess of Par Value' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are chargeable to 'Capital Paid in Excess of Par Value' account. If the 'Capital Paid in Excess of Par Value' is not sufficient, the excess is charged against the 'Surplus'.

'Surplus' represents accumulated earnings (losses) of the Group less dividends declared.

Equity Reserves
The reserves recorded in equity in the statement of financial position include:

'Remeasurement Losses on Retirement Plan' which pertains to remeasurement comprising actuarial losses on the present value of the retirement obligation, net of return on plan assets.

'Accumulated Translation Adjustment' which is used to record exchange differences arising from the translation of the FCDU accounts and foreign operations (i.e. overseas branches and subsidiaries) to Philippine peso.

'Net Unrealized Loss on Available-for-Sale Investments'/'Net Unrealized loss on FVOCI' which comprises changes in fair value of AFS investments.

Future Changes in Accounting Policies

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing consists of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt these standards when they become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards and interpretations to have significant impact on their financial statements.

Effective beginning on or after January 1, 2019

PFRS 16, *Leases*
Under the new standard, lessees will no longer classify their leases as either operating or finance leases in accordance with PAS 17, Leases. Rather, lessees will apply the single-asset model. Under this model, lessees will recognize the assets and related liabilities for most leases on their balance sheets, and subsequently, will depreciate the lease assets and recognize interest on the lease liabilities in their profit or loss. Leases with a term of 12 months or less or for which the underlying asset is of low value are exempted from these requirements.

The accounting by lessors is substantially unchanged as the new standard carries forward the principles of lessor accounting under PAS 17. Lessors, however, will be required to disclose more information in their financial statements, particularly on the risk exposure to residual value.

When adopting PFRS 16, an entity is permitted to use either a full retrospective or a modified retrospective approach, with options to use certain transition reliefs.

The Group is currently assessing the impact of adopting PFRS 16.

Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, Investments in Associates and Joint Ventures.

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*
This addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

Annual Improvements to PFRS 2015 to 2017 Cycle
PFRS 3, *Business Combinations* and PFRS 11, *Joint Arrangements - Previously held interest in a joint operation*
The amendments clarify when an entity remeasures previously held interests in a business that is classified as a joint operation. If the entity obtains control, it remeasures previously held interests in that business. If the entity only obtains joint control, it does not remeasure previously held interests in that business.

PAS 12, *Income Taxes - Income tax consequence of payments on financial instruments classified as equity*
The amendments clarify that the requirements to recognize the income tax consequence of dividends where the transactions or events that generate distributable profits are recognized apply to all income tax consequences of dividends.

PAS 23, *Borrowing Costs - Borrowing costs eligible for capitalization*
The amendments clarify that a specific borrowing that remains outstanding after the related asset is ready for its intended use becomes part of the general borrowings when calculating the capitalization rate on general borrowings.

Effective beginning on or after January 1, 2020 (subject to Board of Accountancy's Approval)
Amendments to PFRS 3, *Business Combinations - Definition of a Business*
The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply to future business combinations of the Group.

Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8,Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Material*
The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements. An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021 (subject to Board of Accountancy's Approval)
PFRS 17*, Insurance Contracts*
PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2021. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15. The Group is still assessing the impact of adopting this standard.

Deferred effectivity

PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments)
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture

On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

<u>Judgments</u>

(a) Leases

<u>Operating leases</u>

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.

<u>Finance leases</u>

Group as lessor

The Group, as lessor, has entered into lease arrangements on real estate, various machineries and other types of equipment. The Group has determined that it transfers all the significant risks and rewards of ownership of these properties and so accounts for these leases as finance lease.

(b) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques that include the use of mathematical models (Note 5). The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives.

(c) Contingencies

The Group is currently involved in legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the aid of the outside legal counsels handling the Group's defense in these matters and is based upon an analysis of potential results. Management does not believe that the outcome of these matters will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to the proceedings (Note 34).

(d) Functional currency

PAS 21 requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity.

In making this judgment, the Group considers the following:

- the currency that mainly influences prices for financial instruments and services (this will often be the currency in which prices for its financial instruments and services are denominated and settled);
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

(e) Assessment of control over entities for consolidation
Where the Parent Company does not have majority of the voting interest over an investee, it considers all relevant facts and circumstances in assessing whether it has control over the investee. This may include a contractual arrangement with the other voting shareholders of the investee or rights arising from other contractual arrangements which give power to the Parent Company over the investee to affect its returns.

The Parent Company determined that it controls Oceanic Holding (BVI) Ltd. (OHBVI) through its combined voting rights of 70.56% which arises from its direct ownership of 27.78% and voting rights of 42.78% assigned by certain stockholders of OHBVI to the Parent Company through a voting trust agreement.

(f) Assessment of joint control
The Parent Company has certain joint arrangements with real estate companies for the development of its investment properties into residential/condominium units. In assessing joint control over these parties, the Parent Company assesses whether all the parties collectively control the arrangement. Further, the Parent Company determines the relevant activities of the arrangement and whether decisions around relevant activities require unanimous consent. The Parent Company also considers the scope of decision-making authority of the real estate companies in accordance with their respective contractual arrangements.

The Parent Company determined that it has joint control over these joint arrangements on the basis that even though the real estate companies are the designated operators of the joint arrangement, they are still bound by the contract that establishes joint control of the undertaking and they can only act in accordance with the authorities granted to them under the joint venture agreement.

(g) Sale of Allianz-PNB Life Insurance, Inc.(APLII)

Pursuant to the partial sale of interest in APLII in 2016 under a share purchase agreement, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years.

The Group has determined based on its evaluation that the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the consideration received by the Parent Company was allocated between the sale of its ownership interest in APLII and the Exclusive Distribution Right (see Note 12).

(h) Classification of financial assets beginning January 1, 2018
Beginning January 1, 2018, the Group classifies its financial assets depending on the results of the SPPI tests and on the business model used for managing those financial assets.

The SPPI test is the first of two tests that determine the classification of a financial asset. When performing the SPPI test, the Group applies judgment and evaluates relevant factors and characteristics such as the behavior and nature of contractual cash flows, its original currency denomination, the timing and frequency of interest rate repricing, contingent events that would alter the amount and/or timing of cash flows, leverage features, prepayment or extension options and other features that may modify the consideration for the time value of money.

The business model assessment (BMA) is the second test. The BMA reflects how financial assets are managed in order to generate net cash inflows, The Group performs BMA based on the following factors:

- Business objectives and strategies for holding financial assets
- Performance measures and benchmarks being used to evaluate the Group's key management personnel accountable to the financial assets
- Attendant risks and the tools applied in managing them
- Compensation structure, including whether based on fair value changes of the investments managed or on the generated cash flows from transactions
- Frequency and timing of disposals

In applying judgment, the Group also considers the circumstances surrounding the transaction as well as the prudential requirements of the BSP, particularly the guidelines contained in Circular No. 1011.

Estimates

(a) Credit losses on financial assets beginning January 1, 2018

The Group's ECL calculations are mainly derived from outputs of complex statistical models and expert judgment, with a number of underlying assumptions regarding the choice of variable inputs as well as their independencies. Elements of the ECL models that are treated as accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate ECL approach and/or model is used, including whether assessments should be done individually or collectively.
- Quantitative and qualitative criteria for determining whether there has been SICR as at a given reporting date and the corresponding transfers between stages.
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of correlations and interdependencies between risk factors, macroeconomic scenarios and economic inputs, such as inflation, policy rates and collateral values, and the resulting impact to PDs, LGDs and EADs.
- Selection of forward-looking information and determination of probability weightings to derive the ECL.

Refer to Note 16 for the details of the carrying value of financial assets subject to ECL and for the details of the ECL.

(b) Credit losses on loans and receivables prior to January 1, 2018

The Group reviews its impaired loans and receivables on a quarterly basis to assess whether additional provision for credit losses should be recorded in the statement of income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of required allowance. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. Estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. The Group takes into account the latest available information of the borrower's financial condition, industry risk and market trends.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR, adjusted for the original credit risk premium.

In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. For the purpose of a collective impairment, loans and receivables are grouped on the basis of their credit risk characteristics such as internal credit risk rating, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Refer to Notes 10 and 15 for the carrying values of loans and receivables and receivable from SPVs, respectively. Refer to Note 16 for the details of the allowance for credit losses.

(c) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

The Group and Parent Company's estimates of future taxable income indicate that certain temporary differences will be realized in the future. The amounts of recognized and unrecognized deferred tax assets are disclosed in Note 30.

(d) *Present value of retirement obligation*
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and employee turnover. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. The discount rate is based on zero-coupon yield of government bonds with remaining maturity approximating the estimated average duration of benefit payment. Future salary increases was based on the Group's policy taking into account the prevailing inflation rate. The mortality rate used is based on publicly available mortality table modified accordingly with estimates of mortality improvements. The employee turnover is based on the Group's most recent experience.

The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets.

The present value of retirement obligation and fair value of plan assets are disclosed in Note 28.

(e) *Impairment of nonfinancial assets - property and equipment, investments in subsidiaries and an associate, investment properties, other properties acquired and intangibles*
The Parent Company assesses impairment on its investments in subsidiaries and an associate whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries and associate include the following:

- deteriorating or poor financial condition;
- recurring net losses; and
- significant changes on the technological, market, economic, or legal environment which had an adverse effect on the subsidiary or associate during the period or in the near future, in which the subsidiary or associate operates.

The Group also assesses impairment on its nonfinancial assets (e.g., investment properties, property and equipment, other acquired properties and intangibles) and considers the following impairment indicators:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. Except for investment properties and land and building where recoverable amount is determined based on fair value less cost to sell, the recoverable amount of all other nonfinancial assets is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset or group of assets. The Group is required to make estimates and assumptions that can materially affect the carrying amount of the asset or group of assets being assessed.

The carrying values of the Group's property and equipment, investments in subsidiaries and an associate, investment properties and intangible assets and other nonfinancial assets are disclosed in Notes 11, 12, 13, 14 and 15.

(f) *Impairment of goodwill*
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support their carrying value. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital. Future cash flows from the business are estimated based on the theoretical annual income of the relevant CGUs. Average growth rate is derived from the long-term Philippine growth rate. The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management and BOD of the Parent Company covering a three-year period.
The assumptions used in the calculation of value-in-use are sensitive to estimates of future cash flows from business, interest margin, discount rate and long-term growth rate used to project cash flows.

The carrying values of the Group's goodwill and key assumptions used in determining value-in-use are disclosed in Note 14.

(g) *Valuation of insurance contracts*
Estimates have to be made both for the expected ultimate cost of claims reported and for the expected ultimate cost of IBNR at the reporting date. It can take a significant period of time before the ultimate claim costs can be established with certainty.

The primary technique adopted by management in estimating the cost of notified and IBNR claims, is that of using past claims settlement trends to predict future claims settlement trends. At each reporting date, prior year claims estimates are assessed for adequacy and changes made are charged to provision. Insurance contract liabilities are not discounted for the time value of money.

The carrying values of total provisions for claims reported and claims IBNR are included in the 'Insurance contract liabilities' disclosed in Notes 22 and 36.

4. Financial Risk Management Objectives and Policies

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

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

The Group defines material risks (at group level) as those risks from any business activity large enough to threaten the Parent Company's capital position to drop below its desired level resulting in either a ₱13.3 billion increase in risk weighted assets or a ₱1.7 billion reduction in earnings and/or qualifying capital which translate into a reduction in CAR by 20 bps.

Resulting from the assessments based on the premise identified above, the Parent Company agrees and reviews on a regular basis the material risks that need particular focus from all three lines of defense. For the assessment period 2019-2021, these are based on the following nine (11) material risks, which are grouped under Pillar 1 and Pillar 2 risks, and shall be covered in the ICAAP Document and required for monitoring.

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

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

Pillar 2 Risks:
4. Credit Concentration Risk
5. Interest Rate Risk in Banking Book (IRRBB)
6. Liquidity Risk
7. Reputational / Customer Franchise Risk
8. Strategic Business Risk
9. Cyber Security Risk

The Risk Management Group (RMG) provides the legwork for the ROC in its role of formulating the risk management strategy, the development and maintenance of the internal risk management framework, and the definition of the governing risk management principles. The RMG provides assistance to the Assets and Liabilities Committee (ALCO) on capital management and the Board Policy Committee on the management of regulatory capital.
The mandate of the RMG involves:

- Implementing the risk management framework of identifying, measuring, controlling and monitoring the various risk taking activities of the Group, inherent in all financial institutions;
- Providing services to the risk-taking units and personnel in the implementation of risk mitigation strategies; and
- Establishing recommended limits based on the results of its analysis of exposures.

Credit Risk
Credit risk is the non-recovery of credit exposures (on-and-off balance sheet exposures). Managing credit risk also involves monitoring of migration risk, concentration risk, country risk and settlement risk. The Group manages its credit risk at various levels (i.e., strategic level, portfolio level down to individual transaction).

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and Executive Committee. Credit risk assessment of individual borrower is performed by the business sector, remedial sector and credit management sector. Risk management is embedded in the entire credit process, i.e., from credit origination to remedial management (if needed).

Among the tools used by the Group in identifying, assessing and managing credit risk include:
- Documented credit policies and procedures: sound credit granting process, risk asset acceptance criteria, target market and approving authorities;
- System for administration and monitoring of exposure;
- Pre-approval review of loan proposals;
- Post approval review of implemented loans;
- Work out system for managing problem credits;
- Regular review of the sufficiency of valuation reserves;
- Monitoring of the adequacy of capital for credit risk via the Capital Adequacy Ratio (CAR) report;
- Monitoring of breaches in regulatory and internal limits;
- Credit Risk Management Dashboard;
- Diversification;
- Internal Risk Rating System for corporate accounts;
- Credit Scoring for retail accounts; and
- Active loan portfolio management undertaken to determine the quality of the loan portfolio and identify the following:
  a. portfolio growth
  b. movement of loan portfolio

c. adequacy of loan loss reserves
d. trend of nonperforming loans (NPLs)
e. concentration risk (per classified account, per industry, clean exposure, large exposure, contingent exposure, currency, security, facility, demographic, etc.)

The Group follows the BOD approved policy on the generic classification of loans based on the type of borrowers and the purpose of the loan. On January 1, 2018, upon the adoption of PFRS 9, the Group re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Therefore, the comparative information for 2017 is not comparable to the information presented for 2018 (see Note 10).

Credit-related commitments
The exposures represent guarantees, standby letters of credit (LCs) issued by the Parent Company and documentary/commercial LCs which are written undertakings by the Parent Company.

To mitigate this risk the Parent Company requires hard collaterals, as discussed under *Collateral and other credit enhancement*, for standby LCs lines while commercial LCs are collateralized by the underlying shipments of goods to which they relate.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded in the statement of financial position.

Collateral and other credit enhancement
As a general rule, character is the single most important consideration in granting loans. However, collaterals are requested to mitigate risk. The loan value and type of collateral required depend on the assessment of the credit risk of the borrower or counterparty. The Group follows guidelines on the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For corporate accounts - deposit hold outs, guarantees, securities, physical collaterals (e.g., real estate, chattels, inventory, etc.); as a general rule, commercial, industrial and residential lots are preferred
- For retail lending - mortgages on residential properties and vehicles financed
- For securities lending and reverse repurchase transactions - cash or securities

The disposal of the foreclosed properties is handled by the Asset Management Sector which adheres to the general policy of disposing assets at the highest possible market value.

Management regularly monitors the market value of the collateral and requests additional collateral in accordance with the underlying agreement. The existing market value of the collateral is considered during the review of the adequacy of the allowance for credit losses. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Group is not permitted to sell or repledge the collateral held over loans and advances to counterparty banks and BSP in the absence of default by the owner of the collateral.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements for the Group and the Parent Company is shown below:

	Consolidated			
	2018			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱20,700,000**	**₱19,947,247**	**₱752,753**	**₱19,947,247**
Loans and receivables:				
Receivables from customers*:				
Corporates	**471,254,760**	**349,173,297**	**122,081,463**	**349,173,297**
LGU	**6,849,595**	**203,000**	**6,646,595**	**203,000**
Credit Cards	**12,336,487**	**–**	**12,336,487**	**–**
Retail SME	**11,079,479**	**19,751,481**	**–**	**11,079,479**
Housing Loans	**32,569,910**	**32,010,871**	**559,039**	**32,010,871**
Auto Loans	**11,511,890**	**10,948,300**	**563,590**	**10,948,300**
Others	**16,988,708**	**13,688,546**	**3,300,162**	**13,688,546**
Other receivables	**18,455,311**	**11,841,204**	**6,614,107**	**11,841,204**
	₱601,746,140	**₱457,563,946**	**₱152,854,196**	**₱448,891,944**

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

	Consolidated			
	2017			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱14,621,483	₱14,473,258	₱148,225	₱14,473,258
Loans and receivables:				
Receivables from customers*:				
Business loans	402,208,252	573,328,885	–	402,208,252
Consumers	44,780,030	36,704,079	9,365,239	35,414,791
GOCCs and National Government Agencies (NGAs)	17,328,887	15,117,428	2,211,459	15,117,428
LGUs	6,958,150	1,024,131	5,934,019	1,024,131
Fringe benefits	502,609	553,035	–	502,609
Unquoted debt securities	10,934,147	–	10,934,147	–
Other receivable	18,931,337	16,084,896	2,846,441	16,084,896
	₱516,264,895	₱657,285,712	₱31,439,530	₱484,825,365

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

	Parent			
	2018			
	Maximum Exposure	**Fair Value of Collateral**	**Net Exposure**	**Financial Effect of Collateral**
Securities held under agreements to resell	**₱20,700,000**	**₱19,947,247**	**₱752,753**	**₱19,947,247**
Loans and receivables:				
Receivables from customers*:				
Corporates	**453,054,812**	**323,072,021**	**129,982,791**	**323,072,021**
LGU	**6,849,595**	**203,000**	**6,646,595**	**203,000**
Credit Cards	**12,336,487**	**–**	**12,336,487**	**–**
Retail SME	**7,240,249**	**6,387,250**	**852,999**	**6,387,250**
Housing Loans	**1,569,098**	**1,405,724**	**163,374**	**1,405,724**
Auto Loans	**433**	**4,074**	**–**	**433**
Others	**13,487,060**	**13,480,147**	**6,913**	**13,480,147**
Other receivable	**16,281,540**	**11,835,919**	**4,445,621**	**11,835,919**
	₱531,519,274	**₱376,335,382**	**₱155,187,533**	**₱376,331,741**

	Parent Company			
	2017			
	Maximum Exposure	Fair Value of Collateral	Net Exposure	Financial Effect of Collateral
Securities held under agreements to resell	₱14,621,483	₱14,473,258	₱148,225	14,473,258
Loans and receivables:				
Receivables from customers:				
Business loans	382,322,273	546,762,806	–	382,322,273
Consumers	10,900,358	1,567,307	10,250,924	1,567,307
GOCCs and NGAs	17,328,887	15,117,428	1,288,788	15,117,428
LGUs	6,958,150	1,024,131	5,934,019	1,024,131
Fringe benefits	468,272	522,070	–	468,272
Unquoted debt securities	10,933,395	–	10,933,395	–
Other receivable	12,804,193	16,012,112	–	12,804,193
	₱456,337,011	₱595,479,112	₱28,555,351	₱413,303,604

The maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statement of financial position plus commitments to customers such as unused commercial letters of credit, outstanding guarantees and others as disclosed in Note 34 to the financial statements.

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics. The Group analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. For risk concentration monitoring purposes, the financial assets are broadly categorized into (1) loans and receivables and (2) trading and financial investment securities. To mitigate risk concentration, the Group constantly checks for breaches in regulatory and internal limits. Clear escalation process and override procedures are in place, whereby any excess in limits are covered by appropriate approving authority to regularize and monitor breaches in limits.

a. Limit per Client or Counterparty
   The internal limits set by the Parent Company for group exposures are as folows:
   CRR 1-12 – up to 95% of the regulatory Single Borrowers Limit (SBL)
   CRR 13-18 – up to of the regulatory SBL
   CRR 18-26 – up to 50% of the regulatory SBL

   For trading and investment securities, the Group limits investments to government issues and securities issued by entities with high-quality investment ratings.

b. Geographic Concentration

The table below shows the credit risk exposures, before taking into account any collateral held or other credit enhancements, categorized by geographic location:

	Consolidated 2018			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets****	**Total**
Philippines	**₱550,890,988**	**₱119,582,436**	**₱126,685,703**	**₱797,159,127**
Asia (excluding the Philippines)	**27,523,240**	**34,425,377**	**13,337,474**	**75,286,091**
USA and Canada	**909,044**	**7,058,104**	**6,360,517**	**14,327,665**
Oceania	**1,684,104**	–	–	**1,684,104**
Other European Union Countries	–	**39,599**	**1,532,835**	**1,572,434**
United Kingdom	**38,764**	**340,809**	**8,069,032**	**8,448,605**
Middle East	–	–	**16,530**	**16,530**
	₱581,046,140	**₱161,446,325**	**₱156,002,091**	**₱898,494,556**

* *Loans and receivables exclude residual value of the leased asset (Note 10)*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Consolidated 2017			
	Loans and receivables*	Trading and investment securities	Other financial assets**	Total
Philippines	₱468,318,223	₱79,432,010	₱128,064,005	₱675,814,238
Asia (excluding the Philippines)	28,656,909	10,974,911	17,295,570	56,927,390
USA and Canada	1,243,490	2,450,828	8,530,735	12,225,053
Oceania	3,398,662	–	–	3,398,662
Other European Union Countries	–	382,808	2,065,193	2,448,001
United Kingdom	26,128	6,284,385	3,007,550	9,318,063
Middle East	–	–	10,943	10,943
	₱501,643,412	₱99,524,942	₱158,973,996	₱760,142,350

* *Loans and receivables exclude residual value of the leased asset.(Note 10)*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company 2018			
	Loans and receivables	**Trading and investment securities**	**Other financial assets***	**Total**
Philippines	**₱493,649,414**	**₱118,495,863**	**₱122,138,458**	**₱734,283,735**
Asia (excluding the Philippines)	**14,645,344**	**34,423,612**	**6,792,458**	**55,861,414**
United Kingdom	**840,412**	**6,926,975**	**4,617,267**	**12,384,654**
Oceania	**1,684,104**	–	–	**1,684,104**
USA and Canada	–	**39,599**	**1,465,439**	**1,505,038**
Other European Union Countries	–	**340,809**	**7,155,383**	**7,496,192**
Middle East	–	–	**16,530**	**16,530**
	₱510,819,274	**₱160,226,858**	**₱142,185,535**	**₱813,231,667**

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2017			
	Loans and receivables	Trading and investment securities	Other financial assets*	Total
Philippines	₱417,889,498	₱77,297,223	₱122,665,366	₱617,852,087
Asia (excluding the Philippines)	19,753,264	10,971,619	6,437,886	37,162,769
United Kingdom	674,104	2,326,180	8,460,359	11,460,643
Oceania	3,398,662	479	–	3,399,141
USA and Canada	–	382,808	2,062,191	2,444,999
Other European Union Countries	–	6,210,003	3,007,451	9,217,454
Middle East	–	–	10,943	10,943
	₱441,715,528	₱97,188,312	₱142,644,196	₱681,548,036

**Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

c. Concentration by Industry
The tables below 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			
	2018			
	Loans and receivables*	**Trading and investment securities**	**Other financial assets*****	**Total**
Primary target industry:				
Financial intermediaries	**₱91,268,308**	**₱32,395,927**	**₱132,938,912**	**₱256,603,147**
Wholesale and retail	**82,912,802**	**–**	**–**	**82,912,802**
Electricity, gas and water	**72,396,544**	**3,825,413**	**–**	**76,221,957**
Transport, storage and communication	**42,056,873**	**243,736**	**–**	**42,300,609**
Manufacturing	**49,251,873**	**446,044**	**–**	**49,697,917**
Public administration and defense	**18,007,819**	**–**	**–**	**18,007,819**
Agriculture, hunting and forestry	**7,293,753**	**–**	**–**	**7,293,753**
Secondary target industry:				
Government	**961,957**	**101,119,242**	**22,148,910**	**124,230,109**
Real estate, renting and business activities	**83,011,051**	**240,191**	**–**	**83,251,242**
Construction	**25,852,120**	**14,604,914**	**–**	**40,457,034**
Others**	**108,033,040**	**8,570,858**	**914,269**	**117,518,167**
	₱581,046,140	**₱161,446,325**	**₱156,002,091**	**₱898,494,556**

* *Loans and receivables exclude residual value of the leased asset (Note 10)*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
****Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Consolidated			
	2017			
	Loans and receivables*	Trading and investment securities	Other financial assets***	Total
Primary target industry:				
Financial intermediaries	₱81,339,503	₱11,385,526	₱52,731,051	₱145,456,080
Wholesale and retail	72,590,561	–	–	72,590,561
Electricity, gas and water	63,607,168	242,543	–	63,849,711
Transport, storage and communication	39,143,238	255,953	–	39,399,191
Manufacturing	30,808,117	18	–	30,808,135
Public administration and defense	23,770,145	–	–	23,770,145
Agriculture, hunting and forestry	7,138,996	19	–	7,139,015
Secondary target industry:				
Government	358,971	70,845,045	105,497,459	176,701,475
Real estate, renting and business activities	82,787,585	9,217,989	–	92,005,574
Construction	18,742,726	–	–	18,742,726
Others**	81,356,402	7,577,849	745,486	89,679,737
	₱501,643,412	₱99,524,942	₱158,973,996	₱760,142,350

* *Loans and receivables exclude residual value of the leased asset (Note 10)*
** *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
*** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15)*

	Parent Company			
	2018			
	Loans and receivables	**Trading and investment securities**	**Other financial assets****	**Total**
Primary target industry:				
Financial intermediaries	**₱91,254,439**	**₱32,382,583**	**₱22,148,910**	**₱145,785,932**
Wholesale and retail	**78,593,080**	**–**	**–**	**78,593,080**
Electricity, gas and water	**72,366,879**	**3,825,374**	**–**	**76,192,253**
Transport, storage and communication	**40,749,110**	**–**	**–**	**40,749,110**
Manufacturing	**45,073,568**	**446,044**	**–**	**45,519,612**
Public administration and defense	**18,007,819**	**–**	**–**	**18,007,819**
Agriculture, hunting and forestry	**7,274,620**	**–**	**–**	**7,274,620**
Secondary target industry:				
Government	**961,957**	**99,421,494**	**119,365,375**	**219,748,826**
Real estate, renting and business activities	**79,407,958**	**14,604,914**	**–**	**94,012,872**
Construction	**25,173,391**	**–**	**–**	**25,173,391**
Others*	**51,956,453**	**9,546,449**	**671,250**	**62,174,152**
	₱510,819,274	**₱160,226,858**	**₱142,185,535**	**₱813,231,667**

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*
** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

	Parent Company			
	2017			
	Loans and receivables	Trading and investment securities	Other financial assets**	Total
Primary target industry:				
Financial intermediaries	₱80,879,478	₱11,212,105	₱36,460,258	₱128,551,841
Wholesale and retail	68,704,929	–	–	68,704,929
Electricity, gas and water	63,351,538	239,078	–	63,590,616
Transport, storage and communication	38,120,139	1,766	–	38,121,905
Manufacturing	28,266,909	17	–	28,266,926
Public administration and defense	22,419,612	–	–	22,419,612
Agriculture, hunting and forestry	6,665,547	19	–	6,665,566
Secondary target industry:				
Government	358,971	69,269,955	105,497,459	175,126,385
Real estate, renting and business activities	75,203,807	8,986,299	–	84,190,106
Construction	17,703,490	–	–	17,703,490
Others*	40,041,108	7,479,073	686,479	48,206,660
	₱441,715,528	₱97,188,312	₱142,644,196	₱681,548,036

* *Others include the following sectors - Other community, social and personal services, private household, hotel and restaurant, education, mining and quarrying, and health and social work.*

** *Other financial assets include the following financial assets: 'Due from BSP', 'Due from other banks', 'Interbank loans receivable', 'Securities held under agreements to resell', and other financial assets booked under 'Other assets' (Note 15).*

The internal limit of the Parent Company based on the Philippine Standard Industry Classification (PSIC) sub-industry is 12.00% for priority industry, 8.00% for regular industry, 30.00% for power industry and 25% for activities of holding companies versus total loan portfolio.

Credit quality per class of financial assets

Beginning January 1, 2018

As previously mentioned, the Group re-evaluated the segmentation of its loan portfolio so that it is grouped based on the underlying risk characteristics that are expected to respond in a similar manner to macroeconomic factors and forward looking conditions. Moreover, the Group has aligned the portfolio segmentation to sound practice guidelines of internal ratings-based banks.

Generally, the Group's exposures can be categorized as either Non-Retail and Retail. Non-Retail portfolio of the Group consists of debt obligations of sovereigns, financial institutions, corporations, partnerships, or proprietorships. In particular, the Group's Non-retail portfolio segments are as follows: Sovereigns, Financial Institutions, Specialised Lending (e.g. Project Finance), Large Corporates, Middle Market and Commercial SME, GOCCs and LGUs. Retail exposures are exposures to individual person or persons or to a small business, and are not usually managed on an individual basis but as groups of exposures with similar risk characteristics. This includes Credit Cards, Consumer Loans and Retail SME, among others.

Loans and Receivables

The credit quality of Non-Retail portfolio is evaluated and monitored using external ratings and internal credit risk rating system. In 2018, the Parent Company transitioned to a new internal credit risk rating system but maintained the 2-dimensional structure; that is, there is still a borrower risk rating (BRR) and the facility risk rating (FRR).

Specific borrower rating models were developed by the Group to capture specific and unique risk characteristics of each of the Non-Retail segment. The borrower risk rating is measured based on financial condition of the borrower combined with an assessment of non-financial factors such as management, industry outlook and market competition. The BRR models captures overlays and early warning signals as well.

The Group uses a single scale with 26 risk grades for all its borrower risk rating models. The 26-risk grade internal default masterscale is a representation of a common measure of relative default risk associated with the obligors/counterparties. The internal default masterscale is mapped to a global rating scale.

Facility Risk Rating on the other hand assesses potential loss of the Group in case of default, which considers collateral type and level of collateralization of the facility. The FRR has 9-grades, i.e. FRR A to FRR I.

The CRR or final credit risk rating shall be expressed in alphanumeric terms, e.g. CRR 1A which is a combination of the general creditworthiness of the borrower (BRR 1) and the potential loss of the Group in the event of the borrower's default (FRR A).

The credit quality and corresponding BRRs of the Parent Company's and PNB SB receivables from customers are defined below:

Credit quality	**26-grade CRR system** **Used beginning January 1, 2018**
High S&P Equivalent Global Rating: AAA to BBB-	*BRR 1 Excellent* Borrower has an exceptionally strong capacity to meet its financial commitments. No existing disruptions or future disruptions are highly unlikely. Probability of going into default in the coming year is very minimal/low. *BRR 2 Very Strong* Borrower has a very strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. It differs from BRR 1 borrowers only to a small degree. Probability of going into default in the coming year is very minimal/low. *BRR 3 Strong* Borrower has a strong capacity to meet its financial commitments. No existing disruptions or future disruptions are unlikely. However, adverse economic conditions or changing circumstances could lead to somewhat lesser capacity to meet financial obligations than in higher-rated borrowers. Probability of going into default in the coming year is very minimal/low. *BRR 4-6 Good* Borrower has an adequate capacity to meet its financial commitments in the normal course of its business. With identified disruptions from external factors but company has or will likely overcome. Default possibility is minimal/low. *BRR 7-9 Satisfactory* Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 4 to BRR 6 with slightly lesser quality. Default possibility BRR 8 is minimal/low. *BRR 10-12 Adequate* Borrower has an adequate capacity to meet its financial commitments under the normal course of business. However, adverse economic conditions and changing circumstances are more likely to weaken the borrower's capacity to meet its financial commitments. Default possibility is minimal/low.
Standard S&P Equivalent Global Rating: BB+ to BB-	*BRR 13-15 Average* Borrower still has the capacity to meet its financial commitments and withstand normal business cycles, however, any prolonged unfavorable economic and/or market conditions would create an immediate deterioration beyond acceptable levels. With identified disruptions from external forces, impact on the borrower is uncertain. Default is a possibility.

Credit quality	26-grade CRR system Used beginning January 1, 2018
	BRR 16-18 Acceptable Borrower under this rating scale basically possesses the characteristics of borrowers rated as BRR 13 to BRR 15 with slightly lesser quality. Default is a possibility. *BRR 19-20 Vulnerable* Borrower is less vulnerable in the near term than other low-rated borrowers. However, it faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to the borrower's inadequate capacity to meet its financial commitment. Default is a possibility
Substandard S&P Equivalent Global Rating: B+ to CCC-	*BRR 21-22 Weak* Borrower is more vulnerable than the borrowers rated BRR 19 and BRR 20 but the borrower currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial commitments. Default is more than a possibility. *BRR 23-25 Watchlist* Borrower is currently vulnerable and is dependent upon favorable business, financial, and economic conditions to meet its financial commitments. Borrower may already be experiencing losses and impaired capital in the case of BRR 25.
Impaired S&P Equivalent Global Rating: D	*BRR 26 Default* Default will be a general default. Borrower will fail to pay all or substantially all of its obligations as they come due.

For the Retail segment of the portfolio, such as Retail SME, Credit Cards, Housing and Auto Loans, credit scoring is being used in evaluating the creditworthiness of the borrower.

The table below shows the credit quality of the Group's and the Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, but net of residual values of leased assets, as of December 31, 2018:

	Consolidated			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Subject to CRR				
Non-Retail - Corporate				
High	**₱246,664,735**	**₱1,157,818**	**₱–**	**₱247,822,553**
Standard	**160,962,888**	**3,171,281**	**–**	**164,134,169**
Substandard	**39,018,920**	**844,624**	**–**	**39,863,544**
Impaired	**–**	**–**	**4,724,646**	**4,724,646**
	446,646,543	**5,173,723**	**4,724,646**	**456,544,912**
Subject to Scoring & Unrated				
Non-Retail	**22,672,264**	**4,808,639**	**64,611**	**27,545,514**
Corporate	**15,794,933**	**4,790,671**	**39,695**	**20,625,299**
LGU	**6,877,331**	**17,968**	**24,916**	**6,920,215**
Retail	**67,797,340**	**590,180**	**2,659,337**	**71,046,857**
Auto Loans	**11,682,195**	**21,442**	**39,608**	**11,743,245**
Housing Loans	**33,649,887**	**36,453**	**157,056**	**33,843,395**
Retail SME	**10,717,155**	**138,835**	**1,192,164**	**12,048,154**
Credit Card	**11,748,103**	**393,450**	**1,270,510**	**13,412,063**
Others	**16,074,232**	**501,025**	**2,115,073**	**18,690,330**
	106,543,836	**5,899,844**	**4,839,022**	**117,282,701**
	₱553,190,379	**₱11,073,567**	**₱9,563,668**	**₱573,827,613**

	Parent Company			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Subject to CRR				
Non-Retail - Corporate				
High	**₱234,340,295**	**₱1,112,772**	**₱–**	**₱235,453,067**
Standard	**160,962,888**	**3,171,281**	–	**164,134,169**
Substandard	**39,018,920**	**844,624**	–	**39,863,544**
Impaired	–	–	**4,723,905**	**4,723,905**
	434,322,103	**5,128,677**	**4,723,905**	**444,174,685**
Subject to Scoring & Unrated				
Non-Retail	**16,806,236**	**4,457,670**	**66,810**	**21,330,716**
Corporate	**9,928,905**	**4,439,702**	**41,894**	**14,410,501**
LGU	**6,877,331**	**17,968**	**24,916**	**6,920,215**
Retail	**19,744,284**	**535,608**	**2,629,113**	**22,909,005**
Auto Loans	**417**	–	**39,608**	**40,025**
Housing Loans	**1,483,609**	**15,850**	**127,863**	**1,627,322**
Retail SME	**6,512,155**	**126,308**	**1,191,132**	**7,829,595**
Credit Card	**11,748,103**	**393,450**	**1,270,510**	**13,412,063**
Others	**11,829,729**	**526,282**	**2,279,277**	**14,635,288**
	48,380,248	**5,519,561**	**4,975,200**	**58,875,009**
	₱482,702,351	**₱10,648,238**	**₱9,699,105**	**₱503,049,694**

Prior to January 1, 2018

The credit quality of financial assets is assessed and managed using external and internal ratings. For receivables from customers classified as business loans, the credit quality is generally monitored using the 14-grade CRR System which is integrated in the credit process particularly in loan pricing and allocation of valuation reserves. The model on risk ratings is assessed and updated regularly.

Validation of the individual internal risk rating is conducted by the Credit Management Division to maintain accurate and consistent risk ratings across the credit portfolio. The rating system has two parts, namely, the borrower's rating and the facility rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information such as industry outlook and market competition to provide the main inputs for the measurement of credit or counterparty risk.

Loans and Receivables

The CRRs of the Parent Company's Receivables from customers (applied to loans with asset size of above ₱15.0 million) are defined below:

CRR 1 - Excellent

Loans receivables rated as excellent include borrowers which are significant in size, with long and successful history of operations, an industry leader, with ready access to all equity and debt markets and have proven its strong debt service capacity.

CRR 2 - Super Prime

Loans receivables rated as super prime include borrowers whose ability to service all debt and meet financial obligations remains unquestioned.

CRR 3 - Prime

Under normal economic conditions, borrowers in this rating have good access to public market to raise funds and face no major uncertainties which could impair repayment.

CRR 4 - Very Good
Loans receivables rated as very good include borrowers whose ability to service all debts and meet financial obligations remain unquestioned, but current adverse economic conditions or changing circumstances have minimal impact on payment of obligations.

CRR 5 - Good
Loans receivables rated as good include borrowers with good operating history and solid management, but payment capacity could be vulnerable to adverse business, financial or economic conditions.

CRR 6 - Satisfactory
These are loans receivables to borrowers whose ability to service all debt and meet financial obligations remains unquestioned, but with somewhat lesser capacity than in CRR 5 accounts.

CRR 7 - Average
These are loans receivables to borrowers having ability to repay the loan in the normal course of business activity, although may not be strong enough to sustain a major setback.

CRR 8 – Acceptable
These are loans receivables to borrowers possessing the characteristics of borrowers rated as CRR 7 with slightly lesser quality in financial strength, earnings, performance and/or outlook.

CRR 9 - Fair
These are performing loans receivables from borrowers not qualified as CRRs 1-8. The borrower is able to withstand normal business cycles, although any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.

CRR 10 - Watchlist
This rating includes borrower where the credit exposure is not at risk of loss at the moment but the performance of the borrower has weakened and, unless present trends are reversed, could eventually lead to losses.

CRR 11 - Special Mention
These are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Parent Company.

CRR 12 - Substandard
These are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Parent Company because of unfavorable record or unsatisfactory characteristics.

CRR 13 - Doubtful
These are loans or portions thereof which have the weaknesses inherent in those classified as CRR 12 with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable.

CRR 14 - Loss
These are loans or portions thereof which are considered uncollectible or worthless.

The Parent Company uses credit scoring for evaluating borrowers with asset size of ₱15.0 million and below. Credit scoring details the financial capability of the borrower to pay for any future obligation.

GOCCs and LGUs are rated using the "means and purpose" test whereby borrowers have to pass the two major parameters, namely:

- "Means" test - the borrower must have resources or revenues of its own sufficient to service its debt obligations.
- "Purpose" test - the loan must be obtained for a purpose consistent with the borrower's general business.

LGU loans are backed-up by assignment of Internal Revenue Allotment. Consumer loans are covered by mortgages in residential properties and vehicles financed and guarantees from Home Guaranty Corporation. Fringe benefit loans are repaid through automatic salary deductions and exposure is secured by mortgage on house or vehicles financed.

The table below shows the Group's and Parent Company's receivables from customers, gross of allowance for credit losses and unearned and other deferred income, for each CRR as of December 31, 2017, but net of residual values of leased assets.

	Consolidated			
	2017			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 – Excellent	₱4,291,461	₱–	₱–	₱4,291,461
2 - Super Prime	44,150,956	–	–	44,150,956
3 – Prime	79,626,334	–	–	79,626,334
4 - Very Good	51,582,911	4,995	–	51,587,906
5 - Good	41,160,103	–	–	41,160,103
6 - Satisfactory	47,552,725	104,642	–	47,657,367
7 - Average	32,300,228	5,115	14,990	32,320,333
8 - Acceptable	26,323,932	970	–	26,324,902
9 - Fair	8,111,610	–	60,909	8,172,519
10 - Watchlist	55,367,209	64,780	185,233	55,617,222
11 - Special Mention	3,030,339	143,170	159,571	3,333,080
12 - Substandard	957,285	38,244	2,245,340	3,240,869
13 - Doubtful	–	321,988	718,858	1,040,846
14 - Loss	–	10,740	2,986,181	2,996,921
	394,455,093	694,644	6,371,082	401,520,819
Unrated Receivables from Customers				
Consumers	51,341,531	1,426,568	218,224	52,986,323
Business Loans	18,240,516	468,879	710,896	19,420,291
LGUs	7,000,975	35,325	150,344	7,186,644
Fringe Benefits	493,746	4,266	12,743	510,755
GOCCs and NGAs	–	–	–	–
	77,076,768	1,935,039	1,092,207	80,104,013
	₱471,531,861	₱2,629,683	₱7,463,289	₱481,624,832

	Parent Company			
	2017			
	Neither Past Due nor Individually Impaired	Past Due and not Individually Impaired	Individually Impaired	Total
Rated Receivables from Customers				
1 - Excellent	₱4,248,533	₱–	₱–	₱4,248,533
2 - Super Prime	43,620,906	–	–	43,620,906
3 - Prime	79,122,851	–	–	79,122,851
4 - Very Good	50,260,694	4,995	–	50,265,689
5 - Good	40,554,077	–	–	40,554,077
6 - Satisfactory	39,856,116	43,680	–	39,899,796
7 - Average	31,374,729	5,115	14,990	31,394,834
8 - Acceptable	26,202,086	970	–	26,203,056
9 - Fair	7,828,143	–	76	7,828,219
10 - Watchlist	55,204,756	29,500	–	55,234,256
11 - Special Mention	2,962,058	143,170	–	3,105,228
12 - Substandard	957,285	38,244	945,997	1,941,526
13 - Doubtful	–	321,988	522,423	844,411
14 - Loss	–	10,740	2,708,753	2,719,493
	382,192,234	598,402	4,192,239	386,982,875
Unrated Receivables from Customers				
Business Loans	18,942,189	407,654	710,897	20,060,740
Consumers	10,392,839	1,254,482	205,197	11,852,518
LGUs	7,000,975	35,325	150,344	7,186,644
Fringe Benefits	467,380	4,266	12,743	484,389
GOCCs and NGAs	–	–	–	–
	36,803,383	1,701,727	1,079,181	39,584,291
	₱418,995,617	₱2,300,129	₱5,271,420	₱426,567,166

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

As of December 31, 2018, the analysis of past due status of receivables from customers that are subject to scoring and uninted follows:

	Consolidated				
	2018				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
LGU	**₱2,601,143**	**₱–**	**₱–**	**₱–**	**₱2,601,143**
Credit Card	**857**	**134,027**	**448,475**	**860,799**	**1,444,158**
Retail SME	**448,609**	**118,568**	**27,433**	**887,445**	**1,482,055**
Housing Loans	**149**	**6,589**	**20,150**	**5,417**	**32,305**
Auto Loans	**1,005**	**3,200**	**3,276**	**53,569**	**61,050**
Others	**101,342**	**4,200**	**4,193**	**1,079,508**	**1,189,243**
Total	**₱3,153,105**	**₱266,584**	**₱503,527**	**₱2,886,738**	**₱6,809,954**

	Parent Company				
	2018				
	Less than 30 days	**31 to 90 days**	**91 to 180 days**	**More than 180 days**	**Total**
LGU	**₱2,601,143**	**₱–**	**₱–**	**₱–**	**₱2,601,143**
Auto Loans	**857**	**134,027**	**448,475**	**860,799**	**1,444,158**
Housing Loans	**448,173**	**107,614**	**26,810**	**788,103**	**1,370,700**
Retail SME	**–**	**4,501**	**2,640**	**–**	**7,141**
Credit Card	**–**	**–**	**19**	**39,589**	**39,608**
Others	**81,491**	**4,004**	**3,737**	**1,073,497**	**1,162,729**
Total	**₱3,131,664**	**₱250,146**	**₱481,681**	**₱2,761,988**	**₱6,625,479**

The tables below show the aging analysis of past due but not individually impaired loans receivables per class.

	Consolidated				
	2017				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱124,510	₱158,674	₱211,759	₱561,431	₱1,056,374
Consumers	237,018	147,991	308,946	839,763	1,533,718
Fringe benefits	667	824	1,476	1,299	4,266
LGUs	35,325	–	–	–	35,325
Total	₱397,520	₱307,489	₱522,181	₱1,402,493	₱2,629,683

	Parent Company				
	2017				
	Less than 30 days	31 to 90 days	91 to 180 days	More than 180 days	Total
Business loans	₱63,411	₱158,412	₱211,759	₱561,430	₱995,012
Consumers	6,098	112,265	307,401	839,763	1,265,527
Fringe benefits	35,324	–	–	–	35,324
LGUs	667	824	1,476	1,299	4,266
Total	₱105,500	₱271,501	₱520,636	₱1,402,492	₱2,300,129

Trading and Investment Securities and Other Financial Assets

In ensuring quality investment portfolio, the Group uses the credit risk rating based on the external ratings of eligible external credit rating institutions (i.e. Moody's Investors Service) as follows:

Aaa to Aa3 - fixed income are judged to be of high quality and are subject to very low credit risk, but their susceptibility to long-term risks appears somewhat greater.

A1 to A3 - fixed income obligations are considered upper-medium grade and are subject to low credit risk, but have elements present that suggest a susceptibility to impairment over the long term.

Baa1 and below - represents those investments which fall under any of the following grade:

- Baa1, Baa2, Baa3 - fixed income obligations are subject to moderate credit risk. They are considered medium grade and as such protective elements may be lacking or may be characteristically unreliable.
- Ba1, Ba2, Ba3 - obligations are judged to have speculative elements and are subject to substantial credit risk.
- B1, B2, B3 - obligations are considered speculative and are subject to high credit risk.
- Caa1, Caa2, Caa3 - are judged to be of poor standing and are subject to very high credit risk.
- Ca - are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C - are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

Below are the financial assets of the Group and the Parent Company, net of allowances, excluding receivables from customers, which are monitored using external ratings.

	Consolidated					
	2018					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱4,057,938**	**₱4,057,938**	**₱98,665,375**	**₱102,723,313**
Due from other banks	**8,756,826**	**5,844,679**	**2,843,242**	**17,444,747**	**3,080,571**	**20,525,318**
Interbank loans receivables	**3,260,307**	**7,385,582**	**453,379**	**11,099,268**	**149,187**	**11,248,455**
Securities held under agreements to resell	**–**	**–**	**–**	**–**	**20,700,000**	**20,700,000**
Financial assets at FVOCI						
Government securities	**1,078,129**	**–**	**32,038,366**	**33,116,495**	**–**	**33,116,495**
Private debt securities	**403,959**	**4,794,125**	**4,447,169**	**9,645,253**	**8,026,756**	**17,672,009**
Quoted equity securities	**–**	**–**	**183,148**	**183,148**	**616,392**	**799,540**
Unquoted equity securities	**–**	**–**	**–**	**–**	**86,123**	**86,123**
Investment securities at amortized cost:						
Government securities	**33,463**	**–**	**59,986,408**	**60,019,871**	**201,444**	**60,221,315**
Private debt securities	**1,227,609**	**5,089,990**	**3,967,772**	**10,285,371**	**29,266,025**	**39,551,396**
Financial assets at amortized cost:						
Others[4/]	**–**	**–**	**18,836,276**	**18,836,276**	**–**	**18,836,276**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).

	Consolidated					
	2017					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱108,743,985	₱108,743,985	₱–	₱108,743,985
Due from other banks	5,679,010	5,155,624	3,392,665	14,227,299	7,798,023	22,025,322
Interbank loans receivables	5,801,422	2,754,325	3,588,842	12,144,589	693,132	12,837,721
Securities held under agreements to resell	–	–	14,621,483	14,621,483	–	14,621,483
Financial assets at FVPL:						
Government securities	–	–	1,822,378	1,822,378	385,574	2,207,952
Equity securities	97,206	12,648	298,156	408,010	154,974	562,984
Derivative assets[2/]	–	–	–	–	31,305	31,305
Private debt securities	–	–	42,990	42,990	30,928	73,918
Investment in Unit Investment Trust Funds (UITFs)	–	–	6,236	6,236	–	6,236
AFS investments:						
Government securities	2,240,392	–	33,735,515	35,975,907	5,645,317	41,621,224
Private debt securities	2,283,698	5,941,865	9,044,338	17,269,901	9,650,145	26,920,046
Quoted equity securities	–	–	139,905	139,905	1,004,874	1,144,779
Unquoted equity securities	–	–	538	538	146,154	146,692
HTM investments						
Government securities	124,913	–	23,959,337	24,084,250	2,720,881	26,805,131
Loans and receivables:						
Unquoted debt securities[3/]	–	–	148,723	148,723	10,784,672	10,933,395
Others[4/]	–	–	12,561,523	12,561,523	–	12,561,523

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables(Note 10).
[5/] Financial assets that are unrated are neither past due nor impaired.

	Parent Company					
	2018					
	Aaa to Aa3	**A1 to A3**	**Baa1 and below**	**Subtotal**	**Unrated**	**Total**
Due from BSP[1/]	**₱–**	**₱–**	**₱–**	**₱–**	**₱98,665,375**	**₱98,665,375**
Due from other banks	**3,275,420**	**3,838,006**	**792,377**	**7,905,803**	**2,553,693**	**10,459,496**
Interbank loans receivables	**3,260,307**	**7,385,582**	**453,379**	**11,099,269**	**590,145**	**11,689,414**
Securities held under agreements to resell	–	–	–	–	**20,700,000**	**20,700,000**
Financial assets at FVOCI						
Government securities	**783,879**	–	**31,913,930**	**32,697,809**	–	**32,697,809**
Private debt securities	–	**4,794,125**	**4,447,168**	**9,241,293**	**8,073,591**	**17,314,884**
Quoted equity securities	–	–	–	–	**558,077**	**558,077**
Unquoted equity securities	–	–	–	–	**86,123**	**86,123**
Investment securities at amortized cost						
Government securities	**33,463**	–	**59,800,026**	**59,833,489**	**201,444**	**60,034,933**
Financial assets at amortized cost:						
Others[4/]	–	–	**17,308,833**	**17,308,833**	–	**17,308,833**

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Note 10).

	Parent Company					
	2017					
	Rated					
	Aaa to Aa3	A1 to A3	Baa1 and below	Subtotal	Unrated[5/]	Total
Due from BSP[1/]	₱–	₱–	₱105,497,459	₱105,497,459	₱–	₱105,497,459
Due from other banks	2,595,995	5,281,255	1,517,295	9,394,545	1,360,715	10,755,260
Interbank loans receivables	5,801,422	2,754,325	1,834,636	10,390,383	693,132	11,083,515
Securities held under agreements to resell	–	–	14,621,483	14,621,483	–	14,621,483
Financial assets at FVPL:						
Government securities	–	–	1,822,378	1,822,378	385,574	2,207,952
Equity securities	–	–	–	–	30,928	30,928
Derivative assets[2/]	95,704	10,858	298,156	404,718	154,974	559,692
Private debt securities	–	–	–	–	31,305	31,305
AFS investments:						
Government securities	–	–	–	–	1,004,873	1,004,873
Private debt securities	–	–	–	–	146,154	146,154
Quoted equity securities						
Unquoted equity securities	266	–	23,959,337	23,959,603	2,720,881	26,680,484
HTM investments						
Government securities	–	–	148,723	148,723	10,784,671	10,933,394
Loans and receivables:	–	–	12,804,193	12,804,193	–	12,804,193
Unquoted debt securities[3/]	–	–	–	–	1,004,873	1,004,873
Others[4/]	–	–	–	–	12,950,347	12,950,347

[1/] 'Due from BSP' is composed of interest-earning short-term placements with the BSP and a demand deposit account to support the regular operations of the Parent Company.
[2/] Derivative assets represent the value of credit derivatives embedded in host contracts issued by financial intermediaries and the mark-to-market valuation of freestanding derivatives (Note 23).
[3/] Unquoted debt securities represent investments in bonds and notes issued by financial intermediaries, government and private entities that are not quoted in the market (Note 10).
[4/] Loans and receivables - Others is composed of Accrued interest receivable, Accounts receivable, Sales contracts receivable and other miscellaneous receivables and financial assets under other assets (Notes 10 and 15).
[5/] Financial assets that are unrated are neither past due nor impaired.

Liquidity Risk and Funding Management

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Group's inability to meet its obligations when they come due without incurring unacceptable losses or costs.

The Group's liquidity management involves maintaining funding capacity to accommodate fluctuations in asset and liability levels due to changes in the Group's business operations or unanticipated events created by customer behavior or capital market conditions. The Parent Company seeks to ensure liquidity through a combination of active management of liabilities, a liquid asset portfolio composed substantially of deposits in primary and secondary reserves, and the securing of money market lines and the maintenance of repurchase facilities to address any unexpected liquidity situations.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets. The MCO focuses on a 12-month period wherein the 12-month cumulative outflow is compared to the acceptable MCO limit set by the BOD. Furthermore, an internal liquidity ratio has been set to determine sufficiency of liquid assets over deposit liabilities.

Liquidity is monitored by the Parent Company on a daily basis through the Treasury Group. Likewise, the RMG monitors the static liquidity via the MCO under normal and stressed scenarios.

The table below shows the financial assets and financial liabilities' liquidity information which includes coupon cash flows categorized based on the expected date on which the asset will be realized and the liability will be settled. For other assets, the analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or if earlier, the expected date the assets will be realized.

	Consolidated					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	**₱16,825,487**	**₱–**	**₱–**	**₱–**	**₱–**	**₱16,825,487**
Due from BSP and other banks	**123,248,630**	**–**	**–**	**–**	**–**	**123,248,630**
Interbank loans receivable	**10,664,790**	**2,442,863**	**–**	**–**	**–**	**13,107,653**
Securities held under agreements to resell	**20,713,656**	**–**	**–**	**–**	**–**	**20,713,656**
Financial assets at FVTPL:						
Government securities	**8,457,711**	**–**	**–**	**–**	**–**	**8,457,711**
Private debt securities	**415,583**	**–**	**–**	**–**	**–**	**415,583**
Equity securities	**545,149**	**–**	**–**	**–**	**–**	**545,149**
Investment in UITFs	**6,375**	**–**	**–**	**–**	**–**	**6,375**
Derivative assets:						
Gross contractual receivable	**27,666,556**	**10,536,098**	**60,497**	**112,041**	**683,409**	**39,058,601**
Gross contractual payable	**(27,520,484)**	**(10,490,192)**	**(42,937)**	**(81,911)**	**(411,484)**	**(38,547,008)**
	146,072	**45,906**	**17,560**	**30,130**	**271,925**	**511,593**
Financial Assets at FVOCI:						
Government securities	**987,525**	**553,618**	**3,725,942**	**1,192,976**	**28,389,989**	**34,850,050**
Private debt securities	**319,173**	**152,913**	**484,719**	**2,756,936**	**14,374,652**	**18,088,393**
Equity securities	**–**	**–**	**–**	**–**	**885,663**	**885,663**
Investment securities at amortized cost						
Government securities	**684,637**	**1,140,676**	**1,740,843**	**7,563,320**	**60,259,803**	**71,389,279**
Private debt securities	**1,237,106**	**12,857,236**	**1,430,423**	**2,469,149**	**31,928,967**	**49,922,881**
Financial assets at amortized cost:						
Receivables from customers	**91,596,975**	**71,842,884**	**29,824,138**	**15,111,527**	**471,459,416**	**679,834,940**
Other receivables	**3,899,850**	**87,502**	**3,997**	**3,702,950**	**18,739,286**	**26,433,585**
Other assets	**669,790**	**–**	**–**	**–**	**135,215**	**805,005**
Total financial assets	**₱280,418,509**	**₱89,123,598**	**₱37,227,622**	**₱32,826,988**	**₱626,444,916**	**₱1,066,041,633**

(Forward)

	Consolidated					
	2018					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱153,065,163**	**₱–**	**₱–**	**₱–**	**₱–**	**₱153,065,163**
Savings	**325,879,492**	**55,277,943**	**11,124,898**	**3,934,958**	**59,492,319**	**455,709,610**
Time and LTNCDs	**64,510,020**	**47,939,843**	**15,741,007**	**12,397,727**	**47,608,239**	**188,196,836**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**21,312,878**	**4,168,069**	**59,131**	**112,041**	**625,556**	**26,277,675**
Gross contractual receivable	**(21,151,285)**	**(4,103,918)**	**(43,927)**	**(84,634)**	**(431,172)**	**(25,814,936)**
	161,593	**64,151**	**15,204**	**27,407**	**194,384**	**462,739**
Bills and acceptances payable	**21,220,087**	**31,470,973**	**7,650,651**	**1,731,191**	**9,251,132**	**71,324,034**
Bonds Payable	**–**	**–**	**335,198**	**335,198**	**18,044,999**	**18,715,395**
Accrued interest payable and accrued other expenses payable	**530,393**	**545,676**	**318,565**	**478,357**	**719,006**	**2,591,997**
Other liabilities	**9,374,656**	**79,932**	**10,663**	**4,958,474**	**1,483,565**	**15,907,290**
Total financial liabilities	**₱574,741,404**	**₱135,378,518**	**₱35,196,186**	**₱23,863,312**	**₱136,793,644**	**₱905,973,064**

	Consolidated					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets						
COCI	₱12,391,139	₱–	₱–	₱–	₱–	₱12,391,139
Due from BSP and other banks	130,769,307	–	–	–	–	130,769,307
Interbank loans receivable	12,286,982	228,340	172,609	149,790	–	12,837,721
Securities held under agreements to resell	14,621,483	–	–	–	–	14,621,483
Financial assets at FVPL:						
Held-for-trading:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	30,057,331	5,363,657	565,366	103,789	788,189	36,878,332
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	220,096	36,827	24,281	23,637	258,143	562,984
Designated at FVPL:						
Investment in UITFs	6,236	–	–	–	–	6,236
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,291,471	1,291,471
HTM investments:						
Government securities	188,569	212,336	303,546	757,310	44,207,605	45,669,366
Loans and receivables:						
Receivables from customers	80,262,108	67,820,331	22,813,722	12,710,714	388,953,761	572,560,636
Unquoted debt securities	6,385,292	4,996,563	3,218,486	–	85,254	14,685,595
Other receivables	6,365,805	810,857	852,239	870,379	14,480,093	23,379,373
Other assets	886,941	–	–	–	45,697	932,638
Total financial assets	₱267,288,300	₱74,802,597	₱28,662,896	₱18,101,581	₱524,919,043	₱913,774,417
Financial Liabilities						
Deposit liabilities:						
Demand	₱125,581,889	₱–	₱–	₱–	₱–	₱125,581,889
Savings	291,611,443	31,169,095	12,960,373	18,753,987	15,868,774	370,363,672
Time and LTNCDs	44,892,027	41,379,772	12,008,434	10,077,758	59,496,046	167,854,037
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416

(Forward)

	Consolidated					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Bills and acceptances payable	₱14,828,488	₱1,107,665	₱4,390,454	₱5,074,742	₱12,967,428	₱38,368,777
Accrued interest payable and accrued other expenses payable	1,543,768	156,457	29,837	9,872	16,785	1,756,719
Other liabilities	19,622,229	180,420	74,596	182,729	1,502,432	21,562,406
Total financial liabilities	₱498,207,917	₱74,001,399	₱29,467,073	₱34,120,032	₱90,034,495	₱725,830,916

	Parent Company					
	2018					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1year**	**Total**
Financial Assets						
COCI	**₱15,904,663**	**₱–**	**₱–**	**₱–**	**₱–**	**₱15,904,663**
Due from BSP and other banks	**109,124,871**	–	–	–	–	**109,124,871**
Interbank loans receivable	**10,802,556**	**2,489,016**	–	**411,692**	–	**13,703,264**
Securities held under agreements to resell	**20,705,463**	–	–	–	–	**20,705,463**
Financial assets at FVTPL:						
Government securities	**8,457,711**	–	–	–	–	**8,457,711**
Private debt securities	**415,583**	–	–	–	–	**415,583**
Equity securities	**537,478**	–	–	–	–	**537,478**
Derivative assets:						
Gross contractual receivable	**27,666,538**	**10,535,716**	**59,131**	**112,041**	**683,409**	**39,056,835**
Gross contractual payable	**(27,520,484)**	**(10,490,192)**	**(42,937)**	**(81,911)**	**(411,484)**	**(38,547,008)**
	146,054	**45,524**	**16,194**	**30,130**	**271,925**	**509,827**
Financial Assets at FVOCI:						
Government securities	**860,264**	**553,410**	**3,676,724**	**1,118,623**	**27,737,653**	**33,946,674**
Private debt securities	**319,173**	**152,913**	**594,186**	**2,756,936**	**14,102,844**	**17,926,052**
Equity securities	–	–	–	–	**644,200**	**644,200**
Investment securities at amortized cost:						
Government securities	**653,485**	**1,117,154**	**1,668,329**	**7,306,538**	**59,680,400**	**70,425,906**
Private debt securities	**1,275,473**	**12,857,236**	**1,430,423**	**2,469,149**	**31,666,253**	**49,698,534**
Financial assets at amortized cost:						
Receivables from customers	**81,472,022**	**68,788,473**	**27,138,592**	**10,523,511**	**418,403,360**	**606,325,958**
Other receivables	**5,433,667**	**16,076**	**15,730**	**74,065**	**18,678,032**	**24,217,570**
Other assets	**670,750**	–	–	–	**500**	**671,250**
Total financial assets	**₱256,779,213**	**₱86,019,802**	**₱34,540,178**	**₱24,690,644**	**₱571,185,167**	**₱973,212,004**
Financial Liabilities						
Deposit liabilities:						
Demand	**₱149,539,540**	**₱–**	**₱–**	**₱–**	**₱–**	**₱149,539,540**
Savings	**317,778,999**	**55,277,943**	**11,124,898**	**3,934,958**	**59,492,319**	**447,609,117**
Time and LTNCDs	**51,362,124**	**30,407,644**	**13,203,801**	**11,043,590**	**39,049,996**	**145,067,155**
Financial liabilities at FVTPL:						
Derivative liabilities:						
Gross contractual payable	**21,312,878**	**4,168,069**	**59,131**	**112,041**	**625,556**	**26,277,675**
Gross contractual receivable	**(21,152,094)**	**(4,104,998)**	**(44,407)**	**(84,634)**	**(431,172)**	**(25,817,305)**
	160,784	**63,071**	**14,724**	**27,407**	**194,384**	**460,370**
Bills and acceptances payable	**21,130,622**	**27,986,302**	**6,850,651**	**92,303**	**7,451,938**	**63,511,816**
Bonds Payable	–	–	**335,198**	**335,198**	**18,044,999**	**18,715,395**
Accrued interest payable and accrued other expenses payable	**375,980**	**504,207**	**309,134**	**424,874**	**688,624**	**2,302,819**
Other liabilities	**11,748,075**	–	–	–	**1,052,542**	**12,800,617**
Total financial liabilities	**₱552,096,124**	**₱114,239,167**	**₱31,838,406**	**₱15,858,330**	**₱125,974,802**	**₱840,006,829**

	Parent Company					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1year	Total
Financial Assets						
COCI	₱11,671,952	₱–	₱–	₱–	₱–	₱11,671,952
Due from BSP and other banks	116,252,719	–	–	–	–	116,252,719
Interbank loans receivable	9,157,109	1,604,115	172,673	149,931	–	11,083,828
Securities held under agreements to resell	14,625,088	–	–	–	–	14,625,088
Financial assets at FVPL:						
Government securities	2,207,952	–	–	–	–	2,207,952
Private debt securities	73,918	–	–	–	–	73,918
Equity securities	31,305	–	–	–	–	31,305
Derivative assets:						
Gross contractual receivable	₱30,056,716	₱5,362,855	₱563,491	₱103,789	₱788,189	₱36,875,040
Gross contractual payable	(29,837,235)	(5,326,830)	(541,085)	(80,152)	(530,046)	(36,315,348)
	219,481	36,025	22,406	23,637	258,143	559,692
AFS investments:						
Government securities	467,367	575,496	936,401	1,329,855	45,921,294	49,230,413
Private debt securities	123,800	121,847	341,612	2,259,896	29,675,725	32,522,880
Equity securities	–	–	–	–	1,151,027	1,151,027
HTM investments:						
Government securities	70,937	748,750	72,514	760,759	27,799,434	29,452,394
Loans and receivables:						
Receivables from customers	73,021,615	65,455,257	20,885,287	10,315,944	341,846,641	511,524,744
Unquoted debt securities	6,327,790	4,996,563	3,218,486	–	85,254	14,628,093
Other receivables	937,977	640,518	765,135	749,369	14,065,429	17,158,428
Other assets	874,510	–	–	–	–	874,510
Total financial assets	₱236,063,520	₱74,178,571	₱26,414,514	₱15,589,391	₱460,802,947	₱813,048,943
Financial Liabilities						
Deposit liabilities:						
Demand	₱123,396,962	₱–	₱–	₱–	₱–	₱123,396,962
Savings	278,242,929	28,561,604	11,681,381	15,880,899	13,776,365	348,143,178
Time and LTNCDs	35,916,806	25,512,119	8,886,110	9,939,517	47,991,405	128,245,957
Financial liabilities at FVPL:						
Derivative liabilities:						
Gross contractual payable	17,063,080	2,950,071	44,191	103,789	597,508	20,758,639
Gross contractual receivable	(16,935,007)	(2,942,081)	(40,812)	(82,845)	(414,478)	(20,415,223)
	128,073	7,990	3,379	20,944	183,030	343,416
Bills and acceptances payable	17,590,751	10,625,833	2,839,180	1,504,114	32,559,878	65,119,756
Accrued interest payable and accrued other expenses payable	1,413,437	153,518	5,428	7,848	16,785	1,597,016
Other liabilities	12,468,862	–	–	–	1,058,246	13,527,108
Total financial liabilities	₱469,157,820	₱64,861,064	₱23,415,478	₱27,353,322	₱95,585,709	₱680,373,393

Market Risk

Market risk is the risk to earnings or capital arising from adverse movements in factors that affect the market value of instruments, products, and transactions in an institutions' overall portfolio. Market risk arises from market making, dealing, and position taking in interest rate, foreign exchange and equity markets. The succeeding sections provide discussion on the impact of market risk on the Parent Company's trading and structural portfolios.

Trading market risk

Trading market risk exists in the Parent Company as the values of its trading positions are sensitive to changes in market rates such as interest rates, foreign exchange rates and equity prices. The Parent Company is exposed to trading market risk in the course of market making as well as from taking advantage of market opportunities. For internal monitoring of the risks in the trading portfolio, the Parent Company uses the Value at Risk (VaR) as a primary risk measurement tool. It adopts both the Parametric VaR methodology and Historical Simulation Methodology (with 99% confidence level) to measure the Parent Company's trading market risk. Both the Parametric models and Historical Simulation models were validated by an external independent validator. Volatilities used in the parametric are updated on a daily basis and are based on historical data for a rolling 261-day period while yields and prices in the historical VaR approach are also updated daily. The RMG reports the VaR utilization and breaches to limits to the risk taking personnel on a daily basis and to the ALCO and ROC on a monthly basis. All risk reports discussed in the ROC meeting are noted by the BOD. The VaR figures are back tested to validate the robustness of the VaR model. Results of backtesting on a rolling one year period are reported also to the ROC.

Objectives and limitations of the VaR methodology
The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be under estimated if changes in risk factors fail to align with the normal distribution assumption. VaR may also be under- or over- estimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99.00% confidence level.

VaR assumptions/parameters
VaR estimates the potential loss on the current portfolio assuming a specified time horizon and level of confidence at 99.00%. The use of a 99.00% confidence level means that, within a one day horizon, losses exceeding the VaR figure should occur, on average, not more than once every one hundred days.

Backtesting
The validity of the assumptions underlying the Parent Company's VaR models can only be checked by appropriate backtesting procedures. Backtesting is a formal statistical framework that consists of verifying that actual losses are within the projected VaR approximations. The Parent Company adopts both the clean backtesting and dirty backtesting approaches approach in backtesting. Clean backtesting, consists of comparing the VaR estimates with some hypothetical P&L values of the portfolio, having kept its composition unchanged. In this case, the same portfolio is repriced or marked-to-market at the end of the time interval and the hypothetical P&L is then compared with the VaR. The other method, called dirty backtesting, consists of comparing the VaR estimates with the actual P&L values at the end of the time horizon. This method, however, may pose a problem if the portfolio has changed drastically because of trading activities between the beginning and the end of the time horizon since VaR models assume that the portfolio is "frozen" over the horizon. The Parent Company uses the regulatory 3-zone (green, yellow and red) boundaries in evaluating the backtesting results. For the years 2018 and 2017, the number of observations which fell outside the VaR is within the allowable number of exceptions in the green and yellow zones to conclude that there is no problem with the quality and accuracy of the VaR models at 99.00% confidence level. Nonetheless, closer monitoring and regular review of the model's parameters and assumptions are being conducted.

Stress Testing
To complement the VaR approximations, the Parent Company conducts stress testing on a quarterly basis, the results of which are being reported to the BOD. Scenarios used in the conduct of stress test are event driven and represent the worst one-off event of a specific risk factor. Results of stress testing are analyzed in terms of the impact to earnings and capital.

VaR limits
Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established annually for all financial trading activities and exposures. Calculated VaR compared against the VaR limits are monitored. Limits are based on the tolerable risk appetite of the Parent Company. VaR is computed on an undiversified basis; hence, the Parent Company does not consider the correlation effects of the three trading portfolios.

The tables below show the trading VaR (in millions):

Trading Portfolio	**Foreign Exchange***	**Interest Rate**	**Equities Price**	**Total VaR****
December 29, 2018	**₱5.27**	**₱523.30**	**₱4.59**	**₱533.16**
Average Daily	**3.49**	**292.78**	**2.98**	**299.25**
Highest	**14.85**	**574.50**	**5.04**	**594.39**
Lowest	**0.45**	**93.54**	**0.48**	**94.47**

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Trading Portfolio	Foreign Exchange*	Interest Rate	Equities Price	Total VaR**
December 29, 2017	₱7.30	₱179.72	₱1.29	₱188.31
Average Daily	3.75	178.20	0.74	182.69
Highest	18.25	324.06	1.52	343.83
Lowest	0.63	58.00	0.26	58.89

* *FX VaR is the bankwide foreign exchange risk*
** *The high and low for the total portfolio may not equal the sum of the individual components as the highs and lows of the individual trading portfolios may have occurred on different trading days*

Structural Market Risk

<u>Non-trading Market Risk</u>
Interest rate risk
The Group seeks to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Interest margins may increase as a result of such changes but may be reduced or may create losses in the event that unexpected movements arise.

Repricing mismatches will expose Group to interest rate risk. The Group measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of a "repricing gap" analysis using the repricing characteristics of its financial instrument positions tempered with approved assumptions. To evaluate earnings exposure, interest rate sensitive liabilities in each time band are subtracted from the corresponding interest rate assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one year period would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Vice versa, positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

During a period of rising interest rates, a company with a positive gap is better positioned because the company's assets are refinanced at increasingly higher interest rates increasing the net interest margin of the company over time. During a period of falling interest rates, a company with a positive gap would show assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

For risk management purposes, the loan accounts are assessed based on next repricing date, thus as an example, if a loan account is scheduled to reprice three years from year-end report date, slotting of the account will be based on the date of interest repricing. Deposits with no specific maturity dates are excluded in the one-year repricing gap except for the portion of volatile regular savings deposits which are assumed to be withdrawn during the one year period and assumed to be replaced by a higher deposit rate.

The Group uses the Earnings at Risk (EaR) methodology to measure the likely interest margin compression in case of adverse change in interest rates given the Group repricing gap. The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from such an interest rate movement. The Group BOD sets a limit on the level of EaR exposure tolerable to the Group. EaR exposure and compliance to the EaR limit is monitored monthly by the RMG and subject to a quarterly stress test.

The following table sets forth the repricing gap position of the Group and the Parent Company:

	Consolidated					
	2018					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	**₱17,188,885**	**₱2,226,848**	**₱358,643**	**₱114,017**	**₱103,360,241**	**₱123,248,634**
Interbank loans receivable and securities held under agreements to resell	**27,252,060**	**4,293,432**	–	**402,963**	–	**31,948,455**
Receivables from customers and other receivables - gross**	**133,599,243**	**49,477,333**	**14,250,209**	**10,655,001**	**85,551,833**	**293,533,619**
Total financial assets	**₱178,040,188**	**₱55,997,613**	**₱14,608,852**	**₱11,171,981**	**₱188,912,074**	**₱448,730,704**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱103,372,627**	**₱51,010,318**	**₱17,409,707**	**₱9,855,407**	**₱219,974,302**	**₱401,622,361**
Time***	**54,243,105**	**29,114,902**	**12,695,184**	**7,290,497**	**43,867,041**	**147,210,729**
Bonds payable	–	–	–	–	**15,661,372**	**15,661,372**
Bills and acceptances payable	**26,009,666**	**29,625,656**	**9,334,172**	**438,375**	**4,674,965**	**70,082,834**
Total financial liabilities	**₱183,625,398**	**₱109,750,876**	**₱39,439,063**	**₱17,584,279**	**₱284,177,680**	**₱634,577,295**
Repricing gap	**(₱5,585,210)**	**(₱53,753,263)**	**(₱24,830,211)**	**(₱6,412,298)**	**(₱95,265,605)**	**₱(185,364,773)**
Cumulative gap	**(5,585,210)**	**(59,338,473)**	**(84,168,684)**	**(90,580,982)**	**(185,846,588)**	**185,846,588**

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

	Consolidated					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱24,660,231	₱2,121,146	₱728,009	₱185,844	₱4,589,558	₱32,284,788
Interbank loans receivable	19,961,838	7,326,962	170,404	–	–	27,459,204
Receivables from customers and other receivables - gross**	133,507,202	75,007,949	17,508,883	23,249,440	89,053,842	338,327,316
Total financial assets	₱178,129,271	₱84,456,057	₱18,407,296	₱23,435,284	₱93,643,400	₱398,071,308
Financial Liabilities*						
Deposit liabilities:						
Savings	₱75,793,561	₱22,624,460	₱12,265,322	₱17,354,750	₱223,384,284	₱351,422,377
Time***	59,937,295	25,560,312	10,090,695	10,242,856	23,720,876	129,552,034
Bills and acceptances payable	22,795,429	15,546,756	752,635	884,611	3,937,257	43,916,688
Total financial liabilities	₱158,526,285	₱63,731,528	₱23,108,652	₱28,482,217	₱251,042,417	₱524,891,099
Repricing gap	₱19,602,986	₱20,724,529	(₱4,701,356)	(₱5,046,933)	(₱157,399,017)	(₱126,819,791)
Cumulative gap	19,602,986	40,327,515	35,626,159	30,579,226	(126,819,791)	–

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

	Parent Company					
	2018					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 Months to 6 Months**	**More than 6 Months to 1 Year**	**Beyond 1 year**	**Total**
Financial Assets*						
Due from BSP and other banks	**₱11,459,496**	**₱–**	**₱–**	**₱–**	**₱97,665,375**	**₱109,124,871**
Interbank loans receivable and securities held under repurchase agreement	**27,525,060**	**4,734,391**	**–**	**402,963**	**–**	**32,662,414**
Receivable from customers and other receivables - gross**	**133,599,243**	**49,477,333**	**14,250,209**	**10,655,001**	**85,551,833**	**293,533,619**
Total financial assets	**₱172,310,800**	**₱54,211,724**	**₱14,250,209**	**₱11,057,964**	**₱183,217,208**	**₱435,047,905**
Financial Liabilities*						
Deposit liabilities:						
Savings	**₱100,441,913**	**₱51,010,318**	**₱17,409,707**	**₱9,855,407**	**₱215,287,201**	**₱394,004,546**
Time***	**49,533,469**	**25,235,898**	**10,842,175**	**10,433,332**	**12,405,219**	**108,450,093**
Bonds payable					**15,661,372**	**15,661,372**
Bills and acceptances payable	**25,718,272**	**29,020,039**	**7,065,172**	**161,502**	**741,810**	**62,706,795**
Total financial liabilities	**₱175,693,655**	**₱105,266,255**	**₱35,317,054**	**₱20,450,242**	**₱244,095,602**	**₱580,822,808**
Repricing gap	**(₱3,382,855)**	**(₱51,054,531)**	**(₱21,066,846)**	**(₱9,392,278)**	**(₱60,878,394)**	**(₱145,774,904)**
Cumulative gap	**(3,382,855)**	**(54,437,386)**	**(75,504,231)**	**(84,896,509)**	**(145,774,903)**	

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

	Parent Company					
	2017					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 Months to 6 Months	More than 6 Months to 1 Year	Beyond 1 year	Total
Financial Assets*						
Due from BSP and other banks	₱19,626,976	₱–	₱–	₱–	₱128,284	₱19,755,260
Interbank loans receivable and securities held under repurchase agreement	18,207,632	7,326,962	170,404	–	–	25,704,998
Receivable from customers and other receivables - gross**	133,507,202	75,007,949	17,508,883	23,249,440	89,053,842	338,327,316
Total financial assets	₱171,341,810	₱82,334,911	₱17,679,287	₱23,249,440	₱89,182,126	₱383,787,574
Financial Liabilities*						
Deposit liabilities:						
Savings	₱74,365,998	₱22,287,315	₱11,817,535	₱16,816,776	₱219,991,839	₱345,279,463
Time***	42,070,312	22,331,683	8,367,100	9,354,882	14,240,680	96,364,657
Bills and acceptances payable and bonds payable	25,020,114	15,172,286	338,672	273,751	595,980	41,400,803
Total financial liabilities	₱141,456,424	₱59,791,284	₱20,523,307	₱26,445,409	₱234,828,499	₱483,044,923
Repricing gap	₱29,885,386	₱22,543,627	(₱2,844,020)	(₱3,195,969)	(₱145,646,373)	(₱99,257,349)
Cumulative gap	29,885,386	52,429,013	49,584,993	46,389,024	(99,257,349)	–

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

The following table sets forth, for the year indicated, the impact of changes in interest rates on the Group's and the Parent Company's repricing gap for the years ended December 31, 2018 and 2017:

	Consolidated			
	2018		2017	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱321,344**	**₱321,344**	₱195,558	₱195,558
-50bps	**(321,344)**	**(321,344)**	(195,558)	(195,558)
+100bps	**642,687**	**642,687**	391,117	391,117
-100bps	**(642,687)**	**(642,687)**	(391,117)	(391,117)

	Parent Company			
	2018		2017	
	Statement of Income	**Equity**	Statement of Income	Equity
+50bps	**₱293,938**	**₱293,938**	₱244,450	₱244,450
-50bps	**(293,938)**	**(293,938)**	(244,450)	(244,450)
+100bps	**587,876**	**587,876**	488,901	488,901
-100bps	**(587,876)**	**(587,876)**	(488,901)	(488,901)

As one of the long-term goals in the risk management process, the Group has also implemented the adoption of the economic value approach in measuring the impact of the interest rate risk in the banking books to complement the earnings at risk approach using the modified duration approach. Cognizant of this requirement, the Group has undertaken the initial activities such as identification of the business requirement and design of templates for each account and the inclusion of this requirement in the Asset Liability Management business requirement definition.

Foreign currency risk
Foreign exchange is the risk to earnings or capital arising from changes in foreign exchange rates. The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financials and cash flows.

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's and PNBSB's FCDU books, accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency liabilities with the foreign currency assets held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its foreign branch network.
The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Group believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Group is involved.

The table below summarizes the exposure to foreign exchange rate risk. Included in the table are the financial assets and liabilities at carrying amounts, categorized by currency (amounts in Philippine peso equivalent).

	Consolidated					
	2018			2017		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱137,978**	**₱330,617**	**₱468,595**	₱156,558	₱518,612	₱675,170
Due from other banks	**8,777,120**	**9,814,266**	**18,591,386**	9,553,985	7,081,852	16,635,837
Interbank loans receivable and securities held under agreements to resell	**2,869,290**	**1,950,059**	**4,819,349**	2,904,298	1,678,936	4,583,234
Loans and receivables	**18,453,000**	**11,376,886**	**29,829,886**	13,729,348	941,223	14,670,571
Financial Assets at FVTPL	**446,926**	**882**	**447,808**	–	–	–
AFS investments				14,380,453	1,592,873	15,973,326
Financial Assets at FVOCI	**4,180,482**	**1,325,930**	**5,506,412**	–	–	–
HTM investments				7,250	–	7,250
Investment securities at amortized cost	**10,206,937**	**775,295**	**10,982,232**	–	–	–
Other assets	**3,539,425**	**1,238,191**	**4,777,616**	61,789	210,440	272,229
Total assets	**48,611,158**	**26,812,126**	**75,423,284**	40,793,681	12,023,936	52,817,617
Liabilities						
Deposit liabilities	**9,288,237**	**9,261,411**	**18,549,648**	9,304,064	4,154,433	13,458,497
Derivative liabilities	**1,184**	**2,300**	**3,484**	–	1,335	1,335
Bills and acceptances payable	**8,548,504**	**26,777,697**	**35,326,201**	12,464,796	7,667,327	20,132,123
Accrued interest payable	**75,571**	**107,362**	**182,933**	55,593	36,856	92,449
Other liabilities	**1,390,598**	**1,135,891**	**2,526,489**	10,658,664	434,957	11,093,621
Total liabilities	**19,304,094**	**37,284,661**	**56,588,755**	32,483,117	12,294,908	44,778,025
Net Exposure	**₱29,307,064**	**(₱10,472,535)**	**₱18,834,529**	₱8,310,564	(₱270,972)	₱8,039,592

* *Other currencies include UAE Dirham (AED,) Australia dollar (AUD), Bahrain dollar (BHD), Brunei dollar (BND), Canada dollar (CAD), Swiss franc (CHF), China Yuan (CNY), Denmark kroner (DKK), Euro (EUR), UK pound (GBP), Hong Kong dollar (HKD), Indonesia rupiah (IDR), Japanese yen (JPY), New Zealand dollar (NZD), PHP, Saudi Arabia riyal (SAR), Sweden kroner (SEK), Singapore dollar (SGD), South Korean won (SKW), Thailand baht (THB) and Taiwan dollar (TWD).*

	Parent Company					
	2018			2017		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
COCI and due from BSP	**₱81,634**	**₱328,417**	**₱410,051**	₱27,480	₱516,152	₱543,632
Due from other banks	**4,264,743**	**2,861,495**	**7,126,238**	2,367,235	5,732,388	8,099,623
Interbank loans receivable and securities held under agreements to resell	**2,869,290**	**1,950,059**	**4,819,349**	2,904,298	1,678,936	4,583,234
Loans and receivables	**15,902,948**	**540,618**	**16,443,566**	12,448,339	593,535	13,041,874
Financial Assets at FVTPL	**446,044**	**–**	**446,044**			
AFS investments				14,379,915	1,518,490	15,898,405
Financial Assets at FVOCI	**4,154,658**	**1,252,187**	**5,406,845**			
HTM investments				7,250	–	7,250
Investment securities at amortized cost	**10,153,480**	**775,295**	**10,928,775**			
Other assets	**3,512,644**	**28,210**	**3,540,854**	55,641	199,912	255,553
Total assets	**41,385,441**	**7,736,281**	**49,121,722**	32,190,158	10,239,413	42,429,571
Liabilities						
Deposit liabilities	**2,156,093**	**4,118,554**	**6,274,647**	2,059,160	4,126,954	6,186,114
Derivative liabilities	**–**	**1,116**	**1,116**	–	1,335	1,335
Bills and acceptances payable	**8,379,264**	**26,425,533**	**34,804,797**	12,335,654	7,501,224	19,836,878
Accrued interest payable	**58,511**	**17,325**	**75,836**	43,110	17,213	60,323
Other liabilities	**992,992**	**141,222**	**1,134,214**	10,438,562	141,435	10,579,997
Total liabilities	**11,586,860**	**30,703,750**	**42,290,609**	24,876,486	11,788,161	36,664,647
Net Exposure	**₱29,798,581**	**(₱22,967,469)**	**₱6,831,112**	₱7,313,672	(₱1,548,748)	₱5,764,924

* *Other currencies include AED, AUD, BHD, BND, CAD, CHF, CNY, DKK, EUR, GBP, HKD, IDR, JPY, NZD, PHP, SAR, SEK, SGD, SKW, THB and TWD.*

Information relating to the Parent Company's currency derivatives is contained in Note 23. The Parent Company has outstanding foreign currency spot transactions (in equivalent peso amounts) of ₱4.7 billion (sold) and ₱5.4 billion (bought) as of December 31, 2018 and ₱1.1 billion (sold) and ₱265.7 million (bought) as of December 31, 2017.

The exchange rates used to convert the Group and the Parent Company's US dollar-denominated assets and liabilities into Philippine peso as of December 31, 2018 and 2017 follow:

	2018	2017
US dollar - Philippine peso exchange rate	**₱52.58 to USD1.00**	₱49.93 to USD1.00

The following tables set forth the impact of the range of reasonably possible changes in the US dollar-Philippine peso exchange rate on the Group and the Parent Company's income before income tax and equity (due to the revaluation of monetary assets and liabilities) for the years ended December 31, 2018 and 2017:

	2018			
	Consolidated		**Parent Company**	
	Statement of Income	**Equity**	**Statement of Income**	**Equity**
+1.00%	**₱251,592**	**₱293,397**	**₱256,439**	**₱297,986**
-1.00%	**(251,592)**	**(293,071)**	**(256,439)**	**(297,986)**

	2017			
	Consolidated		Parent Company	
	Statement of Income	Equity	Statement of Income	Equity
+1.00%	₱60,699	₱83,106	₱70,662	₱73,137
-1.00%	(60,699)	(83,106)	(70,662)	(73,137)

The Group and the Parent Company do not expect the impact of the volatility on other currencies to be material.

Capital management and management of insurance and financial risks

Governance framework

The Group has established a risk management function with clear terms of reference and with the responsibility for developing policies on market, credit, liquidity, insurance and operational risks. It also supports the effective implementation of policies at the overall company and individual business unit levels.

The policies define the Group's identification of risk and its interpretation, limit structure to ensure the appropriate quality and diversification of assets, alignment of underwriting and reinsurance strategies to the corporate goals and specific reporting requirements.

Regulatory framework

Regulators are interested in protecting the rights of the policyholders and maintain close vigil to ensure that the Group is satisfactorily managing affairs for their benefit. At the same time, the regulators are also interested in ensuring that the Group maintains appropriate solvency position to meet liabilities arising from claims and that the risk levels are at acceptable levels.

The Group has an insurance business which is subject to the regulatory requirements of the Insurance Commission (IC). Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions (e.g., fixed capitalization requirements, risk-based capital requirements).

Capital management

PNB General Insurers Inc.'s (PNB Gen) capital management framework is aligned with the statutory requirements imposed by the IC.To ensure compliance with these externally imposed capital requirements, it is the policy of PNB Gen to assess its position against set minimum capital requirements.

Under the requirements of the IC and the Insurance Code, PNB Gen should meet the minimum levels set for the following capital requirements: Minimum Statutory Net Worth - ₱250.0 million, ₱550.0 million, ₱900.0 million and ₱1.3 billion with compliance dates of June 30, 2013, December 31, 2016, December 31, 2019 and December 31, 2022, respectively;and Risk-Based Capital (RBC) - 100.00% for both life and nonlife insurance companies.

The required investments in government bonds and securities of at least 25.00% of the Minimum Paid-up Capital, under Section 203 of the Insurance Code, are free from liens and encumbrances.

Effective January 1, 2017, CL No. 2016-68 states that RBC ratio shall be calculated as Total Available Capital (TAC) divided by the RBC requirement. TAC shall include the aggregate of tier 1 and tier 2 capital minus deductions, subject to applicable limits and determinations. Tier 1 capital represents capital that is fully available to cover losses of the insurer at all times on a going-concern and winding up basis. This capital is considered to be the highest quality capital available to the insurer. Tier 2 Capital does not have the same high quality characteristics of Tier 1 capital, but can provide an additional buffer to the insurer. The RBC requirement of an insurance company is the capital that is required to be held appropriately to the risks an insurance company is exposed to, computed using the formula given in the circular with details of its components and applicable risk charges.

As of December 31, 2018 and 2017, PNB Gen has an estimated statutory net worth amounting to ₱615 million and ₱592.3 million, respectively. PNB Gen's RBC ratio as of December 31, 2018 and 2017 is 219% and 262%, respectively.

In a letter dated January 31, 2019 addressed to the Parent Bank, the BSP approved on December 28, 2018 the request of the Parent Bank to infuse ₱280.0 million in PNB Gen subject to regulatory compliance and reporting conditions, and to be booked by the latter as contingency surplus in compliance with IC Circular Letter (CL) No. 2015-02-A dated January 13, 2015. Also, there is an on-going business combination talk between Alliedbankers Insurance Corporation (ABIC) and PNB Gen.

Under Section D of IMC No. 7-2006, Mandatory Control Event shall occur if the RBC ratio of the company is less than 35.00%. Should this event occur, the Commissioner is required to place the company under regulatory control under Section 247 (Title 13, Suspension or Revocation of Authority) of the Code. The Mandatory Control Event shall be deemed sufficient grounds for the Commissioner to take action under Section 247 of the Insurance Code.

The final amount of the RBC ratio can be determined only after the accounts of PNB Gen have been examined by the IC.

5. **Fair Value Measurement**

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities follow:

Cash equivalents - Carrying amounts approximate fair values due to the relatively short-term maturity of these investments.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Multiples were determined that is most relevant to assessing the value of the unquoted securities (e.g., earnings, book value). The selection of the appropriate multiple within the range is based on qualitative and quantitative factors specific to the measurement. Where the government debt securities are not quoted or the market prices are not readily available, the fair value is determined in reference to PHP BVAL rates and interpolated PDST-R2 rates provided by the Philippine Dealing and Exchange Corporation (PDEx) in 2018 and 2017, respectively.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices. In 2017, unquoted equity securities are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. In 2018, remeasurement of such unquoted equity securities to their fair values is not material to the financial statements.

Investments in UITFs classified as financial assets at FVTPL - Fair values are based on Net Asset Value per share (NAVps).

Loans and receivables - For loans with fixed interest rates, fair values are estimated using the discounted cash flow methodology, using the current incremental lending rates for similar types of loans. For loans with floating interest rates, with repricing frequencies on a quarterly basis, the Group assumes that the carrying amount approximates fair value.

Investment properties - The fair values of the Group and the Parent Company's investment properties have been determined by the appraisal method by independent external and in-house appraisers based on highest and best use of property being appraised. Valuations were derived on the basis of recent sales of similar properties in the same areas as the land, building and investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued.

Financial liabilities - Except for time deposit liabilities, bills payable with long-term maturity, bonds payable and subordinated debt, the carrying values approximate fair values due to either the presence of a demand feature or the relatively short-term maturities of these liabilities.

Derivative instruments - Fair values are estimated based on quoted market prices or acceptable valuation models.

Time deposit liabilities, bills payable with long-term maturity, bonds payable and subordinated debt - Fair value is estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread . The discount rate used in estimating the fair values of the subordinated debt, bonds payable, bills payable and time deposits ranges from 6.61% to 6.97% and 3.00% to 4.13% as of December 31, 2018 and 2017, respectively.
For all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models.

Fair value hierarchy
The Group has assets and liabilities that are measured at fair value on a recurring basis in the statement of financial position after initial recognition. Recurring fair value measurements are those that another PFRS requires or permits to be recognized in the statement of financial position at the end of each reporting period. These include financial assets and liabilities at FVTPL and financial assets at FVOCI/AFS investments.

The Group uses the following hierarchy for determining and disclosing the fair value of assets and liabilities by valuation technique. These levels are based in the inputs that are used to determine the fair value and can be summarized in:

- Level 1 - quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2 - valuation techniques for which the lowest level input that is significant to their fair value measurement is directly or indirectly observable
- Level 3 - valuation techniques for which the lowest level of input that is significant to their fair value measurement is unobservable

The Group and the Parent Company held the following financial assets and liabilities measured at fair value and at cost but for which fair values are disclosed and their corresponding level in fair value hierarchy:

	Consolidated					
	2018					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/28/18	₱8,457,711	₱7,127,592	₱1,330,119	₱–	₱8,457,711
Derivative assets	12/28/18	574,629	–	516,775	57,854	574,629
Private debt securities	12/28/18	415,583	–	415,583	–	415,583
Equity securities	12/28/18	545,149	545,149	–	–	545,149
Investments in UITF	12/28/18	6,375	–	6,375	–	6,375
Financial assets at FVOCI:						
Government securities	12/28/18	33,116,495	19,415,700	13,700,795	–	33,116,495
Private debt securities	12/28/18	17,672,009	5,581,723	12,090,285	–	17,672,008
Equity securities	12/28/18	885,663	488,029	281,910	115,724	885,663
		₱61,673,613	₱33,158,193	₱28,341,842	₱173,578	₱61,673,614
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Derivative liabilities	12/28/18	₱470,648	₱–	₱470,648	₱–	₱470,648
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost*	12/28/18	₱99,772,711	₱87,006,196	₱8,980,697	₱200,702	₱96,187,595
Financial assets at amortized cost:**						
Receivables from customers	12/28/18	561,627,786	–	–	563,770,117	563,770,117
		₱661,400,497	₱87,006,196	₱8,980,697	₱563,970,819	₱659,957,712
Nonfinancial Assets						
Investment property:						
Land	12/28/18	₱11,298,258	₱–	₱–	₱22,583,028	₱22,583,028
Buildings and improvements	12/28/18	2,190,608	–	–	2,662,848	2,662,848
		₱13,488,866	₱–	₱–	₱25,245,876	₱25,245,876
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/28/18	₱147,210,729	₱–	₱–	₱144,481,264	₱144,481,264
LTNCDs	12/28/18	31,403,225	–	–	28,517,657	28,517,657
Bonds payable	12/28/18	15,661,372	–	–	14,499,746	14,499,746
Bills payable	12/28/18	68,316,974	–	–	60,436,716	60,436,716
		₱262,592,300	₱–	₱–	₱247,935,383	₱247,935,383

* *Net of allowance for expected credit losses (Note 9)*

** *Net of allowance for expected credit losses and unearned and other deferred income (Note 10)*

	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
	Consolidated 2017					
Assets measured at fair value:						
Financial Assets						
Financial assets at FVTPL:						
Government securities	12/29/17	₱2,207,952	₱1,534,790	₱673,162	₱–	₱2,207,952
Derivative assets	12/29/17	562,984	–	508,046	54,938	562,984
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	73,918	73,918	–	–	73,918
Investments in UITF	12/29/17	6,236	–	6,236	–	6,236
AFS investments:						
Government securities	12/29/17	41,625,900	36,968,672	4,657,228	–	41,625,900
Private debt securities	12/29/17	26,920,045	20,899,896	6,020,149	–	26,920,045
Equity securities*	12/29/17	1,144,779	–	1,144,779	–	1,144,779
		₱72,573,119	₱59,477,276	₱13,040,905	₱54,938	₱72,573,119
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,522	₱–	₱343,522	₱–	₱343,522
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,805,131	₱23,732,936	₱4,191,145	₱–	₱27,924,081
Loans and Receivables:**						
Receivables from customers	12/29/17	472,493,703	–	–	481,557,275	481,557,275
Unquoted debt securities	12/29/17	10,934,148	–	–	10,942,367	10,942,367
		₱510,232,982	₱23,732,936	₱4,191,145	₱492,499,642	₱520,423,723
Nonfinancial Assets						
Investment property:						
Land	12/29/17	₱13,161,936	₱–	₱–	₱18,995,358	₱18,995,358
Buildings and improvements	12/29/17	2,432,449	–	–	3,730,716	3,730,716
		₱15,594,385	₱–	₱–	₱22,726,074	₱22,726,074
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱129,552,035	₱–	₱–	₱147,666,612	₱147,666,612
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	41,684,801	–	–	41,765,052	41,765,052
		₱202,600,792	₱–	₱–	₱220,823,606	₱220,823,606

* *Excludes unquoted available-for-sale securities (Note 9)*

** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*

	Parent Company					
	2018					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/28/18	₱8,457,712	₱7,127,592	₱1,330,119	₱–	₱8,457,712
Derivative assets	12/28/18	572,864	–	515,010	57,854	572,864
Private debt securities	12/28/18	415,583	–	415,583	–	415,583
Equity securities	12/28/18	537,477	537,477	–	–	537,477
Financial assets at FVOCI:						
Government securities*	12/28/18	32,697,809	19,040,788	13,657,021	–	32,697,809
Private debt securities*	12/28/18	17,314,884	5,534,891	11,779,993	–	17,314,884
Equity securities	12/28/18	644,200	353,853	175,190	115,157	644,200
		₱60,640,529	₱48,663,320	₱11,919,355	₱57,854	₱60,640,529
Liabilities measured at fair value:						
Financial Liabilities						
Financial liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/28/18	₱468,279	₱–	₱468,279	₱–	₱468,279
Assets for which fair values are disclosed:						
Financial Assets						
Investment securities at amortized cost	12/28/18	₱99,586,329	₱86,862,640	₱8,980,697	₱200,702	₱96,043,409
Financial assets at amortized cost*						
Receivables from customers	12/28/18	492,777,306	–	–	497,752,999	497,752,999
		₱592,363,635	₱86,862,640	₱8,980,697	₱497,953,701	₱593,796,408
Nonfinancial Assets						
Investment property:***						
Land	12/28/18	₱10,963,770	₱–	₱–	₱22,008,927	₱22,008,927
Buildings and improvements	12/28/18	2,185,588			2,286,209	2,286,209
		₱13,149,358	₱–	₱–	₱24,295,136	₱24,295,136
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/28/18	₱108,450,094	₱–	₱–	₱105,450,094	₱105,450,094
LTNCDs	12/28/18	31,403,225	–	–	28,517,657	28,517,657
Bonds payable	12/28/18	15,661,372	–	–	16,019,776	16,019,776
Bills payable	12/28/18	60,940,934	–	–	60,928,743	60,928,743
		₱216,455,625	₱–	₱–	₱210,916,270	₱210,916,270

* *Net of allowance for expected credit losses (Note 9)*

** *Net of allowance for expected credit losses and unearned and other deferred income (Note 10)*

	Parent Company					
	2017					
	Valuation Date	Carrying Value	Level 1	Level 2	Level 3	Total
Assets measured at fair value:						
Financial Assets						
Financial assets at FVPL:						
Government securities	12/29/17	₱2,207,952	₱1,645,573	₱562,379	₱–	₱2,207,952
Derivative assets	12/29/17	559,692	–	504,753	54,939	559,692
Private debt securities	12/29/17	31,305	–	31,305	–	31,305
Equity securities	12/29/17	30,928	30,928	–	–	30,928
AFS investments:						
Government securities	12/29/17	40,082,376	36,968,172	3,114,204	–	40,082,376
Private debt securities	12/29/17	26,444,549	20,899,905	5,544,644	–	26,444,549
Equity securities*	12/29/17	1,004,873	–	1,004,873	–	1,004,873
		₱70,361,675	₱59,544,578	₱10,762,158	₱54,939	₱70,361,675
Liabilities measured at fair value:						
Financial Liabilities						
Financial Liabilities at FVPL:						
Designated at FVPL:						
Derivative liabilities	12/29/17	₱343,416	₱–	₱343,416	₱–	₱343,416
Assets for which fair values are disclosed:						
Financial Assets						
HTM investments	12/29/17	₱26,680,483	₱23,732,936	₱4,071,745	₱–	₱27,804,681
Loans and Receivables:**						
Receivables from customers	12/29/17	418,018,387	–	–	418,229,045	418,229,045
Unquoted debt securities	12/29/17	10,933,395	–	–	10,941,615	10,941,615
		₱455,632,265	₱23,732,936	₱4,071,745	₱429,170,660	₱456,975,341
Nonfinancial Assets						
Investment property:***						
Land	12/29/17	₱12,833,559	₱–	₱–	₱18,464,458	₱18,464,458
Buildings and improvements	12/29/17	2,484,849	–	–	3,357,678	3,357,678
		₱15,318,408	₱–	₱–	₱21,822,136	₱21,822,136
Liabilities for which fair values are disclosed:						
Financial Liabilities						
Financial liabilities at amortized cost:						
Time deposits	12/29/17	₱96,364,657	₱–	₱–	₱109,838,818	₱109,838,818
LTNCDs	12/29/17	31,363,956	–	–	31,391,942	31,391,942
Bills payable	12/29/17	39,168,917			39,249,168	39,249,168
		₱166,897,530	₱–	₱–	₱180,479,928	₱180,479,928

* *Excludes unquoted available-for-sale securities (Note 9)*
** *Net of allowance for credit losses and unearned and other deferred income (Note 10)*

Significant input used in determining fair values of financial instruments under Level 2 comprises of interpolated market rates of benchmark securities. For investments in UITFs, fair values are determined based on published NAVps as of reporting date.

As of December 31, 2018 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

Description of the valuation techniques and significant unobservable inputs used in the valuation of the Group and Parent Company's investment properties follows:

<u>Valuation Techniques</u>

Market Data Approach	A process of comparing the subject property being appraised to similar comparable properties recently sold or being offered for sale.
Replacement Cost Approach	It is an estimate of the investment required to duplicate the property in its present condition. It is reached by estimating the value of the

Valuation Techniques	
	building "as if new" and then deducting the depreciated cost. Fundamental to the Cost Approach is the estimate of the improvement's Reproduction Cost New.
Significant Unobservable Inputs	
Price per square meter	Ranges from ₱800 to ₱100,000
Reproduction Cost New	The cost to create a virtual replica of the existing structure, employing the same design and similar building materials.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	"An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investors' perceptions of the market over time". In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.
Corner influence	Bounded by two (2) roads.

6. Segment Information

Business Segments

The Group's operating businesses are determined and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments follow:

Retail Banking - principally handling individual customer's deposits, and providing consumer type loans, credit card facilities and fund transfer facilities;

Corporate Banking - principally handling loans and other credit facilities and deposit accounts for corporate and institutional customers

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking; and

Other Segments - include, but not limited to, insurance, leasing, remittances and other support services. Other support services of the Group comprise of the operations and financial control groups.

Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is credited to or charged against business segments based on pool rate which approximates the marginal cost of funds.

For management purposes, business segment report is done on a quarterly basis. Business segment information provided to the BOD, chief operating decision maker (CODM) is based on the Regulatory Accounting Principles (RAP) submitted to the BSP in compliance with the reportorial requirements under the Financial Reporting Package for banks, which differ from PFRS. Significant differences arose from the manner of provisioning for impairment and credit losses, measurement of investment properties and the fair value measurement of financial instruments. The report submitted to CODM represents only the results of operation for each of the reportable segment.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenues pertain to the net interest margin and other operating income earned by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group has no significant customer which contributes 10.00% or more of the consolidated revenue.

Business segment information of the Group follows:

	2018					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,287,627	₱21,844,985	₱3,583,152	₱870,454	(₱584,495)	₱27,001,724
Inter-segment	14,775,986	(14,652,247)	(123,739)	–	–	–
Net interest margin after inter-segment transactions	16,063,613	7,192,738	3,459,413	870,454	(584,495)	27,001,724
Other income	2,538,607	8,377,408	485,407	1,535,363	(261,602)	12,675,182
Segment revenue	18,602,220	15,570,146	3,944,820	2,405,817	(846,097)	39,676,906
Other expenses	12,726,476	2,343,403	375,651	1,836,700	(925,897)	16,356,334
Segment result	₱5,875,744	₱13,226,743	₱3,569,169	₱569,117	₱79,800	23,036,620
Unallocated expenses						9,880,790
Income before income tax						13,439,786
Income tax						3,663,744

(Forward)

	2018					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Net income from continuing operations						**₱9,776,042**
Net loss from discontinued operations						**(219,972)**
Net income						**9,556,070**
Non-controlling interests						**91,048**
Net income for the year attributable to equity holders of the Parent Company						**₱9,465,022**
Other segment information						
Capital expenditures	**₱1,241,242**	**₱2,180**	**₱268**	**₱495,658**	**₱**	**₱1,739,348**
Unallocated capital expenditure						**1,824,707**
Total capital expenditure						**₱3,564,055**
Depreciation and amortization	**₱599,118**	**₱33,299**	**₱1,192**	**₱230,307**	**₱44,873**	**₱908,788**
Unallocated depreciation and amortization						**1,042,189**
Total depreciation and amortization						**₱1,950,977**
Provision for (reversal of) impairment, credit and other losses	**₱854,341**	**₱800,926**	**₱–**	**₱2,579**	**₱94,966**	**₱1,752,812**

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

	2017 (As Restated-Note 36)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,404,759	₱17,112,989	₱3,313,723	₱70,505	₱121,992	₱22,023,968
Inter-segment	9,459,213	(9,193,733)	(265,480)	–	–	–
Net interest margin after inter-segment transactions	10,863,972	7,919,256	3,048,243	70,505	121,992	22,023,968
Other income	1,881,419	4,934,248	1,916,158	2,485,075	(123,852)	11,093,048
Segment revenue	12,745,391	12,853,504	4,964,401	2,555,580	(1,860)	33,117,016
Other expenses	10,621,656	1,127,527	168,908	848,870	68,159	12,835,120
Segment result	₱2,123,735	₱11,725,977	₱4,795,493	₱1,706,710	(₱70,019)	₱20,281,896
Unallocated expenses						9,880,789
Income before income tax						10,401,107
Income tax						2,314,934
Net income from continuing operations						8,086,173
Net income from discontinued operations						70,373
Net income						8,156,546
Non-controlling interest						4,025
Net income for the year attributable to equity holders of the Parent Company						₱8,160,570
Other segment information						
Capital expenditures	₱820,121	₱4,278	₱–	₱282,846	₱–	₱1,107,245
Unallocated capital expenditure						1,985,662
Total capital expenditure						₱3,092,907
Depreciation and amortization	₱520,812	₱138,463	₱1,478	₱275,536	₱–	₱936,289
Unallocated depreciation and amortization						748,102
Total depreciation and amortization						₱1,684,391
Provision for (reversal of) impairment, credit and other losses	(₱1,477)	₱599,901	(₱41,417)	(₱7,068)	₱334,193	₱884,132

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

	2016 (As Restated-Note 36)					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Net interest margin						
Third party	₱1,136,370	₱15,027,877	₱3,014,495	₱91,352	₱261,154	₱19,531,248
Inter-segment	5,345,226	(7,756,129)	2,410,903	–	–	–
Net interest margin after inter-segment transactions	6,481,596	7,271,748	5,425,398	91,352	261,154	19,531,248
Other income	1,896,868	4,274,575	2,284,097	3,720,743	(1,804,309)	10,371,974
Segment revenue	8,378,464	11,546,323	7,709,495	3,812,095	(1,543,155)	29,903,222
Other expenses	(8,207,826)	(3,611,997)	(200,330)	(3,793,804)	(632,593)	(16,446,550)
Segment result	₱170,638	₱7,934,326	₱7,509,165	₱18,291	(₱2,175,748)	13,456,672
Unallocated expenses						(7,114,745)
Income before income tax						6,341,927
Income tax						1,509,713
Net income from continuing operations						4,832,214
Net income from discontinued operations						2,329,669
Net Income						7,161,883
Non-controlling interest						(38,122)
Net income for the year attributable to equity holders of the Parent Company						₱7,123,761
Other segment information						
Capital expenditures	₱1,063,897	₱5,723	₱961	₱510,870	₱–	₱1,581,451
Unallocated capital expenditure						848,229
Total capital expenditure						₱2,429,680
Depreciation and amortization	₱493,221	₱22,318	₱2,663	₱644,739	₱–	₱1,162,941
Unallocated depreciation and amortization						391,669
Total depreciation and amortization						₱1,554,610
Provision for impairment, credit and other losses	₱360,089	₱2,529,286	₱300	₱4,233	₱318,786	₱3,212,694

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

	As of December 31, 2018					
	Retail Banking	**Corporate Banking**	**Treasury**	**Others**	**Adjustments and Eliminations***	**Total**
Segment assets	**₱176,979,190**	**₱521,012,459**	**₱196,800,341**	**₱100,415,100**	**(₱15,695,142)**	**₱979,511,948**
Unallocated assets						**4,136,238**
Total assets						**₱983,648,186**
Segment liabilities	**₱584,241,976**	**₱129,260,747**	**₱118,145,318**	**₱34,755,735**	**(₱15,261,242)**	**₱851,142,534**
Unallocated liabilities						**3,946,640**
Total liabilities						**₱855,089,174**

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

	As of December 31, 2017					
	Retail Banking	Corporate Banking	Treasury	Others	Adjustments and Eliminations*	Total
Segment assets	₱160,378,585	₱436,181,872	₱147,035,920	₱109,094,556	(₱19,433,076)	₱833,257,857
Unallocated assets						2,837,880
Total assets						₱836,095,737
Segment liabilities	₱528,053,875	₱84,384,861	₱87,966,482	₱31,965,562	(₱19,192,245)	₱713,178,535
Unallocated liabilities						3,440,221
Total liabilities						₱716,618,756

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

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in five (5) principal geographical areas of the world. The distribution of assets, liabilities, credit commitments items and revenues by geographic region of the Group follows:

	Non-current Assets*		Liabilities		Capital Expenditure	
	2018	2017	**2018**	2017	**2018**	2017
Philippines	**₱451,576,392**	₱387,750,978	**₱821,782,475**	₱687,972,640	**₱3,555,349**	₱3,083,414
Asia (excluding Philippines)	**5,828,575**	6,775,199	**30,496,429**	25,761,863	**8,053**	7,484
USA and Canada	**127,628,675**	84,655,334	**2,311,128**	2,342,588	**632**	1,822
United Kingdom	**1,731,423**	2,883,469	**499,142**	541,665	**21**	187
	₱586,765,065	₱482,064,980	**₱855,089,174**	₱716,618,756	**₱3,564,055**	₱3,092,907

* *Gross of allowance for impairment and credit losses (Note 16), unearned and other deferred income (Note 10), and accumulated amortization and depreciation (Notes 11, 13, and 14)*

	Credit Commitments		External Revenues		
	2018	2017	**2018**	2017	2016
Philippines	**₱44,358,069**	₱37,217,949	**₱37,577,151**	₱31,441,324	₱27,819,680
Asia (excluding Philippines)	**881,144**	212,586	**1,290,100**	1,021,619	1,267,659
USA and Canada	**–**	3,795	**684,794**	543,158	668,833
United Kingdom	**–**	–	**124,861**	110,915	147,050
	₱45,239,213	₱37,434,330	**₱39,676,908**	₱33,117,016	₱29,903,222

The Philippines is the home country of the Parent Company, which is also the main operating company. The Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The areas of operations include all the primary business segments.

7. Due from Bangko Sentral ng Pilipinas

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Demand deposit (Note 17)	**₱101,027,312**	₱99,743,985	**₱97,665,375**	₱96,497,459
Term deposit facility (TDF)	**1,696,000**	9,000,000	**1,000,000**	9,000,000
	₱102,723,312	₱108,743,985	**₱98,665,375**	₱105,497,459

TDFs bear annual interest rates ranging from 3.22% to 5.24% in 2018, from 3.45% to 3.50% in 2017 and from 2.50% to 3.50% in 2016.

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

The Group's and the Parent Company's peso-denominated interbank loans receivables bear interest ranging from 3.03% to 3.06% in 2018, from 2.56% to 2.63% in 2017 and from 2.56% to 3.19% in 2016; and from 0.01% to 5.09%, from 0.20 to 4.40% and from 0.01% to 4.40%, for foreign-currency denominated placements in 2018, 2017 and 2016 respectively.

The amount of the Group's and the Parent Company's interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Interbank loans receivable	**₱11,248,455**	₱12,837,721	**₱11,689,414**	₱11,083,515
Less: Interbank loans receivable not considered as cash and cash equivalents	**668,023**	1,346,037	**1,108,331**	1,382,599
	₱10,580,432	₱11,491,684	**₱10,581,083**	₱9,700,916

The Group's and the Parent Company's peso-denominated securities held under agreements to resell bear interest ranging from 3.00% to 4.75%, 3.00%, and from 3.00% to 4.00% in 2018, 2017 and 2016, respectively.

Interest income recorded in 2018, 2017 and 2016 by the Group amounted to ₱379.4 million, ₱480.0 million and ₱794 million, respectively. Interest income recorded in 2018, 2017 and 2016 of the Parent Company amounted to ₱350.8 million, ₱446.1 million and ₱794.3 million, respectively.

The fair value of the treasury bills pledged under these agreements as of December 31, 2018 and 2017 amounted to ₱19.9 billion and ₱14.6 billion, respectively.

9. Trading and Investment Securities

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial assets at FVTPL	**₱9,999,447**	₱2,882,395	**₱9,983,636**	₱2,829,877
Financial assets at FVOCI	**51,674,167**	–	**50,656,893**	–
Investment securities at amortized cost	**99,772,711**	–	**99,586,329**	–
AFS investments	**–**	69,837,416	**–**	67,677,952
HTM investments	**–**	26,805,131	**–**	26,680,483
	₱161,446,325	₱99,524,942	**₱160,226,858**	₱97,188,312

Financial Assets at FVTPL

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Government securities	**₱8,457,711**	₱2,207,952	**₱8,457,711**	₱2,207,952
Derivative assets (Notes 23 and 35)	**574,629**	562,984	**572,864**	559,692
Equity securities	**545,149**	73,918	**537,478**	30,928
Private debt securities	**415,583**	31,305	**415,583**	31,305
Investment in UITFs	**6,375**	6,236	**–**	–
	₱9,999,447	₱2,882,395	**₱9,983,636**	₱2,829,877

As of December 31, 2018 and 2017, unrealized loss on government and private debt securities recognized by the Group and the Parent Company amounted to ₱5.4 million and ₱73.0 million, respectively.

In 2018, 2017, and 2016, the nominal interest rates of government securities range from 2.75% to 8.38%, from 2.13% to 6.13% and from 2.75% to 10.63%, respectively.

In 2018, 2017, and 2016, the nominal interest rates of private debt securities range from 3.0% to 7.50%, from 5.23% to 6.63% and from 5.50% to 7.38%, respectively.

The carrying amount of equity securities includes unrealized loss of ₱7.9 million and ₱22.0 million as of December 31, 2018 and 2017, respectively, for the Group and unrealized loss of ₱0.9 million and ₱22.0 million as of December 31, 2018 and 2017, respectively, for the Parent Company.

The carrying amount of investment in UITF includes unrealized loss of ₱0.1 million and ₱0.2 million as of December 31, 2018 and 2017, respectively for the Group.

Financial Assets at FVOCI
As of December 31, 2018, this account consists of:

	Consolidated	Parent Company
Government securities (Note 19)	₱33,116,495	₱32,697,809
Private debt securities (Note 19)	17,672,009	17,314,884
Equity securities		
Quoted	799,540	558,077
Unquoted	86,123	86,123
	₱51,674,167	₱50,656,893

As of December 31, 2018, the ECL on debt securities at FVOCI (included in "Net unrealized loss on financial assets at FVOCI") amounted to ₱46.35 million for the Group and the Parent Company (see Note 16).

In 2018, 2017 and 2016, the nominal interest rates of government securities range from 1.83% to 11.63%, from 1.05% to 10.63% and 2.75% to 10.63%respectively.

In 2018, 2017 and 2016, the nominal interest rates of private debt securities range from 2.63% to 7.38% and from 5.50% to 7.38%, respectively.

As of December 31, 2018, the fair value of financial assets at FVOCI in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreement transactions with foreign banks amounted to ₱21.5 billion (see Note 19). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement.

The allowance for financial assets at FVOCI as of January 1, 2018 was ₱58.5 million and decreased by ₱12.2 million at December 31, 2018. Movements over the year were mostly driven by movements in the corresponding gross figures in 2018.

AFS Investments

As of December 31, 2017, this account consists of:

	Consolidated	Parent Company
Government debt securities (Notes 19 and 33)	₱41,625,900	₱40,082,376
Private securities (Note 19)	26,920,045	26,444,549
Equity securities - net of allowance for impairment losses (Note 16)		
Quoted	1,144,779	1,004,873
Unquoted	146,692	146,154
	₱69,837,416	₱67,677,952

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

	2018	2017		**2016**	
	Group	Group	Parent Company	NCI	Total
Balance at the beginning of the year	**(₱3,040,507)**	(₱3,469,939)	(₱3,030,588)	₱168,630	(₱2,861,958)
Effect of transition adjustments (Note 2)	**2,351,993**	–	–	–	–
Balance as at January 1, 2018, as restated	**(688,514)**	(3,469,939)	(3,030,588)	168,630	(2,861,958)
Changes in fair values of financial asset at FVOCI/AFS investments	**(2,388,783)**	(193,852)	(1,684,747)	–	(1,684,747)
Provision for impairment/Expected credit losses (Note 16)	**(12,151)**	–	(15,856)	–	(15,856)
Realized gains	**167,902**	506,238	1,362,462	(360)	1,362,102
Amortization of net unrealized loss on AFS investments reclassified as HTM investments	–	141,802	144,371	1,079	145,450
Share in net unrealized losses of an associate (Note 12)	**(375,390)**	(24,756)	(245,867)	–	(245,867)
Effect of disposal group classified as held-for-sale (Note 36)	**15,601**	–	–	(169,349)	(169,349)
	(3,181,335)	3,040,507	3,470,225	(168,630)	(3,470,225)
Income tax effect (Note 31)	–	–	286	–	286
Balance at end of year	**(₱3,181,335)**	(₱3,040,507)	(₱3,469,939)	₱–	(₱3,469,939)

The changes in the net unrealized loss on financial assets at FVOCI/AFS investments of the Parent Company follow:

	2018	2017	2016
Balance at the beginning of the year	**(₱3,040,507)**	(₱3,469,939)	(₱3,030,588)
PFRS 9 transition adjustments (Note 2)	**2,316,926**	–	–
Share in impact of PFRS 9 adoption by subsidiaries (Note 2)	**35,067**	–	–
Balance as at January 1, 2018, as restated	**(688,514)**	(3,469,939)	(3,030,588)
Changes in fair values of financial assets at FVOCI/AFS investments	**(2,380,056)**	(179,179)	(1,660,796)
Provision for impairment/Expected credit losses (Note 16)	**(12,151)**	–	(15,601)
Realized gains	**167,902**	506,238	1,350,453
Amortization of net unrealized loss on AFS investments reclassified as HTM	–	141,802	140,341
Share in net unrealized losses of subsidiaries and an associate (Note 12)	**(284,117)**	(39,429)	(253,748)
Effect of disposal group classified as held-for-sale (Note 36)	**15,601**	–	–
	(3,181,335)	(3,040,507)	(3,469,939)
Income tax effect (Note 31)	–	–	–
Balance at end of year	**(₱3,181,335)**	(₱3,040,507)	(₱3,469,939)

As of December 31, 2017, the fair value of the AFS investments in the form of government and private bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with counterparties amounted to ₱26.7 billion (Note 19). The counterparties have an obligation to return the securities to the Parent Company once the obligations have been settled. In case of default, the foreign banks have the right to hold the securities and sell them as settlement of the repurchase agreement. There are no other significant terms and conditions associated with the pledged investments.

Investment Securities at Amortized Cost

As of December 31, 2018, this account consist of:

	Consolidated	Parent Company
Government securities (Note 19)	**₱60,278,202**	**₱60,091,820**
Private debt securities (Note 10)	**43,263,773**	**43,263,773**
	103,541,975	**103,355,593**
Less allowance for expected credit losses (Note 16)	**(3,769,264)**	**(3,769,264)**
	₱99,772,711	**₱99,586,329**

The allowance for expected credit losses as of January 1, 2018 was ₱3.7 billion and increased by ₱57.7 million at December 31, 2018. Movements over the year were mostly driven by newly originated assets which remained in Stage 1 in 2018. The impairment allowance under PAS 39 for HTM investments was nil.

As of December 31, 2018, the carrying value of investment securities at amortized cost in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions amounted to ₱36.7 billion (Note 19).

HTM Investments
As of December 31, 2017 this account consists of:

	Consolidated	Parent Company
Government securities (Note 19)	₱26,580,342	₱26,455,694
Private debt securities	224,789	224,789
	₱26,805,131	₱26,680,483

As of December 31, 2017, the carrying value of the HTM investments in the form of government bonds pledged to fulfill its collateral requirements with securities sold under repurchase agreements transactions with BSP amounted to ₱16.5 billion (Note 19).

Reclassification of Financial Assets
On March 3 and 5, 2014, the Group reclassified certain AFS investment securities, which were previously classified as HTM investments, with fair values of ₱15.9 billion and ₱6.8 billion, respectively, back to its original classification as management has established that it continues to have the positive intention and ability to hold these securities to maturity. The reclassification was approved by the BOD on February 28, 2014. The previous fair valuation losses amounting to ₱2.7 billion that have been recognized in OCI were amortized to profit or loss over the remaining life of the HTM investments using effective interest rates ranging from 3.60% to 5.64% until December 31, 2017. Upon adoption of PFRS 9, the remaining unamortized loss was reversed or closed to the related asset.

As of December 31, 2017, the carrying values and fair values of the Group's and Parent Company's reclassified investment securities amounted to ₱24.0 billion and ₱25.0 billion, respectively. Had these securities not been reclassified as HTM investments, the additional mark-to-market loss that would have been recognized by the Group and the Parent Company in the statement of comprehensive income amounts to ₱0.5 billion in 2017.

As of December 31, 2018, there were no reclassified HTM investments as they are already classified during transition period to investment securities at amortized cost and financial assets at FVOCI.

Interest Income on Financial Assets at FVOCI, Investment Securities at Amortized Cost and AFS and HTM investments

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Financial assets at FVOCI	**₱2,219,013**	₱–	₱–	**₱2,189,159**	₱–	₱–
Investment securities at amortized cost	**2,315,284**	–	–	**2,313,172**	–	–
AFS investments	–	2,074,563	2,235,697	–	2,056,154	2,212,466
HTM investments	–	978,680	926,652	–	977,719	926,131
	₱4,534,297	₱3,053,243	₱3,162,349	**₱4,502,331**	₱3,033,873	₱3,138,597

Effective interest rates range from 0.41% to 6.30% for peso-denominated Financial assets at FVOCI in 2018. Effective interest rates range from 0.88% to 9.33% and 1.31% to 5.93% in 2017 and 2016, respectively, for peso-denominated AFS investments.

Effective interest rates range from 1.13% to 6.00% for foreign currency-denominated Financial assets at FVOCI in 2018. Effective interest rates range from 0.04% to 10.30% and 1.29% to 5.30% in 2017 and 2016, respectively, for foreign currency-denominated AFS investments.

Investment securities at amortized cost bear effective annual interest rates ranging from 0.11% to 8.25% in 2018. HTM investments bear effective annual interest rates ranging from 2.75% to 10.63% in 2017 and 3.60% to 5.64% in 2016.

Trading and Investment Securities Gains - net

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Continuing operations:						
Financial assets at FVTPL	**(₱17,372)**	₱61,485	(₱9,315)	**(₱10,385)**	₱58,156	(₱6,113)
Financial assets at FVOCI						
Government securities	**132,670**	–	–	**132,670**	–	–
Private debt securities	**35,232**			**35,232**		
AFS investments	–	506,238	1,348,496	**–**	506,238	1,350,453
Derivative financial instruments (Note 23)	**161**	(7,965)	25,174	**161**	(7,965)	25,174
	150,691	559,758	1,364,355	**157,678**	556,429	1,369,514
Discontinued operations:						
AFS investments (Note 36)	**(4,176)**	–	13,966	–	–	–
	₱146,515	₱559,758	₱1,378,321	**₱157,678**	₱556,429	₱1,369,514

10. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Receivables from customers:				
Loans and discounts	**₱541,934,296**	₱455,839,142	**₱474,384,927**	₱403,254,903
Credit card receivables	**13,412,063**	10,145,474	**13,412,063**	10,145,474
Customers' liabilities on letters of credit and trust receipts	**12,230,782**	9,490,075	**12,046,744**	9,364,742
Lease contracts receivable (Note 29)	**2,928,339**	2,891,043	**9,618**	97,109
Bills purchased (Note 22)	**2,205,608**	1,702,535	**1,430,481**	1,473,052
Customers' liabilities on acceptances (Note 19)	**1,765,862**	2,231,887	**1,765,861**	2,231,887
	574,476,950	482,300,156	**503,049,694**	426,567,167
Less unearned and other deferred income	**979,678**	1,350,885	**677,052**	1,039,364
	573,497,272	480,949,271	**502,372,642**	425,527,803
Unquoted debt securities*	–	14,674,130	–	14,616,628
Other receivables:				
Sales contract receivables (Note 33)	**12,296,470**	7,588,301	**12,242,869**	7,549,113
Accrued interest receivable	**6,539,806**	4,235,075	**5,065,963**	3,497,184
Accounts receivable	**3,883,904**	10,073,663	**3,253,521**	4,538,103
Miscellaneous	**536,982**	562,360	**509,861**	492,025
	23,257,162	22,459,399	**21,072,214**	16,076,425
	596,754,434	518,082,800	**523,444,856**	456,220,856
Less allowance for credit losses (Note 16)	**15,058,957**	15,764,060	**12,625,582**	14,505,328
	₱581,695,477	₱502,318,740	**₱510,819,274**	₱441,715,528

**Unquoted debt securities were transferred to investment securities at amortized cost and financial assets at FVOCI as part of the adoption of PFRS 9*

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

	Consolidated 2018								
	Corporate Loans	LGU	Credit Cards	Retail SMEs	Housing Loans	Auto Loans	Other Loans	Other Receivables	Total
Receivables from customers:									
Loans and discounts	₱468,488,623	₱6,920,215	₱–	₱11,820,434	₱33,843,395	₱11,743,245	₱9,118,384	₱–	₱541,934,296
Credit card receivables	–	–	13,412,063	–	–	–	–	–	13,412,063
Customers' liabilities on letters of credit and trust receipts	6,183,217	–	–	208,255	–	–	5,839,310	–	12,230,782
Lease contracts receivable (Note 29)	–	–	–	–	–	–	2,928,339	–	2,928,339
Bills purchased (Note 22)	1,514,735	–	–	16,828	–	–	674,045	–	2,205,608
Customers' liabilities on acceptances (Note 19)	983,637	–	–	2,637	–	–	779,588	–	1,765,862
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,339,666	–	574,476,950
Other receivables:									
Sales contract receivables	–	–	–	–	–	–	–	12,296,470	12,296,470
Accrued interest receivable	–	–	–	–	–	–	–	6,539,806	6,539,806
Accounts receivable	–	–	–	–	–	–	–	3,883,904	3,883,904
Miscellaneous	–	–	–	–	–	–	–	536,982	536,982
	477,170,212	6,920,215	13,412,063	12,048,154	33,843,395	11,743,245	19,339,666	23,257,162	597,734,112
Less: Unearned and other deferred income	755,202	–	–	104,542	–	–	117,096	2,838	979,678
Allowance for credit losses (Note 16)	5,160,250	70,620	1,075,576	864,133	1,273,485	231,355	1,584,526	4,799,012	15,058,957
	₱471,254,760	₱6,849,595	₱12,336,487	₱11,079,479	₱32,569,910	₱11,511,890	₱17,638,044	₱18,455,312	₱581,695,477

	Consolidated 2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱394,245,819	₱17,742,839	₱7,190,864	₱36,295,129	₱364,491	₱–	₱–	₱455,839,142
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,490,075	–	–	–	–	–	–	9,490,075
Lease contracts receivable (Note 29)	2,891,043	–	–	–	–	–	–	2,891,043
Bills purchased (Note 22)	1,702,535	–	–	–	–	–	–	1,702,535
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
	410,647,067	17,742,839	7,190,864	46,199,937	519,449	–	–	482,300,156
Less unearned and other deferred income	994,717	313,459	14,291	25,329	3,089	–	–	1,350,885
	409,652,350	17,429,380	7,176,573	46,174,608	516,360	–	–	480,949,271
Unquoted debt securities	–	–	–	–	–	14,674,130	–	14,674,130
Other receivables:								
Accounts receivable	–	–	–	–	–	–	10,073,663	10,073,663
Sales contract receivables	–	–	–	–	–	–	7,588,301	7,588,301
Accrued interest receivable	–	–	–	–	–	–	4,235,075	4,235,075
Miscellaneous	–	–	–	–	–	–	562,360	562,360
	409,652,350	17,429,380	7,176,573	46,174,608	516,360	14,674,130	22,459,399	518,082,800
Less allowance for credit losses (Note 16)	6,770,478	100,493	218,423	1,392,870	13,751	3,739,983	3,528,062	15,764,060
	₱402,881,872	₱17,328,887	₱6,958,150	₱44,781,738	₱502,609	₱10,934,147	₱18,931,337	₱502,318,740

	Parent Company 2018								
	Corporate Loans	**LGU**	**Credit Cards**	**Retail SMEs**	**Housing Loans**	**Auto Loans**	**Other Loans**	**Other Receivables**	**Total**
Receivables from customers:									
Loans and discounts	**₱450,849,723**	**₱6,920,215**	**₱–**	**₱7,614,915**	**₱1,627,322**	**₱40,025**	**₱7,332,727**	**₱–**	**₱474,384,927**
Credit card receivables	**–**	**–**	**13,412,063**	**–**	**–**	**–**	**–**	**–**	**13,412,063**
Customers' liabilities on letters of credit and trust receipts	**6,012,028**	**–**	**–**	**195,405**	**–**	**–**	**5,839,311**	**–**	**12,046,744**
Lease contracts receivable (Note 29)	**–**	**–**	**–**	**–**	**–**	**–**	**9,618**	**–**	**9,618**
Bills purchased (Note 22)	**739,798**	**–**	**–**	**16,638**	**–**	**–**	**674,045**	**–**	**1,430,481**
Customers' liabilities on acceptances (Note 19)	**983,637**	**–**	**–**	**2,637**	**–**	**–**	**779,587**	**–**	**1,765,861**
	458,585,186	**6,920,215**	**13,412,063**	**7,829,595**	**1,627,322**	**40,025**	**14,635,288**	**–**	**503,049,694**
Other receivables:									
Sales contract receivables	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,242,869**	**12,242,869**
Accrued interest receivable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5,065,963**	**5,065,963**
Accounts receivable	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**3,253,521**	**3,253,521**
Miscellaneous	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**509,861**	**509,861**
	458,585,186	**6,920,215**	**13,412,063**	**7,829,595**	**1,627,322**	**40,025**	**14,635,288**	**21,072,214**	**524,121,908**
Less: Unearned and other deferred income	**546,141**	**–**	**–**	**10,977**	**–**	**–**	**117,096**	**2,838**	**677,052**
Allowance for credit losses (Note 16)	**4,984,233**	**70,620**	**1,075,576**	**578,369**	**58,224**	**39,592**	**1,031,132**	**4,787,836**	**12,625,582**
	₱453,054,812	**₱6,849,595**	**₱12,336,487**	**₱7,240,249**	**₱1,569,098**	**₱433**	**₱13,487,060**	**₱16,281,540**	**₱510,819,274**

	Parent Company 2017							
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Unquoted Debt Securities	Others	Total
Receivables from customers:								
Loans and discounts	₱375,964,636	₱17,742,839	₱7,190,864	₱2,026,412	₱330,152	–	–	₱403,254,903
Credit card receivables	85,708	–	–	9,904,808	154,958	–	–	10,145,474
Customers' liabilities on letters of credit and trust receipts	9,364,742	–	–	–	–	–	–	9,364,742
Lease contracts receivable (Note 29)	97,109	–	–	–	–	–	–	97,109
Bills purchased (Note 22)	1,473,052	–	–	–	–	–	–	1,473,052
Customers' liabilities on acceptances (Note 19)	2,231,887	–	–	–	–	–	–	2,231,887
	389,217,134	17,742,839	7,190,864	11,931,220	485,110	–	–	426,567,167
Less unearned and other deferred income	700,826	313,459	14,291	7,698	3,090	–	–	1,039,364
	388,516,308	17,429,380	7,176,573	11,923,522	482,020	–	–	425,527,803
Unquoted debt securities	–	–	–	–	–	14,616,628	–	14,616,628
Other receivables:								
Accounts receivable	–	–	–	–	–	–	4,538,103	4,538,103
Sales contract receivables	–	–	–	–	–	–	7,549,113	7,549,113
Accrued interest receivable	–	–	–	–	–	–	3,497,184	3,497,184
Miscellaneous	–	–	–	–	–	–	492,025	492,025
	388,516,308	17,429,380	7,176,573	11,923,522	482,020	14,616,628	16,076,425	456,220,856
Less allowance for credit losses (Note 16)	6,194,035	100,493	218,423	1,023,164	13,748	3,683,233	3,272,232	14,505,328
	₱382,322,273	₱17,328,887	₱6,958,150	₱10,900,358	₱468,272	₱10,933,395	₱12,804,193	₱441,715,528

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets and liabilities in connection with the sale of the Parent Company's 60.00% equity in Maybank.

In 2016, the Group and the Parent Company applied the transferred liabilities against the principal and interest components of the transferred receivables. As of December 31, 2018 and 2017, the remaining receivables amounted to ₱0.3 billion which is fully covered by an allowance.

Unquoted debt instruments
In 2017, unquoted debt instruments include the zero-coupon notes received by the Parent Company from Special Purpose Vehicle (SPV) Companies on October 15, 2004, at the principal amount of ₱803.5 million (Tranche A Note) payable in five years and at the principal amount of ₱3.4 billion (Tranche B Note) payable in eight years in exchange for the outstanding loans receivable from National Steel Corporation (NSC) of ₱5.3 billion. The notes are secured by a first ranking mortgage and security interest over the NSC Plant Assets. As of December 31, 2017, the notes are carried at their recoverable values. On January 1, 2018, unquoted debt instruments amounting to ₱488.77 million and ₱10.49 billion were reclassified to Investment securities at amortized cost and Financial assets at FVOCI, respectively, upon adoption of PFRS 9 (see Note 2).

Lease contract receivables
An analysis of the Group's and the Parent Company's lease contract receivables follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Minimum lease payments				
Due within one year	**₱1,101,635**	₱1,265,542	**₱3,118**	₱28,909
Due beyond one year but not over five years	**1,151,333**	924,973	**6,500**	43,000
Due beyond five years	**26,034**	25,201	–	25,200
	2,279,002	2,215,716	**9,618**	97,109
Residual value of leased equipment				
Due within one year	**298,725**	292,000	–	–
Due beyond one year but not over five years	**350,612**	383,327	–	–
	649,337	675,327	–	–
Gross investment in lease contract receivables (Note 29)	**₱2,928,339**	₱2,891,043	**₱9,618**	₱97,109

Accounts receivables
As of December 31, 2018, insurance receivables of PNB Gen amounting to ₱5.0 billion (net of allowance for credit losses of ₱208.6 million) were reclassified to Assets of Disposal Group Classified as Held for Sale (see Note 36).

Interest income
Interest income on loans and receivables consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Receivables from customers and sales contract receivables	**₱30,202,480**	₱22,523,095	₱19,634,798	**₱25,504,159**	₱19,100,932	₱16,874,365
Unquoted debt securities	–	146,012	51,160	–	144,878	49,499
	₱30,202,480	₱22,669,107	₱19,398,958	**₱25,504,159**	₱19,245,810	₱16,923,864

As of December 31, 2018 and 2017, 64.09% and 78.83%, respectively, of the total receivables from customers of the Group were subject to interest repricing. As of December 31, 2018 and 2017, 61.66% and 79.07%, respectively, of the total receivables from customers of the Parent Company were subject to interest repricing. Remaining receivables carry annual fixed interest rates ranging from 1.75% to 9.00% in 2018, from 1.94% to 9.00% in 2017 and from 2.30% to 8.75% in 2016 for foreign currency-denominated receivables, and from 1.53% to 13.00% in 2018, from 1.9% to 7.98% in 2017 and from 0.50% to 15.25% in 2016 for peso-denominated receivables.

Sales contract receivables bear fixed interest rates per annum ranging from 3.30% to 21.00%, 2.70% to 21.00% and 5.00% to 21.00% in 2018, 2017 and 2016, respectively.

BSP Reporting

An industry sector analysis of the Group's and the Parent Company's receivables from customers before taking into account the unearned and other deferred income and allowance for credit losses is shown below.

	Consolidated				**Parent Company**			
	2018		2017		**2018**		2017	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Primary target industry:								
Financial intermediaries	**₱96,278,488**	**16.76**	₱72,757,733	15.09	**₱92,274,585**	**18.34**	₱69,382,757	16.27
Wholesale and retail	**87,989,193**	**15.32**	74,279,581	15.40	**79,904,533**	**15.88**	69,846,899	16.37
Electricity, gas and water	**75,194,463**	**13.09**	64,921,830	13.46	**73,139,221**	**14.54**	62,947,842	14.76
Manufacturing	**51,156,432**	**8.90**	33,118,627	6.87	**45,848,301**	**9.11**	29,905,637	7.01
Transport, storage and communication	**44,401,302**	**7.73**	40,565,972	8.41	**41,374,773**	**8.22**	38,270,489	8.97
Public administration and defense	**18,034,106**	**3.14**	22,998,264	4.77	**18,034,106**	**3.58**	22,630,209	5.31
Agriculture, hunting and forestry	**8,072,538**	**1.41**	7,023,471	1.46	**7,290,142**	**1.45**	6,403,860	1.50
Secondary target industry:								
Real estate, renting and business activities	**84,432,904**	**14.70**	78,823,937	16.34	**75,432,007**	**15.00**	73,609,101	17.26
Construction	**27,489,273**	**4.79**	19,264,219	3.99	**25,562,907**	**5.08**	17,682,688	4.15
Others	**81,428,251**	**14.16**	68,546,522	14.21	**44,189,119**	**8.80**	35,887,685	8.40
	₱574,476,950	**100.00**	₱482,300,156	100.00	**₱503,049,694**	**100.00**	₱426,567,167	100.00

The information (gross of unearned and other deferred income and allowance for credit losses) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	Consolidated				**Parent Company**			
	2018		2017		**2018**		2017	
	Carrying Amount	**%**	Carrying Amount	%	**Carrying Amount**	**%**	Carrying Amount	%
Secured:								
Real estate mortgage	**₱90,846,785**	**15.81**	₱69,798,045	14.47	**₱57,344,870**	**11.40**	₱56,166,102	13.17
Chattel mortgage	**28,853,799**	**5.02**	28,159,567	5.84	**13,791,833**	**2.74**	26,187,151	6.14
Bank deposit hold-out	**22,786,131**	**3.97**	14,600,056	3.03	**22,305,850**	**4.43**	14,530,200	3.41
Shares of stocks	**–**	**–**	1,412,136	0.29	**–**	**–**	1,412,136	0.33
Others	**81,550,765**	**14.20**	75,308,199	15.61	**78,199,196**	**15.55**	72,719,502	17.05
	224,037,480	**39.00**	189,278,003	39.24	**171,641,749**	**34.12**	171,015,091	40.09
Unsecured	**350,439,470**	**61.00**	293,022,153	60.76	**331,407,945**	**65.88**	255,552,076	59.91
	₱574,476,950	**100.00**	₱482,300,156	100.00	**₱503,049,694**	**100.00**	₱426,567,167	100.00

The table below reflects the balances of loans and receivables as reported to the BSP. For purposes of BSP reporting, the acquired loans and receivables were measured based on their original amortized cost as at acquisition date instead of their corresponding fair values.

Non-performing Loans (NPL) as to secured and unsecured follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Secured	**₱6,739,828**	₱6,721,812	**₱4,144,629**	₱4,803,416
Unsecured	**6,112,628**	4,923,617	**5,305,268**	4,222,671
	₱12,852,456	₱11,645,429	**₱9,449,897**	₱9,026,087

Loans and receivables are considered non-performing, even without any missed contractual payments, when considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, are considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics are considered non-performing after contractual due date or after they have become past due. Restructured loans are considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification is retained.

Non-performing loans and receivables remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As of December 31, 2018 and 2017, NPLs of ₱9.4 billion and ₱9.0 billion, respectively which the Parent Company reported to the BSP are gross of specific allowance amounting to ₱7.6 billion and ₱7.9 billion, respectively. Most of these loans are secured by real estate or chattel mortgages.

As of December 31, 2018 and 2017, gross and net NPL ratios of the Parent Company were 1.76% and 0.34%, and 2.01% and 0.26%, respectively.

Restructured loans of the Group and the Parent Company as of December 31, 2018 and 2017 amounted to ₱2.1 billion and ₱1.6 billion, respectively.

11. Property and Equipment

The composition of and movements in property and equipment follow:

	Consolidated						
	2018						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱11,469,376	₱6,043,314	₱5,599,720	₱566,245	₱856,472	₱1,351,284	₱25,886,411
Additions	–	418,578	1,345,486	–	1,048,288	214,156	3,026,508
Disposals	–	(57,419)	(304,963)	–		(3,595)	(365,977)
Transfers/others	(2,132)	59,843	(11,727)	13,079	(698,703)	(4,078)	(643,718)
Effect of disposal group classified as held for sale (Note 36)	–	–	(45,459)	–	–	(6,076)	(51,535)
Balance at end of year	11,467,244	6,464,316	6,583,057	579,324	1,206,057	1,551,691	27,851,689
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568
Depreciation and amortization	–	257,784	823,696	5,688	–	197,517	1,284,685
Disposals	–	(14,414)	(256,198)	–	–		(270,612)
Transfers/others	–	(50,097)	(777)	4,785	–	(11,454)	(57,543)
Effect of disposal group classified as held for sale (Note 36)	–	–	(31,615)	–	–	(5,425)	(37,040)
Balance at end of year	–	2,996,722	3,873,257	48,908	–	994,171	7,913,058
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486
Net Book Value at End of Year	₱11,377,128	₱3,329,224	₱2,709,800	₱530,416	₱1,206,057	₱557,520	₱19,710,145

	Consolidated						
	2017						
	Land	Building	Furniture, Fixtures and Equipment	Long-term Leasehold Land	Construction In-progress	Leasehold Improvements	Total
Cost							
Balance at beginning of year	₱11,470,425	₱5,717,761	₱4,947,104	₱567,270	₱698,131	₱1,094,617	₱24,495,308
Additions	–	197,239	755,165	–	785,486	192,896	1,930,786
Disposals	–	(13,821)	(239,343)	–	–	(13,076)	(266,240)
Transfers/others	(1,049)	142,135	136,794	(1,025)	(627,145)	76,847	(273,443)
Balance at end of year	11,469,376	6,043,314	5,599,720	566,245	856,472	1,351,284	25,886,411
Accumulated Depreciation and Amortization							
Balance at beginning of year	–	2,571,166	2,917,671	33,302	–	647,581	6,169,720
Depreciation and amortization	–	243,764	657,938	5,518	–	184,217	1,091,437
Disposals	–	(8,568)	(219,582)	–	–	(12,653)	(240,803)
Transfers/others	–	(2,913)	(17,876)	(385)	–	(5,612)	(26,786)
Balance at end of year	–	2,803,449	3,338,151	38,435	–	813,533	6,993,568
Allowance for Impairment Losses (Note 16)	90,116	138,370	–	–	–	–	228,486
Net Book Value at End of Year	₱11,379,260	₱3,101,495	₱2,261,569	₱527,810	₱856,472	₱537,751	₱18,664,357

	Parent Company					
	2018					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱11,266,176	₱5,801,707	₱4,347,447	₱856,473	₱1,059,955	₱23,331,758
Additions	–	375,743	687,937	1,048,288	151,096	2,263,064
Disposals	–	(19,117)	(163,932)	–	–	(183,049)
Transfers/others	(2,133)	57,961	(5,825)	(698,705)	(4,678)	(653,380)
Balance at end of year	11,264,043	6,216,294	4,865,627	1,206,056	1,206,373	24,758,393
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,750,464	2,760,305	–	698,718	6,209,487
Depreciation and amortization	–	256,337	561,787	–	149,331	967,455
Disposals	–	(14,414)	(162,596)	–	–	(177,010)
Transfers/others	–	(63,345)	(767)	–	(11,604)	(75,716)
Balance at end of year	–	2,929,042	3,158,729	–	836,445	6,924,216
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,174,379	₱3,148,882	₱1,706,898	₱1,206,056	₱369,928	₱17,606,143

	Parent Company					
	2017					
	Land	Building	Furniture, Fixtures and Equipment	Construction In-progress	Leasehold Improvements	Total
Cost						
Balance at beginning of year	₱11,266,169	₱5,488,197	₱3,946,854	₱698,132	₱876,424	₱22,275,776
Additions	–	181,135	512,520	785,486	179,844	1,658,985
Disposals	–	(13,821)	(181,651)	–	(4,342)	(199,814)
Transfers/others	7	146,196	69,724	(627,145)	8,029	(403,189)
Balance at end of year	11,266,176	5,801,707	4,347,447	856,473	1,059,955	23,331,758
Accumulated Depreciation and Amortization						
Balance at beginning of year	–	2,518,058	2,465,332	–	559,106	5,542,496
Depreciation and amortization	–	242,298	494,994	–	149,496	886,788
Disposals	–	(8,568)	(176,803)	–	(4,342)	(189,713)
Transfers/others	–	(1,324)	(23,218)	–	(5,541)	(30,083)
Balance at end of year	–	2,750,464	2,760,305	–	698,719	6,209,488
Allowance for Impairment Losses (Note 16)	89,664	138,370	–	–	–	228,034
Net Book Value at End of Year	₱11,176,512	₱2,912,873	₱1,587,142	₱856,473	₱361,237	₱16,894,236

The total recoverable value of certain property and equipment of the Group and the Parent Company for which impairment loss has been recognized or reversed amounted to ₱2.6 billion and ₱1.0 billion as of December 31, 2018 and 2017, respectively.

Gain on disposal of property and equipment in 2018, 2017 and 2016 amounted to ₱28.4 million, ₱4.3 million, and ₱1.2 million, respectively, for the Group and ₱28.4 million, ₱2.0 million and ₱1.5 million, respectively, for the Parent Company (see Note 13).
Depreciation and amortization consists of:

	Consolidated			**Parent Company**		
	2018	2017 As Restated – Note 36	2016 As Restated – Note 36	**2018**	2017	2016
Continuing operations:						
Depreciation						
Property and equipment	**₱1,279,116**	₱1,086,012	₱1,008,596	**₱967,456**	₱886,788	₱835,467
Investment properties (Note 13)	**177,611**	152,894	226,545	**129,615**	136,507	206,472
Chattel mortgage	**27,876**	33,009	22,000	**1,330**	8,122	22,001
Amortization - Intangible assets (Note 14)	**460,205**	406,312	292,423	**444,311**	353,940	279,643
	1,944,808	1,678,227	1,549,564	**1,542,712**	1,385,357	1,343,583
Discontinued operations:						
Property and equipment (Note 36)	**5,569**	5,425	4,822	**–**	–	–
Intangible assets (Note 36)	**600**	739	254	**–**	–	–
	₱1,950,977	₱1,684,391	₱1,554,640	**₱1,542,712**	₱1,385,357	₱1,343,583

Certain property and equipment of the Parent Company with carrying amount of ₱98.3 million and ₱9.3 million are temporarily idle as of December 31, 2018 and 2017, respectively.

As of December 31, 2018 and 2017, property and equipment of the Parent Company with gross carrying amount of ₱5.1 billion are fully depreciated but are still being used.

12. Investments in Subsidiaries and an Associate

The consolidated financial statements of the Group include:

	Industry	Principal Place of Business/Country of Incorporation	Functional Currency	Percentage of Ownership Direct	Percentage of Ownership Indirect
Subsidiaries					
PNB Savings Bank (PNBSB)*	Banking	Philippines	Php	**100.00**	–
PNB Capital and Investment Corporation (PNB Capital)	Investment	- do -	Php	**100.00**	–
PNB Forex, Inc. (PNB Forex)	FX trading	- do -	Php	**100.00**	–
PNB Holdings Corporation (PNB Holdings)	Investment	- do -	Php	**100.00**	–
PNB General Insurers Inc.(PNB Gen) [(a)]	Insurance	- do -	Php	**65.75**	**34.25**
PNB Securities, Inc. (PNB Securities)	Securities Brokerage	- do -	Php	**100.00**	–
PNB Corporation – Guam	Remittance	USA	USD	**100.00**	–
PNB International Investments Corporation (PNB IIC)	Investment	- do -	USD	**100.00**	–
PNB Remittance Centers, Inc. (PNB RCI) [(b)]	Remittance	- do -	USD	–	**100.00**
PNB Remittance Co. (Nevada) [(c)]	Remittance	-do-	USD	–	**100.00**
PNB RCI Holding Co. Ltd. [(c)]	Holding Company	- do -	USD	–	**100.00**
Allied Bank Philippines (UK) Plc (ABUK)*	Banking	United Kingdom	GBP	**100.00**	–
PNB Europe PLC	Banking	- do -	GBP	**100.00**	–
PNB Remittance Co. (Canada) [(d)]	Remittance	Canada	CAD	–	**100.00**
PNB Global Remittance & Financial Co. (HK) Ltd. (PNB GRF)	Remittance	Hong Kong	HKD	**100.00**	–
Allied Commercial Bank (ACB)*	Banking	People's Republic of China	USD	**99.04**	–
PNB-IBJL Leasing and Finance Corporation (PILFC)	Leasing/Financing	Philippines	Php	**75.00**	–
PNB-IBJL Equipment Rentals Corporation	Rental	- do -	Php	–	**75.00**
Allied Leasing and Finance Corporation (ALFC) *	Rental	- do -	Php	**57.21**	–
Allied Banking Corporation (Hong Kong) Limited (ABCHKL)*	Banking	Hong Kong	HKD	**51.00**	–
ACR Nominees Limited *	Banking	- do -	HKD	–	**51.00**
Oceanic Holding (BVI) Ltd.*	Holding Company	British Virgin Islands	USD	**27.78**	–
Associate					
Allianz-PNB Life Insurance, Inc. (APLII)	Insurance	- do -	Php	**44.00**	–

** Subsidiaries acquired as a result of the merger with ABC*
[(a)] *Investment in PNB Gen has been classified as held for sale following the approval of the Parent Company's BOD on the sale of its ownership interest to ABIC*
[(a')] *Owned through PNB IIC*
[(b)] *Owned through PNB RCI*
[(c)] *Owned through PNB RCI Holding Co. Ltd*

The details of this account follow:

	Consolidated 2018	Consolidated 2017	Parent Company 2018	Parent Company 2017
Investment in Subsidiaries				
PNB SB	**₱–**	₱–	**₱10,935,041**	₱10,935,041
ACB	**–**	–	**6,087,520**	6,087,520
PNB IIC	**–**	–	**2,028,202**	2,028,202
PNB Europe PLC	**–**	–	**1,006,536**	1,006,536
ABCHKL	**–**	–	**947,586**	947,586
PNB GRF	**–**	–	**753,061**	753,061
PNB Holdings	**–**	–	**377,876**	377,876
PNB Capital	**–**	–	**850,000**	850,000
ABUK	**–**	–	**320,858**	320,858
OHBVI	**–**	–	**291,841**	291,841
PILFC	**–**	–	**481,943**	181,943
PNB Securities	**–**	–	**62,351**	62,351
PNB Corporation - Guam	**–**	–	**7,672**	7,672
ALFC	**–**	–	**–**	148,400
PNB Gen (Note 36)	**–**	–	**980,000**	800,000
	–	–	**25,130,487**	24,798,887
Investment in an Associate – APLII (44% owned)	**2,728,089**	2,728,089	**2,728,089**	2,728,089

(Forward)

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accumulated equity in net earnings of subsidiaries and an associate:				
Balance at beginning of year	**₱129,435**	₱70,220	**₱472,031**	₱1,314,542
Effect of PFRS 9 adoption (Note 2)	**–**	–	**(861,812)**	–
Balance at beginning of year as restated	**129,435**	70,220	**(389,781)**	1,314,542
Equity in net earnings for the year	**43,847**	59,215	**530,885**	498,254
Transfer to 'Assets of a disposal group held for sale'			**(595,146)**	
Dissolution of a subsidiary	**–**	–	**48,607**	(7,415)
	173,282	129,435	**(405,435)**	1,805,381
Dividends received for the year	**–**	–	**–**	(1,333,350)
	173,282	129,435	**(405,435)**	472,031
Accumulated share in:				
Net unrealized losses on financial assets at FVOCI/available-for-sale investments (Note 9)	**(646,013)**	(270,623)	**(585,029)**	(300,912)
Remeasurement gain on retirement plan	**151,204**	(235,424)	**180,336**	(289,824)
Aggregate reserves on life insurance policies	**12,280**	12,280	**12,280**	12,280
Accumulated translation adjustments	**–**	–	**1,191,826**	986,863
Transfer to 'Reserves of a disposal group held for sale'	**–**	–	**(21,893)**	–
	(482,529)	(493,767)	**777,520**	408,407
	₱2,418,842	₱2,363,757	**₱28,230,661**	₱28,407,414

As of December 31, 2018 and 2017, the acquisition cost of the investments in the Parent Company's separate financial statements includes the balance of ₱2.1 billion consisting of the translation adjustment and accumulated equity in net earnings, net of dividends subsequently received from the quasi-reorganization date, that were closed to deficit on restructuring date and is not available for dividend declaration.

Investments in PILFC
On January 22, 2018, the Parent Company's Board of Directors (BOD) approved the capital infusion of ₱400.0 million to PILFC. This resulted in an increase in the ownership interest of the Parent Company to PILFC from 75% to 85%. The remaining interest is owned by IBJ Leasing Co., Ltd (IBJLC), a foreign company incorporated in Japan.

Notwithstanding the change in the ownership interests of the parties due to the Parent Company's additional capital infusion, IBJLC will maintain its 25% voting rights in PILFC. To implement such effective voting rights, the Parent Company will issue in favor of IBJLC an irrevocable proxy to represent the Parent Company and vote the 1,000,000 shares registered in the Parent Company's name at all meetings of the stockholders of PILFC, or until IBJLC has purchased from the Parent Company the 1,000,000 common shares of PILFC, whichever is earlier.

On July 27, 2018, the BOD approved the sale of 1,000,000 shares at par in PILFC for ₱100 million at par. On August 29, 2018, a deed of assignment was executed by the Parent Company and IBJLC, for the one million common shares of PILFC. Thus, the Parent Company's ownership in PILFC remained at 75% as of December 31, 2018.

Disposal of PNB Gen shares in exchange for Alliedbankers Insurance Corp. shares
On April 26, 2018, the BOD of the Parent Company and its subsidiary, PNB Holdings, approved the exchange of all their holdings in PNB Gen, in exchange of shares in ABIC, an affiate (see Note 36).

Investment in PNB Savings
On September 28, 2018, the Parent Company's BOD approved (a) the full integration of PNB SB through the acquisition of its assets and assumption of its liabilities in exchange for cash, subject to regulatory and other necessary approvals.

Material non-controlling interests
Proportion of equity interest held by material NCI follows:

		Equity interest of NCI		Accumulated balances of material NCI		Profit allocated to material NCI	
	Principal Activities	**2018**	2017	**2018**	2017	**2018**	2017
ABCHKL	Banking	**49.00%**	49.00%	**₱1,693,807**	₱1,501,069	**₱80,595**	₱83,431
OHBVI	Holding Company	**72.22**	72.22	**1,008,307**	956,750	**749**	9,602

Investment in APLII
On December 21, 2015, the Parent Company entered into a 15-year exclusive partnership with Allianz SE under the following arrangements, subject to regulatory approvals:

- Allianz SE will acquire 12,750 shares representing 51% stockholdings of APLII and will have management control over the new joint venture company;
- The new joint venture company will operate under the name of "Allianz-PNB Life Insurance, Inc.
- A 15-year distribution agreement which will provide Allianz an exclusive access to the branch network of the Parent Company and PNB SB.

The sale of APLII was completed on June 6, 2016 for a total consideration of USD66.0 million (₱3.1 billion). Pursuant to the sale of APLII, the Parent Company also entered into a distribution agreement with APLII where the Parent Company will allow APLII to have exclusive access to the distribution network of the Parent Company and its subsidiary, PNB Savings Bank, over a period of 15 years. Both the share purchase agreement and distribution agreement have provisions referring to one another; making the distribution agreement an integral component of the sale transaction. Accordingly, the purchase consideration of USD66.0 million was allocated between the sale of the 51.00% interest in APLII and the Exclusive Distribution Rights (EDR) amounting to USD44.9 million (₱2.1 billion) and USD21.1 million (₱1.0 billion), respectively.

The Parent Company will also receive variable annual and fixed bonus earn out payments based on milestones achieved over the 15-year term of the distribution agreement.

The Parent Company recognized gain on sale of the 51% interest in APLII amounting to ₱400.3 million, net of taxes and transaction costs amounting to ₱276.7 million and ₱153.3 million, respectively. The consideration allocated to the EDR was recognized as "Deferred Revenue - Bancassurance" (see Note 22) and will be amortized to income over 15 years from date of sale. Prior to the sale of shares to Allianz SE, the Parent Company acquired additional 15.00% stockholdings from the minority shareholders for a consideration amounting to ₱292.4 million between June 2, 2016 and June 5, 2016.

Consequently, the Parent Company accounted for its remaining 44.00% ownership interest in APLII as an associate. At the date of loss of control, the Parent Company's investment in APLII was remeasured to ₱2.7 billion based on the fair value of its retained equity. The Parent Company recognized gain on remeasurement amounting to ₱1.6 billion in the statement of income in 2016.

The fair value of the retained equity was based on a combination of the income approach and market approach.

Summarized financial information of APLII as of December 31, 2018 and 2017 follows:

	2018	2017
Current assets	**₱1,260,591**	₱1,178,768
Noncurrent assets	**28,363,443**	26,305,819
Current liabilities	**1,079,194**	1,693,635
Noncurrent liabilities	**26,504,728**	23,994,598

	2017	2016
Total assets	**₱29,624,034**	₱27,484,587
Total liabilities	**27,583,922**	25,688,233
	2,040,112	1,796,354
Percentage of ownership of the Group	**44%**	44%
Share in the net assets of the Subsidiary	**₱897,649**	₱790,396

The difference betwwen the share in the net assets of APLII and the carrying value of the investments represents premium on acquisition/retained interest.

Summarized statement of income of APLII for the year ended December 31, 2018 and 2017 follows:

	2018	2017
Revenues	**₱2,752,253**	₱2,190,474
Costs and expenses	**(2,602,153)**	(2,018,549)
Net income	**150,100**	136,797
Other comprehensive income	**128,595**	(133,356)
Total comprehensive income	**₱278,695**	₱3,441
Group's share of comprehensive income for the period	**₱122,626**	₱1,514

PNB Forex
On August 23, 2013, the Parent Company approved the dissolution of PNB Forex by shortening its corporate life to December 31, 2013. PNB Forex ceased its business operations on January 1, 2006. On August 24, 2017, SEC approved the dissolution of PNB Forex.

Dissolution of ALFC
On December 18, 2017, the Securities and Exchange Commission (SEC) approved the dissolution of ALFC. Liquidating dividends amounting to ₱84.0 million were paid to Parent Company last April 3, 2018.

The following table presents financial information of ABCHKL as of December 31, 2018 and 2017:

	2018	2017
Statement of Financial Position		
Current assets	**₱11,079,475**	₱7,253,27
Non-current assets	**1,007,236**	551,083
Current liabilities	**8,396,635**	1,212,875
Non-current liabilities	**155,708**	36,711

	2018	2017
Statement of Comprehensive Income		
Revenues	**₱444,968**	₱422,605
Expenses	**280,490**	252,338
Net income	**164,478**	170,267
Total comprehensive income	**319,254**	197,254

	2018	2017
Statement of Cash Flows		
Net cash provided used in operating activities	**(₱274,555)**	(₱445,033)
Net cash provided used in investing activities	**(891)**	(4,818)
Net cash used in financing activities	**(6,971)**	(6,615)

The following table presents financial information of OHBVI as of December 31, 2018 and 2017:

	2018	2017
Statement of Financial Position		
Current assets	**₱1,396,160**	1,327,511
Current liabilities	–	2,739
Statement of Comprehensive Income		
Revenues/Net income/Total comprehensive	**13,296**	13,296
Statement of Cash Flows		
Net cash provided used in operating activities	**68,649**	(810,665)

As of December 31, 2018 and 2017, the NCI in respect of PILFC and ACB is not material to the Group.

<u>Significant restrictions</u>
The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the regulatory supervisory frameworks within which insurance and banking subsidiaries operate.

The BSP and IC regulations require banks and insurance companies to maintain certain levels of regulatory capital. As of December 31, 2018 and 2017, the total assets of banking subsidiaries amounted to ₱75.2 billion and ₱73.6 billion, respectively; and ₱8.2 billion and ₱7.6 billion for insurance subsidiaries, respectively.

13. **Investment Properties**

Breakdown of investment properties:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Properties held for lease	**₱4,715,184**	₱4,762,380	**₱5,019,733**	₱5,078,689
Foreclosed assets	**8,773,682**	10,832,005	**8,129,625**	10,239,719
Total	**₱13,488,866**	₱15,594,385	**₱13,149,358**	₱15,318,408

The composition of and movements in this account follow:

	Consolidated		
	2018		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱15,864,125**	**₱4,474,906**	**₱20,339,031**
Additions	**518,404**	**315,460**	**833,864**
Disposals	**(2,050,017)**	**(581,409)**	**(2,631,426)**
Transfers/others	**(5,518)**	**69,515**	**63,997**
Balance at end of year	**14,326,994**	**4,278,472**	**18,605,466**
Accumulated Depreciation			
Balance at beginning of year	–	**1,725,681**	**1,725,681**
Depreciation (Note 11)	–	**177,611**	**177,611**
Disposals	–	**(243,085)**	**(243,085)**
Transfer/others		**173,030**	**173,030**
Balance at end of year	–	**1,833,237**	**1,833,237**
Allowance for Impairment Losses (Note 16)	**3,028,736**	**254,627**	**3,283,363**
Net Book Value at End of Year	**₱11,298,258**	**₱2,190,608**	**₱13,488,866**

	Consolidated		
	2017		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,309,233	₱5,062,298	₱21,371,531
Additions	350,999	274,661	625,660
Disposals/transfers/others	(796,107)	(862,053)	(1,658,160)
Balance at end of year	15,864,125	4,474,906	20,339,031
Accumulated Depreciation			
Balance at beginning of year	–	1,733,938	1,733,938
Depreciation (Note 11)	–	152,894	152,894
Disposals/transfers/others	–	(161,151)	(161,151)
Balance at end of year	–	1,725,681	1,725,681
Allowance for Impairment Losses (Note 16)	2,702,189	316,776	3,018,965
Net Book Value at End of Year	₱13,161,936	₱2,432,449	₱15,594,385

	Parent Company 2018		
	Land	**Buildings and Improvements**	**Total**
Cost			
Beginning balance	**₱15,535,748**	**₱4,515,886**	**₱20,051,634**
Additions	**500,445**	**279,554**	**779,999**
Disposals	**(2,050,017)**	**(581,409)**	**(2,631,426)**
Transfers/Others	**6,329**	**28,688**	**35,017**
Balance at end of year	**13,992,505**	**4,242,719**	**18,235,224**
Accumulated Depreciation			
Balance at beginning of year	–	**1,713,804**	**1,713,804**
Depreciation (Note 11)	–	**129,615**	**129,615**
Disposals	–	**(243,085)**	**(243,085)**
Transfers/others		**201,064**	**201,064**
Balance at end of year	–	**1,801,399**	**1,801,399**
Allowance for Impairment Losses (Note 16)	**3,028,735**	**255,732**	**3,284,467**
Net Book Value at End of Year	**₱10,963,770**	**₱2,185,588**	**₱13,149,358**

	Parent Company 2017		
	Land	Buildings and Improvements	Total
Cost			
Beginning balance	₱16,341,154	₱4,627,569	₱20,968,723
Additions	278,090	187,254	465,344
Disposals/Transfers/Others	(1,083,496)	(298,937)	(1,382,433)
Balance at end of year	15,535,748	4,515,886	20,051,634
Accumulated Depreciation			
Balance at beginning of year	–	1,692,521	1,692,521
Depreciation (Note 11)	–	136,507	136,507
Disposals/Transfers/Others	–	(115,224)	(115,224)
Balance at end of year	–	1,713,804	1,713,804
Allowance for Impairment Losses (Note 16)	2,702,189	317,233	3,019,422
Net Book Value at End of Year	₱12,833,559	₱2,484,849	₱15,318,408

Investment properties include real properties foreclosed or acquired in settlement of loans. Foreclosed investment properties of the Parent Company still subject to redemption period by the borrowers amounted to ₱307.8 million and ₱115.9 million, as of December 31, 2018 and 2017, respectively. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The Group and the Parent Company are exerting continuing efforts to dispose these properties.

The total recoverable value of certain investment properties of the Group that were impaired amounted to ₱4.3 billion and ₱5.3 billion as of December 31, 2018 and 2017, respectively. For the Parent Company, the total recoverable value of certain investment properties that were impaired amounted to ₱4.2 billion and ₱5.2 billion as of December 31, 2018 and 2017, respectively.

For the Group, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱58.6 million, ₱27.5 million and ₱13.6 million in 2018, 2017, and 2016, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱271.4 million, ₱173.9 million and ₱201.8 million in 2018, 2017, and 2016, respectively.

For the Parent Company, direct operating expenses on investment properties that generated rental income during the year (other than depreciation and amortization), included under 'Miscellaneous expenses - Others', amounted to ₱58.6 million, ₱27.5 million and ₱8.3 million in 2018, 2017, and 2016, respectively. Direct operating expenses on investment properties that did not generate rental income included under 'Miscellaneous expenses - Others', amounted to ₱271.4 million, ₱167.1 million and ₱201.6 million in 2018, 2017, and 2016, respectively.

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

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Net gains from sale of investment properties (Note 33)	**₱5,703,523**	₱3,755,533	₱2,343,634	**₱5,683,516**	₱3,698,236	₱2,387,472
Net gains from foreclosure and repossession of investment properties	**129,218**	162,125	165,570	**129,218**	162,125	128,927
Net gains from sale of property and equipment (Note 11)	**28,402**	4,282	1,157	**28,402**	1,980	1,462
Net loss from sale of receivables	**–**	(804)	–	**–**	–	–
	₱5,861,143	₱3,921,136	₱2,510,361	**₱5,841,136**	₱3,862,341	₱2,517,861

14. Goodwill and Intangible Assets

Goodwill and intangible assets consist of:

	Consolidated				
	2018				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱391,943**	**₱3,410,865**	**₱5,700,597**	**₱13,375,407**
Additions	–	–	**169,231**	**169,231**	–
Cumulative translation adjustment	–	–	**1,520**	**1,520**	–
Effect of disposal group classified as held for sale (Note 36)	–	–	**(30,463)**	**(30,463)**	–
Balance at end of year	**1,897,789**	**391,943**	**3,551,153**	**5,840,885**	**13,375,407**
Accumulated Amortization					
Balance at beginning of year	**928,862**	**391,943**	**1,056,935**	**2,377,740**	–
Amortization (Note 11)	**189,779**	–	**271,026**	**460,805**	–
Cumulative translation adjustment	–	–	**(559)**	**(559)**	–
Effect of disposal group classified as held for sale (Note 36)	–	–	**(22,258)**	**(22,258)**	–
Balance at end of year	**1,118,641**	**391,943**	**1,305,144**	**2,815,728**	–
Net Book Value at End of Year	**₱779,148**	**₱–**	**₱2,246,009**	**₱3,025,157**	**₱13,375,407**

	Consolidated				
	2017				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱2,239,262	₱4,528,994	₱13,375,407
Additions	–	–	1,162,121	1,162,121	–
Cumulative translation adjustment	–	–	9,482	9,482	–
Balance at end of year	1,897,789	391,943	3,410,865	5,700,597	13,375,407
Accumulated Amortization					
Balance at beginning of year	739,083	391,943	838,679	1,969,705	–
Amortization (Note 11)	189,779	–	217,272	407,051	–
Cumulative translation adjustment	–	–	984	984	–
Balance at end of year	928,862	391,943	1,056,935	2,377,740	
Net Book Value at End of Year	₱968,927	₱–	₱2,353,930	₱3,322,857	₱13,375,407

	Parent Company				
	2018				
	Intangible Assets				
	Core Deposit	**Customer Relationship**	**Software Cost**	**Total**	**Goodwill**
Cost					
Balance at beginning of year	**₱1,897,789**	**₱ 391,943**	**₱4,395,633**	**₱6,685,365**	**₱ 13,515,765**
Additions	–	–	**160,857**	**160,857**	–
Others	–	–	**227**	**227**	–
Balance at end of year	**1,897,789**	**391,943**	**4,556,717**	**6,846,449**	**13,515,765**
Accumulated Amortization					
Balance at beginning of year	**928,862**	**391,943**	**2,201,317**	**3,522,122**	–
Amortization (Note 11)	**189,779**	–	**254,532**	**444,311**	–
Others	–	–	**163**	**163**	–
Balance at end of year	**1,118,641**	**391,943**	**2,456,012**	**3,966,596**	–
Net Book Value at End of Year	**₱ 779,148**	**₱ –**	**₱ 2,100,705**	**₱ 2,879,853**	**₱ 13,515,765**

	Parent Company				
	2017				
	Intangible Assets				
	Core Deposit	Customer Relationship	Software Cost	Total	Goodwill
Cost					
Balance at beginning of year	₱1,897,789	₱391,943	₱3,350,558	₱5,640,290	₱13,515,765
Additions	–	–	1,045,743	1,045,743	–
Cumulative translation adjustment	–	–	(668)	(668)	–
Balance at end of year	1,897,789	391,943	4,395,633	6,685,365	13,515,765
Accumulated Amortization					
Balance at beginning of year	739,083	391,943	2,037,812	3,168,838	–
Amortization (Note 11)	189,779	–	164,161	353,940	–
Cumulative translation adjustment		–	(656)	(656)	–
Balance at end of year	928,862	391,943	2,201,317	3,522,122	
Net Book Value at End of Year	₱968,927	₱–	₱2,194,316	₱3,163,243	₱13,515,765

Core deposit (CDI) and customer relationship (CRI)
CDI and CRI are the intangible assets acquired through the merger of the Parent Company with ABC. CDI includes the stable level of deposit liabilities of ABC which is considered as favorably priced source of funds by the Parent Company. CRI pertains to ABC's key customer base which the Parent Company expects to bring more revenue through loan availments.

Software cost
Software cost as of December 31, 2018 and 2017 includes capitalized development costs amounting to ₱0.5 billion and ₱2.2 billion, respectively, related to the Parent Company's new core banking system.

Goodwill
As discussed in Note 1, on February 9, 2013, the Parent Company acquired 100.00% of voting common stock of ABC, a listed universal bank. The acquisition of ABC was made to strengthen the Parent Company's financial position and enlarge its operations.

The Parent Company accounted for the business combination with ABC under the acquisition method of PFRS 3. The Group has elected to measure the non-controlling interest in the acquiree at proportionate share of identifiable assets and liabilities.

The business combination resulted in the recognition of goodwill amounting to ₱13.38 billion.

Impairment testing of goodwill and intangible asset
Goodwill acquired through the above business combination has been allocated to three CGUs which are also reportable segments, namely: retail banking, corporate banking and treasury. Goodwill allocated to the CGUs amounted to ₱6.2 billion, ₱4.2 billion and ₱3.0 billion, respectively. CDI is allocated to retail banking while CRI is allocated to corporate banking.

Goodwill is reviewed for impairment annually in the fourth quarter of the reporting period, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. CDI and CRI, on the other hand, are assessed for impairment where indicator(s) of objective evidence of impairment has been identified. Impairment testing is done by comparing the recoverable amount of each CGU with its carrying amount. The carrying amount of a CGU is derived based on its net assets plus the amount allocated to the CGU. The recoverable amount is the higher of a CGUs' fair value less costs to sell and its value in use. The goodwill impairment test did not result in an impairment loss of goodwill of the CGUs as the recoverable amount for these CGUs were higher than their respective carrying amount.

Key assumptions used in value in use calculations
The recoverable amounts of the CGUs have been determined on the basis of value in use calculation using the discounted cash flows (DCF) model. The DCF model uses earnings projections based on financial budgets approved by senior management and the BOD of the Parent Company covering a three-year period and are discounted to their present value. Estimating future earning involves judgment which takes into account past and actual performance and expected developments in the respective markets and in the overall macro-economic environment.

The following rates were applied to the cash flow projections:

	2018			2017		
	Retail Banking	**Corporate Banking**	**Treasury**	Retail Banking	Corporate Banking	Treasury
Pre-tax discount rate	**11.90%**	**11.90%**	**7.76%**	8.16%	8.16%	6.89%
Projected growth rate	**6.50%**	**6.50%**	**6.50%**	6.80%	6.80%	6.80%

The calculation of value in use for retail banking, corporate banking and treasury CGUs is most sensitive to interest margin, discount rates, projected growth rates used to extrapolate cash flows beyond the budget period, and current local gross domestic product.

Discount rate
The discount rate applied have been determined based on cost of equity for retail and corporate banking segments and weighted average cost of capital for treasury segment. The cost of equity was derived using the capital asset pricing model which is comprised of a market risk premium, risk-free interest rate and the beta factor. The values for the risk-free interest rate, the market risk premium and the beta factors were obtained from external sources of information.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the units to exceed their recoverable amount.

15. **Other assets**

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial				
Return checks and other cash items	**₱169,997**	₱409,257	**₱166,992**	₱396,826
Checks for clearing	**499,792**	285,676	**499,792**	285,676
Security deposits	**129,309**	45,697	**–**	–
Receivable from SPV	**500**	500	**500**	500
Others	**5,407**	4,355	**3,966**	3,477
	805,005	745,485	**671,250**	686,479
Non-financial				
Creditable withholding taxes	**4,038,042**	5,272,020	**4,018,405**	5,085,846
Real estate inventories held under development (Note 33)	**728,752**	728,752	**728,752**	728,752
Deferred benefits	**564,343**	577,291	**540,328**	524,252
Prepaid expenses	**485,170**	390,290	**382,146**	299,780
Documentary stamps on hand	**438,312**	234,234	**431,751**	230,328
Chattel mortgage properties-net of depreciation	**109,264**	149,347	**32,437**	32,752
Stationeries and supplies	**99,176**	95,129	**93,594**	89,168
Deferred reinsurance premium (Note 36)	**–**	816,058	**–**	–
Miscellaneous	**50,801**	822,799	**186,319**	1,397,790
	6,513,860	9,085,920	**6,413,732**	8,388,668
	7,318,865	9,831,405	**7,084,982**	9,075,147
Less allowance for impairment losses (Note 16)	**1,178,605**	954,090	**1,178,555**	922,532
	₱6,140,262	₱8,877,135	**₱5,906,427**	₱8,152,615

Real estate inventories held under development
This represents parcels of land contributed by the Parent Company under joint arrangements with real estate developers to be developed as residential condominium units and subdivision lots.

Deferred reinsurance premiums
The deferred reinsurance premiums of the Group refer to portion of reinsurance premiums ceded that are unexpired as of December 31, 2018 and 2017 (see Note 36).

Prepaid expenses
This represents expense prepayments expected to benefit the Group for a future period not exceeding one year, such as insurance premiums, rent and interest on time certificates of deposits paid in advance which shall be amortized monthly.

Deferred benefits
This represents the share of the Group in the cost of transportation equipment acquired under the Group's car plan which shall be amortized monthly.

Chattel mortgage properties
As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by the Group in settlement of loans amounted to ₱105.9 million and ₱96.1 million, respectively. As of December 31, 2018 and 2017, accumulated depreciation on chattel mortgage properties acquired by the Parent Company in settlement of loans amounted to ₱58.2 million and ₱66.5 million, respectively.

As of December 31, 2018 and 2017, the total recoverable value of certain chattel mortgage properties of the Group and the Parent Company that were impaired amounted to ₱0.9 million and ₱0.9 million, respectively.

Receivable from SPV
The Group has receivable from SPV, Opal Portfolio Investing Inc. (OPII), which was deconsolidated upon adoption of PFRS 10.

Receivable from SPV represents fully provisioned subordinated notes received by the Parent Company from Golden Dragon Star Equities and its assignee, OPII, relative to the sale of certain Non-performing assets of the Group. Collections from OPII in 2016 amounting to ₱500.0 million are recorded under 'Miscellaneous Income' (see Note 27).

Miscellaneous
Other financial assets include revolving fund, petty cash fund and miscellaneous cash and other cash items.

Other nonfinancial assets include postages, refundable deposits, notes taken for interest and sundry debits.

16. Allowance for Impairment and Credit Losses

Provision for impairment, credit and other losses
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Continuing operations:						
Provision for (reversal of) impairment	**(₱71,135)**	₱421,792	₱114,448	**(₱71,135)**	₱422,451	₱113,593
Provision for credit losses	**1,811,312**	812,986	2,696,773	**1,472,663**	70,609	1,192,348
Provision for (reversal of) other losses (Note 33)	–	(331,183)	401,553	–	(331,183)	401,553
	1,740,177	903,595	3,212,774	**1,401,528**	161,877	1,707,494
Discontinued operations:						
Provision for credit losses (Note 36)	**12,635**	(19,463)	(80)	–	–	–
	₱1,752,812	₱884,132	₱3,212,694	**₱1,401,528**	₱161,877	₱1,707,494

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

	Consolidated						
	2018				2017		
	Financial Assets at FVOCI	**Financial Assets at Amortized Cost**	**Loans and Receivables**	**Other Assets**	AFS Investments - Equity securities	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱–**	**₱–**	**₱15,764,060**	**₱500**	₱875,475	14,892,814	₱500
Effect of PFRS 9 adoption	**58,500**	**3,711,523**	**(912,890)**	**–**	–	–	–
Balance as restated	**58,500**	**3,711,523**	**14,851,170**	**500**	875,475	14,892,814	500
Provisions	**–**	**57,741**	**1,765,723**	**–**	–	793,524	–
Reversal of provision	**(12,151)**	**–**	**–**				
Accounts charged-off	**–**	**–**	**(420,193)**	**–**	(249,720)	(474,876)	–
Transfers and others	**–**	**–**	**(1,138,243)**	**–**	(125)	552,598	–
Balance at end of year	**₱46,349**	**₱3,769,264**	**₱15,058,457**	**₱500**	₱625,630	₱15,764,060	₱500

	Parent Company						
	2018				2017		
	Financial Assets at FVOCI	**Financial Assets at Amortized Cost**	**Loans and Receivables**	**Other Assets**	AFS Investments - Equity securities	Loans and Receivables	Other Assets*
Balance at beginning of year	**₱–**	**₱–**	**14,505,328**	**₱500**	₱875,220	₱14,032,123	₱500
Effect of PFRS 9 adoption	**58,500**	**3,711,523**	**(1,774,700)**	–	–	–	–
Balance as restated	**58,500**	**3,711,523**	**12,730,628**	**500**	875,220	14,032,123	500
Provisions	**–**	**57,741**	**1,427,073**	–	–	70,609	–
Reversal of provision	**(12,151)**	**–**	**–**	–			
Accounts charged-off	**–**	**–**	**(420,193)**	–	(249,720)	(206,898)	–
Transfers and others	**–**	**–**	**(1,111,926)**	–	–	609,494	–
Balance at end of year	**46,349**	**3,769,264**	**12,625,582**	**₱500**	₱625,500	₱14,505,328	₱500

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

	Consolidated					
	2018			2017		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,486**	**₱3,018,965**	**₱954,090**	₱228,233	₱3,296,341	₱770,162
Provisions (reversals)	**–**	**13,221**	**(84,356)**	21	(46,377)	468,148
Disposals	**–**	**(25,274)**	**(301)**	(220)	(152,718)	(1,136)
Transfers and others	**–**	**276,451**	**308,672**	452	(78,281)	(283,084)
Balance at end of year	**₱228,486**	**₱3,283,363**	**₱1,178,105**	₱228,486	₱3,018,965	₱954,090

	Parent Company					
	2018			2017		
	Property and Equipment	**Investment Properties**	**Other Assets**	Property and Equipment	Investment Properties	Other Assets
Balance at beginning of year	**₱228,034**	**₱3,019,422**	**₱922,032**	₱228,233	₱3,301,072	₱737,588
Provisions (reversals)	**–**	**13,221**	**(84,356)**	21	(46,377)	468,808
Disposals	**–**	**(25,274)**	**(301)**	(220)	(152,718)	(1,136)
Transfers and others	**–**	**277,098**	**340,680**	–	(82,555)	(283,228)
Balance at end of year	**₱228,034**	**₱3,284,467**	**₱1,178,055**	₱228,034	₱3,019,422	₱922,032

The reconciliation of allowance for the receivables from customers are shown below. The balances at the beginning of the year reflect the amounts after considering the effect of adoption of PFRS 9 (see Note 2).

	Consolidated			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Corporate Loans*				
Beginning Balance	**₱1,469,029**	**₱23,150**	**₱3,850,384**	**₱5,342,563**
Newly originated assets which remained in Stage 1 as at year-end	**477,090**	**–**	**–**	**477,090**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**30,229**	**499,307**	**529,536**
Transfers to Stage 1	**1,082**	**(921)**	**(161)**	**–**
Transfers to Stage 2	**(4,437)**	**4,437**	**–**	**–**
Transfers to Stage 3	**(2,163)**	**(5,012)**	**7,175**	**–**
Transfers to Asset Held for Sale	**–**	**–**	**–**	**–**
Accounts charged off	**–**	**–**	**(94,461)**	**(94,461)**
Provisions	**82,761**	**136,288**	**440,496**	**659,545**
Effect of collections and other movements	**(728,076)**	**(151,579)**	**(874,368)**	**(1,754,023)**
Ending Balance	**1,295,286**	**36,592**	**3,828,372**	**5,160,250**

(Forward)

	Consolidated 2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
LGU				
Beginning Balance	**₱3,510**	**₱5,415**	**₱24,915**	**₱ 33,840**
Newly originated assets which remained in Stage 1 as at year-end	**7,430**	–	–	**7,430**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	–	–
Effect of collections and other movements	**30,575**	**(1,225)**	–	**29,350**
Ending Balance	**41,515**	**4,190**	**24,915**	**70,620**
Credit Cards				
Beginning Balance	**36,041**	**42,372**	**501,035**	**579,448**
Newly originated assets which remained in Stage 1 as at year-end	**18,591**	–	–	**18,591**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**13,923**	**67,864**	**81,787**
Transfers to Stage 1	**142,041**	**(7,467)**	**(134,574)**	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	**106,197**	**(106,197)**	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	**(132,531)**	–	**(132,531)**
Provisions	–	–	–	–
Effect of collections and other movements	**(277,074)**	**248,567**	**556,789**	**528,282**
Ending Balance	**25,795**	**58,668**	**991,114**	**1,075,577**
Retail SMEs				
Beginning Balance	**156,783**	**6,190**	**558,726**	**721,699**
Newly originated assets which remained in Stage 1 as at year-end	**46,891**	–	–	**46,891**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**8,304**	**68,455**	**76,759**
Transfers to Stage 1	**(205)**	**27**	**178**	–
Transfers to Stage 2	**(588)**	**(320)**	**908**	–
Transfers to Stage 3	**(538)**	**160**	**378**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	**(27,833)**	**(27,833)**
Provisions	**486**	**1,532**	**9,799**	**11,817**
Effect of collections and other movements	**(6,006)**	**49,355**	**(8,549)**	**34,800**
Ending Balance	**196,823**	**65,248**	**602,062**	**864,133**
Housing Loans				
Beginning Balance	**400,894**	**788,987**	**(374,370)**	**815,511**
Newly originated assets which remained in Stage 1 as at year-end	**35,622**	–	–	**35,622**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**37,823**	**11,149**	**48,972**
Transfers to Stage 1	**(486,899)**	**435,782**	**51,117**	–
Transfers to Stage 2	**7,137**	**(77,213)**	**70,076**	–
Transfers to Stage 3	**78**	**98,861**	**(98,939)**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	**13,748**	**22,392**	**17,529**	**53,669**
Effect of collections and other movements	**901,826**	**(774,030)**	**191,915**	**319,711**
Ending Balance	**872,406**	**532,602**	**(131,523)**	**1,273,485**

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Auto Loans				
Beginning Balance	₱70,682	₱5,117	₱74,066	₱149,865
Newly originated assets which remained in Stage 1 as at year-end	8,863	–	–	8,863
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	4,962	1,623	6,585
Transfers to Stage 1	(6,502)	2,576	3,926	–
Transfers to Stage 2	2,206	(9,538)	7,332	–
Transfers to Stage 3	87	810	(897)	–
Accounts charged off	–	–	–	–
Transfers to Assets Held for Sale	–	–	(5,416)	(5,416)
Provisions	(7,067)	6,516	(3,281)	(3,832)
Effect of collections and other movements	45,882	57,377	(27,969)	75,290
Ending Balance	114,151	67,820	49,384	231,355
Other Loans				
Beginning Balance	734,409	363,554	1,219,525	2,317,488
Newly originated assets which remained in Stage 1 as at year-end	304	–	–	304
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	4,999	940	5,939
Transfers to Stage 1	(5,084)	(265)	5,349	–
Transfers to Stage 2	(407)	(2,928)	3,335	–
Transfers to Stage 3	(38)	(175)	213	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(38,601)	(38,601)
Provisions	168,037	16,882	18,330	203,249
Effect of collections and other movements	(369,686)	(314,513)	(219,654)	(903,853)
Ending Balance	527,535	67,554	989,437	1,584,526
Other Receivables				
Beginning Balance	2,715,351	923,602	1,025,211	4,664,164
Newly originated assets which remained in Stage 1 as at year-end	12,478	–	–	12,478
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	936	(171)	(765)	–
Transfers to Stage 2	(2,364)	2,364	–	–
Transfers to Stage 3	–	(457)	457	–
Transfers to Asset Held for Sale	(195,272)	–	–	(195,272)
Accounts charged off	–	–	(29,409)	(29,409)
Provisions	76,395	–	28,333	104,728
Effect of collections and other movements	(1,565,880)	1,722,322	85,881	242,323
Ending Balance	1,041,644	2,647,660	1,109,708	4,799,012
Total Loans and Receivables				
Beginning Balance	5,586,699	2,158,387	6,879,492	14,624,578
Newly originated assets which remained in Stage 1 as at year-end	607,269	–	–	607,269
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	100,240	649,338	749,578
Transfers to Stage 1	(354,631)	429,561	(74,930)	–
Transfers to Stage 2	1,547	(83,198)	81,651	–
Transfers to Stage 3	103,623	(12,010)	(91,613)	–
Transfers to Asset Held for Sale	(346,086)	198,783	(47,969)	(195,272)
Accounts charged off	–	(132,531)	(195,720)	(328,251)
Provisions	334,360	183,610	511,206	1,029,176
Effect of collections and other movements	(1,968,439)	836,274	(295,955)	(1,428,120)
Ending Balance	₱4,115,155	₱3,480,333	₱7,463,469	₱15,058,958

*Allowance for ECL on corporate loans including ECL on undrawn loan commitment. The balance of commitments as of Janaury 1, 2018 was ₱87.8 million, increased by ₱63.4 million at December 31, 2018. Movements during the year were mostly driven by new loan availments in 2018.

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans*				
Beginning Balance	**₱1,405,697**	**₱22,673**	**₱3,839,860**	**₱5,268,230**
Newly originated assets which remained in Stage 1 as at year-end	**476,383**	–	–	**476,383**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**19,531**	**498,861**	**518,392**
Transfers to Stage 1	**1,319**	**(1,319)**	–	–
Transfers to Stage 2	**(4,442)**	**4,442**	–	–
Transfers to Stage 3	**(2,167)**	**(5,012)**	**7,179**	–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	–	**(94,461)**	**(94,461)**
Provisions	**7,958**	**136,288**	**437,473**	**581,719**
Effect of collections and other movements	**(740,963)**	**(150,709)**	**(874,358)**	**(1,766,030)**
Ending Balance	**1,143,785**	**25,894**	**3,814,554**	**4,984,233**
LGU				
Beginning Balance	**3,510**	**5,415**	**24,915**	**33,840**
Newly originated assets which remained in Stage 1 as at year-end	**7,430**	–	–	**7,430**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	–	–
Effect of collections and other movements	**30,575**	**(1,225)**	**-**	**29,350**
Ending Balance	**41,515**	**4,190**	**24,915**	**70,620**
Credit Cards				
Beginning Balance	**36,041**	**42,372**	**501,035**	**579,448**
Newly originated assets which remained in Stage 1 as at year-end	**18,591**	–	–	**18,591**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**13,923**	**67,864**	**81,787**
Transfers to Stage 1	**142,041**	**(7,467)**	**(134,574)**	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	**106,197**	**(106,197)**	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	**(132,531)**	–	**(132,531)**
Provisions	–	–	–	–
Effect of collections and other movements	**(277,074)**	**248,567**	**556,789**	**528,282**
Ending Balance	**25,795**	**58,668**	**991,114**	**1,075,577**
Retail SMEs				
Beginning Balance	**74,686**	**5,935**	**483,607**	**564,228**
Newly originated assets which remained in Stage 1 as at year-end	**44,940**	–	–	**44,940**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**2,418**	**35,319**	**37,737**
Transfers to Stage 1	**50**	–	**(50)**	–
Transfers to Stage 2	**(593)**	**(315)**	**908**	–
Transfers to Stage 3	**(547)**	–	**547**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	**(27,833)**	**(27,833)**
Provisions	**361**	**337**	**28,362**	**29,060**
Effect of collections and other movements	**(67,784)**	**(1,809)**	**(170)**	**(69,763)**
Ending Balance	**51,113**	**6,566**	**520,690**	**578,369**
Housing Loans				
Beginning Balance	**1,398**	**678**	**40,245**	**42,321**
Newly originated assets which remained in Stage 1 as at year-end	**6**	–	–	**6**

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Newly originated assets which moved to Stages 2 and 3 as at year-end	₱–	₱3	₱4,497	₱4,500
Transfers to Stage 1	134	(38)	(96)	–
Transfers to Stage 2	(161)	(89)	250	–
Transfers to Stage 3	(46)	–	46	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Provisions	–	–	252	252
Effect of collections and other movements	20,341	322	(9,518)	11,145
Ending Balance	21,672	876	35,676	58,224
Auto Loans				
Beginning Balance	17	38	43,120	43,175
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	17	(17)	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Accounts charged off	–	–	–	–
Transfers to Assets Held for Sale	–	–	(5,416)	(5,416)
Provisions	–	–	–	–
Effect of collections and other movements	(31)	(21)	1,885	1,833
Ending Balance	3	–	39,589	39,592
Other Loans				
Beginning Balance	2,142	362,248	1,194,078	1,558,468
Newly originated assets which remained in Stage 1 as at year-end	154	–	–	154
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	141	–	141
Transfers to Stage 1	404	(335)	(69)	–
Transfers to Stage 2	(411)	757	(346)	–
Transfers to Stage 3	(40)	(303)	343	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(38,601)	(38,601)
Provisions	–	13,480	37,683	51,163
Effect of collections and other movements	(2,047)	(318,416)	(219,730)	(540,193)
Ending Balance	202	57,572	973,358	1,031,132
Other Receivables				
Beginning Balance	2,613,376	920,913	936,791	4,471,080
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	–	(29,409)	(29,409)
Provisions	–	–	28,333	28,333
Effect of collections and other movements	(1,509,281)	1,723,906	103,207	317,832
Ending Balance	1,104,095	2,644,819	1,038,922	4,787,836
Total Loans and Receivables				
Beginning Balance	4,136,867	1,360,272	7,063,651	12,560,790
Newly originated assets which remained in Stage 1 as at year-end	547,504	–	–	547,504
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	36,016	606,541	642,557
Transfers to Stage 1	143,965	(9,176)	(134,789)	–
Transfers to Stage 2	(5,607)	4,795	812	–

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 3	₱103,397	(₱111,512)	₱8,115	₱–
Transfers to Asset Held for Sale	–	–	–	–
Accounts charged off	–	(132,531)	(195,720)	(328,251)
Provisions	8,319	150,105	532,103	690,527
Effect of collections and other movements	(2,554,264)	1,500,615	(441,895)	(1,487,544)
Ending Balance	2,388,180	2,798,585	7,438,818	12,625,583

*Allowance for ECL on corporate loans including ECL on undrawn loan commitment. The balance of commitments as of Janaury 1, 2018 was ₱87.8 million, increased by ₱63.4 million at December 31, 2018. Movements during the year were mostly driven by new loan availments in 2018.

Movements of the gross carrying amounts of receivables from customers are shown below:

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans				
Beginning Balance	₱384,446,065	₱3,003,511	₱6,000,790	₱393,450,366
Newly originated assets which remained in Stage 1 as at year-end	231,847,502	–	–	231,847,502
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	4,519,519	1,334,506	5,854,025
Transfers to Stage 1	296,280	(296,280)	–	–
Transfers to Stage 2	(839,071)	839,071	–	–
Transfers to Stage 3	(393,213)	(251,314)	644,527	–
Transfers to Asset Held for Sale	(8,352)	–	–	(8,352)
Accounts charged off	–	–	(94,461)	(94,461)
Effect of collections and other movements	(151,775,885)	(2,022,248)	(835,937)	(154,634,070)
Ending Balance	463,573,326	5,792,259	7,049,425	476,415,010
LGU				
Beginning Balance	7,017,292	23,227	24,916	7,065,435
Newly originated assets which remained in Stage 1 as at year-end	6,877,331	–	–	6,877,331
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	16,070	24,916	40,986
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	(7,017,292)	(21,329)	(24,916)	(7,063,537)
Ending Balance	6,877,331	17,968	24,916	6,920,215
Credit Cards				
Beginning Balance	9,184,514	294,477	666,483	10,145,474
Newly originated assets which remained in Stage 1 as at year-end	2,894,354	–	–	2,894,354
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	76,426	81,210	157,637
Transfers to Stage 1	83,458	(78,154)	(5,304)	–
Transfers to Stage 2	(263,134)	271,709	(8,575)	–
Transfers to Stage 3	(620,055)	(162,122)	782,177	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	(137,452)	(42,326)	(182,554)	(362,332)
Effect of collections and other movements	602,249	33,483	(58,802)	576,930
Ending Balance	11,743,933	393,494	1,274,636	13,412,063
Retail SMEs				
Beginning Balance	11,648,490	337,636	488,606	12,474,732
Newly originated assets which remained in Stage 1 as at year-end	8,237,072	–	–	8,237,072
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	188,861	1,443,678	1,632,539
Transfers to Stage 1	(113,353)	107,332	6,021	–

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 2	(₱92,824)	₱92,824	₱–	₱–
Transfers to Stage 3	(148,279)	83,844	64,435	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	(27,833)	(27,833)
Effect of collections and other movements	(9,353,577)	(424,002)	(595,319)	(10,372,898)
Ending Balance	10,177,529	386,495	1,379,588	11,943,612
Housing Loans				
Beginning Balance	16,469,522	8,717,747	1,676,936	26,864,205
Newly originated assets which remained in Stage 1 as at year-end	6,773,796	–	–	6,773,796
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	355,084	46,294	401,378
Transfers to Stage 1	(5,096,977)	4,814,883	282,094	–
Transfers to Stage 2	2,038,294	(2,423,628)	385,334	–
Transfers to Stage 3	28,620	1,089,386	(1,118,006)	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	2,559,095	(4,815,526)	2,060,447	(195,984)
Ending Balance	22,772,350	7,737,946	3,333,099	33,843,395
Auto Loans				
Beginning Balance	6,251,527	2,757,834	218,887	9,228,248
Newly originated assets which remained in Stage 1 as at year-end	5,171,719	–	–	5,171,719
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	338,571	12,530	351,101
Transfers to Stage 1	(1,429,474)	1,407,767	21,707	–
Transfers to Stage 2	853,998	(894,539)	40,541	–
Transfers to Stage 3	33,497	439,754	(473,251)	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(5,416)	(5,416)
Effect of collections and other movements	(1,462,711)	(1,883,474)	343,778	(3,002,407)
Ending Balance	9,418,556	2,165,913	158,776	11,743,245
Other Loans				
Beginning Balance	19,627,677	696,618	1,350,439	21,674,734
Newly originated assets which remained in Stage 1 as at year-end	7,296,449	–	–	7,296,449
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	6,463,430	3,695	6,467,125
Transfers to Stage 1	(44,539)	58,303	(13,764)	–
Transfers to Stage 2	(40,212)	31,939	8,273	–
Transfers to Stage 3	19,194	24,025	(43,219)	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	(38,602)	(38,602)
Effect of collections and other movements	(14,994,689)	(1,383,128)	200,682	(16,177,135)
Ending Balance	11,863,880	5,891,187	1,467,504	19,222,571
Other Receivables				
Beginning Balance	16,740,788	4,723,127	833,454	22,297,369
Newly originated assets which remained in Stage 1 as at year-end	11,275,032	–	–	11,275,032
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	143,045	130,350	273,395
Transfers to Stage 1	131,651	(52,696)	(78,955)	–
Transfers to Stage 2	(33,598)	57,500	(23,902)	–
Transfers to Stage 3	(20,443)	(3,999)	24,442	–
Transfers to Asset Held for Sale	(5,089,832)	–	–	(5,089,832)
Accounts Charged off	–	–	(29,408)	(29,408)
Effect of collections and other movements	(5,227,408)	(222,836)	(21,989)	(5,472,233)
Ending Balance	17,776,190	4,644,141	833,992	23,254,323
Total Loans and Receivables				

(Forward)

	Consolidated			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Beginning Balance	**₱471,385,875**	**₱ 20,554,177**	**₱11,260,511**	**₱503,200,563**
Newly originated assets which remained in Stage 1 as at year-end	**280,373,255**	**–**	**–**	**280,373,255**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**12,101,006**	**3,077,179**	**15,178,186**
Transfers to Stage 1	**(6,172,954)**	**5,961,155**	**211,799**	**–**
Transfers to Stage 2	**1,623,453**	**(2,025,124)**	**401,671**	**–**
Transfers to Stage 3	**(1,100,679)**	**1,219,574**	**(118,895)**	**–**
Transfers to Asset Held for Sale	**(5,098,184)**	**–**	**–**	**(5,098,184)**
Accounts Charged off	**(137,452)**	**(42,326)**	**(378,274)**	**(558,052)**
Effect of collections and other movements	**(186,670,218)**	**(10,739,060)**	**1,067,944**	**(196,341,334)**
Ending Balance	**₱554,203,095**	**₱27,029,403**	**₱15,521,936**	**₱596,754,434**

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Corporate Loans				
Beginning Balance	**₱377,379,028**	**₱2,170,755**	**₱4,950,332**	**₱384,500,115**
Newly originated assets which remained in Stage 1 as at year-end	**229,278,616**	**–**	**–**	**229,278,616**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**4,333,052**	**1,328,441**	**5,661,493**
Transfers to Stage 1	**300,679**	**(300,679)**	**–**	**–**
Transfers to Stage 2	**(925,229)**	**925,229**	**–**	**–**
Transfers to Stage 3	**(458,770)**	**(251,314)**	**710,084**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**–**	**–**	**(94,461)**	**(94,461)**
Effect of collections and other movements	**(158,891,821)**	**(1,739,461)**	**(675,436)**	**(161,306,718)**
Ending Balance	**446,682,503**	**5,137,582**	**6,218,960**	**458,039,045**
LGU				
Beginning Balance	**7,017,292**	**23,227**	**24,916**	**7,065,435**
Newly originated assets which remained in Stage 1 as at year-end	**6,877,331**	–	–	**6,877,331**
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	**16,070**	**24,916**	**40,986**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts charged off	–	–	–	–
Effect of collections and other movements	**(7,017,292)**	**(21,329)**	**(24,916)**	**(7,063,537)**
Ending Balance	**6,877,331**	**17,968**	**24,916**	**6,920,215**
Credit Cards				
Beginning Balance	**9,184,514**	**294,477**	**666,483**	**10,145,474**
Newly originated assets which remained in Stage 1 as at year-end	**2,894,354**	**–**	**–**	**2,894,354**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**76,426**	**81,210**	**157,637**
Transfers to Stage 1	**83,458**	**(78,154)**	**(5,304)**	**–**
Transfers to Stage 2	**(263,134)**	**271,709**	**(8,575)**	**–**
Transfers to Stage 3	**(620,055)**	**(162,122)**	**782,177**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**(137,452)**	**(42,326)**	**(182,554)**	**(362,332)**
Effect of collections and other movements	**602,249**	**33,483**	**(58,802)**	**576,930**
Ending Balance	**11,743,934**	**393,493**	**1,274,635**	**13,412,062**
Retail SMEs				
Beginning Balance	**9,352,537**	**77,189**	**324,783**	**9,754,509**
Newly originated assets which remained in Stage 1 as at year-end	**6,494,319**	**–**	**–**	**6,494,319**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**125,965**	**1,383,885**	**1,509,850**

(Forward)

	Parent Company			
	2018			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	**₱833**	**₱–**	**(₱833)**	**₱–**
Transfers to Stage 2	**(105,242)**	**105,242**	**–**	**–**
Transfers to Stage 3	**(186,948)**	**(14,410)**	**201,358**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**–**	**–**	**(27,833)**	**(27,833)**
Effect of collections and other movements	**(9,072,022)**	**(168,021)**	**(672,184)**	**(9,912,227)**
Ending Balance	**6,483,477**	**125,965**	**1,209,176**	**7,818,618**
Housing Loans				
Beginning Balance	**1,272,340**	**7,848**	**247,536**	**1,527,724**
Newly originated assets which remained in Stage 1 as at year-end	**8,644**	**–**	**–**	**8,644**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**63**	**16,830**	**16,893**
Transfers to Stage 1	**947**	**(421)**	**(526)**	**–**
Transfers to Stage 2	**(18,313)**	**18,313**	**–**	**–**
Transfers to Stage 3	**(6,190)**	**(2,909)**	**9,099**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts charged off	**–**	**–**	**–**	**–**
Effect of collections and other movements	**140,253**	**(7,044)**	**(59,148)**	**74,061**
Ending Balance	**1,397,681**	**15,850**	**213,791**	**1,627,322**
Auto Loans				
Beginning Balance	**3,506**	**420**	**47,776**	**51,702**
Newly originated assets which remained in Stage 1 as at year-end	–	–	–	–
Newly originated assets which moved to Stages 2 and 3 as at year-end	–	–	–	–
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	**(130)**	**–**	**130**	–
Transfers to Assets Held for Sale	–	–	–	–
Accounts Charged off	–	–	**(5,416)**	**(5,416)**
Effect of collections and other movements	**(2,959)**	**(420)**	**(2,882)**	**(6,261)**
Ending Balance	**417**	–	**39,608**	**40,025**
Other Loans				
Beginning Balance	**10,609,247**	**492,402**	**1,173,090**	**12,274,739**
Newly originated assets which remained in Stage 1 as at year-end	**5,576,195**	**–**	**–**	**5,576,195**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**6,420,312**	**–**	**6,420,312**
Transfers to Stage 1	**2,712**	**(2,251)**	**(461)**	**–**
Transfers to Stage 2	**(109,767)**	**111,665**	**(1,898)**	**–**
Transfers to Stage 3	**(8,268)**	**(3,750)**	**12,018**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**–**	**–**	**(38,602)**	**(38,602)**
Effect of collections and other movements	**(8,635,954)**	**(1,282,617)**	**204,119**	**(9,714,452)**
Ending Balance	**7,434,165**	**5,735,761**	**1,348,266**	**14,518,192**
Other Receivables				
Beginning Balance	**10,519,844**	**4,723,127**	**833,454**	**16,076,425**
Newly originated assets which remained in Stage 1 as at year-end	**10,495,560**	**–**	**–**	**10,495,560**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**143,045**	**130,350**	**273,395**
Transfers to Stage 1	**131,651**	**(52,696)**	**(78,955)**	**–**
Transfers to Stage 2	**(33,598)**	**57,500**	**(23,902)**	**–**
Transfers to Stage 3	**(20,443)**	**(3,999)**	**24,442**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**–**	**–**	**(29,408)**	**(29,408)**
Effect of collections and other movements	**(5,501,771)**	**(222,836)**	**(21,989)**	**(5,746,596)**
Ending Balance	**15,591,243**	**4,644,141**	**833,992**	**21,069,376**
Total Loans and Receivables				

(Forward)

	Parent Company			
	2018			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Beginning Balance	**₱425,338,308**	**₱7,789,445**	**₱8,268,370**	**₱441,396,123**
Newly originated assets which remained in Stage 1 as at year-end	**261,625,019**	**–**	**–**	**261,625,019**
Newly originated assets which moved to Stages 2 and 3 as at year-end	**–**	**11,114,933**	**2,965,632**	**14,080,565**
Transfers to Stage 1	**520,280**	**(434,201)**	**(86,079)**	**–**
Transfers to Stage 2	**(1,455,283)**	**1,489,658**	**(34,375)**	**–**
Transfers to Stage 3	**(1,300,804)**	**(438,504)**	**1,739,308**	**–**
Transfers to Assets Held for Sale	**–**	**–**	**–**	**–**
Accounts Charged off	**(137,452)**	**(42,326)**	**(378,274)**	**(558,052)**
Effect of collections and other movements	**(188,379,317)**	**(3,408,245)**	**(1,311,238)**	**(193,098,800)**
Ending Balance	**₱496,210,751**	**₱16,070,760**	**₱11,163,344**	**₱523,444,855**

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

	Consolidated							
	2017							
	Receivables from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,846,958	₱96,030	₱170,175	₱1,241,394	₱19,014	₱3,687,488	₱2,831,755	₱14,892,814
Provisions (reversals)	(302,489)	(10,930)	22,179	417,853	9,269	–	657,643	793,525
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(295,749)	–	–	(127,026)	–	–	(52,101)	(474,876)
Transfers and others	620,372	15,393	32,973	(138,778)	(14,467)	52,495	90,765	658,754
Balance at end of year	₱6,770,477	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Individual impairment	4,146,527	20,653	120,845	219,538	12,743	3,739,983	1,208,384	9,468,673
Collective impairment	2,623,951	79,840	97,578	1,173,332	1,008	–	2,319,678	6,295,387
	₱6,770,478	₱100,493	₱218,423	₱1,392,870	₱13,751	₱3,739,983	₱3,528,062	₱15,764,060
Gross amounts of loans and receivables subject to individual impairment	₱6,933,931	₱20,653	₱150,344	₱345,618	₱12,743	₱3,739,983	₱1,208,384	₱12,399,665

	Parent Company							
	2017							
	Receivables from customers					Unquoted		
	Business Loans	GOCCs and NGAs	LGUs	Consumers	Fringe Benefits	Debt Securities	Others	Total
Balance at beginning of year	₱6,687,544	₱96,030	₱170,175	₱890,093	₱19,012	₱3,687,488	₱2,481,780	₱14,032,122
Provisions (reversals)	(891,970)	(10,930)	22,179	247,212	9,268	–	694,851	70,610
Accretion on impaired loans (Note 10)	(98,615)	–	(6,904)	(573)	(65)	–	–	(106,157)
Accounts charged off	(50,969)	–	–	(127,022)	–	–	(28,907)	(206,898)
Transfers and others	548,045	15,393	32,973	13,454	(14,467)	(4,256)	124,508	715,650
Balance at end of year	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Individual impairment	₱3,361,779	₱20,653	₱120,845	₱122,561	₱12,743	₱3,683,232	₱1,184,021	₱8,505,834
Collective impairment	2,832,256	79,840	97,578	900,603	1,005	-	2,088,211	5,999,493
	₱6,194,035	₱100,493	₱218,423	₱1,023,164	₱13,748	₱3,683,232	₱3,272,232	₱14,505,327
Gross amounts of loans and receivables subject to individual impairment	₱4,839,781	₱20,653	₱150,344	₱247,899	₱12,743	₱3,683,232	₱1,184,021	₱10,138,674

17. Deposit Liabilities

As of December 31, 2018 and 2017, noninterest-bearing deposit liabilities amounted to ₱28.6 billion and ₱28.9 billion, respectively, for the Group and ₱25.2 billion and ₱24.8 billion, respectively, for the Parent Company. The remaining deposit liabilities of the Group generally earn annual fixed interest rates ranging from 0.00% to 10.00% in 2018, 0.01% to 4.13% in 2017 and 0.00% to 6.23% in 2016 for peso-denominated deposit liabilities, and from 0.01% to 8.00% in 2018, 0.00% to 2.10% in 2017 and 0.00% to 3.71% in 2016 for foreign currency-denominated deposit liabilities. The remaining deposit liabilities of the Parent Company generally earn annual fixed interest rates ranging from 0.00% to 10.00% in 2018, 0.01% to 4.13% in 2017 and 0.01% to 6.23% in 2016 for peso-denominated deposit liabilities, and from 0.01% to 8.00% in 2018, 0.00% to 2.10% in 2017 and 0.00% to 2.25% in 2016 for foreign-currency denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company and PNB SB are subject to reserves equivalent to 18.00% and 8.00%, respectively.

Available reserves booked under 'Due from BSP' are as follows:

	2018	2017
Parent Company	**₱97,665,375**	₱96,497,459
PNB SB	**3,361,937**	2,850,526
	₱101,027,312	₱99,347,985

Long-term Negotiable Certificates of Time Deposits
Time deposit includes the following Long-term Negotiable Certificates of Time Deposits (LTNCDs) issued by the Parent Company:

				Interest Repayment	Carrying Value	
Issue Date	Maturity Date	Face Value	CouponRate	Terms	2018	2017
October 26, 2017	April 26, 2023	₱6,350,000	3.88%	Quarterly	**₱6,316,699**	₱6,310,033
April 27, 2017	October 27, 2022	3,765,000	3.75%	Quarterly	**3,747,669**	3,743,546
December 6, 2016	June 6, 2022	5,380,000	3.25%	Quarterly	**5,355,858**	5,349,341
December 12, 2014	June 12, 2020	7,000,000	4.13%	Quarterly	**6,985,553**	6,976,118
October 21, 2013	April 22, 2019	4,000,000	3.25%	Quarterly	**3,998,167**	3,992,376
August 5, 2013	February 5, 2019	5,000,000	3.00%	Quarterly	**4,999,279**	4,992,542
		₱31,495,000			**₱31,403,225**	₱31,363,956

Other significant terms and conditions of the above LTNCDs follow:

- Issue price at 100.00% of the face value of each LTNCD.

- The LTNCDs bear interest rate per annum on its principal amount from and including the Issue Date thereof, up to but excluding the Early Redemption Date or Maturity Date (as the case may be).

  Interest in respect of the LTNCD will be calculated on an annual basis and will be paid in arrears quarterly on the last day of each successive Interest Period.

- Unless earlier redeemed, the LTNCDs shall be redeemed by the Parent Company on maturity date at an amount equal to one hundred percent (100.00%) of the aggregate issue price thereof, plus any accrued and unpaid interest thereon. The LTNCDs may not be redeemed at the option of the holders.

- The LTNCDs constitute direct, unconditional, unsecured, and unsubordinated obligations of the Parent Company, enforceable according to these Terms and Conditions, and shall at all times rank pari passu and without any preference or priority among themselves and at least pari passu with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Issuer, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- Subject to the "Events of Default" in the Terms and Conditions, the LTNCDs cannot be pre-terminated at the instance of any CD Holder before Maturity Date. In the case of an event of default, none of the CD Holders may accelerate the CDs on behalf of other CD Holders, and a CD Holder may only collect from the Parent Company to the extent of his holdings in the CDs. However, the Parent Company may, subject to the General Banking Law of 2000, Section

X233.9 of the Manual of Regulations for Banks, Circular No. 304 Series of 2001 of the BSP and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding CDs on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

- The LTNCDs are insured by the PDIC up to a maximum amount of ₱0.50 million subject to applicable laws, rules and regulations, as the same may be amended from time to time.
- Each Holder, by accepting the LTNCDs, irrevocably agrees and acknowledges that: (a) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Parent Company arising under or in connection with the LTNCDs; and (b) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

Interest expense on deposit liabilities consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Savings	**₱3,240,636**	₱1,940,283	₱2,124,979	**₱3,236,424**	₱1,904,459	₱2,074,446
Time	**3,338,531**	1,815,853	798,894	**2,079,674**	1,169,541	431,161
LTNCDs	**1,170,378**	933,632	764,230	**1,170,378**	933,631	764,230
Demand	**121,628**	104,459	92,139	**104,812**	97,167	87,029
	₱7,871,173	₱4,794,227	₱3,780,242	**₱6,591,288**	₱4,104,798	₱3,356,866

In 2018, 2017 and 2016, interest expense on LTNCDs for both the Group and the Parent Company includes amortization of transaction costs amounting to ₱39.3 million, ₱32.1 million and ₱25.3 million, respectively. Unamortized transaction costs of the LTNCDs amounted to ₱91.8 million and ₱131.0 million as of December 31, 2018 and 2017, respectively.

18. Financial Liabilities at Fair Value Through Profit or Loss

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Derivative liabilities (Notes 23 and 35)	**₱470,648**	₱343,522	**₱468,279**	₱343,416

19. Bills and Acceptances Payable

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Bills payable to:				
BSP and local banks (Note 33)	**₱67,792,569**	₱41,435,696	**₱ 60,940,934**	₱39,167,156
Foreign banks	**521,405**	157,849	–	–
Others	**3,000**	91,255	–	1,761
	68,316,974	41,684,800	**60,940,934**	39,168,917
Acceptances outstanding (Note 10)	**1,765,861**	2,231,887	**1,765,861**	2,231,887
	₱70,082,835	₱43,916,687	**₱62,706,795**	₱41,400,804

Foreign currency-denominated borrowings of the Group and the Parent Company bear annual interest ranging from 0.04% to 4.41%, from 0.05% to 3.61%, from 0.30% to 1.75% in 2018, 2017 and 2016, respectively.

Peso-denominated borrowings of the Group and the Parent Company bear annual interest of 0.63% to 5.37%, 0.63% in 2018, 2017 and 2016, respectively.

Bills payable to foreign banks consist of various repurchase agreements and a three-year syndicated borrowing with carrying value of ₱7.4 billion as of December 31, 2016 and was pre-terminated on August 29, 2017.

Significant terms and conditions of the three-year syndicated borrowing include the following:

(1) The lenders agree to provide the Parent Company with a term loan facility of up to $150.00 million. The Parent Company must repay all utilized loans at April 24, 2018, the final maturity date, which is three years from the agreement date.

(2) The borrowing bears interest at 1.38% over USD LIBOR. The Parent Company may select an interest period of one or three months for each utilization, provided that the interest period for a utilization shall not extend beyond the final maturity date.

(3) The Parent Company shall ensure that so long as any amount 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, 2018, bills payable with a carrying amount of ₱48.0 billion is secured by a pledge of certain Financial assets at FVOCI with carrying value and fair value of ₱19.7 billion and Investment securities at amortized cost with carrying value and fair value of ₱36.7 billion and ₱33.7 billion, respectively (Note 9).

As of December 31, 2017, bills payable with a carrying amount of ₱35.4 billion is secured by a pledge of certain AFS investments with carrying value and fair value of ₱26.7 billion and HTM investments with carrying value and fair value of ₱16.5 billion and ₱17.8 billion, respectively (Note 9).

Following are the significant terms and conditions of the repurchase agreements entered into by the Parent Company:

(1) Each party represents and warrants to the other that it is duly authorized to execute and deliver the Agreement, and to perform its obligations and has taken all the necessary action to authorize such execution, delivery and performance;
(2) The term or life of this borrowing is up to three years;

(3) Some borrowings bear a fixed interest rate while others have floating interest rate;
(4) The Parent Company has pledged its Financial assets at FVOCI and investment securities at amortized costs, AFS and HTM investments, in the form of ROP Global bonds, in order to fulfill its collateral requirement;
(5) Haircut from market value ranges from 15.00% to 25.00% depending on the tenor of the bond;
(6) Certain borrowings are subject to margin call of up to USD1.4 million; and
(7) Substitution of pledged securities is allowed if one party requested and the other one so agrees.

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Bills payable	**₱600,354**	₱600,334	₱526,755	**₱434,650**	₱507,332	₱492,650
Subordinated debt (Note 21)	**–**	75,314	416,871	**–**	75,314	416,871
Others	**61,986**	71,833	53,995	**37,461**	68,078	50,088
	₱662,340	₱747,481	₱997,621	**₱ 472,111**	₱650,724	₱959,609

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Accrued taxes and other expenses	**₱4,730,917**	₱4,690,580	**₱4,295,448**	₱4,129,687
Accrued interest	**1,436,481**	632,907	**1,264,512**	543,858
	₱6,167,398	₱5,323,487	**₱5,559,960**	₱4,673,545

Accrued taxes and other expenses consist of:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Financial liabilities:				
Promotional expenses	**₱628,559**	₱483,570	**₱592,769**	₱483,570
Rent and utilities payable	**162,629**	188,962	**139,511**	157,195
Information technology-related expenses	**145,206**	204,666	**127,914**	195,599
Management, directors and other professional fees	**124,776**	172,133	**84,117**	142,313
Repairs and maintenance	**94,346**	74,481	**93,996**	74,481
	1,155,516	1,123,812	**1,038,307**	1,053,158
Nonfinancial liabilities:				
Other benefits - monetary value of leave credits	**1,648,520**	1,637,877	**1,635,451**	1,564,909
PDIC insurance premiums	**716,041**	660,290	**667,982**	589,876
Other taxes and licenses	**571,574**	539,720	**515,292**	337,765
Employee benefits	**235,603**	476,032	**127,374**	474,868
Other expenses	**403,663**	252,849	**311,042**	109,111
	3,575,401	3,566,768	**3,257,141**	3,076,529
	₱4,730,917	₱4,690,580	**₱4,295,448**	₱4,129,687

'Other expenses' include janitorial, representation and entertainment, communication and other operating expenses.

21. **Bonds Payable and Subordinated Debt**

Bonds Payable

4.25% USD300 Million Fixed Rate Medium Term Note

On April 26, 2018, the Group issued 4.25% fixed coupon rate (EIR of 4.43%) unsecured medium term note listed on the Singapore Stock Exchange at par value of $300 million in preparation for the higher capital and liquidity requirements required by the Bangko Sentral ng Pilipinas in the succeeding year. The bonds have an issue price of 99.532%, interest payable at semi-annual, tenor of five years and a day, and maturity of April 27, 2023.

As of December 31, 2018, the unamortized transaction cost of bonds payable amounted to ₱116.3 million. Amortization of transaction costs amounting to ₱12.2 million was charged to 'Interest expenses - bonds payable' in the statement of income.

5.875% ₱3.5 Billion Subordinated Notes

On May 9, 2012, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱3.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.05%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2012 Notes bear interest at the rate of 5.88% per annum from and including May 9, 2012 to but excluding May 9, 2022. Interest will be payable quarterly in arrears on the 9th of August, November, February and May of each year, commencing on May 9, 2012, unless the 2012 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on May 10, 2017, call option date.

(2) Each noteholder, by accepting the 2012 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2012 Notes.

In a resolution dated January 26, 2017, the BSP Monetary Board approved the request of the Parent Company to exercise its call option on the ₱3.5 Billion Subordinated Notes, subject to compliance of relevant regulations. The 2012 Notes was redeemed on May 10, 2017 at an amount equal to the aggregate issue price of the Notes plus accrued and unpaid interest thereon up to but excluding May 10, 2017.

6.75% ₱6.5 Billion Subordinated Notes

On June 15, 2011, the Parent Company's BOD approved the issuance of unsecured subordinated notes of ₱6.5 billion that qualify as Lower Tier 2 capital. EIR on this note is 6.94%.

Significant terms and conditions of the subordinated notes follow:

(1) The 2011 Notes bear interest at the rate of 6.75% per annum from and including June 15, 2011 to but excluding June 15, 2021. Interest will be payable quarterly in arrears on the 15th of September, December, March and June of each year, commencing on June 15, 2011, unless the 2011 Notes are redeemed at a redemption price equal to 100.00% of the principal amount on June 16, 2016, call option date.
(2) Each noteholder, by accepting the 2011 Notes, irrevocably agrees and acknowledges that it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the 2011 Notes.

On June 16, 2016, the Parent Company exercised its call option and paid ₱6.5 billion to all noteholders as of June 1, 2016.

In 2017 amd 2016 amortization of transaction costs amounting to ₱2.2 million and ₱11.4 million, respectively were charged to 'Interest expenses - bills payable and other borrowings' in the statement of income (Note 19).

22. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	December 31		December 31	
	2018	2017	**2018**	2017
Financial				
Accounts payable	**₱9,036,865**	₱8,759,527	**₱7,398,716**	₱7,250,827
Bills purchased - contra (Note 10)	**1,396,318**	1,324,447	**1,396,128**	1,323,896
Manager's checks and demand drafts outstanding	**1,545,888**	2,345,787	**1,217,043**	2,042,181
Dormant credits	**946,354**	1,094,176	**922,167**	1,011,224
Due to other banks	**919,838**	1,212,436	**538,861**	836,992
Deposits on lease contracts	**823,968**	773,020	**130,375**	47,022
Accounts payable - electronic money	**519,810**	643,000	**519,810**	630,249
Payment order payable	**632,477**	315,256	**630,395**	315,256
Margin deposits and cash letters of credit	**44,383**	55,058	**31,651**	55,058
Transmission liability	**25,896**	21,809	**–**	–
Deposit for keys on safety deposit boxes	**15,493**	14,403	**15,471**	14,403
Insurance contract liabilities (Note 36)	**–**	4,929,392	**–**	–
Commission payable	**–**	74,094	**–**	–
	15,907,290	21,562,405	**12,800,617**	13,527,108
Nonfinancial				
Retirement benefit liability (Note 28)	**1,221,893**	1,526,962	**1,221,705**	1,485,426
Deferred revenue - Bancassurance (Note 12)	**793,274**	866,473	**793,274**	866,473
Provisions (Note 34)	**969,106**	969,106	**969,106**	969,106
Deferred revenue - Credit card-related	**290,969**	202,223	**290,969**	202,223
Due to Treasurer of the Philippines	**571,235**	574,261	**570,742**	573,768
Withholding tax payable	**513,136**	283,471	**476,196**	254,164
Deferred tax liabilities (Note 30)	**161,526**	157,511	**–**	–
SSS, Philhealth, Employer's Compensation Premiums and Pag-IBIG Contributions Payable	**28,619**	27,571	**28,160**	26,792
Reserve for unearned premiums (Note 36)	**–**	1,273,279	**–**	–
Miscellaneous	**809,892**	678,296	**381,819**	331,506
	5,359,650	6,559,153	**4,731,971**	4,709,458
	₱21,266,939	₱28,121,558	**₱17,532,588**	₱18,236,566

Deferred revenue - Bancassurance pertains to the allocated portion of the consideration received for the disposal of APLII related to the Exclusive Distribution Right (Note 12). In 2018 and 2017, amortization of other deferred revenue amounting to ₱73.2 million were recognized under 'Service fees and commission income' (see Note 26).

Deferred revenue - Credit card-related include portion of fee allocated to points issued which is deferred by the Group and recognized as revenue when the points are redeemed or have expired.

'Miscellaneous' of the Group and the Parent Company include interoffice floats, remittance - related payables, overages, advance rentals and sundry credits.

23. Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments entered into by the Group, recorded as derivative assets or derivative liabilities, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as of December 31, 2018 and 2017 and are not indicative of either market risk or credit risk (amounts in thousands, except average forward rate).

	Consolidated			
	2018			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱1,710**	**₱97,106**	**53.11**	**482,974**
JPY	**24,985**	**16**	**0.01**	**6,018,002**
HKD	**874**	**36**	**0.13**	**219,355**
CNY	**33**	**–**	**0.14**	**1,000**
GBP	**211**	**–**	**1.26**	**1,100**
EUR	**60,822**	**74,001**	**1.15**	**385,712**
SELL:				
USD	**119,480**	**2,965**	**52.98**	**690,340**
CAD	**1,365**	**–**	**0.75**	**2,005**
GBP	**–**	**428**	**1.27**	**3,700**
CHF	**7**	**–**	**0.99**	**200**
HKD	**36**	**1,222**	**0.13**	**276,171**
EUR	**–**	**432**	**1.14**	**3,618**
JPY	**91**	**9,469**	**0.01**	**1,121,000**
SGD	**–**	**14**	**0.73**	**200**
AUD	**72**	**–**	**0.71**	**500**
Interest rate swaps	**307,089**	**284,959**		
Warrants	**57,854**	**–**		
	₱574,629	**₱470,648**		

**The notional amounts and average forward rates pertain to original currencies.*

	Consolidated			
	2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱11,347	₱87,446	50.44	573,545
JPY	8,413	44,371	0.01	16,555,042
HKD	1,548	102	0.13	211,050
CAD	108	–	0.78	1,258
GBP	72	–	1.34	518
EUR	98	–	1.19	3,328
SGD	3	–	0.75	50
SELL:				
USD	222,225	4,382	50.44	680,164
CAD	–	328	0.79	2,705
GBP	142	857	1.34	6,560
CHF	28	–	1.02	200
HKD	102	207	0.13	39,059

(Forward)

	Consolidated			
	2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
EUR	₱–	₱891	1.19	2,990
JPY	33,105	529	0.01	6,766,560
NZD	13	–	0.71	150
Interest rate swaps	230,842	204,409		
Warrants	54,938	–		
	₱562,984	₱343,522		

The notional amounts and average forward rates pertain to original currencies.

	Parent Company			
	2018			
	Assets	**Liabilities**	**Average Forward Rate***	**Notional Amount***
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	**₱828**	**₱97,106**	**53.11**	**266,500**
JPY	**24,985**	**16**	**0.01**	**6,018,002**
HKD	**–**	**36**	**0.13**	**3,912**
CNY	**33**	**–**	**0.14**	**1,000**
GBP	**211**	**–**	**1.26**	**1,100**
EUR	**60,813**	**74,001**	**1.15**	**384,781**
SELL:				
USD	**119,480**	**1,781**	**53.11**	**418,613**
CAD	**1,365**	**–**	**0.75**	**2,005**
GBP	**–**	**428**	**1.27**	**3,700**
CHF	**7**	**–**	**0.99**	**200**
HKD	**36**	**47**	**0.13**	**5,912**
EUR	**–**	**421**	**1.14**	**2,150**
JPY	**91**	**9,470**	**0.01**	**1,121,000**
SGD	**–**	**14**	**0.73**	**200**
AUD	**72**		**0.71**	**500**
Interest rate swaps	**307,089**	**284,959**		
Warrants	**57,854**			
	₱572,864	**₱468,279**		

The notional amounts and average forward rates pertain to original currencies.

	Parent Company			
	2017			
	Assets	Liabilities	Average Forward Rate*	Notional Amount*
Freestanding derivatives:				
Currency forwards and spots:				
BUY:				
USD	₱9,701	₱87,446	50.44	378,100
JPY	8,411	44,371	0.01	16,554,145
HKD	–	102	0.13	15,605
CAD	108	–	0.78	1,258
GBP	72	–	1.34	518
EUR	2	–	1.19	105
SGD	3	–	0.75	50
SELL:				
USD	222,225	4,329	50.44	656,711
CAD	–	328	0.79	2,705
GBP	142	857	1.34	6,560
CHF	28	-	1.02	200
HKD	102	156	0.13	15,605
EUR	–	891	1.19	2,990
JPY	33,105	527	0.01	6,766,019
NZD	13	-	0.71	150
Interest rate swaps	230,842	204,409		
Warrants	54,938	-		
	₱559,692	₱343,416		

The notional amounts and average forward rates pertain to original currencies.

As of December 31, 2018 and 2017, the Parent Company holds 275,075 shares and 306,405 shares of ROP Warrants Series B1 at their fair value of USD1.1 million and USD1.1 million, respectively.

The table below shows the rollforward analysis of net derivatives assets (liabilities) as of December 31, 2018 and 2017:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Balance at the beginning of the year:				
Derivative assets	**₱562,984**	₱419,122	**₱559,692**	₱418,819
Derivative liabilities	**343,522**	232,832	**343,416**	231,977
	219,462	186,290	**216,276**	186,842
Changes in fair value				
Currency forwards and spots*	**(899,453)**	136,382	**(899,453)**	132,644
Interest rate swaps and warrants**	**161**	(7,965)	**161**	(7,965)
	(899,614)	128,417	**(899,614)**	124,679
Availments (Settlements)	**782,810**	(95,246)	**787,601**	(95,246)
Balance at end of year:				
Derivative assets	**574,628**	562,984	**572,864**	559,692
Derivative liabilities	**470,648**	343,522	**468,279**	343,416
	₱103,980	₱219,462	**₱104,585**	₱216,276

* *Presented as part of 'Foreign exchange gains - net'.*

** *Recorded under 'Trading and investment securities gains - net' (Note 9)*

24. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities of the Group and Parent Company analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	Consolidated					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱16,825,487**	**₱–**	**₱16,825,487**	₱12,391,139	₱–	₱12,391,139
Due from BSP	**102,723,312**	**–**	**102,723,312**	108,743,985	–	108,743,985
Due from other banks	**20,525,318**	**–**	**20,525,318**	22,025,321	–	22,025,322
Interbank loans receivable	**11,248,455**	**–**	**11,248,455**	12,837,721	–	12,837,721
Securities held under agreements to resell	**20,700,000**	**–**	**20,700,000**	14,621,483	–	14,621,483
Financial assets at FVPL	**9,999,447**	**–**	**9,999,447**	2,882,395	–	2,882,395
Financial assets at FVOCI - gross (Note 9)	**9,229,229**	**42,444,938**	**51,674,167**			
AFS investments - gross (Note 9)	**–**	**–**	**–**	4,526,929	65,936,118	70,463,047
Investment securities at amortized cost – gross (Note 9)	**25,190,527**	**78,351,448**	**103,541,975**			
HTM investments	**–**	**–**	**–**	–	26,805,131	26,805,131
Loans and receivables - gross (Note 10)	**205,184,833**	**391,899,941**	**597,084,774**	202,558,115	316,402,283	518,960,398
Other assets - gross (Note 15)	**669,790**	**135,215**	**805,005**	699,288	46,197	745,485
	422,296,398	**512,831,542**	**935,127,940**	381,286,375	409,189,729	790,476,105
Nonfinancial Assets						
Property and equipment - gross (Note 11)	–	**27,851,686**	**27,851,686**	–	25,866,409	25,866,409
Investments in Subsidiaries and an Associate - (Note 12)	–	**2,418,842**	**2,418,842**	–	2,363,757	2,363,757
Investment properties - gross (Note 13)	–	**18,605,466**	**18,605,466**	–	20,339,032	20,339,032
Deferred tax assets	–	**2,086,510**	**2,086,510**	–	1,695,480	1,695,480
Goodwill (Note 14)	–	**13,375,407**	**13,375,407**	–	13,375,407	13,375,407
Intangible assets (Note 14)	–	**7,056,896**	**7,056,896**	–	6,873,305	6,873,305
Residual value of leased assets (Note 10)	**298,726**	**350,611**	**649,337**	292,000	383,327	675,327
Other assets - gross (Note 15)	**4,633,103**	**1,880,758**	**6,513,861**	7,107,386	1,978,533	9,085,919
	4,931,829	**73,626,176**	**78,558,005**	7,399,386	72,875,250	80,274,637
Assets of disposal group classified as held for sale (Note 36)	**8,238,623**	–	**8,238,623**	–	–	–

	Consolidated					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Less: Allowance for impairment and credit losses (Note 16)			**₱23,518,674**			₱20,591,233
Unearned and other deferred income (Note 10)			**979,678**			1,553,108
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**13,778,030**			12,269,696
			₱983,648,186			₱836,356,705
Financial Liabilities						
Deposit liabilities	**₱686,082,355**	**₱47,219,123**	**₱733,301,478**	₱553,599,950	₱84,320,307	₱637,920,257
Financial liabilities at FVPL	**470,648**	**–**	**470,648**	343,522	–	343,522
Bonds Payable	**–**	**15,661,372**	**15,661,372**			
Bills and acceptances payable	**60,549,245**	**9,533,590**	**70,082,835**	36,811,547	7,105,140	43,916,687
Accrued interest payable (Note 20)	**1,408,168**	**28,313**	**1,436,481**	632,907	–	632,907
Accrued other expenses payable (Note 20)	**464,823**	**690,693**	**1,155,516**	1,123,812	–	1,123,812
Other liabilities (Note 22):						
Accounts payable	**7,901,687**	**16,839**	**7,918,526**	8,725,544	33,983	8,759,527
Insurance contract liabilities	**–**	**–**	**–**	4,929,392	–	4,929,392
Bills purchased – contra	**1,396,318**	**–**	**1,396,318**	1,323,896	–	1,323,896
Managers' checks and demand drafts outstanding	**1,545,888**	**–**	**1,545,888**	2,345,787	–	2,345,787
Dormant credits	**–**	**922,167**	**922,167**	–	1,078,052	1,078,052
Due to other banks	**919,838**	**–**	**919,838**	1,212,436	–	1,212,436
Deposit on lease contracts	**303,596**	**520,372**	**823,968**	316,246	456,774	773,020
Accounts payable – electronic money	**519,810**	**–**	**519,810**	643,000	–	643,000
Payment order payable	**632,477**	**–**	**632,477**	315,256	–	315,256
Margin deposits and cash letters of credit	**44,383**	**–**	**44,383**	55,058	–	55,058
Transmission liability	**25,896**	**–**	**25,896**	21,809	–	21,809
Deposit for keys on safety deposit boxes	**15,493**	**–**	**15,493**	14,403	–	14,403
Commission payable	**–**	**–**	**–**	74,094	–	74,094
	762,280,625	**74,592,489**	**836,873,094**	612,488,659	92,994,256	705,482,915
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,575,401**	**–**	**3,575,401**	3,566,768	–	3,566,768
Income tax payable	**900,693**	**–**	**900,693**	993,245	–	993,245
Other liabilities (Note 22)	**1,119,973**	**3,744,052**	**4,864,025**	2,816,660	3,759,168	6,657,828
	5,579,747	**3,744,052**	**9,340,119**	7,376,673	3,759,168	11,135,915
Liabilities of disposal group classified as held for sale (Note 36)	**7,237,811**	**–**	**7,237,811**	–	–	–
	₱776,216,523	**₱78,180,086**	**₱855,089,173**	₱619,865,332	₱96,753,424	₱716,618,756

	Parent Company					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Financial Assets						
COCI	**₱15,904,663**	**₱–**	**15,904,663**	₱11,671,952	₱–	₱11,671,952
Due from BSP	**98,665,375**	**–**	**98,665,375**	105,497,459	–	105,497,459
Due from other banks	**10,459,496**	**–**	**10,459,496**	10,755,260	–	10,755,260
Interbank loans receivable	**11,689,414**	**–**	**11,689,414**	11,083,515	–	11,083,515
Securities held under agreements to resell	**20,700,000**	**–**	**20,700,000**	14,621,483	–	14,621,483
Financial assets at FVTPL	**9,983,636**	**–**	**9,983,636**	2,829,877	–	2,829,877
AFS investments - gross (Note 9)	**9,369,217**	**41,287,676**	**50,656,893**	2,992,834	65,310,618	68,303,452
HTM investments	**25,839,002**	**77,516,591**	**103,355,593**	–	26,680,483	26,680,483
Loans and receivables - gross (Note 10)	**190,824,032**	**333,297,876**	**524,121,908**	185,606,811	271,855,633	457,262,444
Other assets - gross (Note 15)	**670,750**	**500**	**671,250**	685,979	500	686,479
	394,105,585	**452,102,643**	**842,208,228**	345,745,170	363,847,234	709,392,404
Nonfinancial Assets						
Property and equipment– gross (Note 11)	**–**	**24,758,394**	**24,758,394**	–	23,331,758	23,331,758
Investment properties– gross (Note 13)	**–**	**18,235,224**	**18,235,224**	–	20,051,634	20,051,634
Deferred tax assets	**–**	**1,452,153**	**1,452,153**	–	987,332	987,332
Investments in Subsidiaries and an Associate (Note 12)	**–**	**28,230,664**	**28,230,664**	–	28,407,414	28,407,414
Goodwill (Note 14)	**–**	**13,515,765**	**13,515,765**	–	13,515,765	13,515,765

(Forward)

	Parent Company					
	2018			2017		
	Less than Twelve Months	**Over Twelve Months**	**Total**	Less than Twelve Months	Over Twelve Months	Total
Intangible assets (Note 14)	**₱–**	**p p ,846,449**	**₱6,846,449**	₱–	₱6,662,558	₱6,662,558
Other assets– gross (Note 15)	**5,081,850**	**1,331,879**	**6,413,729**	7,528,386	860,282	8,388,688
	5,081,850	**94,370,528**	**99,452,377**	7,528,386	93,816,743	101,345,128
Asset of disposal group classified as held for sale (Note 36)	–	–	–	–	–	–
Less: Allowance for impairment and credit losses (Note 16)			**20,490,757**			19,300,816
Unearned and other deferred income (Note 10)			**677,052**			1,241,587
Accumulated amortization and depreciation (Notes 11, 13 and 14)			**12,692,211**			11,422,607
			₱911,800,856			₱778,972,522
Financial Liabilities						
Deposit liabilities	**₱644,774,714**	**₱38,622,692**	**₱683,397,406**	₱545,272,109	₱ 51,132,929	₱596,405,038
Financial liabilities at FVPL	**468,279**	–	**468,279**	343,416	–	343,416
Bonds Payable	–	**15,661,372**	**15,661,372**			
Bills and acceptances payable	**55,747,402**	**6,959,393**	**62,706,795**	34,792,160	6,608,644	41,400,804
Subordinated debt	–	–	–	–	–	–
Accrued interest payable (Note 20)	**1,236,199**	**28,313**	**1,264,512**	527,073	16,785	543,858
Accrued other expenses payable (Note 20)	**377,995**	**660,312**	**1,038,307**	1,053,158	–	1,053,158
Other liabilities (Note 22):						
Accounts payable	**7,918,526**	–	**7,918,526**	7,250,827	–	7,250,827
Bills purchased - contra	**1,396,128**	–	**1,396,128**	1,323,896	–	1,323,896
Managers' checks and demand drafts outstanding	**1,217,043**	–	**1,217,043**	2,042,181	–	2,042,181
Dormant credits	–	**922,167**	**922,167**	–	952,479	952,479
Accounts payable - electronic money	**519,810**	–	**519,810**	630,249	–	630,249
Due to other banks	**538,861**	–	**538,861**	836,992	–	836,992
Payment order payable	**630,395**	–	**630,395**	315,256	–	315,256
Margin deposits and cash letters of credit	**31,651**	–	**31,651**	55,058	–	55,058
Deposit on lease contracts	**–**	**130,375**	**130,375**	–	47,022	47,022
Deposit for keys on safety deposit boxes	**15,471**	**–**	**15,471**	14,403	–	14,403
	714,872,474	**62,984,624**	**777,857,098**	594,456,778	58,757,859	653,214,637
Nonfinancial Liabilities						
Accrued taxes and other expenses (Note 20)	**3,257,141**	**–**	**3,257,141**	3,076,529	–	3,076,529
Income tax payable	**823,739**	**–**	**823,739**	833,708	–	833,708
Other liabilities	**649,785**	**3,562,375**	**4,212,161**	1,184,398	3,525,062	4,709,460
	4,714,345	**3,562,375**	**8,293,040**	5,153,378	3,525,063	8,678,440
	₱719,586,819	**₱66,546,999**	**₱786,150,138**	₱599,610,156	₱62,341,666	₱661,893,077

25. Equity

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares	Amount
Common - ₱40 par value		
Authorized	**1,750,000,001**	**₱70,000,000**
Issued and outstanding		
Balance at the beginning and end of the year	**1,249,139,678**	**49,965,587**

The Parent Company shares are listed in the PSE. As of December 31, 2018 and 2017, the Parent Company had 36,940 and 37,401 stockholders, respectively.

On January 17, 2013, the SEC approved the conversion of the Parent Company's 195,175,444 authorized preferred shares into common shares, thereby increasing its authorized common shares to 1,250,000,001. The increase in authorized common shares is intended to accommodate the issuance of the Parent Company of common shares to ABC shareholders relative to the business combination.

Prior to conversion to common shares, the preferred shares had the following features:

a. Non-voting, non-cumulative, fully participating on dividends with the common shares;
b. Convertible, at any time at the option of the holder who is qualified to own and hold common shares on a one (1) preferred share for one (1) common share basis;
c. With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any other government agency or GOCC's; and
d. With rights to subscribe to additional new preferred shares with all of the features described above, in the event that the Group shall offer new common shares for subscription, in such number corresponding to the number of shares being offered.

In February 2014, the Parent Company successfully completed its Stock Rights Offering (Offer) of 162,931,262 common shares (Rights Shares) with a par value of ₱40.0 per share at a price of ₱71.0 each. The Rights Shares were offered to all eligible shareholders of the Parent Company at the proportion of fifteen (15) Rights Shares for every one hundred (100) common shares as of the record date of January 16, 2014. The offer period was from January 27, 2014 to February 3, 2014. A total of 33,218,348 Rights Shares were sourced from the existing authorized but unissued capital stock of the Parent Company. The remaining 129,712,914 Rights Shares were sourced from an increase in the authorized capital stock of the Parent Company. The Offer was oversubscribed and raised gross proceeds of ₱11.6 billion. It also strengthened the Parent Company's capital position under the Basel III standards, which took effect on January 1, 2014.

Surplus amounting to ₱7.7 billion and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱2.2 billion as of December 31, 2018 and 2017 which represent the balances of accumulated translation adjustment (₱1.6 billion), accumulated equity in net earnings (₱0.6 billion) and revaluation increment from land (₱7.7 billion) that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP.

Accumulated Translation Adjustment
As part of the Group's rehabilitation program in 2002, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion including ₱0.6 billion accumulated equity in net earnings as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital paid in excess of par value in the statement of financial position) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

Surplus Reserves
The surplus reserves consist of:

	2018	2017
Reserve for trust business (Note 32)	**₱540,573**	₱517,605
Reserve for self-insurance	**80,000**	80,000
	₱620,573	₱597,605

Reserve for self-insurance, contingencies and other account represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Other Equity Reserves
On August 26, 2016, the Parent Company's BOD approved the grant of centennial bonus to its employees, officers and directors on record as of July 22, 2016, in the form of the Parent Company's shares of stock to be sourced from open market at fair value. Acquisition and distribution of the estimated 3.0 million shares shall be done based on a predetermined schedule over a period of five years, and are subject to service conditions. The grant is accounted for as equity-settled share-based payments. Grant date is April 27, 2017. Fair value per share at grant date is 65.20. The Parent Company recognized other employee benefit expense in relation to the grant of centennial bonus amounting to ₱16.3 million and ₱35.45 million in 2018 and 2017, respectively, in the statement of income and a corresponding increase in equity of the same amount in the statement of financial position. In 2018 and 2017, the Group awarded 343 thousand and 1.12 million centennial bonus shares and applied the settlement of the award against 'Other Equity Reserves'.

Capital Management
The primary objectives of the Parent Company's capital management are to ensure that it complies with externally imposed capital requirements and it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous periods.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP.

The BSP approved the booking of additional appraisal increment of ₱431.8 million in 2002 on properties and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2002 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company, provided that the same shall be excluded for dividend purposes.

As of December 31, 2018 and 2017, CAR reported to the BSP, which considered combined credit, market and operational risk weighted asset (BSP Circular No. 538) are shown in the table below (amounts in millions).

	2018		2017	
Consolidated	**Actual**	**Required**	Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱121,743.82**		₱112,344.77	
Less: Regulatory Adjustments to CET 1	**22,109.52**		23,401.42	
CET1 Capital (Net)	**99,634.30**		88,943.35	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**99,634.30**		88,943.35	
Add: Tier 2 Capital	**5,881.88**		4,696.48	
Total qualifying capital	**₱105,516.18**	**₱73,533.23**	₱93,639.83	₱61,010.62
Risk weighted assets	**₱735,332.30**		₱610,106.24	
Tier 1 capital ratio	**13.55%**		14.58%	
Total capital ratio	**14.35%**		15.35%	

	2018		2017	
Parent			Actual	Required
Common Equity Tier 1 Capital (CET1)	**₱117,541.46**		₱108,605.50	
Less: Regulatory Adjustments to CET 1	**46,665.49**		47,409.15	
CET1 Capital (Net)	**70,875.97**		61,196.35	
Add: Additional Tier 1 Capital (AT1)	**0.00**		0.00	
Tier 1 Capital	**70,875.95**		61,196.35	
Add: Tier 2 Capital	**5,079.21**		4,228.83	
Total qualifying capital	**₱75,955.16**	**₱65,308.84**	₱65,425.18	₱54,377.23
Risk weighted assets	**₱653,088.43**		₱543,772.35	
Tier 1 capital ratio	**10.85%**		11.25%	
Total capital ratio	**11.63%**		12.03%	

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular No. 781 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

The Parent Company has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

The Group and its individually regulated subsidiaries/operations have complied with all externally imposed capital requirement throughout the year.

Surplus

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines. Surplus and Capital Paid in Excess of Par Value of the Parent Company amounting to ₱9.9 billion as of December 31, 2018 and 2017 which represents the balances of accumulated translation adjustment, accumulated equity in net earnings and revaluation increment from land that have been applied to eliminate the Parent Company's deficit through a quasi-reorganization in 2002 and 2000, are not available for dividend declaration without prior approval from the Philippine SEC and the BSP. Also, unrealized foreign exchange gains, except those attributable to cash and cash equivalents, unrealized actuarial gains, fair value adjustment or the gains arising from mark-to-market valuation, deferred tax asset recognized that reduced the income tax expense and increased the net income and retained earnings, adjustment due to deviation from PFRS/GAAP and other unrealized gains or adjustments, are excluded from the Parent Company's surplus available for dividend declaration.

A portion of a Group's surplus corresponding to the net earnings of the subsidiaries amounting to ₱3.8 billion and ₱3.3 billion as of December 31, 2018 and 2017, respectively, is not available for dividend declaration. The accumulated earnings become available for dividends upon receipt of cash dividends from subsidiaries.

Cash Dividends

On July 22, 2016, the BOD declared and approved cash dividend declaration of one peso (₱1.0) per share or a total of ₱1.3 billion out of the unrestricted surplus of the Parent Company as of March 31, 2016, to all stockholders of record as of August 19, 2016, and was paid on September 15, 2016. On August 19, 2016, the Parent Company received the approval from the BSP on the said dividend declaration.

Merger Incentives

In connection with the merger of the Parent Company with ABC, the BSP gave certain incentives and the more relevant incentives are:

(a) Recognition of the fair value adjustments under GAAP and RAP books;
(b) Full recognition of appraisal increment from the revaluation of premises, improvements and equipment in the computation of CAR.

Internal Capital Adequacy Assessment Process (ICAAP) Implementation

In compliance with BSP Circular 639, the Parent Company has adopted its live ICAAP Document for 2011 to 2013. However, the BOD and the Management recognized that ICAAP is beyond compliance, i.e. it is about how to effectively run the Parent Company's operations by ensuring that the Parent Company maintains at all times an appropriate level and quality of capital to meet its business objective and commensurate to its risk profile. In line with its ICAAP principles, the Parent Company shall maintain a capital level that will not only meet the BSP CAR requirement, but will also cover all material risks that it may encounter in the course of its business. The ICAAP process highlights close integration of capital planning/strategic management with risk management. The Parent Company has in place a risk management framework that involves a collaborative process for assessing and managing identified Pillar 1 and Pillar 2 risks. The Parent Company complies with the required annual submission of updated ICAAP.

Financial Performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2018	2017 (As Restated –Note 36)	2016 (As Restated –Note 36)	**2018**	2017	2016
Return on average equity (a/b)	**7.70%**	7.10%	6.67%	**7.80%**	7.27%	6.81%
a) Net income	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,075**	₱8,160,563	₱7,124,054
b) Average total equity	**124,148,481**	114,849,326	107,378,392	**121,364,947**	112,188,614	104,560,511
Return on average assets (c/d)	**1.05%**	1.03%	1.00%	**1.12%**	1.10%	1.06%
c) Net income	**₱9,556,070**	₱8,156,545	₱7,162,074	**₱9,465,076**	₱8,160,563	₱7,124,054
d) Average total assets	**910,002,446**	795,068,059	717,007,968	**845,386,554**	745,147,826	670,845,173
Net interest margin on average earning assets (e/f)	**3.30%**	3.11%	2.79%	**3.17%**	2.97%	3.00%
e) Net interest income	**₱27,001,724**	₱22,023,968	₱19,531,248	**₱23,461,884**	₱19,062,428	₱17,057,909
f) Average interest earning assets	**817,382,993**	707,087,648	657,206,552	**790,890,904**	642,325,579	568,208,414

Note: Average balances were the sum of beginning and ending balances of the respective statement of financial position accounts as of the end of the year divided by two (2)

26. Service Fees and Commission Income

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Deposit-related	**₱1,075,496**	₱889,067	₱643,991	**₱930,563**	₱866,454	₱618,972
Remittance	**766,652**	819,689	830,032	**401,223**	430,324	460,899
Interchange fees	**625,059**	503,133	389,179	**625,059**	503,133	389,179
Credit-related	**612,058**	554,608	504,346	**604,790**	547,618	498,969
Credit card-related	**407,013**	278,579	214,135	**407,013**	278,579	214,135
Trust fees (Note 32)	**279,131**	300,047	311,882	**279,131**	300,047	311,882
Bancassurance	**208,653**	130,450	89,162	**208,653**	130,450	89,162
Underwriting fees	**140,660**	389,283	187,133	**-**	–	–
Miscellaneous	**136,970**	117,640	231,990	**67,831**	74,178	148,060
	₱4,251,692	₱3,982,496	₱3,401,850	**₱3,524,263**	₱3,130,783	₱2,731,258

The interchange fees and credit card-related fees were generated from the credit card business acquired by the Parent Company through rewards revenue.

'Miscellaneous' includes income from security brokering activities and other fees and commission.

27. Miscellaneous Income and Expenses

Miscellaneous Income
This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Rental income (Note 29)	**₱767,505**	₱424,758	₱232,107	**₱583,636**	₱290,562	₱275,317
Recoveries	**58,584**	73,845	729,594	**57,767**	72,990	251,805
Dividends	**55,906**	33,577	14,886	**54,520**	32,417	14,716
Sales deposit forfeiture	**45,859**	5,064	15,772	**45,859**	5,064	15,772
Referral and trust fees	**3,011**	3,448	2,811	–	–	–
Income from SPV	–	–	500,000	–	–	500,000
Others	**494,574**	352,825	43,794	**360,093**	191,008	137,337
	₱1,425,439	₱893,517	₱1,538,964	**₱1,101,875**	₱592,041	₱1,194,947

'Others' consist of marketing allowance and income from wire transfers.

Miscellaneous Expenses

This account consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Insurance	**₱1,601,771**	₱1,428,464	₱1,128,749	**₱1,397,590**	₱1,287,724	₱1,044,959
Secretarial, janitorial and messengerial	**1,472,872**	1,277,955	1,299,477	**1,379,306**	1,199,446	1,256,605
Marketing expenses	**1,170,997**	920,519	1,057,625	**1,032,695**	836,491	988,160
Information technology	**561,597**	440,017	494,162	**542,478**	418,954	471,262
Management and other professional fees	**413,040**	428,237	431,660	**346,398**	359,078	374,649
Travelling	**324,220**	284,307	244,312	**297,506**	262,954	223,896
Litigation expenses & A/A expenses	**490,732**	290,044	323,726	**473,660**	268,075	304,783
Postage, telephone and cable	**215,362**	184,939	204,196	**156,160**	132,872	158,841
Entertainment and representation	**131,260**	134,139	98,048	**119,713**	123,130	89,944
Repairs and maintenance	**75,235**	86,787	82,113	**75,235**	86,787	82,113
Freight	**28,093**	57,039	45,727	**25,350**	54,456	43,986
Fuel and lubricants	**19,425**	16,774	21,237	**11,541**	10,879	17,521
Miscellaneous (Notes 13, 30 and 33)	**448,921**	771,486	672,782	**267,702**	593,173	547,469
	₱6,953,525	₱6,320,707	₱6,103,814	**₱6,125,334**	₱5,634,019	₱5,604,188

'Miscellaneous'also includes stationery and supplies used, donation, fines, penalties, periodicals, magazines and other charges.

28. Retirement Plan

The Parent Company and certain subsidiaries of the Group, have separate funded, noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements.

The amounts of net defined benefit liability in the statements of financial position follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Retirement benefit liability (included in 'Other liabilities')	**₱1,221,893**	₱1,526,962	**₱1,221,705**	₱1,485,426
Net plan assets (included in 'Other assets')	**76,509**	7,428	**–**	–
	₱1,145,384	₱1,519,534	**₱1,221,705**	₱1,485,426

The Group's annual contribution to the retirement plan consists of a payment covering the current service cost, unfunded actuarial accrued liability and interest on such unfunded actuarial liability. The retirement plan provides each eligible employer with a defined amount of retirement benefit dependent on one or more factors such as age, years of service and salary.

As of December 31, 2018 and 2017, the Parent Company has two separate regular retirement plans for the employees of PNB and ABC. In addition, the Parent Company provides certain post-employee benefit through a guarantee of a specified return on contributions in one of its employee investment plans (EIP).

The latest actuarial valuations for these retirement plans were made as of December 31, 2018. The following table shows the actuarial assumptions as of December 31, 2018 and 2017 used in determining the retirement benefit obligation of the Group:

			Parent Company					
	Consolidated		ABC		PNB		EIP	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Discount rate	**7.23%-8.11%**	5.54%-5.91%	**7.23%**	5.54%	**7.23%**	5.54%	**7.23%**	5.54%
Salary rate increase	**5.00%-8.00%**	5.00%-8.00%	**6.00%**	6.00%	**6.00%**	6.00%	**–**	–

The changes in the present value obligation and fair value of plan assets are as follows:

	Consolidated												
	2018												
	Net benefit costs*						**Remeasurements in other comprehensive income**						
	January 1, 2018	**Current service cost**	**Past Service Cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan asset excluding amount included in net interest)**	**Actuarial changes Arising from demographic assumptions**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contributions by employer**	**December 31, 2018**
Present value of pension obligation	**₱6,766,019**	**₱474,133**	**₱352,310**	**₱309,229**	**₱ 1,135,672**	**(₱578,442)**	**₱–**	**₱–**	**₱ 125,974**	**(₱805,995)**	**(₱680,021)**	**₱–**	**₱6,643,228**
Fair value of plan assets	**5,246,485**	–	–	**240,726**	**240,726**	**(578,442)**	**(465,081)**	–	–	–	**(465,081)**	**1,054,156**	**5,497,844**
	₱1,519,534	**₱474,133**	**₱352,310**	**₱ 68,503**	**₱ 894,946**	**₱–**	**₱465,081**	**₱–**	**₱125,974**	**(₱805,995)**	**(₱214,940)**	**(₱1,054,156)**	**₱1,145,384**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Consolidated											
	2017											
	Net benefit costs*					Remeasurements in other comprehensive income						
	January 1, 2017	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from demographic assumptions	Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2017
Present value of pension obligation	₱7,512,542	₱550,064	₱387,047	₱937,111	(₱557,519)	₱–	(674,973)	(₱192,750)	(₱258,392)	(₱1,126,115)	₱–	₱6,766,019
Fair value of plan assets	4,376,432	–	226,243	226,243	(557,519)	(127,963)	–	–	–	(127,963)	1,329,292	5,246,485
	₱3,136,110	₱550,064	₱160,804	₱710,868	₱–	₱127,723	(674,973)	(₱192,750)	(₱258,392)	(₱998,152)	(₱1,329,292)	₱ 1,519,534

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Parent Company 2018												
		Net benefit costs*					Remeasurement losses in other comprehensive income						
	January 1, 2018	**Current service cost**	**Past Service Cost**	**Net interest**	**Subtotal**	**Benefits paid**	**Return on plan asset excluding amount included in net interest)**	**Actuarial changes arising from experience adjustments**	**Actuarial changes arising from demographic assumptions**	**Actuarial changes arising from changes in financial assumptions**	**Subtotal**	**Contributions by employer**	**December 31, 2018**
Present value of pension obligation	**₱6,544,823**	**₱432,091**	**₱352,310**	**₱ 368,296**	**₱ 1,152,697**	**(₱578,307)**	**₱–**	**₱152,146**	**₱–**	**(₱728,626)**	**(₱576,480)**	**₱–**	**₱6,542,733**
Fair value of plan assets	**5,059,397**	**–**	**–**	**280,697**	**280,697**	**(578,307)**	**(460,592)**	**–**	**–**	**–**	**(460,592)**	**1,019,833**	**5,321,028**
	₱1,485,426	**₱432,091**	**₱352,310**	**₱87,599**	**₱872,000**	**₱–**	**₱460,592**	**₱152,146**	**₱–**	**(₱728,626)**	**(₱115,888)**	**(₱1,019,833)**	**₱1,221,705**

**Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

	Parent Company 2017											
		Net benefit costs*				Remeasurement losses in other comprehensive income						
	January 1, 2017	Current service cost	Net interest	Subtotal	Benefits paid	Return on plan asset excluding amount included in net interest)	Actuarial changes arising from experience adjustments	Actuarial changes arising from demographic assumptions	Actuarial changes arising from changes in financial assumptions	Subtotal	Contributions by employer	December 31, 2017
Present value of pension obligation	₱7,320,262	₱519,965	₱377,257	₱897,222	(₱551,248)	₱–	(₱199,918)	(₱674,973)	(₱249,522)	(₱1,121,413)	₱–	₱6,544,823
Fair value of plan assets	4,257,019	–	220,088	220,088	(551,248)	(126,376)	–		–	(126,376)	1,259,914	5,059,397
	₱3,063,243	₱519,965	₱157,169	₱677,134	₱–	₱126,376	(₱196,918)	(₱674,973)	(₱249,522)	(₱995,037)	(₱1,259,914)	₱1,485,426

* *Net benefit costs is included in 'Compensation and fringe benefits' in the statement of income*

The Group and the Parent Company expect to contribute ₱979.3 million and ₱968.1 million, respectively, to the defined benefit plans in 2019. The average duration of the retirement liability of the Group and the Parent Company as of December 31, 2018 is 16.5 years and 14.0 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Less than one year	**₱1,088,338**	₱1,000,727	**₱1,077,394**	₱994,778
More than one year to five years	**4,139,446**	3,532,239	**4,115,892**	3,494,358
More than five years to 10 years	**4,477,940**	4,219,144	**4,370,627**	4,126,122
More than 10 years to 15 years	**3,227,264**	3,287,929	**2,960,912**	2,923,039
More than 15 years	**8,754,548**	10,419,581	**6,705,994**	7,201,910

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Cash and cash equivalents	**₱988,595**	₱1,793,329	**₱974,608**	₱1,755,075
Equity investments				
Financial institutions (Note 33)	**321,213**	448,357	**321,213**	445,454
Others	**332,518**	334,339	**317,924**	231,453
Debt investment				
Private debt securities	**2,323,954**	1,569,773	**2,312,092**	1,553,579
Government securities	**1,026,785**	976,062	**1,017,080**	958,308
Investment in UITFs	**476,336**	101,954	**352,144**	93,024
Loans and receivables	**1,367**	3,713	**248**	3,713
Interest and other receivables	**29,090**	21,016	**27,692**	20,767
	5,499,858	5,248,543	**5,323,001**	5,061,373
Accrued expenses	**(2,014)**	(2,058)	**(1,973)**	(1,976)
	₱5,497,844	₱5,246,485	**₱5,321,028**	₱5,059,397

All equity and debt investments held have quoted prices in active markets. The remaining plan assets do not have quoted market prices in an active market, thus, their fair value is determined using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

The fair value of the plan assets as of December 31, 2018 and 2017 includes investments in the Parent Company shares of stock with fair value amounting to ₱321.2 million and ₱445.5 million, respectively.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming all other assumptions were held constant:

	2018			
	Consolidated		**Parent Company**	
	Possible fluctuations	**Increase (decrease)**	**Possible fluctuations**	**Increase (decrease)**
Discount rate	**+1.00%**	**(₱387,382)**	**+1.00%**	**(₱375,372)**
	-1.00%	**431,448**	**-1.00%**	**417,013**
Salary increase rate	**+1.00%**	**398,146**	**+1.00%**	**383,553**
	-1.00%	**(373,888)**	**-1.00%**	**(361,488)**
Employee turnover rate	**+10.00%**	**(53,082)**	**+10.00%**	**(64,019)**
	-10.00%	**53,082**	**-10.00%**	**64,019**

	2017			
	Consolidated		Parent Company	
	Possible fluctuations	Increase (decrease)	Possible fluctuations	Increase (decrease)
Discount rate	+1.00%	(₱438,162)	+1.00%	(₱410,516)
	-1.00%	494,590	-1.00%	461,096
Salary increase rate	+1.00%	451,241	+1.00%	418,390
	-1.00%	(409,485)	-1.00%	(381,945)
Employee turnover rate	+10.00%	(105,324)	+10.00%	(91,209)
	-10.00%	105,324	-10.00%	91,209

Full actuarial valuations were performed to test the sensitivity of the defined benefit obligation to a 1.00% increment in salary increase rate and a 1.00% decrement in the discount rate. The results also provide a good estimate of the sensitivity of the defined benefit obligation to a 1.00% decrement in salary increase rate and a 1.00% increment in the discount rate.

The Group and the Parent Company employs asset-liability matching strategies to maximize investment returns at the least risk to reduce contribution requirements while maintaining a stable retirement plan. Retirement plans are invested to ensure that liquid funds are available when benefits become due, to minimize losses due to investment pre-terminations and maximize opportunities for higher potential returns at the least risk.

The current plan assets of the Group and the Parent Company are allocated to cover benefit payments in the order of their proximity to the present time. Expected benefit payments are projected and classified into short-term or long-term liabilities. Investment instruments that would match the liabilities are identified. This strategy minimizes the possibility of the asset-liability match being distorted due to the Group's and the Parent Company's failure to contribute in accordance with its general funding strategy.

29. **Leases**

Operating Leases

Group as Lessee

The Parent Company leases the premises occupied by majority of its branches (about 31.97% of the branch sites are Parent Company-owned). Some of its subsidiaries also lease the premises occupied by their Head Offices and most of their branches. The lease contracts are for periods ranging from 1 to 25 years and are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 2.00% to 10.00%.

Rent expense charged against current operations (included in 'Occupancy and equipment-related costs' in the statements of income) amounted to ₱844.6 million, ₱787.1 million and ₱824.7 million in 2018, 2017 and 2016, respectively, for the Group, of which ₱808.3 million, ₱668.7 million and ₱787.7 million in 2018, 2017, and 2016, respectively, pertain to the Parent Company.

Future minimum rentals payable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱803,019**	₱721,241	**₱595,764**	₱584,733
Beyond one year but not more than five years	**1,569,722**	1,575,142	**1,176,135**	1,329,240
More than five years	**411,909**	252,116	**343,927**	186,720
	₱2,784,650	₱2,548,499	**₱2,115,826**	₱2,100,693

Group as Lessor
The Parent Company has entered into commercial property leases on its investment properties. These non-cancelable leases have lease terms of one to five years. Some leases include escalation clauses (such as 5% per year). In 2018, 2017 and 2016, total rent income (included under 'Miscellaneous income') amounted to ₱767.5 million, ₱424.8 million and ₱232.1 million, respectively, for the Group and ₱583.6 million, ₱290.6 million and ₱275.3 million, respectively, for the Parent Company (Note 27).

Future minimum rentals receivable under non-cancelable operating leases follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱492,548**	₱285,885	**₱219,106**	₱216,416
Beyond one year but not more than five years	**1,130,331**	521,046	**786,391**	488,264
More than five years	**401,779**	115,663	**401,779**	89,471
	₱2,024,658	₱922,594	**₱1,407,276**	₱794,151

Finance Lease
Group as Lessor
Leases where the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased asset are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease (effective interest method). Lease payments relating to the period are applied against the gross investment in the lease to reduce both the principal and the unearned finance income.

Future minimum lease receivables under finance leases are as follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Within one year	**₱1,400,361**	₱1,557,543	**₱3,118**	₱28,909
Beyond one year but not more than five years	**1,501,944**	1,308,300	**6,500**	43,000
More than five years	**26,034**	25,200	–	25,200
Gross investment in finance lease contracts receivable (Note 10)	**2,928,339**	2,891,043	**9,618**	97,109
Less amounts representing finance charges	**13,770**	62,612	**13,770**	62,612
Present value of minimum lease payments	**₱2,914,569**	₱2,828,431	**(₱4,152)**	₱34,497

30. Income and Other Taxes

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax.

Income taxes include the corporate income tax, discussed below, and final taxes paid which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from the FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Effective November 1, 2005, Republic Act (RA) No. 9337, an act amending the National Internal Revenue Code (NIRC of 1997), provides that the RCIT rate shall be 30.00% and interest allowed as a deductible expenses shall be reduced by 33.00% of interest income subjected to final tax.

MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, the Parent Company and certain subsidiaries are allowed to deduct NOLCO from taxable income for the next three years from the period of incurrence.FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% income tax. In addition, interest income on deposit placement with other FCDUs and offshore banking units (OBUs) is taxed at 15.00%. RA No. 9294 provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
		As Restated – Note 36				
Current						
Regular	**₱2,888,800**	₱1,898,387	₱1,055,483	**₱2,610,768**	₱1,577,777	₱880,828
Final	**720,504**	571,632	655,650	**692,984**	548,095	429,058
	₱3,609,304	₱2,470,019	₱1,711,133	**₱3,303,753**	₱2,125,872	₱1,309,886
Deferred	**54,440**	(155,085)	(201,611)	**918**	(2,196)	(81,514)
	₱3,663,744	₱2,314,934	₱1,509,522	**₱3,304,670**	₱2,123,676	₱1,228,372

The components of net deferred tax assets reported in the statements of financial position follow:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Deferred tax asset on:				
Allowance for impairment, credit and other losses	**₱4,230,174**	₱5,745,464	**₱3,673,894**	₱5,161,135
Accumulated depreciation on investment properties	**565,226**	523,003	**540,320**	514,119
Deferred revenue	**168,330**	98,819	**168,330**	98,819
Retirement liability	**30,587**	56,239	–	–
Unrealized trading losses on financial assets at FVTPL	**25,289**	–	**25,289**	–
Unrealized trading losses on financial assets at FVOCI	**707**	–	–	–
Deferred reinsurance on commission	–	17,027	–	–
Others	**71,680**	96,843	–	8,904
	5,091,993	6,537,395	**4,407,833**	5,782,977
Deferred tax liability on:				
Revaluation increment on land and buildings*	**736,436**	736,436	**736,436**	736,436
Fair value adjustment on investment properties	**1,248,724**	1,615,522	**1,245,547**	1,600,310
Unrealized foreign exchange gains	**124,651**	1,021,943	**124,651**	1,024,520
Fair value adjustments due to business combination	**620,039**	948,194	**620,039**	948,194
Unrealized trading gains on financial assets at FVPL	–	164,480		164,480
Deferred acquisition cost	–	19,648	–	–
Gain on remeasurement of previously held interest	**164,429**	160,272	**164,429**	164,429
Others	**111,204**	175,605	**64,578**	157,276
	3,005,483	4,842,100	**2,955,680**	4,795,645
	₱2,086,510	₱1,695,295	**₱1,452,153**	₱987,332

* *Balance represents DTL acquired from business combination*

On January 1, 2018, the Bank recognized deferred tax asset amounting to ₱0.46 billion as part of its transition adjustment related to the additional allowance for credit losses recognized upon the adoption of PFRS 9 (see Note 2).

As of December 31, 2018 and 2017, the Group's net deferred tax liabilities as disclosed in Other liabilities' (Note 22) include deferred tax liabilities on fair value adjustments due to business combination amounting to ₱148.3 million and on accelerated depreciation on property and equipment amounting to ₱7.9 million and ₱9.3 million, respectively.

Benefit from deferred tax charged directly to OCI pertains to remeasurment losses on retirement plan amounting to ₱0.55 million and ₱2.20 billion in 2017 and 2016, respectively and to net unrealized losses on AFS investments amounting to ₱0.29 million in 2016 for the Group.

The movements in the net deferred tax assets of the Group include impact of CTA amounting to ₱8.2 million in 2016. The movements in the net deferred tax asset of the Parent Company include impact of CTA amounting to ₱3.7 million in 2016.

Unrecognized Deferred Tax Assets

The Parent Company and certain subsidiaries did not recognize deferred tax assets on the following unused tax credit and losses and temporary differences since they believe that the related tax benefits will not be realized in the future:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Allowance for impairment and credit losses	**₱9,361,434**	₱1,259,578	**₱8,399,510**	₱2,586,707
Accrued expenses	**2,883,285**	1,577,003	**2,462,170**	1,564,910
Retirement liability	**2,463,288**	445,628	**1,221,707**	1,485,427
Unamortized past service cost	**1,221,833**	2,386,730	**2,882,583**	2,386,730
Unrealized loss on financial asset at FVOCI/AFS investments	**1,173,243**	–	**1,173,243**	–
NOLCO	**260,537**	1,485,427	–	–
Derivative liabilities	**182,904**	343,417	**182,903**	343,417
Other equity reserves	**70,215**	70,213	**70,213**	6,319
Provision for IBNR	**42,025**	155,483	–	–
Unearned income	–	356,270	–	356,270
Others	**105**	16	–	–
	₱17,658,869	₱8,079765	**₱16,392,329**	₱8,729,780

Details of the Group's NOLCO follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
2014	₱263,581	₱4,231	₱170,349	Not applicable
2015	2,670	3,042	260,537	Not applicable
2016	2	2,668	–	2019
	₱266,253*	₱9,941	₱430,886	

The Group has net operating loss carryforwards for US federal tax purposes of USD8.7 million and USD6.2 million as of December 31, 2018 and 2017, respectively, and net operating loss carryforwards for California state tax purposes of USD5.2 million and USD4.1 million as of December 31, 2018 and 2017, respectively.

Unrecognized Deferred Tax Liabilities

As of December 31, 2018, there was a deferred tax liability of ₱674.6 million (₱698.8 million in 2017) for temporary differences of ₱2.2 billion (₱2.2 billion in 2017) related to investment in certain subsidiaries. However, this liability was not recognized because the Parent Company controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Consolidated			Parent Company		
	2018	2017	2016	**2018**	2017	2016
Statutory income tax rate	**30.00%**	30.00%	30.00%	**30.00%**	30.00%	30.00%
Tax effects of:						
FCDU income before tax	**(4.20)**	(1.67)	(3.68)	**(3.28)**	(1.78)	(3.78)
Net non-deductible expenses	**8.00**	2.51	6.90	**6.27**	1.98	6.23
Optional standard deduction	–	(0.25)	(0.02)	–	–	–
Tax-exempt income	**(3.56)**	(4.11)	(7.82)	**(3.69)**	(3.49)	(9.22)
Tax-paid income	**(8.16)**	(6.76)	(2.19)	**(2.36)**	(6.80)	(1.91)
Net unrecognized deferred tax assets	**(0.27)**	2.44	(3.80)	**(1.06)**	0.73	(3.88)
Effective income tax rate	**21.81%**	22.16%	19.39%	**25.88%**	20.64%	17.44%

Current tax regulations define expenses to be classified as entertainment, amusement and recreation (EAR) and set a limit for the amount that is deductible for tax purposes. EAR are limited to 1.00% of net revenues for sellers of services. EAR charged against current operations (included in

'Miscellaneous expense' in the statements of income) amounted to ₱131.26 million in 2018, ₱134.14 million in 2017, and ₱98.05 million in 2016 for the Group, and ₱119.71 million in 2018, ₱123.13 million in 2017, and ₱89.94 million in 2016 for the Parent Company (Note 27).

31. Earnings Per Share

The following tables reflect the net income and share data used in the earnings per share computations:

Earnings per share attributable to equity holders of the Parent Company:

	2018	2017	2016
a) Net income attributable to equity holders of the Parent Company	**₱9,465,022**	₱8,160,570	₱7,123,952
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,249,140	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱7.58**	₱6.53	₱5.70

Earnings per share attributable to equity holders of the Parent Company from continuing operations:

	2018	2017	2016
a) Net income attributable to equity holders of the Parent Company from Continuing Operations	**₱9,684,994**	₱8,090,198	₱4,794,283
b) Weighted average number of common shares for basic earnings per share (Note 25)	1,249,140	1,249,140	1,249,140
c) Basic/Diluted earnings per share (a/b)	**₱7.75**	₱6.48	₱3.84

As of December 31, 2018, 2017 and 2016, there are no potential common shares with dilutive effect on the basic earnings per share.

32. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of financial position since these are not assets of the Parent Company. Such assets held in trust were carried at a value of ₱87.7 billion and ₱88.0 billion as of December 31, 2018 and 2017, respectively (Note 34). In connection with the trust functions of the Parent Company, government securities amounting to ₱941.5 million (included under 'Investment Securities at Amortized Cost') and ₱1.0 billion (included under 'AFS Investments') as of December 31, 2018 and 2017, respectively, are deposited with the BSP in compliance with trust regulations (Note 9).

Trust fee income in 2018, 2017 and 2016 amounting to ₱279.1 million, ₱300.0 million and ₱311.9 million, respectively, is included under 'Service fees and commission income' (Note 26).

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves the amounts of ₱23.0 million, ₱23.9 million and ₱19.4 million in 2018, 2017 and 2016, respectively, which correspond to 10.0% of the net income realized in the preceding years from its trust, investment management and other fiduciary business until such related surplus reserve constitutes 20.00% of its regulatory capital.

33. Related Party Transactions

Regulatory Reporting

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain Directors, Officers, Stockholders and Related Interests (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company.

In the aggregate, DOSRI loans generally should not exceed the Parent Company's equity or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2018 and 2017, the Group and Parent Company were in compliance with such regulations.

The information relating to the DOSRI loans of the Group and Parent Company follows:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Total Outstanding DOSRI Accounts*	**₱7,894,862**	₱8,184,175	**₱7,894,862**	₱8,184,175
Percent of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of DOSRI accounts granted after effectivity of BSP Circular No. 423 to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of DOSRI accounts to total loans	**1.39%**	1.71%	**1.58%**	1.94%
Percent of unsecured DOSRI accounts to total DOSRI accounts	**0.02%**	0.02%	**0.02%**	0.02%
Percent of past due DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%
Percent of non-accruing DOSRI accounts to total DOSRI accounts	**0.01%**	0.01%	**0.01%**	0.01%

**Includes outstanding unused credit accommodations of ₱860.0 million as of December 31, 2018 and ₱192.3 million as of December 31, 2017.*

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said Circular, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10% of a bank's net worth, the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
- significant investors and their subsidiaries and associates called affiliates;
- subsidiaries, joint ventures and associates and their respective subsidiaries; and
- post-employment benefit plans for the benefit of the Group's employees

Details on significant related party transactions of the Group and the Parent Company follow (transactions with subsidiaries have been eliminated in the consolidated financial statements). Transactions reported under subsidiaries represent companies where the Parent Company has control. Transactions reported under other related parties represent companies which are under common control.

	2018		
Category	**Amount/ Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant Investors			
Deposit Liabilities		**₱493,180**	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	**₱15,976**		Interest expense on deposits
Net withdrawals	**311,740**		Net withdrawals during the period
Subsidiaries			
Receivables from customers		**257,804**	Term loan maturing in 2018 with 3.85% nominal rate; Revolving credit lines with interest rate of 2.90% maturity of three months; Unsecured
Loan releases	**8,146,771**		
Loan collections	**10,152,899**		
Loan commitments		**10,914,480**	Omnibus line; credit line
Interbank loans receivable		**440,959**	Foreign currency-denominated interbank term loans with interest rates ranging from 0.65% to 1.00% and maturity terms ranging from 33 to 172 days
Availments	**5,130,011**		
Settlements	**4,815,791**		
Due from other banks		**471,229**	Foreign currency-denominated demand and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		**3,616**	Interest accrual on receivables from customers and interbank loans receivable
Accounts Receivable		**176,041**	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		**5,624,250**	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net deposits	**796,930**		Net withdrawals during the period
Bills payable		**37,846**	Foreign currency-denominated bills payable with interest rates ranging from 0.87% to 1.90% and maturity terms ranging from 30 to 172 days
Availments	**274,350**		
Settlements	**423,095**		
Due to other banks		**26,748**	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accounts Payable		**12**	Loan repayments received on behalf of subsidiary clients

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
			2018
Accrued interest payable		**28,123**	Accrued interest on deposit liabilities and bills payable
Rental deposit		**8,412**	Advance rental deposit received for 2 years and 3 months
Interest income	**70,926**		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	**41,018**		Interest expense on deposit liabilities and bills payable
Rental income	**47,985**		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Miscellaneous other income	**1,614**		Management and other professional fees
Securities transactions			
Purchases	**2,589,086**		Outright purchase of securities
Sales	**424,196**		Outright sale of securities
Trading loss	**8,398**		Loss from sale of investment securities
Affiliates			
Receivables from customers		**36,531,649**	Secured by hold-out on deposits, government securities, real estate and mortgage trust indenture; Unimpaired;
Loan releases	**15,123,255**		
Loan Collections	**9,044,373**		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 commitments		**13,934,400**	Omnibus line; credit line
Investment in non-marketable equity securities		**20,000**	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		**4,819,685**	Parent Company's investment properties sold on installment; secured with interest rate of 6.00%, maturity of five years
Settlements	**52,692**		
Gain on sale of investment properties	**3,942,967**		Sale of investment properties with interest rate of 4.5% for the first year and quarterly repricing of PDST-R2 for three months plus 1% for the succeeding years.
Accrued interest receivable		**211,965**	Accrued interest on receivables from customers
Rental deposits		**30,535**	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		**16,054,153**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	**2,557,541**		Net withdrawals during the period
Bonds Payable		**104,409**	Foreign currency bonds with interest rate of 4.25% with maturity terms of five years.
Accrued interest payable		**29,014**	Accrued interest payable from various deposits
Other liabilities		**3**	Various manager's check related to EISP and premium insurance
Accrued other expenses		**371,416**	Accruals in relation to promotional expenses
Interest income	**1,194,578**		Interest income on receivables from customers
Interest expense	**191,663**		Interest expense on deposit liabilities
Service fees and commission income			Bancassurance fees earned based on successful referrals and other milestones
Rental expense	**18,242**		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expenses	**324,938**		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	**41,500**		Outright purchase of securities
Sales	**501,800**		Outright sale of securities
Trading gains	**7,793**		Gain from sale of investment securities

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2018		
Associate			
Deposit liabilities		**₱836,717**	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Accrued interest payable		**775**	Accrued interest payable from various deposits
Rental deposits		**27**	Advance rental and security deposits received for three months
Deferred income		**914,988**	Unamortized portion of income related to the sale of APII
Interest expense	**₱2,923**		Interest expense on deposit liabilities
Service fees and commission income	**217,532**		Bancassurance fees earned based on successful referrals and income related to the sale of APII
Key Management Personnel			
Loans to officers		**7,708**	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	**5,035**		Settlement of loans and interest
Other equity reserves	**77,652**		Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		**773,853**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Deposit liabilities		**2,721,772**	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accrued interest payable		**2,503**	Accrued interest payable from various deposits
Interest income	**36,893**		Interest income on receivables from customers
Interest expense	**75,436**		Interest expense on bills payable

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2017		
Significant Investors			
Deposit Liabilities		₱181,440	Peso-denominated savings deposits with annual rates ranging from 0.10% to 0.125%
Interest expense	₱1,880		Interest expense on deposits
Net deposits	61,366		Net deposits during the period
Subsidiaries			
Receivables from customers		2,263,933	Term loan maturing in 2017 with 3.85% nominal rate;
Loan releases	6,644,960		Revolving credit lines with interest rate of 2.90%
Loan collections	6,395,361		maturity of three months; Unsecured
Loan commitments		9,344,497	Omnibus line; credit line
Interbank loans receivable		126,739	Foreign currency-denominated interbank term loans
Availments	2,536,360		with interest rates ranging from 0.65% to 1.00% and
Settlements	2,526,014		maturity terms ranging from 33 to 172 days

(Forward)

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
	2017		
Due from other banks		360,954	Foreign currency-denominated demand and time deposits and time deposits with maturities of up to 90 days with annual fixed interest rates ranging from 0.01% to 4.50%
Accrued interest receivable		3,620	Interest accrual on receivables from customers and interbank loans receivable
Dividend Receivable		20,000	Dividend declaration of subsidiaries
Accounts Receivable		186,863	Advances to finance pension liability, remittance cover and additional working capital; Non-interest bearing, unsecured, payable on demand
Deposit liabilities		4,827,320	Peso and foreign currency denominated demand, savings, and time deposits with annual fixed interest rates ranging from 0.01% to 1.10% and maturities from 8 to 297 days
Net withdrawals	₱637,902		Net withdrawals during the period
Bills payable		186,591	Foreign currency-denominated bills payable with
Availments	2,743,583		interest rates ranging from 0.87% to 1.90% and
Settlements	4,333,988		maturity terms ranging from 30 to 172 days
Due to other banks		32,238	Foreign currency-denominated clearing accounts used for funding and settlement of remittances
Accounts Payable		29	Loan repayments received on behalf of subsidiary clients
Accrued interest payable		12,306	Accrued interest on deposit liabilities and bills payable
Rental deposit		11,292	Advance rental deposit received for 2 years and 3 months
Interest income	59,979		Interest income on receivables from customers, due from other banks and interbank loans receivable
Interest expense	83,717		Interest expense on deposit liabilities and bills payable
Rental income	47,732		Rental income from one to three years lease agreement, with escalation rate of 10.00% per annum
Securities transactions			
Purchases	1,710,647		Outright purchase of securities
Sales	763,355		Outright sale of securities
Trading loss	17,443		Loss from sale of investment securities
Affiliates			
Receivables from customers		23,881,936	Secured by hold-out on deposits, government securities,
Loan releases	20,063,712		real estate and mortgage trust indenture; Unimpaired;
Loan Collections	16,162,613		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 commitments		13,836,350	Omnibus line; credit line
Investment in non-marketable equity securities		20,000	Common shares with acquisition cost of ₱100.00 per share
Sales contract receivable		432,377	Parent Company's investment properties on installment;
Settlements	1,825,274		secured with interest rate of 6.00%, maturity of five years
Accrued interest receivable		1,441	Accrued interest on receivables from customers
Rental deposits		10,171	Advance rental and security deposits received for two months, three months and two years
Deposit liabilities		13,496,612	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.10% to 1.75% and maturity terms ranging from 30 days to 365 days
Net deposits	2,578,242		Net deposits during the period
Accrued interest payable		35	Accrued interest payable from various deposits
Other liabilities		4	Various manager's check related to EISP and premium insurance

Category	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
		2017	
Accrued other expenses		353,658	Accruals in relation to promotional expenses
Interest income	609,817		Interest income on receivables from customers
Interest expense	75,798		Interest expense on deposit liabilities
Service fees and commission income	124,743		Bancassurance fees earned based on successful referrals and other milestones
Rental expense	17,924		Monthly rent payments with term ranging from 24 to 240 months
Miscellaneous expenses	306,566		Promotional expenses for Mabuhay Miles redemption
Securities transactions			
Purchases	1,216		Outright purchase of securities
Sales	31,500		Outright sale of securities
Trading gains	2		Gain from sale of investment securities
Associate			
Deposit liabilities		337,471	Peso-denominated and foreign currency-denominated demand, savings and time deposits with annual interest rates ranging from 0.125% to 2.00% and maturity terms ranging from 30 days.
Rental deposits		27	Advance rental and security deposits received for three months
Deferred income		988,187	Unamortized portion of income related to the sale of PNB Life
Interest expense	650		Interest expense on deposit liabilities
Service fees and commission income	197,942		Bancassurance fees earned based on successful referrals and income related to the sale of PNB Life
Key Management Personnel			
Loans to officers		12,743	Housing loans to senior officers with interest rates ranging from 3.00% to 15.00%; Secured and unimpaired
Loan collections	2,197		Settlement of loans and interest
Other equity reserves		77,651	Other employee benefit expense in relation to the grant of centennial bonus based on ₱70.0 per share
Transactions of subsidiaries with other related parties			
Due from banks		1,129,366	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Accued interest receivable		837	Interest accrual on receivables from customers and sales contract receivable
Deposit liabilities		1,970,230	With annual fixed interest rates ranging from 0.01% to 3.75% and includes time deposits with maturities of up to 90 days
Other liabilities		86	Various manager's checks
Interest income	18,588		Interest income on receivables from customers
Interest expense	36,572		Interest expense on bills payable

The related party transactions shall be settled in cash.

Outsourcing Agreement between the Parent Company and PNB GRF

The 'Pangarap Loans', which are all-purpose credit facilities fully secured by customer's deposits pledged with either PNB Hong Kong Branch or other PNB overseas branches, mainly comprise the consumer lending activity of PNB GRF. In early 2016, the Parent Company and PNB GRF amended the agreement wherein PNB GRF calls on the deposits when a Pangarap loan is in default and requests the Parent Bank to credit the peso collateral deposit to their settlement account maintained with the Parent Bank.

Financial Assets at FVTPL traded through PNB Securities
As of December 31, 2018 and 2017, the Parent Company's financial assets at FVPL include equity securities traded through PNB Securities with a fair value of ₱94 million and ₱28.6 million, respectively. The Parent Company recognized trading losses amounting to ₱16.7 million in 2018, ₱16.6 million in 2017 and ₱13.5 million in 2016 from the trading transactions facilitated by PNB Securities.

Investment in OHBVI
The Group accounts for its investments in OHBVI as a subsidiary although the Group holds less than 50.00% of OHBVI's issued share capital on the basis of the voting rights of 42.78% assigned by certain stockholders to the Parent Company under a voting trust agreement. There are no other transactions with OHBVI during the year.

Compensation of Key Management Personnel
The compensation of the key management personnel for the Group and Parent Company follows:

	2018	2017	2016
Short-term employee benefits	**₱691,450**	₱661,253	₱581,302
Post-employment benefits	**47,215**	60,554	61,544
	₱738,665	₱721,807	₱642,846

Members of the BOD are entitled to a per diem of ₱0.05 million for attendance at each meeting of the Board and of any committees, and other non-cash benefit in the form of healthcare plans and insurance. In 2018 and 2017, total per diem given to the BOD amounted to ₱43.0 million and ₱39.4 million, respectively, recorded in 'Miscellaneous expenses' in the statement of income. Directors' remuneration covers all PNB Board activities and membership of committees and subsidiary companies. In 2018 and 2017, key management personnel received Parent Company shares in relation to the centennial bonus distribution of 46,736 and 43,803, respectively.

Joint Arrangements
The Parent Company and EPPI signed two Joint Venture Agreement (JVA) for the development of two real estate properties of the Parent Company included under 'Other assets' and with carrying values of ₱1.2 billion at the time of signing. EPPI and the Group are under common control. These two projects are among the Parent Company's strategies in reducing its non-performing assets.

The Parent Company contributed the aforementioned properties into the Joint Venture (JV) as approved by BSP. EPPI, on the other hand, contributed its resources and technical expertise for the completion of the said JV. The Parent Company is prohibited to contribute funds for the development of the JV. Income from the sale of the properties under the JV will be shared by the Parent Company and EPPI in accordance with the terms of the JVAs. These Joints Arrangements qualify as Joint Operations under PFRS 11.

In July 2016, the Parent Company executed deeds of conveyance to EPPI on the areas of the land under the JVA arrangement. The execution of the deeds of conveyance was made to facilitate the issuance of the condominium certificates of title to the buyers.

Outsourcing Agreement between the Parent Company and PNB SB
PNB SB entered into a "Deed of Assignment" with the Parent Company for the purchase, on a without recourse basis, housing (including contract-to-sell loans) and motor vehicle loans with a total carrying value of ₱5.2 billion in July and August 2016 and ₱5.0 billion on July 15, 2015. The purchase includes the assignment of the promissory notes and other relevant credit documents as well

as collateral/s and other accessory contract thereto and was implemented in tranches in various dates. The total consideration paid for the purchased loans amounted to ₱5.0 billion in 2016. In 2016, the Parent Company recognized gain of ₱18.3 million.

PNB SB and the Parent Company entered into a servicing agreement pertaining to the purchased loan portfolio. The agreement shall be valid and binding until terminated by the either party if so required by the BSP or upon a 60-day prior written notice to the other party. As to the amount of service fee, the Parent Company shall charge PNB SB with the amount it charges it customers.

Service charges pertain to outsourced services rendered by the Parent Company, including legal and information technology services. These are payable on a monthly basis.

PNB SB has available credit lines with the Parent Company amounting to ₱750 million as of December 31, 2018 and 2017, respectively. As of December 31, 2018 and 2017, the credit lines remain undrawn.

Transactions with Retirement Plans

Management of the retirement funds of the Group and the Parent Company is handled by the PNB Trust Banking Group (TBG). The fair values and carrying values of the funds of the Parent Company amounted to ₱5.3 billion and ₱5.1 billion as of December 31, 2018 and 2017, respectively.

Relevant information on assets/liabilities and income/expense of the retirement plan assets follows:

	Consolidated		**Parent Company**	
	2018	2017	**2018**	2017
Investment in PNB Shares	**₱321,213**	₱445,454	**₱321,213**	₱445,454
Deposits with PNB	**102,689**	63,387	**102,326**	58,332
Investment in UITFs	**476,336**	201,021	**352,144**	93,025
Total Fund Assets	**₱902,238**	₱709,862	**₱775,683**	₱596,811
Unrealized loss on HFT (PNB shares)	**(₱124,241)**	(₱46,430)	**(₱124,241)**	(₱46,430)
Interest income	**1,293**	3,276	**850**	571
	(122,948)	(43,154)	**(123,391)**	(45,859)
Trust fees	**(6,449)**	(6,083)	**(6,288)**	(5,872)
Fund loss	**(₱129,397)**	(₱49,237)	**(₱129,679)**	(₱51,731)

As of December 31, 2018 and 2017, the retirement fund of the Group and the Parent Company includes 7,513,746 and 7,856,328 PNB shares, respectively, classified as FVPTL. There are no limitations and restrictions over the PNB shares while the corresponding voting rights are exercised by a trust officer or any of its designated alternate officer of TBG.

The gain of the Fund arising from the sale of investment in the shares of the Parent Company amounted to ₱6.8 million.

In addition to the regular retirement funds, TBG also manages the funds of the Parent Company's employee investment plans.

34. **Provisions, Contingent Liabilities and Other Commitments**

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

In 2018, the Group and the Parent Company's outstanding provisions for legal claims remained at ₱1 billion as of December 31, 2018 and 2017.

In 2017, the Group and the Parent Company's outstanding provisions for legal claims decreased by ₱331.2 million, from ₱1.3 billion at the end of 2016 to ₱1 billion as of December 31, 2017.

There were no significant settlements made in 2018.

Tax Assessment

In the ordinary course of the Group's operations, certain entities within the Group have pending tax assessments/claims which are in various stages of protest/appeal with the tax authorities, the amounts of which cannot be reasonably estimated. Management believes that the bases of said protest/appeal are legally valid such that the ultimate resolution of these assessments/claims would not have material effects on the consolidated financial position and results of operations.

BSP Reporting

The following is a summary of various commitments, contingent assets and contingent liabilities at their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2018	2017	**2018**	2017
Derivative forwards	**₱90,091,191**	₱84,170,844	**₱83,530,898**	₱78,521,063
Trust department accounts (Note 32)	**87,746,184**	88,001,894	**87,746,184**	88,001,894
Standby letters of credit	**43,503,980**	31,301,441	**43,503,980**	31,246,248
Unutilized credit card lines	**42,577,148**	34,566,065	**42,577,148**	27,018,318
Interest rate swaps	**31,587,678**	33,610,720	**31,587,678**	31,899,122
Deficiency claims receivable	**22,671,321**	22,624,776	**22,621,405**	22,576,563
Derivative spots	**12,069,390**	5,086,321	**12,069,390**	5,086,321
Items held as collateral	**1,577,577**	1,823,033	**1,577,550**	1,823,018
Inward bills for collection	**560,885**	633,732	**558,506**	633,732
Unused commercial letters of credit	**278,721**	57,541	**278,721**	57,541
Outward bills for collection	**229,428**	248,776	**101,345**	116,605
Shipping guarantees issued	**11,510**	11,198	**11,510**	11,198
Confirmed export letters of credit	**3,944**	93,985	**3,944**	93,985
Other contingent accounts	**62,059**	311,860	**39,306**	297,552

35. Offsetting of Financial Assets and Liabilities

The Group is required to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

Financial assets

2018

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative assets	**₱46,075,448**	**(₱45,569,485)**	**₱505,963**	**(₱58,838)**	**₱–**	**₱447,125**
Securities held under agreements to resell (Note 8)	**20,700,000**	–	**20,700,000**	–	**(19,947,247)**	**752,753**
Total	**₱ 66,775,448**	**(₱45,569,485)**	**₱ 21,205,963**	**(₱58,838)**	**(₱19,947,247)**	**₱ 1,199,878**

2017

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative assets	₱37,138,999	(₱36,646,558)	₱492,441	(₱44,921)	₱–	₱3,633,520
Securities held under agreements to resell (Note 8)	14,621,483	–	14,621,483	(148,225)	(14,473,258)	(148,225)
Total	₱51,760,482	(₱36,646,558)	₱15,113,924	(₱193,146)	(₱14,473,258)	₱3,485,295

Financial liabilities

2018

Financial liabilities recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Derivative liabilities	**₱32,870,042**	**(₱33,325,851)**	**(₱455,809)**	**(₱92,025)**	**₱–**	**(₱363,784)**
Securities sold under agreements to repurchase (Notes 9 and 19)*	**48,035,239**	–	**48,035,239**	–	**(56,368,809)**	**-**
Total	**₱80,905,281**	**(₱33,325,851)**	**₱47,579,430**	**(₱92,025)**	**(₱56,368,809)**	**(₱363,784)**

** Included in bills and acceptances payable in the statements of financial position*

2017

Financial liabilities recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Financial instruments	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria: Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Derivative liabilities	₱19,126,140	(₱19,390,528)	(₱264,388)	₱91,071	(₱–	(₱249,459)
Securities sold under agreements to repurchase (Notes 9 and 19)*	35,350,259	–	35,350,259	–	(39,827,898)	-
Total	₱54,476,399	(₱19,390,528)	₱35,085,871	₱91,071	(₱39,827,898)	(₱249,459)

** Included in bills and acceptances payable in the statements of financial position*

The amounts disclosed in column (d) include those rights to set-off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. This includes amounts related to financial collateral both received and pledged, whether cash or non-cash collateral, excluding the extent of over-collateralization.

36. Assets and Liabilities of Disposal Group Classified as Held for Sale and Discontinued Operation

The net income (loss) from discontinued operations consist of:

	Consolidated		
	2018	2017	2016
PNB Gen	**(₱219,972)**	₱70,373	₱65,767
APLII	−	−	2,263,902
	(₱219,972)	₱70,373	₱2,329,669

APLII

As disclosed in Note 12, the Group entered into a share purchase agreement with Allianz SE for the sale of 51% equity interest in APLII on December 21, 2015. The business of APLII represented the entirety of the Group's life insurance business until December 21, 2015. With APLII being classified as a discontinued operation in 2015, the consolidated statement of income and comprehensive income were presented to show the discontinued operations separately from the continued operations.

On June 6, 2016, the sale of APLII was completed. The Group recognized gain on sale amounting to ₱834.5 million recognized in "Net Income from Discontinued Operations" in the consolidated statement of income.

The results of operation of APLII follow:

	2016
Interest Income on	
Loans and receivables	₱7,610
Trading and investment securities	195,605
Deposits with banks and others	5,151
	208,366
Net Service Fees And Commission Income	(67,591)
Net insurance premium	508,770
Net insurance benefits and claims	441,090
Net Insurance premium	67,680
Other Income	
Trading and investment securities gains - net	1,800
Foreign exchange losses - net	(876)
Miscellaneous	80,667
Total Operating Income	290,046

(Forward)

	2016
Operating Expenses	
Compensation and fringe benefits	₱71,741
Taxes and licenses	16,759
Occupancy and equipment-related costs	7,610
Depreciation and amortization	4,707
Provision for impairment, credit and other losses	4,704
Miscellaneous	39,692
Total Operating Expense	145,213
Results from Operating Activities	144,833
Provision for income tax	21,049
Results from Operating Activities, net of tax	123,784
Gain on remeasurement	1,644,339
Gain on Sale of Discontinued Operation	834,535
Transaction Costs	(153,307)
Provision for Income Tax	(185,449)
Net Income from Discontinued Operations	₱2,263,902
Attributable to:	
Equity holders of the Parent Company	₱2,239,145
Non-controlling interests	24,757
	₱2,263,902

Cash flows from (used in) discontinued operations follow:

	2016
The net cash flows directly associated with disposal group:	
Operating	₱171,535
Investing	(267,458)
	(₱95,923)

PNB Gen

On April 26, 2018, the BOD of the Parent Company and PNB Holdings approved the exchange of all their holdings in PNB Gen for shares in ABIC. As a result, the Group reclassified all the assets and liabilities of PNB Gen to ‘Assets of disposal group classified as held for sale’ and ‘Liabilities of disposal group classified as held for sale’, respectively, in the consolidated statement of financial position. The business of PNB Gen represented the entirety of the Group’s non-life insurance business. PNB Gen was previously presented in the ‘Others’ section of the business segment disclosure. With PNB Gen being classified as a discontinued operation in 2018, the comparative consolidated statement of income and comprehensive income and cash flow in 2017 and 2016 have been re-presented to show the discontinued operations separately from the continued operations.

The results of operation of PNB Gen are presented below:

	2018	2017	2016
Interest Income on			
Loans and receivables	**₱355**	₱370	₱451
Investment securities	**60,477**	46,698	29,391
Deposits with banks and others	**1,994**	5,618	5,412
	62,826	52,685	32,254

(Forward)

	2018	2017	2016
Net Service Fees and Commission Income (Expense)	**₱7,592**	(₱102,215)	(₱79,664)
Net insurance premium	**1,228,794**	656,329	624,927
Net insurance benefits and claims	**1,292,949**	(322,244)	295,015
Net Insurance premium	**(64,155)**	334,083	329,912
Other Income			
Trading and investment securities gains/(loss) - net	**(4,176)**	–	13,966
Foreign exchange gains/(loss) - net	**15,921**	(2,556)	1,516
Miscellaneous	**–**	–	3,403
Total Operating Income	**18,007**	281,997	301,387
Operating Expenses			
Compensation and fringe benefits	**130,241**	149,084	170,040
Occupancy and equipment-related costs	**18,695**	18,699	16,185
Provision for reversal of credit losses	**12,635**	(19,463)	(80)
Depreciation and amortization	**6,169**	6,164	5,076
Taxes and licenses	**931**	3,051	770
Miscellaneous	**45,948**	46,811	38,930
Total Operating Expenses	**214,619**	204,346	230,921
Income (Loss) before income tax from Operating Activities	**(₱196,611)**	₱77,651	₱73,466
Provision for income tax	**23,361**	7,278	7,699
Net Income (Loss) from Discontinued Operations	**(₱219,972)**	₱70,373	₱65,767

<u>Net Insurance Premium</u>
This account consists of:

	2018	2017	2016
Gross earned premiums	**₱2,501,725**	₱2,291,986	₱2,348,900
Reinsurers' share of gross earned premiums	**(1,272,931)**	(1,653,657)	(1,723,973)
	(₱1,228,794)	₱638,329	₱624,927

<u>Net Insurance Benefits and Claims</u>
This account consists of:

	2018	2017	2016
Gross insurance contract benefits and claims paid	**₱1,711,759**	₱428,225	₱780,537
Reinsurers' share of gross insurance contract benefits and claims paid	**(606,275)**	(86,845)	(140,357)
Gross change in insurance contract liabilities	**109,703**	147,880	(201,403)
Reinsurers' share of change in insurance contract liabilities	**77,763**	(167,016)	(143,762)
	₱1,292,950	₱322,244	₱295,015

The major classes of assets and liabilities of PNB Gen classified as disposal group as of December 31, 2018 follows:

Assets	
Due from other banks	₱477,761
Financial assets at FVTPL	1,329
Financial assets at FVOCI	455,654
Investment securities at amortized cost	1,033,150
Loans and other receivables - net	4,970,998
Deferred reinsurance premium	985,966
Property and equipment - net	14,495
Deferred tax assets	26,180
Intangible assets - net	8,205
Other assets	264,885
	₱8,238,623
Liabilities	
Accrued taxes, interest and other expenses	₱ 229,263
Insurance contract liabilities	5,420,609
Reserved for unearned reinsurance premium	1,438,001
Accounts payable	136,987
Other liabilities	12,951
	₱ 7,237,811
Net assets of disposal group held for sale	₱984,715
Amounts included in accumulated OCI:	
Net unrealized loss on financial assets at FVOCI	(₱15,601)
Remeasurement losses on retirement plan	(6,292)
	(₱21,893)

Net cash flow used in discontinued operations follow:

	2018
The net cash flows directly associated with the disposal group:	
Operating	(₱232,229)
Investing	212,896
	(₱19,333)

37. **Notes to Statements of Cash Flows**

The Group applied creditable withholding taxes against its income tax payable amounting to ₱2.58 billion, ₱1.55 billion and ₱882.2 million in 2018, 2017 and 2016, respectively.
The Parent Company applied creditable withholding taxes against its income tax payable amounting to ₱2.58 billion, ₱1.53 billion and ₱869.9 million in 2018, 2017, and 2016, respectively as a result of the merger.

In 2018, the Group reclassified PNB Gen as disposal group classified as held for sale and as discontinued operation and classified assets, liabilities, and reserves of PNB Gen amounting to ₱8.24 billion, ₱7.24 billion and ₱2.50 million, respectively, as held for sale.

In 2018, the non-cash changes on bills and acceptances payable amounted to ₱1.30 million and ₱1.29 million arising from unrealized foreign exchange differences for the Group and the Parent Company, respectively.

In 2018, bonds payable includes unrealized foreign exchange differences for the Group and Paremt Company amounted to ₱250.44 million.

For the Group, investment properties acquired through foreclosure and rescission amounted ₱0.8 billion, ₱0.6 billion, and ₱0.7 billion in 2018, 2017 and 2016, respectively. For the Parent Company, investment properties acquired through foreclosure and rescission ₱0.8 billion, ₱0.5 billion and ₱0.6 billion in 2018, 2017 and 2016, respectively.

Interest income of the Group includes fair value amortization of loans and receivables amounting to ₱6.0 million, ₱6.1 million, and ₱9.2 million in 2018, 2017 and 2016, respectively.

Interest expense of the Group includes fair value amortization of deposit liabilities amounting to ₱51.5 million, ₱10.7 million, and ₱30.3 million in 2018, 2017 and 2016, respectively.

Depreciation and amortization expenses include fair value amortization of property and equipment, investment properties and intangible assets amounting to ₱213.8 million, ₱256.1 million and ₱338.6 million in 2018, 2017 and 2016, respectively.

38. Approval of the Release of the Financial Statements

The accompanying financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's BOD on February 28, 2019.

39. Report on the Supplementary Information Required Under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR) 15-2010 to amend certain provisions of RR 21-2002. The Regulations provide that starting 2010 the notes to financial statements shall include information on taxes, duties and license fees paid or accrued during the taxable year.

The Parent Company paid or accrued the following types of taxes for the tax period January to December 2018 (in absolute amounts).

1. Taxes and licenses

	Amount
Gross receipts tax	₱1,705,754,202
Documentary stamp taxes	2,980,000000
Real estate tax	173,742,098
Local taxes	80,295,447
Others	32,245,496
	₱4,972,037,243

2. Withholding taxes

	Remitted	Outstanding
Withholding Taxes on Compensation and Benefits	₱776,856,894	₱ 148,835,410
Final income taxes withheld on interest on deposits and yield on deposit substitutes	601,451,287	261,319,630
Expanded withholding taxes	178,021,141	15,850,313
VAT withholding taxes	1,928,912	
Other Final Taxes	47,865,134	2,801,756
	₱1,606,123,368	₱428,807,109

Tax Cases and Assessments

As of December 31, 2018, the Parent Company has no final tax assessment but has outstanding cases filed in courts for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Company.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2018

PHILIPPINE NATIONAL BANK (PARENT COMPANY)
AVAILABLE FOR DIVIDEND DECLARATION
December 31, 2018
(In thousands)

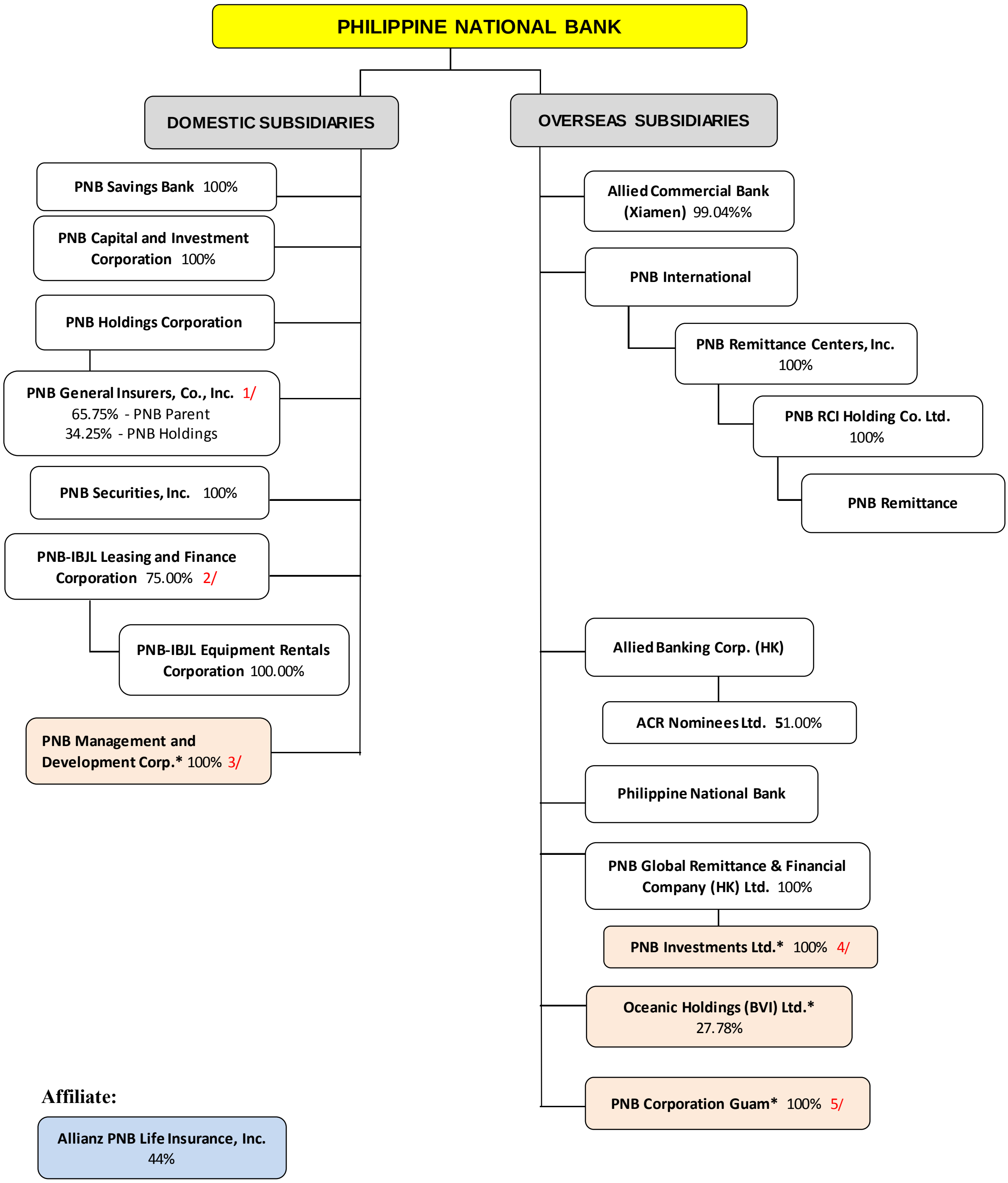
Retained Earnings, January 1, 2018 as unadjusted		**₱38,831,522**
Add: Effect of adoption of PFRS 9		**(1,660,119)**
Retained Earnings, January 1, 2018 as restated		**37,171,403**
Adjustments *(see adjustments in previous years reconciliation)*		
Appraisal increment closed to capital on quasi-reorganization	(7,691,808)	
Translation adjustment applied to deficit on quasi-reorganization	(1,315,685)	
Accumulated equity in net earnings applied to deficit on quasi-reorganization	(563,048)	
Fair value adjustment on foreclosed properties - net gain	(4,022,605)	
Unrealized foreign exchange gain	(3,337,853)	
Unrealized gain on fair value through profit or loss	(220,384)	
Deferred tax assets	(3,943,773)	
Gain on remeasurement from investment in associate	(1,644,339)	
Equity in net income of subsidiaries/associate	(520,638)	
		(23,260,133)
Retained Earnings, as adjusted, beginning		**13,911,270**
Net Income per audited financial statements	**9,465,075**	
Less: Non-actual/unrealized income/expenses		
Equity in net income of subsidiaries/associate	(530,885)	
Unrealized foreign exchange gains-net	(396,580)	
Gain on foreclosure on investment properties for the period	(129,218)	
Accretion on off-market transactions-SCR	(43,084)	
Unrealized loss on fair value through profit or loss	12,742	
Provision for gross deferred tax assets	918	
Sub-total	**1,086,107**	
Net income actually earned during the year		**8,378,968**
Less: Appropriation to surplus reserves		**22,968**
Total Retained Earnings, End Available for Dividend, December 31, 2018		**22,290,238**

PHILIPPINE NATIONAL BANK
LIST OF PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS)
EFFECTIVE AS OF DECEMBER 31, 2018

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
Philippine Financial Reporting Standards				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	✓		
PFRS 2	Share-based Payment	✓		
	Amendments to PFRS 2: Classification and Measurement of Share-based Payment Transactions	✓		
PFRS 3	Business Combinations	✓		
PFRS 4	Insurance Contracts	✓		
	Amendments to PFRS 4: Applying PFRS 9, Financial Instruments with PFRS 4, Insurance Contracts	✓		
PFRS 5	Non-current Assets Held for Sale and Discontinued operation	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements	✓		
PFRS 11	Joint Arrangements	✓		
PFRS 12	Disclosures of Interests in Other Entities	✓		
PFRS 13	Fair Value Measurement	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		
Philippine Accounting Standards				
PAS 1	Presentation of Financial Statements	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 19	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
PAS 23	Borrowing Costs	✓		
PAS 24	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27	Separate Financial Statements	✓		
PAS 28	Investments in Associates and Joint Ventures	✓		
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
PAS 40	Investment Property	✓		
	Amendments to PAS 40: Transfers of Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2018		Adopted	Not Adopted/Not Early Adopted	Not Applicable
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease			✓
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
IFRIC 16	Hedges of a net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-Cash Assets to Owners			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15 **SIC-25**	Operating Leases - Incentives			✓
	Income Taxes- Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
MAP OF RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
AS OF DECEMBER 31, 2018



1/ Investment in PNB Gen has been classified as held for sale following the approval of the PNB & PNB Holdings' BOD of the business combination with Alliedbankers Insurance Corp. of its 65.75% and 34.25% ownership interest in PNB Gen, respectively.

2/ The remaining 25.00% is owned by IBJ Leasing Co., Ltd.

3/ PNB Board approved last Sep. 28, 2018 the sale of its 100% shareholdings to Macroasia Mining Corporation (MMC). Documentation is on-going in preparation for the payment of MMC.

4/ SEC approved the withdrawal of the license of PNB IL Manila Office last March 23, 2018. Currently, the transfer of the remaining asset of PNB IL Manila to PNB IL Hong Kong is being processed. Once done, the closure of PNB IL Hong Kong will proceed.

5/ Ceased operations on June 30, 2012 but books are still open and license status is dormant.

* Non-operating subsidiary

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2018

Financial Assets at Fair Value through Profit or Loss

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government securities				
Fixed Rate Treasury Notes	-	₱ 6,810,523	₱ 6,476,511	₱ 54,634
Republic of the Philippines (ROP) Bonds	-	8,956	452,272	17,174
Retail Treasury Bonds	-	916,726	877,637	28,707
Treasury Bills	-	668,495	651,291	-
US Treasury Notes	-	-	-	77
	-	₱ 8,404,700	₱ 8,457,711	₱ 100,592
Private debt securities				
Ayala Land Inc	-	₱14,900	₱ 13,656	₱ 465
Sm Prime Holdings Inc.	-	21,471	19,249	1,122
San Miguel Global Power Holdings Corp	-	275,400	248,690	17,940
International Container Terminal Services Inc.	-	50	2,732	99
Development Bank Of The Phils.	-	50	2,725	380
Security Bank	-	620	32,587	(4)
Phoenix Petroleum Phils.	-	100,000	95,944	73
	-	₱ 412,491	₱ 415,583	₱ 20,075
Equity securities				
Ayala Corp	-	-	₱ 14,589	-
Ayala Land Inc	175,000	-	7,105	-
Banco de Oro	106,000	-	11,772	-
D & L Industries Inc	100,000	-	4,392	-
Filinvest Land Inc	5,829,000	-	8,219	-
International Container Terminal Services	20,000	-	1,000	-
Manila Electric Company	9,350	-	2,793	-
Metro Pacific Investment Corporation	3,150,000	-	14,616	-
Metropolitan Bank & Trust	10,000	-	810	-
Philippine Long Distance Telephone Company	5,000	-	5,625	-
Puregold Price Club	140,000	-	6,020	-
SM Investments Corporation	8,000	-	7,340	-
Sm Prime Holdings	140,000	-	5,012	-
Wilcon	120,000	-	2,142	-
Del Monte	-	-	446,044	-
San Miguel Corp - Pref 2H	26,000	-	1,937	-
San Miguel Corp - Pref 2I	25,970	-	1,909	-
San Miguel Corp - Pref 2G	19,100	-	1,431	-
GTCap Pref Series B	-	-	824	-

ALCO Preferred	7,000	-	679	-
Bank Of Philippine Islands	3,759	-	353	-
Union Bank Of The Philippines	3,385	-	216	-
Forest Hills Golf And Country Club	1	-	170	-
Rizal Commercial Banking Corp	3,946	-	112	-
Petro Energy Resources Corp	6,289	-	22	-
Global Ferro	10,375	-	17	-
	9,918,175	-	₱ 545,149	-
Derivatives				
Republic Of The Philippines	-	14,463,444	₱ 57,854	-
Atlas Fertilizer Corporation	-	159,440	2,235	-
Australia And N. Zealand Bk	-	1,657,570	2,329	-
Banco De Oro Universal Bank	-	2,117,600	10,358	-
Bank Of China-Manila	-	19,137	1	-
Bank Of The Philippine Islands	-	793,170	4,566	-
BNP Paribas Paris	-	4,616,079	32,404	-
Chase Manhattan Bank Singapore	-	5,687,384	34,928	-
CSFS-Credit Suisse London	-	7,656	33	-
China Banking Corporation	-	105,200	53	-
Citibank N.A. Manila Br.	-	843,825	2,393	-
Deutsche Bank Ag Mla Br	-	526,000	264	-
Ecossential Foods Corp.	-	488,863	3,154	-
Getz Advanced Materials, Inc.	-	3,267	5	-
Hongkong And Shanghai Banking Corp.	-	934,758	2,265	-
Internationale Nederlanden Bk Mla.	-	1,057,540	6,069	-
JPMorgan Chase Bank Mla.	-	2,110,625	7,639	-
Land Bank Of The Philippines	-	52,590	16	-
Metropolitan Bank And Trust Company	-	482,245	8,548	-
Mizuho Bank Ltd Manila	-	792,750	2,775	-
Petron Corporation	-	5,584,255	61,748	-
Philippine Business Bank	-	52,580	6	-
PNB Europe - Victoria Br	-	29,996	86	-
PNB Europe Plc	-	59,594	137	-
PNB Hongkong Branch	-	26,290	36	-
Security Bank Corporation	-	2,321,420	7,304	-
Standard Chartered Bank Ldn	-	7,904,035	307,093	-
UBS Ag	-	2,591,921	2,629	-
United Coconut Planters Bank	-	105,180	33	-
Wells Fargo Bank Na	-	4,908,172	15,904	-
Allied Bank Hongkong	-	432,949	1,765	-
	-	60,935,534	₱574,629	-
Designated at FVPL				
Peso Money Market Fund	-	6,000	6,375	-
Total Financial Assets at Fair Value through Profit or Loss	9,918,175	₱69,758,725	₱9,999,447	₱120,667

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2018

Financial Assets at Fair Value Through Other Comprehensive Income

(Amounts in thousands, except for number of shares)

Name of Issuing Entity and Association of each Issue	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Fixed Rate Treasury Notes	-	₱3,460,234	₱3,323,646	₱ 133,098
Power Sector Assets and Liabilities Management Corporation	-	3,620,711	3,676,724	87,654
Republic of the Philippines (ROP) Bonds	-	15,631,719	16,819,726	608,179
Retail Treasury Bonds	-	6,392,043	6,148,248	263,496
Republic of Indonesia	-	2,148,981	2,163,895	51,124
U.S. Treasury	-	342,214	348,334	4,383
Small Business Loan asset backed securities	-	157,477	16,498	333
Treasury Bills - SGD	-	443,047	441,911	6,826
Philippine Sovereign Bonds (USD)	-	78,870	79,436	2,191
Treasury Notes -SGD	-	25,000	24,334	934
PNB Guam	-	-	-	130
Treasury Gilts	-	73,324	73,743	292
	-	₱ 32,373,620	₱ 33,116,495	₱ 1,158,641
Private Debt Securities				
Apple Inc	-	-	-	63
Agricultural Bank Of China Ltd HK	-	-	-	32,644
Ayala Land Inc	-	1,348,525	1,284,630	49,659
Bank Of China	-	-	-	26,655
Banco De Oro	-	969,838	925,164	29,780
China Construction Bank HK	-	-	-	13,670
China National Offshore Oil Corp Ltd	-	1,051,600	1,015,004	33,197
Cyberzone Properties Inc	-	-	-	226
Development Bank Of The Philippines	-	262,900	272,498	6,464
Energy Development Corp	-	232,440	241,299	8,702
Export-Import Bank Of Korea	-	420,640	415,219	8,433
Filinvest Development Cayman Islands	-	362,802	362,813	11,461
Filinvest Land Inc	-	331,640	325,915	16,308
First Gen Corporation	-	-	-	2
FPC Finance Ltd	-	-	-	13,216
FPT Finance Limited	-	-	-	1,122
HSBC Holdings Plc	-	-	-	789
Hutchison Whampoa Limited	-	420,640	415,470	13,577
Industrial And Com Bank Of China Asia	-	210,320	215,483	9,738
Icici Bank Limited	-	105,160	108,457	3,461
International Container Terminal Services Inc.	-	2,302,320	2,532,203	88,828

	Korea Development Bank	-	178,772	176,171	3,352
	Metropolitan Bank & Trust Co.	-	567,100	509,622	30,482
	Megaworld Corp	-	860,000	768,596	46,040
	Philippine Savings Bank	-	75,000	66,409	4,125
	Rizal Commercial Banking Corp	-	513,444	508,832	14,299
	Security Bank Corp	-	126,192	126,106	2,657
	State Bank Of India	-	525,800	515,776	14,890
	Sinopec Corp	-	2,214,933	2,159,116	56,568
	SM Investments Corp	-	1,641,951	1,643,853	55,215
	San Miguel Corp	-	94,900	85,696	5,983
	SM Prime Holdings	-	208,827	204,546	2,542
	South Luzon Tollway Corp	-	154,340	145,302	8,313
	Standard Chartered Bank Ldn	-	-	-	2,803
	STI Education	-	50,000	45,628	2,904
	Westpac Bk Sydney	-	157,740	155,729	3,484
	Sumitomo Bank Tky	-	-	-	2,831
	Union Bank Of The Phil.	-	1,472,240	1,404,649	47,534
	AT&T Inc.	-	683,540	684,695	19,433
	Manila North Tollway Corporation Bonds	-	50,000	47,361	2,535
	SM Prime Holdings, Inc.	-	90,600	85,052	4,447
	South Luzon Tollway Corporation	-	50,000	46,832	2,790
	SMC Global Power Bond	-	1,000	933	25
	Phoenix CP	-	141,999	141,683	111
	CPI	-	38,400	35,264	1,939
	Investment in Management Account (IMA#263929)	-	-	-	147
		-	₱ 17,915,603	₱ 17,672,009	₱ 703,444
Equity Securities					
	Allied Banker Insu.	200,000	-	20,000	-
	Alphaland Balesin Island Resort Corp.	-	-	2,500	-
	Apo Golf & Country Club	1	100	-	-
	Aptrudev	-	1,500	1	-
	Bacnotan Steel Industries	-	0	0	-
	Baguio City Country Club	1	60	1	-
	Baguio Gold Mining (Now:Pal Holdings)	-	99	-	-
	Bancnet, Inc.	49,999	-	5,000	-
	Bap Credit Guaranty	29,800	-	1,138	-
	Bayantel	-	8	-	-
112414	Bayantel 31% Tranche B Conv Eqty 83997Shs Bod Apprvl	-	14,851	-	-
	Bulawan Mining (Bumico)	2,500,000	20,492	-	-
	Camp John Hay	3	810	401	-
	Club Filipino	1	12	1	-
	Cruz Tel Co.	30	3	1	-
	Development Academy Of The Philippines	-	1,500	-	-
	Eagle Ridge Golf & Country Club	30	3,450	1	-
	Eastridge Golf Course & Village	-	1,800	-	-
	Evercrest Golf	2	500	1,000	-
	Fairways &Bluewater Resort	294	359,695	20,580	-

Fastech Synergy	-	8,519	-	-
Fil-Am Resources	-	27	-	-
Heavenly Garden	5,000	-	500	-
Iligan Golf & Country Club	1	1	1	-
Iloilo Golf & Country Club	-	88	-	-
Inco Mining	-	2	-	-
Infanta Minerals	-	10	-	-
Investment In Management Account (Ima#263929)	-	-	130,988	-
Lepanto Consolidated Mining Co."A"	4,973	1	-	-
Lepanto Consolidated Mining Co."B"	1,776	0	1	-
Lgu Guarantee Corp	50,000	5,000	5,001	-
Luisita Golf & Country Club	-	840	-	-
Makati Sports Club-A	1	-	550	-
Manila Golf Country Club-Corporate	201	13,727	120,001	-
Manila Polo Club	-	2,600	1	-
Manila Southwoods Golf Club	1	4,600	567	-
Marikudo Country Club Of Iloilo City	-	18	-	-
Meralco	2,873	89	2	-
Mimosa Golf & Country Club	1	827	1	-
Manila Southwoods Golf & Country Club	1	2,350	1	-
Mount Malarayat Golf & Country Club	35	36,892	1	-
Negros Occidental Golf & Country Club	1	100	-	-
Nidc Manila Polo Club	-	-	-	-
Northern Tel Co.	1,800	18	1	-
Orchard Golf & Country Club	1	2,200	1	-
PAL Holdings Inc	-	53,040	66,615	-
Paper Industries Corporation of the Philippines	-	19	-	-
PCDI Preferred Shares	3,855	23	22	-
Phil Dealing System-Fixed Income	73,000	7,300	-	-
Phil. Central Depository Inc.	24,436	3,669	1	-
Phil. Clearing House	42,000	2,100	2,101	-
Phil. Dealing House	-	-	7,300	-
Phil. Depository & Trust Corp.-Bap As Trustee	31,690	-	2,392	-
Phil. Electric Corp Shares	-	95	1	-
Phil. Oil Development Company, Inc.	-	13	-	-
Philex Mining	151	0	-	-
Philippine Long Distance Company	2,879	44	1	-
Philippine Racing Club	30,331,103	-	287,236	-
Philodril	695,625	-	8	-
Picop Resources	19,021,252	798	-	-
Piltel (Phil Tel Corp.)	-	10	0	-
PLDT Comm. And Energy Venture	20	9	1	-
PLDT Preferred Shares	-	1,084	1	-
PNB Management And Development Corp	-	-	1,933	-
PNB Venture	-	-	5,062	-
Primo Oleo Chemicals	-	66,382	-	-
Proton Chemical Industries Comm Shares	44,419	0	0	-
Philippine Stock Exchange Shares	17,820	5,212	3,188	-

Pt&T	5,000,000	0	0	-
Pueblo De Oro Golf ^ Country Club	2	1,411	1	-
Puerto Azul Sports & Beach Club	-	170	-	-
Quezon City Sports Club	1	32	1	-
Retelco	20	5	1	-
Riviera Golf & Country Club	6	2,627	220	-
Rural Bank Of Ibajay	1	11	-	-
Santa Elena Golf & Country Club	4	852	1	-
Sierra Grande Country	100	-	32	-
Small Business Guarantee	400,000	40,000	40,000	-
Southern Iloilo Telephone Co.	1	2	1	-
Sta Elena Golf Club-A	4	-	16,500	-
Subic Bay Golf & Country Club	-	950	-	-
Subic Bay Yatch Club	58	93,000	3,480	-
Swift - ABC	-	0	0	-
Swift Shareholders - PNB	-	0	0	-
Tagaytay Highlands	1	500	500	-
Tagaytay Midlands	1	500	650	-
Tayud Golf & Country Club	-	6	-	-
Ternate Dev'T Corporation	-	-	170	-
Universal Rightfield Prop. Inc.	-	69	1	-
Valley Golf & Country Club	-	106	1	-
Victorias Golf & Country Club	-	110	-	-
Wack Wack Golf & Country Club	19	21,490	140,001	-
Western Minolco Corp.	-	17	-	-
	58,535,294	784,445	885,663	-
Total Financial Assets at Fair Value Through Other Comprehensive Income	58,535,294	₱51,073,668	₱51,674,167	₱ 2,219,013

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2018

Investment Securities at Amortized Cost

(Amounts in thousands except for Number of Shares)

Name of Issuing Entity and Association of each Issuer	Number of Shares	Principal Amount of Bonds and Notes	Amount shown in the Balance Sheet based on bid prices on the balance sheet date	Income received and accrued
Government Securities				
Republic of the Philippines (ROP) Bonds	-	₱1,039,096,544	₱6,686,044	₱180,246
Development Bank of the Philippines		2,140,216	2,224,272	52,826
Fixed Rate Treasury Notes	-	25,425,999	18,776,611	526,817
Bangko Sentral ng Pilipinas	-	157,740	220,104	-
Province of Aklan (Caticlan Super Marina)	-	-	43,294	3,149
Landbank of the Phils	-	-	150,769	11,242
National Food Authority	-	-	-	1,829
Home Guaranty Corp	-	-	49,372	252
Power Sector Assets and Liabilities Management Corporation	-	5,323,357	6,325,632	168,737
Retail Treasury Bonds	-	4,627,034	11,473,064	378,088
Republic of Indonesia	-	7,079,634	7,633,616	178,233
Treasury Bills	-	6,694,230	6,468,422	117,189
United Kingdom	-	26,290	33,460	79
Federal National Mortgage Association (FNMA)	-	42,064	41,964	827
US Treasury Notes	-	89,386	89,165	1,286
Federal Reserve - U102 acct.	-	5,532	5,526	-
PNB Hongkong	-	-	-	(3)
		₱ 1,090,708,026	₱ 60,221,315	₱ 1,620,797
Private Debt Securities				-
Apple Incorporated	-	525,800	530,241	9,383
Agricultural Bank Of China Limited	-	6,572,500	6,774,752	58,752
Ayala Land Incorporated	-	234,950	238,830	11,194
Alibaba Group Holdings	-	265,529	264,247	3,890
Bank of China	-	420,640	443,191	34,111
Banco De Oro	-	2,990,750	2,953,994	85,909
Bank of China Limited, Singapore Branch	-	2,629,000	2,611,453	11,633
China Construction Bank	-	4,732,200	4,697,498	36,269
China National Offshore Oil Corp Limited	-	210,320	204,193	5,779
Cyberzone Properties Incorporated	-	803,680	802,957	40,357
Energy Development Corporation	-	-	-	36
Export-Import Bank of Korea	-	473,220	477,054	12,059
Filinvest Development Cayman Islands	-	1,309,242	1,316,318	19,600
First Gen Corporation	-	-	-	452
FPC Capital Limited	-	2,103,200	2,099,905	72,118
Filinvest Land Incorporated	-	386,590	386,930	20,458
FPC Treasury Limited	-	465,333	461,236	8,835

Global Steel (NSC)	-	-	-	-
Hutchison Whampoa	-	1,061,064	1,128,552	27,623
Industrial and Commercial Bank of China Asia	-	-	-	20,823
Icici Bank Limited	-	904,902	913,138	27,219
International Container Terminal Services Incorporated	-	141,966	146,785	5,445
Korea Development Bank	-	210,320	220,202	4,886
Pilipinas Hino Incorporated	-	-	-	-
Phoenix Petroleum Philippines	-	2,399,300	2,266,136	2,177
Rizal Commercial Banking Corporation	-	1,140,881	1,121,487	28,065
Sinopec Corporation	-	1,682,560	1,734,646	53,172
South Luzon Tollway Corporation	-	120	117	3
SM Prime Holdings	-	300,000	299,730	15,419
AT&T Incorporated	-	841,280	846,944	28,317
Union Bank	-	1,672,044	1,615,357	40,379
Vista Land and Lifescapes	-	5,000,000	4,995,503	10,124
	-	39,477,391	39,551,396	694,487
Total Financial Assets at Amortized Cost	-	₱ 1,130,185,417	₱99,772,711	₱2,315,284

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2018

(In thousand pesos)

Name and Designation of Debtor	Balance at Beginning of Period (12/31/17)	Releases	(Collections)/ Movements	Amounts Written Off	Status	Balance at Ending of Period (12/31/18)	Due Dates	Interest Rates	Terms of Payment	Collateral
Subsidiary										
PNB-IBJL Leasing and Finance Corp	₱ 2,263,933	₱ 6,832,600	₱ (8,840,943)	₱–	Current	₱ 255,590	01/04/2019 to 01/11/2019	4.64% to 6.25%	Monthly	Unsecured
PNB Gen Insurers Co. Inc.	-	29,834	(27,619)	-	Current	2,215	12/28/2018	0.00%	-	-
Related Party										
Philippine Airlines Inc.	3,909,519	4,378,916	(4,988,619)	–	Current	3,299,816	12/28/2018 to 02/27/2019	5.15%	–	–
Victorias Milling Company Inc.	327,052	450,000	(327,053)	-	Current	450,000	12/28/2018 to 02/06/2019	6.00% to 6.25 %	–	–
Horizon Global Investment	7,489,500	-	397,500	-	Current	7,887,000	9/12/2020	5.03%	Quarterly payment	Unsecured
Eton Properties	4,490,000	-	(269,400)	–	Current	4,220,600	5/31/2023	5.00%	Monthly	Real Estate
Lufthansa Teknik	-	534,750	(87,820)	–	Current	446,930	3/28/2023	5.06%	Quarterly	Unsecured
Maranaw Hotel & Resort Corp	71,464	-	(12,429)	-	Current	59,035	8/8/2023	7.72%	Quarterly payment	Hold out deposit
Major Win Enterprises Limited	1,110,056	-	(21,197)	–	Current	1,088,860	5/17/2028	5.89%	Quarterly payment	Unsecured
Golden Investments TMK	4,993,000	7,716,822	(1,668,022)	-	Current	11,041,800	6/26/2020	4.00%	-	-
Absolut Distillers, Inc.	380,000	680,000	(860,000)	-	Current	200,000	01/16/2019 to 03/09/2019	6.25%	-	Unsecured
Macroasia Airport Services Corporation	47,134	285,264	(104,408)	-	Current	227,990	01/21/2019 to 11/09/2022	5.00% to 6.75%	-	Unsecured
Alset Property Ventures, Inc.	-	13,350	(4,200)	-	Current	9,150	5/17/2019	4.00%		
Bonifacio Landmark Realty And Development Corporation	-	4,364,286	(671,429)	-	Current	3,692,858	6/2/2024	6.31%		
Christine International Philippines Inc	-	11,958	(11,058)	-	Current	900	01/23/2019 to 06/28/2021	7.00%		
Dvm Car Craft Inc	-	7,900	(3,050)	-	Current	4,850	01/10/2019 to 03/27/2019	6.50%		-
Full Circle Craft Distillers Co., Inc.	-	24,000	(11,000)	-	Current	13,000	12/06/2019 to 12/09/2019	2.75%		
Macroasia Sats Food Industries Corp	-	400,000	-	-	Current	400,000	4/20/2025	4.75%		
Majent Management Development Corporation	-	1,229,005	(671,137)	-	Current	557,869	01/03/2019 to 03/14/2019	4.20%		
Menarco Development Corporation	-	1,960,000	(520,000)	-	Current	1,440,000	01/16/2019 to 09/16/2022	4.95% to 4.20%		
The Table Group, Inc.	-	422,083	(357,083)	-	Current	65,000	01/14/2019 to 03/20/2019	7.00% to 7.25%		
U-Hop Transportation Network Vehicle System Inc.	-	23,294	(20,926)	-	Current	2,368	2/12/2019	8.00%		
Cathay Metal Corporation	-	150,000	-	-	Current	150,000	03/07/2019 to 06/14/2019	6.00%		

Coffee Table Inc	**-**	**391,833**	**(146,875)**	**-**	**Current**	**244,958**	**02/20/2020 to 03/31/2023**	**7.00% to 9.72%**		
Eton Properties (Xiamen) Ltd.	**564,209**	**-**	**14,171**	**-**	**Current**	**578,380**				
Asia Brewery (Xiamen) Ltd.	**-**	**487,779**	**(42,994)**	**-**	**Current**	**444,785**				
Key Management Personnel	**12,743**	**-**	**(5,035)**	**-**	**Current**	**7,708**	**Various**	**Various**	**Payable on demand**	**Various**
	₱ 25,658,610	**₱ 30,393,674**	**(₱19,260,626)**			**₱ 36,791,662**				

**in Peso equivalent*

The related party transactions indicated above are within the ordinary course of business of the Bank and shall be settled in cash. There are no provisions for credit losses in 2018.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE D – INTANGIBLE ASSETS – OTHER ASSETS
DECEMBER 31, 2018

(In thousand pesos)

Description	Beginning Balance 12/31/2017	Additions	Charged to Costs and Expenses (Amortization)	Charged to Other Accounts	Other Changes	Ending Balance 12/31/2018
Core deposits*	₱ 968,927	₱–	(₱189,779)	₱–	₱–	₱ 779,148
Customer relationship*	-	–	–	–	–	-
Other Intangibles - software	2,353,930	168,631	(270,426)	(961)	(22,258)	2,246,009

**Acquired from business combination*

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
DECEMBER 31, 2018

(In thousand pesos)

Type of Issue and Type of Obligation	Amount Authorized by Indenture	Amount shown under caption "Current Portion of Long-Term Debt" in related balance sheet	Amount shown under caption "Long-Term Debt" in related balance sheet	Interest Rates	Amounts or Numbers of Periodic Installments	Maturity Dates
Long Term Negotiable Certificates of Deposits	₱7,000,000	₱–	₱ 6,985,553	4.13%	Interest shall be payable quarterly	6/12/2020
Long Term Negotiable Certificates of Deposits	4,000,000	3,998,167		3.25%	Interest shall be payable quarterly	4/22/2019
Long Term Negotiable Certificates of Deposits	5,000,000	4,999,279		3.00%	Interest shall be payable quarterly	2/5/2019
Long Term Negotiable Certificates of Deposits	5,380,000	–	5,355,858	3.25%	Interest shall be payable quarterly	6/06/2022
Long Term Negotiable Certificates of Deposits	3,765,000	–	3,747,669	3.75%	Interest shall be payable quarterly	10/27/2022
Long Term Negotiable Certificates of Deposits	6,350,000	–	6,316,699	3.88%	Interest shall be payable quarterly	4/26/2023
Bills Payable	68,316,974	59,439,809	8,877,165	0.12% to 12.00%	Various	Various
Bonds payable	15,774,000	–	15,661,372	4.25%	Interest is payable Semi-annually	4/27/2023

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE F – INDEBTEDNESS TO RELATED PARTIES
DECEMBER 31, 2018

(In thousand pesos)

Name of Related Parties (i)	Balance at Beginning of Period	Balance at Ending of Period (ii)	Nature, Terms and Conditions

None to report

(i) The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.
(ii) For each affiliate named in the first column, explain in a note hereto the nature and purpose of any increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE G – GUARANTEES OF SECURITIES OF OTHER ISSUES
DECEMBER 31, 2018

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding (i)	Amount owned by person of which statement is filed	Nature of Guarantee (ii)

None to report

(i) Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated financial statements there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidation balance sheet.
(ii) There must be a brief statement of the nature of the guarantee, such as "Guarantee of principal and interest", "Guarantee of Interest", "Guarantee of Dividends". If the guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guarantee.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
SCHEDULE H – CAPITAL STOCK
DECEMBER 31, 2018

(Absolute number of shares)

Title of Issue (i)	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by related parties (ii)	Directors, officers and employees	Others (iii)
Common Shares	**1,750,000,001**	**1,249,139,678**	**-**	**-**	**15,053,076**	**-**

Required information is contained in Note 25: Equity to the Audited Financial Statements of the Bank and Subsidiaries.

(i) Include in this column each type of issue authorized.
(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security
(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES

SCHEDULE OF FINANCIAL RATIOS

DECEMBER 31, 2018 AND 2017

RATIOS	FORMULA	CONSOLIDATED		PARENT	
		2018	2017	2018	2017
(i) Liquidity Ratios					
a. Current Ratio	Current Assets/Current Liabilities	54.89%	58.46%	55.51%	58.88%
b. Liquid assets to total assets-gross	Liquid Assets-gross/Total Assets-gross	24.26%	28.48%	24.36%	28.16%
c. Liquid assets to total assets-net	Liquid Assets-net/Total Assets-net	23.77%	29.10%	23.90%	28.78%
d. Liquid assets ratio - gross	Liquid Assets-gross/Liquid Liabilities	29.30%	35.91%	29.38%	35.39%
e. Liquid assets-net	Liquid Assets-net/Liquid Liabilities	29.30%	35.82%	29.38%	35.29%
f. Liquid assets-gross to total deposits	Liquid Assets-gross/Total Deposits	31.87%	38.24%	31.91%	37.69%
g. Liquid assets-net to total deposits	Liquid Assets-net/Total Deposits	31.87%	38.15%	31.91%	37.58%
h. Net loans to total deposits	Net Loans/Total Deposits	76.55%	74.07%	72.07%	70.09%
(ii) Solvency Ratios					
a. Debt to equity ratio	Total Liabilities/Total Shareholder's Equity	6.65	5.98	6.21	5.65
b. Debt ratio	Total Liabilities/Total Assets	86.92%	85.68%	86.13%	84.97%
c. Equity ratio	Total SHE/Total Assets	13.08%	14.32%	13.87%	15.03%
(iii) Asset-to-Equity Ratios					
a. Asset to Equity ratio	Total Assets/Total SHE	7.65	6.98	7.21	6.65
b. Fixed assets to equity ratio	Total Fixed Assets/Total SHE	26.39%	29.22%	24.88%	28.14%
c. Fixed assets to total assets ratio	Total Fixed Assets/Total Assets	3.45%	4.18%	3.45%	4.23%
(iv) Interest Rate Coverage Ratios					
a. Times interest earned ratio	EBIT/Interest Expense	2.47	2.89	2.69	3.16
(v) Profitability Ratios					
a. Return on Assets					
1. Using Net Income	Net Income/Average Assets	1.05%	1.03%	1.12%	1.10%
2. Using Net Income attributable to parent	NIATP/Average Assets	1.04%	1.03%	1.12%	1.10%
a. Return on Equity					
1. Using Net Income	Net Income/Average Capital	7.70%	7.10%	7.77%	7.27%
2. Using Net Income attributable to parent	NIATP/Average Capital	7.62%	7.11%	7.77%	7.27%

(iv) Capital Adequacy Ratios					
a. Tier I capital ratio	Tier I/Total RWA	13.55%	14.58%	10.85%	11.25%
b. Capital risk asset ratio	Qualifying Capital/Total RWA	14.35%	15.35%	11.63%	12.03%
(iv) Other Ratios					
a. Non-performing loans ratio	Non-performing loans/Adjusted Loan	2.28%	2.46%	1.92%	2.15%
b. Net interest margin	NIM/Ave. Earning Assets	3.30%	3.11%	3.17%	2.97%
c. Efficiency ratio	Total Operating Expenses/Total Operating Income	60.98%	65.24%	59.02%	63.71%
d. Allowance for probable loan losses* to total loans ratio	Allow for probable loan losses/Total Loans	2.07%	1.71%	1.91%	1.71%
e. Allowance for probable loan losses* to NPL ratio	Allow for probable loan losses/NPL	92.35%	70.87%	101.54%	80.96%

** Total loans pertain to receivables from customers.*